

SECURITIES AND EXCHANGE COMMISSION

FORM 8-K

Current report filing

Filing Date: **2004-05-18** | Period of Report: **2004-05-14**
SEC Accession No. **0001047469-04-017754**

([HTML Version](#) on [secdatabase.com](#))

FILER

724 SOLUTIONS INC

CIK: **1097641** | IRS No.: **000000000** | Fiscal Year End: **1231**
Type: **8-K** | Act: **34** | File No.: **000-31146** | Film No.: **04816334**
SIC: **7372** Prepackaged software

Business Address
4101 YONGE STREET, SUITE
702
TORONTO A6 00000
4162262900

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): May 14, 2004

724 Solutions Inc.

(Exact name of registrant as specified in charter)

Ontario, Canada

(State or Other Jurisdiction of Incorporation)

000-31146

(Commission File Number)

Inapplicable

(IRS Employer Identification No.)

1221 State Street, Suite 200

Santa Barbara, CA 93101

(Address of principal executive offices)

(805) 884-8308

(Registrant's telephone no., including area code)

Item 7. Financial Statements and Exhibits.

- 99.1 Press Release, dated May 14, 2004.
- 99.2 Secured Convertible Note Purchase Agreement, dated May 14, 2004, among the Registrant, 724 Solutions Software Inc., Austin Ventures VI, L.P., Austin Ventures VI Affiliates Fund, L.P., and Austin Ventures VIII, L.P.
- 99.3 Security Agreement, dated May 14, 2004, among the Registrant, 724 Solutions Software, Inc., 724 Solutions (US), Inc., 724 Solutions International, Inc., Austin Ventures VI, L.P., Austin Ventures VI Affiliates Fund, L.P., and Austin Ventures VIII, L.P.
- 99.4 Registration Rights Agreement, dated May 14, 2004, among the Registrant, Austin Ventures VI, L.P., Austin Ventures VI Affiliates Fund, L.P., and Austin Ventures VIII, L.P.
- 99.5 Guaranty, dated May 14, 2004, among 724 Solutions (US), Inc., 724 Solutions International, Inc., Austin Ventures VI, L.P., Austin Ventures VI Affiliates Fund, L.P., and Austin Ventures VIII, L.P.
- 99.6 Form of Secured Convertible Promissory Note.

Item 9. Regulation FD Disclosure

On May 14, 2004, the Registrant entered into a series of agreements, including a Secured Convertible Note Purchase Agreement, dated May 14, 2004, among the Registrant, its wholly-owned subsidiary, 724 Solutions Software Inc., and Austin Ventures VI, L.P., Austin Ventures VI Affiliates Fund, L.P., and Austin Ventures VIII, L.P. in connection with the private placement of up to \$8 million of Secured Convertible Promissory Notes (the "Notes) for cash. As a result of these agreements, the Registrant completed, or agreed to complete, subject to obtaining shareholder approval, the following transactions:

The Registrant issued for cash US\$3.04 million aggregate principal amount of Notes, convertible into common shares; and

The Registrant agreed to issue for cash an additional US\$4.96 million aggregate principal amount of Notes, convertible into common shares, upon obtaining shareholder approval.

A copy of the Registrant's press release, dated May 14, 2004, announcing these transactions is attached hereto as Exhibit 99.1. This Form 8-K and the attached exhibits are provided under Item 9 of Form 8-K and are furnished to, but not filed with, the Securities and Exchange Commission.

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 thereunto duly authorized.

724 SOLUTIONS INC.

Date: May 17, 2004

/s/ ERIC LOWY

By: Name: Eric Lowy

Title: General Counsel and Corporate Secretary

3

Exhibit Index

- 99.1 Press Release, dated May 14, 2004.
- 99.2 Secured Convertible Note Purchase Agreement, dated May 14, 2004, among the Registrant, 724 Solutions Software Inc., Austin Ventures VI, L.P., Austin Ventures VI Affiliates Fund, L.P., and Austin Ventures VIII, L.P.
- 99.3 Security Agreement, dated May 14, 2004, among the Registrant, 724 Solutions Software, Inc., 724 Solutions (US), Inc., 724 Solutions International, Inc., Austin Ventures VI, L.P., Austin Ventures VI Affiliates Fund, L.P., and Austin Ventures VIII, L.P.
- 99.4 Registration Rights Agreement, dated May 14, 2004, among the Registrant, Austin Ventures VI, L.P., Austin Ventures VI Affiliates Fund, L.P., and Austin Ventures VIII, L.P.
- 99.5 Guaranty, dated May 14, 2004, among 724 Solutions (US), Inc., 724 Solutions International, Inc., Austin Ventures VI, L.P., Austin Ventures VI Affiliates Fund, L.P., and Austin Ventures VIII, L.P.
- 99.6 Form of Secured Convertible Promissory Note.

QuickLinks

[SIGNATURES](#)

[Exhibit Index](#)



PRESS CONTACT:

Heather Kelly
S&S Public Relations, Inc.
(719) 634-8274
heather@sspr.com

COMPANY CONTACT:

Kelly Reese Lazarus
724 Solutions
(805) 884-8306
klazarus@724.com

724 Solutions Announces \$8,000,000 Convertible Debt Financing

Santa Barbara, CA (May 14, 2004) – 724 Solutions (NASDAQ: SVNX; TSX: SVN), today announced that it has arranged a non-brokered private placement of secured convertible promissory notes with Austin Ventures for a total principal amount of USD \$8 million.

The first tranche of the financing involved the issuance of USD \$3.0 million of convertible notes and was completed on May 14, 2004. In accordance with the policies of the Toronto Stock Exchange and the NASDAQ National Market, shareholder approval is required to complete the second tranche of the financing.

Each note has a three (3) year term and carries an interest rate of 2.5% per quarter. Upon shareholder approval and the completion of the second tranche of financing, all outstanding principal and interest is convertible into common shares of 724 Solutions at a conversion price of \$3.07 per share. 724 Solutions also agreed to include two nominees from Austin Ventures in any slate of Directors proposed for shareholder approval, and that the Board would now consist of seven Directors.

"We are pleased that Austin Ventures has demonstrated its continued support of the company," said John Sims, Chief Executive Officer of 724 Solutions. "Austin Ventures is currently the largest shareholder of the company and is one of the most established and largest venture capital firms in the United States. This financing, when coupled with our existing cash reserves and our drive for profitability in the fourth quarter of 2004, means that 724 Solutions will be very capable of executing on the growth opportunities that we see in the mobile data market."

About 724 Solutions

724 Solutions (NASDAQ: SVNX; TSX: SVN) delivers reliable, scalable technology and solutions that allow mobile network operators to rapidly deploy flexible and open next generation IP-based network and data services. Additionally, in conjunction with mobile operator partners, the company provides a series of actionable alerting solutions to enterprises to assist them in lowering operating costs and improving customer relationship management. 724 Solutions is a global company with development operations in Canada and Switzerland with its corporate office in Santa Barbara, California. For more information, visit www.724.com.

This press release contains statements of a forward-looking nature. These statements are made under the "safe harbor" provisions of the U.S. Private Securities Litigation Reform Act of 1995. These statements include the statements herein regarding: the services and products that will be offered by 724 Solutions, the benefits that businesses will obtain from these services and products, future demand for these services and products, our future operating cash performance and the sufficiency of our cash resources. The accuracy of these statements may be impacted by a number of business risks and uncertainties that could cause actual results to differ materially from those projected or anticipated, including

the risk that 724 Solutions will be unable to deploy the solutions and products stated herein, the risk that the demand for these solutions and products, or for 2.5G and 3G networks, will not increase as presently anticipated, the risk that the company's restructuring efforts do not result in expense reductions sufficient to allow the company to become profitable when expected, the risk that general economic conditions will not improve, and other risks described in 724 Solutions' Securities and Exchange Commission filings, including its annual report on Form 10-K and its quarterly reports on Form 10-Q. These risks are also described in 724 Solutions' filings with the Canadian Securities Administrators. 724 Solutions does not undertake any obligation to update this forward-looking information, except as required under applicable law.

QuickLinks

[724 Solutions Announces \\$8,000,000 Convertible Debt Financing](#)

SECURED CONVERTIBLE NOTE PURCHASE AGREEMENT

THIS SECURED CONVERTIBLE NOTE PURCHASE AGREEMENT (this "**Agreement**"), dated as of May 14, 2004 (the "**Effective Date**"), is entered into by and among 724 Solutions Inc., a Canadian corporation ("**Parent**") and 724 Solutions Software Inc., a Delaware corporation (the "**US Sub**"), and the lenders identified on the Schedule of Lenders attached hereto (each a "**Lender**;" collectively, the "**Lenders**"). Parent and US Sub are each referred to herein as a "**Borrower**" and, collectively, the "**Borrowers**."

RECITALS

WHEREAS, the Borrowers have requested that the Lenders purchase from the Borrowers Secured Convertible Promissory Notes in the form attached hereto as Exhibit A (each being a "**Note**;" collectively, the "**Notes**") having aggregate principal value of up to Eight Million Dollars and NO/100 (US\$8,000,000.00) on the terms and conditions set forth herein and in the Notes (the "**Financing**");

WHEREAS, the Lenders are prepared to purchase such Notes on the terms and conditions set forth herein and in the Notes.

AGREEMENT

NOW, THEREFORE, in consideration of the foregoing and the representations, warranties, covenants and agreements set forth below, the receipt and adequacy of which are acknowledged, the parties hereby agree as follows:

1. Certain Definitions. For the purposes of this Agreement, the following terms not otherwise defined herein shall the following meanings:

1.1 "**Affiliate**" shall mean, with respect to any Person, any other Person or group acting in concert in respect of the first Person that, directly or indirectly, through one or more intermediaries, controls, or is controlled by, or is under common control with such first Person.

1.2 "**Austin Ventures**" shall mean Austin Ventures VI, L.P., Austin Ventures VI Affiliates Fund, L.P., Austin Ventures VIII, L.P. and their respective Affiliates.

1.3 "**Collateral**" shall mean all property or rights in which a security interest, mortgage, lien or other encumbrance for the benefit of the Lenders is or has been granted or arises or has arisen, under or in connection with this Agreement, the Collateral Documents, or otherwise to secure the Indebtedness.

1.4 "**Collateral Documents**" shall mean the Notes, the Registration Rights Agreement in the form attached hereto as Exhibit B (the "**Registration Rights Agreement**"), the Security Agreement in the form attached hereto as Exhibit C (the "**Security Agreement**"), the Guaranty in the form attached hereto as Exhibit D (the "**Guaranty**"), the Intellectual Property Security Agreement in the form attached hereto as Exhibit E (the "**IP Security Agreement**"), any joinders to the Security Agreement or the IP Security Agreement, the other acknowledgments, certificates, stock powers, financing statements, instruments and other security documents executed by any Person in favor of the Lenders and all documents needed or appropriate to perfect or give notice of the Lenders' security interests in the Collateral, in each case as of the Effective Date or, in each case, as such Collateral Documents may be amended or otherwise modified from time to time after the date thereof.

1.5 "**Conversion Price**" shall have the meaning ascribed to such term in the Note.

1.6 "**GAAP**" shall mean generally accepted accounting principles in Canada, consistently applied.

1.7 "**Indebtedness**" shall mean all indebtedness, obligations and liabilities (including without limitation interest, fees and other charges) arising under this Agreement or any of the Collateral Documents, whether direct or indirect, absolute or contingent, of any Borrower or Subsidiary to the Lenders or Affiliates thereof or, in any manner and at any time, due or hereafter to become due, now owing, and any judgments that may hereafter be rendered on such indebtedness or any part thereof, with interest according to the rates and terms specified, or as provided by law, and any and all consolidations, amendments, renewals, replacements, substitutions or extensions of any of the foregoing.

1.8 "**Lien**" shall mean the security interest or lien arising from any pledge, assignment, hypothecation, mortgage, security interest, deposit arrangement, option, trust receipt, conditional sale or title retaining contract, sale and leaseback transaction, financing statement or comparable notice or other filing or recording, capitalized lease, consignment or bailment for security, subordination of any claim or right, or any other type of lien, charge, encumbrance, title exception, preferential or priority arrangement affecting property (including, with respect to stock, any stockholder agreements, voting rights agreements, buy-back agreements and all similar arrangements), whether based on common law or statute.

1.9 "**Material Adverse Effect**" shall mean a material and adverse effect on (a) the business, operations, prospects, property, relations (customer, supplier, shareholder or employee) or condition (financial or otherwise) of Parent, taken as a consolidated enterprise, (b) the ability of the Borrowers and the Subsidiaries to perform their respective obligations under this Agreement or the Collateral Documents to which any of them is a party, or (c) the validity or enforceability of this Agreement or the Collateral Documents or the material rights or remedies of the Lenders hereunder or thereunder.

1.10 "**Maximum First Tranche Shares**" shall mean 1,166,753 Common Shares, which represents the number of Common Shares computed as the product of (a) the outstanding number of Common Shares of Parent on the First Closing Date times (b) Nineteen and One-Half Percent (19.5%).

1.11 "**Permitted Liens**" shall mean with respect to any Person:

1.11.1 Liens for Approved Senior Debt;

1.11.2 Liens for taxes, assessments or other governmental charges not yet delinquent or which are being contested in good faith by appropriate proceedings, provided that adequate reserves with respect thereto are maintained on the books of such Person in conformity with GAAP;

1.11.3 carriers', warehousemen's, mechanics', materialmen's, repairmen's, landlord's liens or other like Liens arising in the ordinary course of business which are not overdue for a period of more than 30 days or which are being contested in good faith by appropriate proceedings and for which appropriate reserves have been made, therefor and the aggregate amount of such Liens is less than \$200,000;

1.11.4 pledges or deposits in connection with workers' compensation, unemployment insurance and other social security legislation in the ordinary course of business; and deposits securing liability to insurance carriers under insurance or self-insurance arrangements in aggregate amount for such insurance or self-insurance arrangements not to exceed \$500,000;

1.11.5 deposits to secure (i) the performance of tenders or bids, trade contracts (other than for borrowed money), statutory obligations, surety, customs, stay and appeal bonds, performance and return of money bonds, government contracts and other obligations of a like nature or (ii) the performance of leases permitted hereunder, in each case given or incurred on terms, in amounts and otherwise in the ordinary course of business not to exceed in the aggregate \$500,000; and

1.11.6 easements, rights-of-way, restrictions, minor defects or irregularities in title and other similar encumbrances or Liens incurred in the ordinary course of business which, in the aggregate, are not substantial in amount and which do not in any case materially detract from the value of the property subject thereto or materially interfere with the ordinary conduct of the business of such Person.

1.12 "**Person**" shall mean a natural person, corporation, limited liability company, partnership, limited liability partnership, trust, incorporated or unincorporated organization, joint venture, joint stock company, or a government or any agency or political subdivision thereof or other entity of any kind.

1.13 "**Potential First Tranche Shares**" shall mean the number of Common Shares equal to the sum of (i) the number of Common Shares issuable upon conversion all principal amounts under the Notes issued in the First Tranche; plus (ii) the number of Common Shares issuable upon conversion of or in repayment of all interest to be accrued under the Notes issued in the First Tranche during their stated term, in each case determined based upon Eighty-Five Percent (85%) of the Conversion Price on the First Closing Date.

1.14 "**Subsidiary(ies)**" shall mean any other corporation, association, joint stock company, business trust, limited liability company or any other business entity of which at least Twenty Percent (20%) of the outstanding voting stock, share capital, membership or other interests, as the case may be, is owned either directly or indirectly by Parent or one or more of its Subsidiaries, or the management of which is otherwise controlled, directly, or indirectly through one or more intermediaries, or both, by Parent and/or its Subsidiaries. Unless otherwise specified to the contrary herein or the context otherwise requires, Subsidiary(ies) shall refer to the Subsidiary(ies) of the Borrowers.

1.15 "**Tax(es)**" shall mean (i) any and all federal, state, local and foreign taxes, assessments and other governmental charges, duties, impositions and liabilities, including taxes based upon or measured by gross receipts, income, profits, sales, use and occupation, and value added, ad valorem, transfer, franchise, withholding, payroll, recapture, employment, excise and property taxes as well as public imposts, fees and social security charges (including but not limited to health, unemployment and pension insurance), together with all interest, penalties and additions imposed with respect to such amounts, (ii) any liability for the payment of any amounts of the type described in clause (i) of this paragraph as a result of being a member of an affiliated, consolidated, combined or unitary group for any period, and (iii) any liability for the payment of any amounts of the type described in clauses (i) or (ii) of this paragraph as a result of any express or implied obligation to indemnify any other person or as a result of any obligation under any agreement or arrangement with any other person with respect to such amounts and including any liability for taxes of a transferor or predecessor entity.

2. The Notes.

2.1 Issuance of Notes. Subject to the terms and conditions hereof, the Borrowers shall issue and sell to the Lenders, and the Lenders shall purchase from the Borrowers, Notes having an aggregate principal amount of Eight Million Dollars and NO/100 (US\$8,000,000.00) in the percentage allocation as set forth on the Schedule of Lenders. The Notes will be issued and sold in two tranches. The aggregate principal amount of Notes to be issued in the first tranche will be the maximum amount of principal able to be issued so that the Potential First Tranche Shares are equal to the Maximum First Tranche Shares (the "**First Tranche**"). The aggregate principal amount of the Notes to be issued in the second tranche will be computed as the difference between (a) Eight Million Dollars and NO/100 (US\$8,000,000.00) minus (b) the aggregate principal value of the Notes issued in the First Tranche (the "**Second Tranche**"). The Borrowers shall be jointly and severally liable for all amounts owing under the Notes and shall repay such amounts in strict accordance with their terms.

2.2 Closing.

2.2.1 First Tranche. Subject to the terms and conditions of this Agreement, the closing of the sale and issuance of the Notes to be issued in the First Tranche (the "**First Closing**") shall be held at the offices of Gray Cary Ware & Freidenrich, LLP, Austin, Texas, at 9:00 a.m., local time, on May 14, 2004, or at such other time and place as Parent and the Lenders mutually agree (the "**First Closing Date**"). At the First Closing, the Borrowers shall deliver to each Lender, in addition to the deliveries required pursuant to Section 6, the respective Note to be purchased by such Lender against the Borrowers' receipt of the purchase price for such Note.

2.2.2 Second Tranche. Subject to the terms and conditions of this Agreement, the closing of the sale and issuance of the Notes to be issued in the Second Tranche (the "**Second Closing**;" together with the First Closing, the "**Closing**") shall be held at the offices of Gray Cary Ware & Freidenrich, LLP, Austin, Texas, on the earliest practicable date following the receipt of shareholder approval of the Financing, and not later than the third business day following the date of such approval, or such other time and place as Parent and the Lenders mutually agree (the "**Second Closing Date**;" together with the First Closing Date, the "**Closing Date**"). At the Second Closing, the Borrowers shall deliver to each Lender, in addition to the deliveries required pursuant to Section 7, the respective Note to be purchased by such Lender against the Borrowers' receipt of the purchase price for such Note.

2.2.3 Satisfaction of Conditions. Each of the parties hereto agrees to use its commercially reasonable efforts to take, or cause to be taken, all actions and to do, or cause to be done, all things necessary, proper or advisable to consummate and make effective as promptly as practicable the transactions contemplated by this Agreement and the Collateral Documents, and to cooperate with each other in connection with the foregoing, including to (a) obtain all necessary waivers, consents and approvals from other parties to material agreements, leases and other contracts, (b) obtain all necessary consents, approvals and authorizations as are required to be obtained under any federal, state or foreign law or regulation (whether governmental, stock exchange or otherwise), (c) lift or rescind any injunction or restraining order or other order adversely affecting the ability of the parties to consummate the transactions contemplated hereby, (d) effect any necessary registrations and filings and submissions of information as required or requested by governmental agencies or commissions, stock exchanges or other applicable authorities, and (e) fulfill and satisfy all conditions to this Agreement including, without limitation, obtaining within ninety (90) days of the First Closing Date the approval of the Financing (on the terms and conditions of this Agreement and the Collateral Documents) by the holders of a majority of the votes cast (whether in person or by proxy) at a duly-called meeting of holders of Common Shares at which a quorum was present (whether in person or by proxy), excluding any Common Shares acquired by the Lenders upon conversion of the Notes issued in the First Tranche ("**Shareholder Approval**").

3. Representations and Warranties of the Borrowers. The Borrowers, jointly and severally, represent and warrant to the Lenders that as of the date of this Agreement and each Closing Date:

3.1 Organization and Standing; Articles and Bylaws. Each Borrower and Subsidiary is a corporation duly organized, validly existing and in good standing under the laws of the jurisdiction of its incorporation and has all requisite corporate power and authority to carry on its business as now conducted. Each Borrower and Subsidiary is duly qualified and authorized to do business as a foreign corporation in each jurisdiction where the character of its assets or the nature of its activities makes such qualification and authorization necessary except where failure to be so qualified could not reasonably be expected to have a Material Adverse Effect.

3.2 Corporate Power; Binding Obligations. Each Borrower and Subsidiary has all requisite legal and corporate power to enter into, execute and deliver this Agreement, the Notes, and the other Collateral Documents to which a Borrower or Subsidiary is party or by which its assets or properties are bound. This Agreement and the other Collateral Documents to which a Borrower or Subsidiary is party or by which Borrower's or Subsidiary's assets are bound, are legal, valid and binding obligations of the Borrowers and Subsidiaries, as applicable, enforceable in accordance with their respective terms, except as the same may be limited by bankruptcy, insolvency, moratorium, and other laws of general application affecting the enforcement of creditors' rights and by general principles of equity.

3.3 Authorization. All corporate and legal action on the part of each of the Borrowers and Subsidiaries, and their respective officers, directors and shareholders, needed for such Borrowers and Subsidiaries to enter into and deliver this Agreement and the Collateral Documents, to issue and sell the Notes and to perform their respective obligations hereunder and thereunder have been taken or will be taken prior to the First Closing with respect to the First Tranche and the Second Closing with respect to the Second Tranche.

3.4 Consent. No consent, approval, waiver, order or authorization of, or designation, registration, declaration or filing with, any court, governmental agency or regulatory authority, any securities exchange or any other person or party (whether or not governmental) is required: (a) by any Borrower or Subsidiary in connection with the execution, delivery and performance of this Agreement or any of the Collateral Documents, or any other documents or instruments to be executed, delivered or performed in connection herewith or therewith; (b) by the Borrowers in connection with the sale and issuance of the Notes (or the issuance of the Conversion Shares upon conversion thereof) or (c) by any Borrower or Subsidiary in connection with the grant, conveyance, pledge, perfection or other establishment of the Liens, except in the case of (a), (b) and (c) for (i) such matters which have been previously obtained, (ii) the consents of landlords with respect to properties leased by any of the Parties, (iii) such filings to be made concurrently herewith as are required by the Collateral Documents to perfect Liens in favor of the Lenders, (iv) the Shareholder Approval, (v) to the extent required, SEC, Nasdaq and TSX approval of the materials to be distributed to shareholders in connection with obtaining Shareholder Approval and (vi) such consents, approvals or filings the failure of which to obtain could not reasonably be expected to have a Material Adverse Effect; or (d) by any Borrower or Subsidiary in connection with the valid execution, delivery and performance of this Agreement and the other Collateral Documents or the offer, sale or issuance of the Notes, other than filings made prior to the Closing, except for (i) any notices of sales required to be filed with the SEC under Regulation D of the Securities Act, or (ii) such post-closing filings as may be required under the NASD Marketplace Rules, applicable state blue sky laws, applicable Canadian provincial securities legislation and stock exchange rules, each of which, if required, will be timely filed. All authorizations, consents, approvals, licenses, qualifications, exemptions, filings, declarations and registrations which have previously been obtained or made, as the case may be, are in full force and effect and are not the subject of any review, consideration or attack, or to the knowledge of any Borrower, threatened review, consideration or attack by litigation, appeal or direct proceeding or otherwise.

3.5 Compliance with Other Instruments. No Borrower or Subsidiary is in violation or default of any term of its charter or bylaws or other organizational or governing documents, or of any provision of any mortgage, indenture, agreement, instrument or contract to which it is party or by which it is bound or of any judgment, decree, order, writ or, to its knowledge, any statute, rule or regulation applicable to the Borrowers or the Subsidiaries which would materially and adversely affect the Borrowers' business, assets, liabilities, financial condition, operations or prospects. The Borrowers' execution, delivery, and performance of and compliance with this Agreement, the Collateral Documents and the issuance and sale of the Notes and the Common Shares issuable upon conversion of or in payment on the Notes (the "**Conversion Shares**", together with the Notes, the "**Securities**") will not, with or without the passage of time or giving of notice, result in any such material violation, or be in conflict with or constitute a default under any charter or bylaws or other organizational or governing documents, or of any provision of any mortgage, indenture, agreement, instrument or contract to which it is party or by which it is bound or of any judgment, decree, order, writ or, to its knowledge, any statute, rule or regulation applicable to the Borrowers or the Subsidiaries, or result in the creation of any Lien upon any of the Borrowers' or Subsidiaries' assets or the suspension, revocation, impairment, forfeiture or nonrenewal of any permit license, authorization or approval applicable to the Borrowers, its business or operations or any of its assets.

3.6 Valid Issuance. In reliance on the Lenders' representations and warranties in Section 3, the Notes when issued in conformity with the terms hereof, Conversion Shares when issued upon conversion of the Notes and any Common Shares issued in satisfaction of any interest owing under the Notes will, in each case, be duly authorized and validly issued, fully paid and nonassessable and be issued in compliance with all applicable laws, rules and regulations.

3.7 Capitalization.

3.7.1 Parent's authorized share capital consists of an unlimited number of common shares (the "**Common Shares**"). of which 5,983,349 Common Shares are issued and outstanding and an unlimited number of preferred shares ("**Preferred Shares**"), none of which are issued and outstanding. All such issued and outstanding Common Shares have been duly authorized and validly issued and are fully paid and nonassessable. Except as described above there are no other outstanding shares in the capital of Parent.

3.7.2 All of the outstanding share capital of the Subsidiaries are owned beneficially and of record by Parent, free and clear of any Liens (except for minor Liens that will not in any case or in the aggregate detract from the value thereof).

3.7.3 Parent has reserved 1,050,000 Common Shares for issuance pursuant to options to purchase Common Shares under the Parent's stock option plans, each of which have been registered on Form F-8 with the SEC ("**Parent Options**"). Except as created by this Agreement or any Collateral Document, and except for options to purchase Common Shares issued and outstanding under the Parent's Canadian Stock Option Plan and the 1999 Tantau Stock Plan (9,403 and 75,585 Common Shares, respectively), there is no: (i) outstanding subscription, option, call, warrant or right (whether or not currently exercisable) to acquire any shares in the capital of, or other securities of, Parent or any of its Subsidiaries; or (ii) outstanding security, instrument or obligation that is or may become convertible into or exchangeable for any shares in the capital of, or other securities of, Parent or any of its Subsidiaries.

3.7.4 No acceleration of vesting of Parent Options will be triggered by issuance of the Securities. No Person has any right of first refusal, preemptive rights or other participation rights with respect to the issuance of any of the Securities.

3.8 Subsidiaries. Parent does not own any Subsidiaries other than U.S. Sub, 724 Solutions (UK) Limited, 724 Solutions (US), Inc., YRLess Internet Corporation, Tantau Software International Pty Ltd., Tantau Software International Japan KK and 724 Solutions International Inc. Parent owns all outstanding equity securities of U.S. Sub, 724 Solutions (UK) Limited, 724 Solutions (US), Inc., YRLess Internet Corporation, Tantau Software International Pty Ltd., Tantau Software International Japan KK and 724 Solutions International Inc. None of YRLess Internet Corporation, Tantau Software International Pty Ltd., Tantau Software International Japan KK or 724 Solutions (UK) Limited holds or has any rights in any Intellectual Property (as defined below) or other material assets or conducts any material operations.

3.9 SEC Filings; Financial Statements.

3.9.1 Parent has made available to the Lenders accurate and complete copies (excluding copies of exhibits) of each report, registration statement and definitive proxy statement filed by Parent with the SEC between January 1, 2002 and the Closing Date (the "**SEC Documents**"), which availability will be deemed satisfied if such SEC Documents are available in final form on the SEC's website. As of the time it was filed with the SEC (or, if amended or superseded by a filing prior to the date of this Agreement, then on the date of such filing): (i) each of the SEC Documents complied in all material respects with the applicable requirements of the Securities Act of 1933, as amended (the "**Securities Act**") or the Securities Exchange Act of 1934, as amended (the "**Exchange Act**"), as applicable, and (ii) none of the SEC Documents 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 the light of the circumstances under which they were made, not misleading.

3.9.2 The consolidated financial statements contained in the SEC Documents: (i) complied as to form in all material respects with the published rules and regulations of the SEC applicable thereto; (ii) were prepared in accordance with GAAP applied on a consistent basis throughout the periods covered, except as may be indicated in the notes to such consolidated financial statements and (in the case of unaudited statements) as permitted by Form 10-Q of the SEC, and except that unaudited financial statements may not contain footnotes and are subject to year-end audit adjustments; and (iii) fairly present in all material respects the consolidated financial position of Parent as of the respective dates thereof and the consolidated results of operations of Parent for the periods covered thereby, except that the unaudited interim financial statements were or when filed are subject to normal and recurring year-end adjustments which were not or are not expected to be material in amount.

3.10 Absence of Changes. Since January 1, 2004, there has not occurred any event, occurrence or circumstance (whether individually or in the aggregate) that has had, or could reasonably be expected to have, a Material Adverse Effect.

3.11 Litigation. Except as set forth in the SEC Documents, there is no suit, action, proceeding, including, without limitation, any bankruptcy proceeding, or investigation pending against or, to the knowledge of the Borrowers, threatened against any Borrower or Subsidiary or any of their respective officers or directors (other than a trademark opposition proceeding in Canada which will not result in a Material Adverse Effect). There is not outstanding against any Borrower or any Subsidiary, or any of their respective officers, directors or assets, any judgment, decree, injunction, rule, or order of any court, government, department, commission, agency, instrumentality or arbitrator which could reasonably be expected to have a Material Adverse Effect.

3.12 Taxes. The Borrowers and their Subsidiaries have no liabilities in excess of \$50,000 for unpaid federal, state, local or foreign Taxes, whether asserted or unasserted, contingent or otherwise, and the Borrowers and their Subsidiaries have not incurred any liability for Taxes since December 31, 2002 other than in the ordinary course of business. There are (and immediately following the Closing Date there will be) no Liens on the assets of the Borrowers or their Subsidiaries relating to or attributable to Taxes. No claim or action, suit, litigation, arbitration, proceeding (including any civil, criminal, administrative, investigative or appellate proceeding), hearing, inquiry or investigation commenced, brought, conducted or heard by or before, or otherwise involving, any court or other Governmental Entity or any arbitrator or arbitration panel is pending or, to a Borrower's knowledge, has been threatened (nor is there any basis therefor) against or with respect to a Borrower or any Subsidiary in respect of any Tax.

3.13 Enforceability of Rights. No action, event or circumstance has occurred or exists which could limit, prevent or preclude any Borrower's or Subsidiary's enforcement, in any jurisdiction in which it conducts business, the rights and obligations of any Borrower or Subsidiary under any contract, agreement or arrangement to which a Borrower or Subsidiary is party or by which its assets or properties may be bound.

3.14 Obligations to Related Parties. Except as set forth in the SEC Documents or as contemplated by this Agreement, the Borrowers have no obligations to their respective officers, directors, shareholders that would otherwise be required to be disclosed by Parent pursuant to Item 404 of Regulation S-K under the Securities Act.

3.15 Title to Assets; Liens. The Borrowers and their Subsidiaries have good and marketable title to their respective assets (real and personal), and good title to their leasehold estates, in each case subject to no Lien or lease, other than Permitted Liens. Each Borrower and Subsidiary is in compliance with all material terms of each lease to which it is a party or is otherwise bound.

3.16 Patents and Trademarks. The Borrowers or their Subsidiaries own or possess sufficient legal rights to all patents, trademarks, service marks, trade names, copyrights, trade secrets, licenses, information and other proprietary rights and processes (the "**Intellectual Property**") needed for the Parent's business as now conducted and as presently proposed to be conducted, without any known infringement of the rights of others. Other than a notice of Sprint in connection with certain patents known as the "Kikiness" patents, the Borrowers have not received any communications alleging any violation or potential violation any of the Intellectual Property of any other Person and its officers are not aware of any violation or potential violation.

3.17 Employees. The Borrowers are not aware that any officer or key employee, or that any group of key employees, intends to terminate their employment with the Borrowers or any Subsidiary, nor does any Borrower or any Subsidiary have a present intention to terminate the employment of any officer, key employee or group of key employees except as previously disclosed to the Lenders.

3.18 Eligibility to Use Form S-3. Parent currently meets the requirements for the use of Form S-3 for registration of the resale by the shareholders of Parent of the Conversion Shares. Parent will file all reports required to be filed by Parent with the SEC in a timely manner and take all other necessary action so as to maintain such eligibility for the use of Form S-3.

3.19 Effectiveness of Waiver. When delivered by Parent's Board of Directors pursuant to Section 5.12 below, the waiver of the terms and provisions of that certain Shareholder Rights Plan, dated as of February 10, 2003, by and between 724 Solutions Inc. and Computershare Trust Company of Canada, as rights agent (the "**Rights Plan**") shall be effective to permit the acquisition by Austin Ventures or its Affiliates of up to Forty-Nine Percent (49%) of the outstanding Common Shares (whether through the conversion of the Notes or the acquisition of Common Shares from third-parties) without resulting in a Flip-In Event or Separation Time or triggering an adjustment the Exercise Price of the Rights. The terms "**Flip-in Event**," "**Separation Time**," "**Exercise Price**" and "**Rights**" shall have the meanings ascribed to such terms in the Rights Plan, as currently in effect.

4. Lender Representations and Warranties. Each Lender, severally and not jointly, represents and warrants to the Borrowers as of the time of issuance of the Note purchased by such Lender as follows:

4.1 Investment Intent; Authority. Lender is acquiring such Lender's Notes for investment for such Lender's own account and not with a view to, or for resale in connection with, any distribution or public offering thereof within the meaning of the Securities Act. Such Lender has the full right, power, authority and capacity to enter into and perform this Agreement and the Collateral Documents to which Lender is a party, and this Agreement and the Collateral Documents to which Lender is a party will constitute a valid and binding obligations upon such Lender in accordance with their respective terms, except as the same may be limited by bankruptcy, insolvency, moratorium, and other laws of general application affecting the enforcement of creditors' rights.

4.2 Shares Not Registered. Lender understands and acknowledges that the offering of the Notes pursuant to this Agreement will not be registered under the Securities Act on the grounds that the offering and sale of securities contemplated by this Agreement are exempt from registration under the Securities Act and that the resale of Notes or the Conversion Shares may be restricted unless they are subsequently registered under the Securities Act or an exemption from such registration is available.

4.3 Accreditation; Residency. Lender is an "accredited investor" within the meaning of Rule 501 of Regulation D under the Securities Act, as presently in effect. The principal place of business of Lender is correctly set forth on the Schedule of Lenders.

4.4 Knowledge and Experience. Lender (i) has such knowledge and experience in financial and business matters as to be capable of evaluating the merits and risks of such Lender's prospective investment in such Lender's Notes, (ii) has the ability to bear the economic risks of Lender's prospective investment, (iii) has been furnished with and has had access to such information as such Lender has considered necessary to make a determination as to the purchase of Lender's Notes, (iv) has had all questions which have been asked by Lender satisfactorily answered by the Borrowers, and (v) has not been offered any of the Notes by any form of advertisement, article, notice or other communication published in any newspaper, magazine, or similar media or broadcast over television or radio, or any seminar or meeting whose attendees have been invited by any such media; provided, however, that nothing in this Section 4.3 shall serve to mitigate, reduce, limit or otherwise modify the representations, warranties and covenants of the Borrowers and their Subsidiaries made in this Agreement or the Collateral Documents.

5. Lenders' Conditions for First Closing. Each Lender's obligation to purchase such Lender's Note at the First Closing, and to fund its portion of the First Tranche is subject to the fulfillment and satisfaction as of the First Closing of each of the following conditions precedent:

5.1 Representations and Warranties. The Borrowers' representations and warranties in Section 3 hereof shall be true and correct in all material respects as of the date of this Agreement and as of the First Closing.

5.2 Covenants. All covenants, agreements and conditions contained in this Agreement and the Collateral Documents to be performed by the Borrowers or the Subsidiaries on or prior to the First Closing shall have been performed or complied with.

5.3 Events of Default. No Event of Default shall exist and no event shall have occurred which through the passage of time, service of notice or both, would constitute an Event of Default.

5.4 Operative Documents. The Borrowers and the Subsidiaries, as applicable and as requested by the Lenders, shall have executed and delivered to the Lenders this Agreement and each of the Collateral Documents applicable to the First Closing (including all schedules, exhibits, certificates, opinions, financial statements and other documents to be delivered pursuant hereto) and each of the foregoing shall be in full force and effect without amendment or modification thereto.

5.5 Due Diligence. The Lenders shall have completed their due diligence of the Borrowers to their sole satisfaction, and the Lenders' investment committees shall have approved the Financing.

5.6 Financial Statements. Parent shall have delivered to the Lenders its unaudited consolidated financial statements for the quarter ended March 31, 2004, certified by the chief financial officer of Parent.

5.7 No Material Adverse Change. There shall not have occurred, or be reasonably likely to occur in the sole discretion of the Lenders, any Material Adverse Change.

5.8 No Litigation. There shall not be any pending or threatened litigation, claim or proceeding that could prevent the consummation of the transactions contemplated by this Agreement or the Collateral Documents or result in such transactions or any parties' (or such parties' affiliates') conduct or actions taken in respect thereof being deemed unlawful or rescinded.

5.9 No Injunctions or Restraints; Illegality. No governmental entity or stock exchange shall have enacted, issued, promulgated, enforced or entered any statute, rule, regulation, executive order, decree, injunction or other order (whether temporary, preliminary or permanent) and no other legal or regulatory restraint or prohibition shall be in effect, in either case, which has the effect of making the Financing illegal or otherwise preventing the consummation of the Financing.

5.10 Good Standing. The Borrowers shall have delivered certificates of good standing or equivalent certificates of status and authorization to transact business from the jurisdiction of incorporation or formation of each Borrower and material Subsidiary, and from each other jurisdiction in which any Borrower or material Subsidiary is authorized to transact business.

5.11 Waivers. The Borrowers shall have delivered written waivers, in form and substance reasonably acceptable to the Lenders, of any third party preemptive rights and rights of first refusal that may apply to the issuance of the Securities.

5.12 Shareholder Rights Plan. The Rights Plan shall have delivered a waiver of the terms and provisions of the Rights Plan such that, as a result of such waiver, the acquisition by Austin Ventures or its Affiliates of up to Forty-Nine Percent (49%) of the outstanding Common Shares (whether through the conversion of the Notes or the acquisition of Common Shares from third-parties) will not result in a Flip-In Event or Separation Time or trigger any adjustment in the Exercise Price of the Rights.

5.13 Legal Opinion. The Borrowers shall have delivered to the Lenders a legal opinion of Torys LLP, as counsel to the Borrowers, in form reasonably satisfactory to the Lenders.

5.14 Corporate Approvals. The Borrowers and the Subsidiaries shall have obtained all necessary corporate approvals for the transactions contemplated under this Agreement and the Collateral Documents.

5.15 Third Party Approvals. The Borrowers shall have obtained all necessary third party and governmental approvals, consents and waivers for the transactions under this Agreement and the Collateral Documents.

5.16 Other Matters. All corporate and other proceedings in connection with the transactions contemplated in this Agreement and the Collateral Documents and all documents and instruments incident to such transactions shall be reasonably satisfactory in substance and form to the Lenders, and the Lenders shall have received all such counterpart, originals or certified or other copies of such documents as they may reasonably request.

5.17 Officer's Certificate. An officer of each of the Borrowers shall have delivered a certificate in form satisfactory to the Lenders certifying as to the satisfaction of each of the foregoing conditions, the incumbency and signature of each authorized officer and the organizational and governing documents of such Borrower, with copies attached thereto. An officer of each of the Subsidiaries shall have delivered a certificate in form satisfactory to the Lenders certifying as to the incumbency and signature of each authorized officer and the organizational and governing documents of such Subsidiary, with copies attached thereto.

6. Borrowers' Conditions for First Closing. The Borrowers' obligation to sell and issue the Notes at the First Closing is subject to the fulfillment and satisfaction as of the First Closing of the following conditions precedent:

6.1 Representations and Warranties. The Lenders' representations and warranties in Section 4 hereof shall be true and correct in all material respects as of the date of this Agreement and as of the First Closing.

6.2 Covenants. All covenants, agreements and conditions contained in this Agreement and the Collateral Documents to be performed by the Lenders on or prior to the First Closing shall have been performed or complied with.

6.3 Payment of Purchase Price. Each Lender shall have delivered the purchase price for the Note to be purchased by such Lender at the First Closing as set forth opposite such Lender's name on the Schedule of Lenders.

6.4 No Litigation. There shall not be any pending or threatened litigation, claim or proceeding that could prevent the consummation of the transactions contemplated by this Agreement or the Collateral Documents or result in such transactions or any parties' (or such parties' affiliates') conduct or actions taken in respect thereof being deemed unlawful or rescinded.

6.5 No Injunctions or Restraints; Illegality. No governmental entity or stock exchange shall have enacted, issued, promulgated, enforced or entered any statute, rule, regulation, executive order, decree, injunction or other order (whether temporary, preliminary or permanent) and no other legal or regulatory restraint or prohibition shall be in effect, in either case, which has the effect of making the Financing illegal or otherwise preventing the consummation of the Financing.

6.6 TSX Undertaking. The Lenders shall have provided an undertaking for delivery to the TSX not to sell or otherwise dispose of the Notes issued on the First Closing Date (or the Conversion Shares) for a period of four months from the First Closing Date without the consent of the TSX.

7. Lenders' Conditions for Second Closing. Each Lender's obligation to purchase such Lender's Note at the Second Closing, and to fund its portion of the Second Tranche are subject to the fulfillment and satisfaction as of the Second Closing of each of the following conditions precedent:

7.1 Representations and Warranties. The Borrowers' representations and warranties in Section 3 hereof shall be true and correct in all material respects as of the Second Closing.

7.2 Covenants. All covenants, agreements and conditions contained in this Agreement and the Collateral Documents to be performed by the Borrowers or the Subsidiaries on or prior to the First Closing shall have been performed or complied with.

7.3 Events of Default. No Event of Default shall exist and no event shall have occurred which through the passage of time, service of notice or both, would constitute an Event of Default.

7.4 Operative Documents. The Borrowers and the Subsidiaries, as applicable and as requested by the Lenders, shall have executed and delivered to the Lenders this Agreement and each of the Collateral Documents applicable to the Second Closing (including all schedules, exhibits, certificates, opinions, financial statements and other documents to be delivered pursuant hereto) and each of the foregoing shall be in full force and effect without amendment or modification thereto.

7.5 No Material Adverse Change. There shall not have occurred, or be reasonably likely to occur in the sole discretion of the Lenders, any Material Adverse Change.

7.6 No Litigation. There shall not be any pending or threatened litigation, claim or proceeding that could prevent the consummation of the transactions contemplated by this Agreement or the Collateral Documents or result in such transactions or any parties' (or such parties' affiliates') conduct or actions taken in respect thereof being deemed unlawful or rescinded.

7.7 No Injunctions or Restraints; Illegality. No governmental entity or stock exchange shall have enacted, issued, promulgated, enforced or entered any statute, rule, regulation, executive order, decree, injunction or other order (whether temporary, preliminary or permanent) and no other legal or regulatory restraint or prohibition shall be in effect, in either case, which has the effect of making the Financing illegal or otherwise preventing the consummation of the Financing.

7.8 Good Standing. The Borrowers shall have delivered certificates of good standing or equivalent certificates of status and authorization to transact business from the jurisdiction of incorporation or formation of each Borrower and material Subsidiary, and from each other jurisdiction in which any Borrower or material Subsidiary is authorized to transact business.

7.9 Waivers. The Borrowers shall have delivered written waivers, in form and substance reasonably acceptable to the Lenders, of any third party preemptive rights and rights of first refusal that may apply to the issuance of the Securities.

7.10 Legal Opinion. The Borrowers shall have delivered to the Lenders a legal opinion of Torys LLP, as counsel to the Borrowers, in form reasonably satisfactory to the Lenders.

7.11 Corporate Approvals. The Borrowers and the Subsidiaries shall have obtained all necessary corporate approvals for the transactions contemplated under this Agreement and the Collateral Documents including, without limitation, Shareholder Approval.

7.12 Third Party Approvals. The Borrowers shall have obtained all necessary third party and governmental approvals, consents and waivers for the transactions under this Agreement and the Collateral Documents.

7.13 Other Matters. All corporate and other proceedings in connection with the transactions contemplated in this Agreement and the Collateral Documents and all documents and instruments incident to such transactions shall be reasonably satisfactory in substance and form to the Lenders, and the Lenders shall have received all such counterpart, originals or certified or other copies of such documents as they may reasonably request.

7.14 Officer's Certificate. An officer of each of the Borrowers shall have delivered a certificate in form satisfactory to the Lenders certifying as to the satisfaction of each of the foregoing conditions, the incumbency and signature of each authorized officer and the organizational and governing documents of such Borrower, with copies attached thereto. An officer of each of the Subsidiaries shall have delivered a certificate in form satisfactory to the Lenders certifying as to the incumbency and signature of each authorized officer and the organizational and governing documents of such Subsidiary, with copies attached thereto.

8. Borrowers' Conditions for Second Closing. The Borrowers' obligation to sell and issue the Notes at the Second Closing is subject to the fulfillment and satisfaction as of the Second Closing of the following conditions precedent:

8.1 Representations and Warranties. The Lenders' representations and warranties in Section 4 hereof shall be true and correct in all material respects as of the date of this Agreement and as of the Second Closing.

8.2 Covenants. All covenants, agreements and conditions contained in this Agreement and the Collateral Documents to be performed by the Lenders on or prior to the Second Closing shall have been performed or complied with.

8.3 Payment of Purchase Price. Each Lender shall have delivered the purchase price for the Note to be purchased by such Lender at the Second Closing as set forth opposite such Lender's name on the Schedule of Lenders.

8.4 No Litigation. There shall not be any pending or threatened litigation, claim or proceeding that could prevent the consummation of the transactions contemplated by this Agreement or the Collateral Documents or result in such transactions or any parties' (or such parties' affiliates') conduct or actions taken in respect thereof being deemed unlawful or rescinded.

8.5 No Injunctions or Restraints; Illegality. No governmental entity or stock exchange shall have enacted, issued, promulgated, enforced or entered any statute, rule, regulation, executive order, decree, injunction or other order (whether temporary, preliminary or permanent) and no other legal or regulatory restraint or prohibition shall be in effect, in either case, which has the effect of making the Financing illegal or otherwise preventing the consummation of the Financing.

8.6 Corporate Approvals. The Borrowers and the Subsidiaries shall have obtained all necessary corporate approvals for the transactions contemplated under this Agreement and the Collateral Documents including, without limitation, Shareholder Approval.

8.7 TSX Undertaking. The Lenders shall have provided an undertaking for delivery to the TSX not to sell or otherwise dispose of the Notes issued on the Second Closing Date (or the Conversion Shares) for a period of four months from the Second Closing Date without the consent of the TSX.

9. Affirmative Covenants. Until final payment in full or conversion in full of all amounts owing under this Agreement and the Collateral Documents, and the performance by each Borrower and Subsidiary of all other obligations under this Agreement and the Collateral Documents:

9.1 Financial Statements. Parent shall deliver quarterly to the Lenders contemporaneously with filing of periodic reports with the SEC an unaudited consolidated balance sheet of Parent as of the end of such period and an unaudited consolidated cash flow statements and an unaudited consolidated statement of operations of Parent, in each case prepared in accordance with GAAP and certified by the Parent's chief financial officer.

9.2 Payment of Obligations. Each Borrower will, and will cause its Subsidiaries to, pay, discharge or otherwise satisfy, at or before maturity or before they become delinquent, as the case may be, all of its material obligations of whatever nature (including, without limitation, all Taxes, whether current or historical, owed to any applicable Taxing authority), except where the amount or validity thereof is currently being contested in good faith by appropriate proceedings and reserves in conformity with GAAP with respect thereto have been provided on the books of the applicable Person.

9.3 Conduct and Maintenance; Compliance with Laws. Each Borrower will, and will cause its Subsidiaries to: (a) continue to engage (whether through Subsidiaries or otherwise) in the business as substantially now conducted and businesses related thereto; and preserve, renew and keep in full force and effect its existence and not acquire any material operating or other assets, other than shares of stock or membership or other equity interest in current Subsidiaries; (b) take all reasonable action it deems necessary in its reasonable business judgment to maintain all rights, privileges and franchises necessary in the normal conduct of its business except where the failure to so maintain could not reasonably be expected to have a Material Adverse Effect; (c) comply with all provisions of any security issued by such Person or of any material agreement, instrument or other undertaking to which such Person is a party or by which it or any of its assets are bound and (d) comply with the charter, bylaws, partnership agreement or other organizational or governing documents of such Person and any law, treaty, rule or regulation or determination of an arbitration or a court or other governmental authority, in each case applicable to or binding upon such Person or any of its assets or properties (whether real or personal) or to which such Person or any of its assets or properties (whether real or personal) are subject. As soon as practicable following the First Closing, and in no event later than thirty (30) calendar days thereafter, each Borrower shall, and shall cause each Subsidiary to, become qualified to do business in each jurisdiction in which the location of its assets or nature of its operations requires such qualification under applicable law.

9.4 Maintenance of Property; Insurance. Each Borrower will, and will cause its Subsidiaries to, keep all material property it deems, in its good faith business judgment, useful and necessary in its business in working order (ordinary wear and excepted), except where the failure to maintain such property could not reasonably be expected to have a Material Adverse Effect and maintain insurance coverage on its physical assets and against other business risks in such amounts and of such types as are customarily carried by companies similar in size and nature (including without limitation casualty and public liability and property damage insurance), and in the event of acquisition of additional property, real or personal, or of incurrence of additional risks of any nature, increase such insurance coverage in such manner and to such extent as prudent business judgment and present practice or any applicable law would dictate; and in the case of all policies covering any Collateral, all such insurance policies shall provide that the loss payable thereunder shall be payable to such Person, and to the Lenders (as mortgagee, or, in the case of personal property interests, lender loss payee) as their respective interests may appear, and certificates evidencing such policies, including all endorsements thereto, to be deposited with the Lenders upon their request.

9.5 Inspection; Discussions. Each Borrower will, and will cause its Subsidiaries to, permit Lenders (a) at all reasonable times during normal business hours, upon the request of a Lender, to examine the books, accounts, records, ledgers and assets and properties of every kind and description wherever located of the Borrowers and Subsidiaries; (b) at any time and from time to time, upon the request of a Lender, to conduct full or partial collateral audits and (c) permit Lenders at reasonable times to visit all of their respective offices, discuss their respective financial matters with their respective officers and independent certified or chartered public accountants, as applicable, and examine any of their books and other corporate records.

9.6 Notices. Each Borrower will, and will cause its Subsidiaries to, promptly give notice to the Lenders of:

9.6.1 the occurrence of any Default or Event of Default;

9.6.2 any (i) litigation, investigation or proceeding which may exist at any time involving any Borrower or Subsidiary, or their respective officers or directors in their capacity as such, which if not cured or if it is reasonably likely to be adversely determined, as the case may be, would have a Material Adverse Effect or (ii) any adverse change in the financial condition of any Borrower or Subsidiary since the date of the last fiscal quarter which could reasonably be expected to have a Material Adverse Effect;

9.6.3 the occurrence, or reasonably likely occurrence, of any event, condition or circumstance which any Borrower believes could reasonably be expected to have a Material Adverse Effect; and

9.6.4 the qualification of a Borrower or Subsidiary to transact business in a new jurisdictions, the acquisition or creation of any new Subsidiaries, or any material change after the Effective Date in the authorized and issued capital stock of any Borrower or Subsidiary or any other material amendment to their charter, bylaws or other governing or organizational documents, such notice, in each case, to identify the applicable jurisdictions, capital structures or amendments as applicable.

Each notice pursuant to this Section 7.6 shall be accompanied by a statement of an authorized officer setting forth details of the occurrence referred to therein and stating what action the Borrowers have taken or propose to take with respect thereto.

9.7 Approvals. Each Borrower will, and will cause its Subsidiaries to, apply for, obtain and/or maintain in effect, as applicable, all authorizations, consents, approvals, licenses, qualifications, exemptions, filings, declarations and registrations (whether with any court, governmental agency, regulatory authority, securities exchange or otherwise) which are necessary in connection with the execution, delivery and performance by any Person, of this Agreement, the Collateral Documents, or any other documents or instruments to be executed and/or delivered by any Person, as applicable in connection therewith or herewith.

9.8 Security. Each Borrower will, and will cause its Subsidiaries to, (a) take such actions as the Lenders may from time to time reasonably request to establish and maintain first perfected security interests in and Liens on all Collateral (subject only to Permitted Liens) and (b) defend the Collateral from any Liens (other than Permitted Liens).

9.9 Future Subsidiaries; Additional Collateral. Each Borrower will, and will cause its Subsidiaries to,

9.9.1 with respect to each Subsidiary of a Borrower created (through organization, acquisition or otherwise) subsequent to the Effective Date, within thirty (30) days of such creation, cause the holder of such Subsidiary's equity interests to execute such documents and make such deliveries as may be necessary to ensure the Lenders' first priority perfected security interest in such equity interests, and cause such new Subsidiary to execute and deliver to the Lenders a joinder agreement to the Security Agreement and a Guaranty encumbering the ownership interests of such Subsidiary; and

9.9.2 with respect to real property owned, leased or otherwise acquired by Borrower or any Subsidiary after the Effective Date, not later than sixty (60) days after such property is acquired, execute or cause to be executed (i) in the case of real property owned, a mortgage covering such owned real property so long as such real property has an appraised value of greater than \$100,000 and (ii) in the case of real property leased, a lessor's acknowledgment and consent in form and substance reasonably acceptable to the Lenders so long as Collateral with an appraised value of greater than \$100,000 is located on such leased property, together with such real estate documentation and environmental reports and audits as may be required by the Lenders, provided, further, if an Event of Default has occurred and is continuing, the applicable Borrower or Subsidiary shall execute or cause to be executed a mortgage or lessor's acknowledgment and consent, as applicable, irregardless of the appraised value of the real property or Collateral, and deliver such mortgage or lessor's acknowledgment to the Lenders together with such real estate documentation as may be required by the Lenders.

9.10 Nomination of Directors. Immediately following the First Closing, the Board of Directors of Parent shall be increased to seven (7) directors and a nominee of Austin Ventures shall be appointed to serve as a director of Parent. For so long as any amounts remain unpaid under the Notes or Austin Ventures (together with its Affiliates) hold on an as-converted basis at least Twenty Percent (20%) of the outstanding Common Shares, the Board of Directors of Parent will at no time exceed seven (7) directors. For so long as any amounts remain unpaid under the Notes or Austin Ventures (together with its Affiliates) hold on an as-converted basis at least Twenty Percent (20%) of the outstanding Common Shares, Parent will include two (2) designees of Austin Ventures (the "*AV Designees*") as director nominees on each slate of director nominees by Parent submitted to holders of Common Shares and shall recommend the election of the AV Designees to Parent's Board of Directors. If elected, the AV Designees will have the same rights and obligations as the other directors of Parent.

10. Negative Covenants. Until final payment in full or conversion in full of all amounts owing under this Agreement, the Notes or the Collateral Documents, and the performance by each Borrower and Subsidiary of all other obligations under this Agreement and the Collateral Documents:

10.1 Limitation on Debts. Each Borrower agrees not to, and will cause its Subsidiaries not to, create, incur, assume or suffer to exist any indebtedness or guarantee obligations, except:

10.1.1 Indebtedness under this Agreement and the Collateral Documents;

10.1.2 fully-funded indebtedness of up to One Million Five Hundred Thousand Dollars (US\$1,500,000.00) in the aggregate which ranks in payment and preference senior to the Indebtedness (the "*Approved Senior Debt*");

10.1.3 unsecured trade, utility or accounts payable (including without limitation, operating leases and short term indebtedness owed to vendors) arising in the ordinary course of Borrowers' or Subsidiaries' businesses;

10.1.4 indebtedness in respect of taxes, assessments or governmental charges to the extent that payment thereof shall not at the time be required to be made;

10.1.5 indebtedness secured by Permitted Liens;

10.1.6 indebtedness arising from judgments or decrees in circumstances not constituting an Event of Default;

10.1.7 inter-company indebtedness and guarantees among the Borrowers and Subsidiaries other than indebtedness and guarantees that would be required to be disclosed as an off-balance sheet arrangement under Item 303 of Regulation S-K under the Securities Act;

10.1.8 indebtedness and guarantees given to fund the Borrowers' and their Subsidiaries' corporate credit cards in the ordinary course consistent with past practices; and

10.1.9 performance guarantees of Subsidiaries' agreements with their customers provided by Borrowers' so long as such guarantees do not require the accrual of a liability on Parent's consolidated financial statements under GAAP.

10.2 Limitation on Liens. Each Borrower agrees not to, and will cause its Subsidiaries not to, create, incur, assume or suffer to exist any Lien (except for Permitted Liens) upon any of its property, assets or revenues, whether now owned or hereafter acquired, or enter into any agreement, arrangement or understanding which would restrict or prevent Lenders' Liens which are senior in priority to all other Liens (except for the Permitted Liens).

10.3 Repayment on Debts. Each Borrower agrees not to, and will cause its Subsidiaries not to, prepay, purchase, redeem or defease any indebtedness for money borrowed (other than Approved Senior Debt) or any capitalized obligations.

10.4 Subsidiaries. Each Borrower agrees that none of YRLess Internet Corporation, Tantau Software International Pty Ltd., Tantau Software International Japan KK or 724 Solutions (UK) Limited will hold or have any rights in any Intellectual Property or other material assets or conduct any material operations; provided, however, that 724 Solutions (UK) Limited may continue to maintain an account for the purpose of collection of payments from the customer currently paying into its account so long as all collected amounts are transferred as soon as practicable to the account of a Borrower or Subsidiary party to the Security Agreement. Each Borrower agrees that 724 Solutions (UK) Limited shall make no payments or other disbursements from such account other than as described above or as necessary to maintain such account.

10.5 Shareholder Rights Plan. Parent shall not amend, waive or modify the Rights Plan in such a way that the acquisition by Austin Ventures or its Affiliates of up to Forty-Nine Percent (49%) of the outstanding Common Shares (whether through the conversion of the Notes or the acquisition of Common Shares from third-parties) results in a Flip-In Event or Separation Time or triggers any adjustment in the Exercise Price of the Rights.

10.6 Restricted Payments. Each Borrower agrees not to, and will cause its Subsidiaries not to, declare or make any distributions, dividend, payment or other distribution of assets, properties, cash, rights, obligations or securities on account of any of capital stock, or purchase, redeem or otherwise acquire for value any capital stock, as applicable, or any warrants, rights or options to acquire such shares or membership interests, now or hereafter outstanding.

11. Defaults.

11.1 Events of Default. The occurrence of any the following event, with the giving of notice or the passage of time, or both, would constitute an "**Event of Default**:"

11.1.1 non-payment when due of Indebtedness or any other amounts owing under this Agreement or the Collateral Documents;

11.1.2 default in the observance or performance of any of the conditions, covenants or agreements of any Borrower or Subsidiary set forth in this Agreement or the Collateral Documents after written notice thereof and a reasonable cure period not to exceed seven (7) days;

11.1.3 any representation or warranty made by any Borrower or Subsidiary in this Agreement or any Collateral Document proves untrue or misleading in any material respect;

11.1.4 (a) default by any Borrower or Subsidiary in the payment of any indebtedness for borrowed money in excess of Two Hundred Fifty Thousand Dollars (US\$250,000.00) individually or in the aggregate when due and continuance thereof beyond any applicable period of cure and or (b) failure to comply with the terms of any other obligation of any Borrower or Subsidiary with respect to any indebtedness for borrowed money in excess of Two Hundred Fifty Thousand Dollars (US\$250,000.00) individually or in the aggregate, which continues beyond any applicable period of cure and which would permit the creditors of such Borrower or Subsidiary to accelerate such other indebtedness for borrowed money or terminate any commitment;

11.1.5 the rendering of any judgment(s) for the payment of money in excess of the sum of Two Hundred Fifty Thousand Dollars (US\$250,000.00) individually or in the aggregate against any Borrower or Subsidiary, and such judgments shall remain unpaid, unvacated, unbonded or unstayed by appeal or otherwise for a period of thirty (30) consecutive days, except as covered by adequate insurance with a reputable carrier as to which the relevant insurance company has acknowledged coverage;

11.1.6 the issuance by Parent of Common Shares (or deemed issuance of Common Shares pursuant to Section 3(c)(i)(E) of the Note) that, without giving effect to the last sentence of Section 3(c)(i)(A) of the Note, would result in a downward adjustment of the Conversion Price pursuant to Section 3(c)(i)(A) by greater than Fifteen Percent (15%) of the initial Conversion Price on the First Closing Date (as proportionately adjusted pursuant to Sections 3(c)(iii) or 3(c)(iv) of the Note for any stock splits, stock dividends and other similar recapitalizations);

11.1.7 any Borrower or Subsidiary is dissolved (other than a technical dissolution of a Subsidiary which is cured within 30 days of notice thereof and other than a dissolution of 724 Solutions (UK) Inc., Tantau Software International Pty Ltd., Tantau Software International Japan KK and YRLess Internet Corporation, each which are inactive and shall be dissolved as soon as practicable following the First Closing Date) or liquidated (or any judgment, order or decree therefor shall be entered) except as otherwise permitted herein; or if a creditors' committee shall have been appointed for the business of any Borrower or Subsidiary; or if any Borrower or Subsidiary shall have made a general assignment for the benefit of creditors or shall have an involuntary petition in bankruptcy filed against it shall not have been dismissed within sixty (60) days, or shall have filed a voluntary petition in bankruptcy or for reorganization or to effect a plan or arrangement with creditors or shall fail to pay its debts generally as such debts become due in the ordinary course of business (except as contested in good faith and for which adequate reserves are made in such party's financial statements); or shall file an answer to a creditor's petition or other petition filed against it, admitting the material allegations thereof for an adjudication in bankruptcy or for reorganization; or shall have applied for or permitted the appointment of a receiver or trustee or custodian for any of its property or assets; or such receiver, trustee or custodian shall have been appointed for any of its property or assets (otherwise than upon application or consent of a Borrower or Subsidiary) and shall not have been removed within sixty (60) days; or if an order shall be entered approving any petition for reorganization of any Borrower or Subsidiary and shall not have been reversed or dismissed within sixty (60) days; or any Borrower or Subsidiary shall take any action (corporate or other) authorizing or in furtherance any of the actions described above in this subsection;

11.1.8 this Agreement or any Collateral Document shall at any time for any reason cease to be valid, binding and enforceable against any Borrower or Subsidiary thereto (other than in accordance with the terms thereof), as applicable, or the validity, binding effect or enforceability thereof shall be contested by any Borrower or Subsidiary, or such Person shall deny that it has any or further liability or obligation thereunder, or this Agreement or any Collateral Document shall be terminated (other than in accordance with the terms thereof), invalidated, revoked or set aside or in any way cease to give or provide to the Lenders the benefits purported to be created thereby;

11.1.9 any Borrower or Subsidiary agrees to, purchases or otherwise acquires or becomes obligated for the purchase of all or substantially all or any material portion of the assets or business interests of any Person, firm or corporation, or any shares of stock (or other ownership interests) of any corporation, trusteeship or association, or any business or going concern, or in any other manner effectuates or attempts to effectuate an expansion of present business by acquisition; and

11.1.10 any Borrower or Subsidiary agrees to enter into or effects any merger or consolidation or conveys, sells, leases, assigns, transfers or otherwise disposes of a material portion of any of its respective property, business or assets (including, without limitation, receivables and leasehold interests), whether now owned or hereafter acquired or makes any material change in its capital or organizational structure or present method of conducting business, except sales or licenses of assets or properties in the ordinary course of business consistent with past practices.

11.2 Exercise of Remedies. If an Event of Default has occurred and is continuing hereunder: (a) any Lender may declare the entire unpaid principal Indebtedness, including the Notes, immediately due and payable, without presentment, notice or demand, all of which are hereby expressly waived by the Borrowers; (b) upon the occurrence of any Event of Default specified in Section 11.1 and notwithstanding the lack of any declaration by any Lender under preceding clause (a), the entire unpaid principal Indebtedness shall become automatically and immediately due and payable; (c) any Lender may demand immediate delivery of cash collateral, and the Borrowers agree to deliver such cash collateral upon demand, in an amount equal to the maximum amount that may be available to be drawn at any time; and (d) any Lender may (subject to the terms hereof) exercise any remedy permitted by this Agreement, the Collateral Documents or law.

11.3 Rights Cumulative. No delay or failure of any Lender in exercising any right, power or privilege hereunder shall affect such right, power or privilege, nor shall any single or partial exercise thereof preclude any further exercise thereof, or the exercise of any other power, right or privilege. The rights of the Lenders under this Agreement and the Collateral Documents are cumulative and not exclusive of any right or remedies which the Lenders would otherwise have.

11.4 Waiver of Certain Claims. To the extent permitted by applicable law, the Borrowers and their Subsidiaries hereby agree to waive, and do hereby absolutely and irrevocably waive and relinquish the benefit and advantage of any valuation, stay, appraisal, extension or redemption laws now existing or which may hereafter exist, which, but for this provision, might be applicable to any sale made under the judgment, order or decree of any court, on any claim for interest on the Notes, or any security interest or mortgage contemplated by or granted under or in connection with this Agreement or any Collateral Document. These waivers have been voluntarily given, with full knowledge of the consequences thereof.

11.5 Waiver of Defaults. No Event of Default shall be waived by a Lender except in a writing signed by an authorized officer of the Lender. No single or partial exercise of any right, power or privilege hereunder, nor any delay in the exercise thereof, shall preclude other or further exercise of their rights by a Lender. No waiver of any Event of Default shall extend to any other or further Event of Default. No forbearance on the part of any Lender in enforcing any of their rights shall constitute a waiver of any of their rights. The Borrowers expressly agree that this Section 11.5 may not be waived or modified by the Lenders by course of performance, estoppel or otherwise.

12. Restrictions on Transferability of Securities; Compliance with Securities Act.

12.1 Restrictive Legend. Each certificate or other instrument representing (i) the Securities and (ii) any other securities issued in respect of the Securities upon any stock split, stock dividend, recapitalization, merger, consolidation or similar event (collectively, the "Restricted Securities"), **shall (unless otherwise permitted by the provisions of this section) be stamped or otherwise imprinted with a legend required under applicable state or provincial securities laws and legends substantially as follow:**

THE SECURITIES EVIDENCED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"). AND MAY NOT BE SOLD, TRANSFERRED, ASSIGNED OR HYPOTHECATED UNLESS THERE IS AN EFFECTIVE REGISTRATION STATEMENT UNDER SUCH ACT COVERING SUCH SECURITIES, THE TRANSFER IS MADE IN ACCORDANCE WITH RULE 144 UNDER THE ACT OR THE COMPANY RECEIVES AN OPINION OF COUNSEL FOR THE HOLDER OF THESE SECURITIES REASONABLY SATISFACTORY TO THE COMPANY, STATING THAT SUCH SALE, TRANSFER, ASSIGNMENT OR HYPOTHECATION IS EXEMPT FROM THE REGISTRATION AND PROSPECTUS DELIVERY REQUIREMENTS OF SUCH ACT.

UNLESS PERMITTED BY APPLICABLE CANADIAN SECURITIES LEGISLATION, THE HOLDER OF THE SECURITIES EVIDENCED BY THIS CERTIFICATE SHALL NOT TRADE THE SECURITIES BEFORE **[DATE THAT IS FOUR MONTHS PLUS ONE DAY FROM DATE OF ISSUANCE OF SECURITIES (I.E., APPLICABLE NOTE)]**

Each Lender consents to the Borrowers making a notation on its records and giving instructions to any transfer agent of the Securities in order to implement the restrictions on transfer established in this section.

12.2 Restrictions; Notice of Proposed Transfers. None of the Securities shall be sold, assigned, transferred or pledged except in compliance with the Securities Act, the Securities Act (Ontario) and any undertaking provided by the Lenders to TSX. The holder of each certificate representing Restricted Securities by acceptance thereof agrees to comply in all respects with the provisions of this section. Prior to any proposed sale, assignment, transfer or pledge of any Restricted Securities (other than (i) a transfer not involving a change in beneficial ownership, or (ii) in transactions involving the distribution without consideration of Restricted Securities by any Lender to any of such Lender's partners, retired partners, shareholders, subsidiaries or other affiliates or to the estate of any of such Lender's partners, retired partners or shareholders), unless there is in effect a registration statement under the Securities Act covering the proposed transfer or unless the Restricted Securities may be transferred pursuant to Rule 144 or Rule 144A under the Securities Act, the holder thereof shall give written notice to Parent of such holder's intention to effect such transfer, manner and circumstances of the proposed transfer, sale, assignment or pledge in sufficient detail, and shall be accompanied, at such holder's expense by either (a) a written opinion of legal counsel reasonably satisfactory to Parent addressed to Parent, to the effect that the proposed transfer of the Restricted Securities may be effected without registration under the Securities Act, or (b) a "no action" letter from the SEC to the effect that the transfer of such securities without registration will not result in a recommendation by the SEC staff that action be taken with respect thereto, whereupon the holder of such Restricted Securities shall be entitled to transfer such Restricted Securities in accordance with the terms of the notice delivered by the holder to Parent. Each certificate evidencing the Restricted Securities transferred as above provided shall bear, except if such transfer is made pursuant to Rule 144, the appropriate restrictive legend set forth in this section, except that such certificate shall not bear such restrictive legend if in the opinion of counsel such legend is not required in order to establish compliance with any provision of the Securities Act.

13. Miscellaneous.

13.1 Accounting Principles. Where the character or amount of any asset or liability or item of income or expense is required to be determined or any consolidation or other accounting computation is required to be made for the purposes of this Agreement, it shall be done, unless otherwise specified herein, in accordance with GAAP. Furthermore, all financial statements required to be delivered hereunder shall be prepared in accordance with GAAP.

13.2 Entire Agreement. This Agreement and the Collateral Documents constitute the full and entire understanding and agreement between the parties with regard to the subject matters hereof and thereof.

13.3 Waivers and Amendments. No provision of this Agreement or any other Collateral Document may be amended, waived or modified other than by a document signed by the Borrowers and the Lenders.

13.4 Lender Rights. Each Lender shall have the absolute right to exercise or to refrain from exercising any right such Lender has under this Agreement and the Collateral Documents, including the right to consent to an amendment, waiver or modification of any of such documents, and such Lender shall not incur any liability to any other Lender with respect to exercising or refraining from exercising any such right.

13.5 Governing Law; Venue; Waiver of Jury Trial.

13.5.1 This Agreement and the Collateral Documents shall be governed by and construed in accordance with the laws of the State of New York, without regard to the conflicts of law provisions.

13.5.2 The Borrowers hereby irrevocably submit to the exclusive jurisdiction of any United States Federal Court sitting in Austin, Texas in any action or proceeding arising out of or relating to this Agreement or any of the Collateral Documents and the Borrowers hereby irrevocably agree that all claims in respect of such action or proceeding shall be heard and determined in any such United States Federal Court sitting in Austin, Texas. The Borrowers waives any objection of forum non conveniens and venue. The Borrowers further waives any right it may otherwise have to collaterally attack any judgment entered against it. Each Borrower irrevocably consents to the service of any and all process in any such action or proceeding brought in the State of Texas by the delivery of copies of such process to a Borrower at their respective addresses specified on the signature page hereto or by certified mail directed to such address or such other address as may be designated by a Borrower in a notice to the other parties that complies as to delivery with the terms of Section 13.6. Nothing in this Section 13.5.2 shall affect the right of any Lender to serve process in any other manner permitted by law or limit the right of the Lenders (or any of them) to bring any such action or proceeding against any Person or any of their property in the courts with subject matter jurisdiction of any other jurisdiction. Each Borrower irrevocably waives any objection to the laying of venue of any such suit or proceeding in the above described courts.

13.5.3 The Borrowers hereby waive their respective rights to a jury trial of any claim or cause of action based upon or arising out of this Agreement or any of the Collateral Documents or any of the transactions contemplated herein or therein, including contract claims, tort claims, breach of duty claims, and all other common law or statutory claims. The Borrowers recognize and agree that the foregoing waiver constitutes a material inducement for the Lenders to enter into this Agreement and the Collateral Documents. The Borrowers represent and warrant that they have reviewed this waiver with their legal counsel and that they knowingly and voluntarily waives their jury trial rights following consultation with legal counsel.

13.6 Notices. Any notice, request or other communication required or permitted hereunder or any of the other Collateral Documents shall be in writing and shall be deemed to have been duly given if personally delivered or mailed by registered or certified mail, postage prepaid, or by recognized overnight courier or personal delivery or sent by facsimile, addressed as follows:

if to a Lender:

c/o Austin Ventures
300 West 6th Street, Suite 2300
Austin, Texas 78701
Attention: Joseph Aragona
Facsimile: (512) 651-8501

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

Gray Cary Ware & Freidenrich LLP
1221 South MoPac Expressway, Suite 400
Austin, Texas 78746-6875
Attention: John J. Gilluly
Facsimile: (512) 457-7001

if to a Borrower:

c/o 724 Solutions Inc.
1221 State Street, Suite 200
Santa Barbara, California 93101
Attention: Chief Financial Officer
Facsimile: (805) 884-8311

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

Torys LLP
Suite 3000
Box 270, TD Centre
79 Wellington Street W.
Toronto, Ontario
M5K 1N2 Canada
Attention: Darren Sukonick
Facsimile: (416) 865-7380

or, in any case, at such other address as shall have been furnished to the other parties in accordance with this Section 13.6.

A notice shall be deemed effectively given, (a) upon personal delivery to the party to be notified; (b) when sent by confirmed facsimile if sent during normal business hours of the recipient, and if not, then on the next business day; (c) five (5) days after having been sent by registered or certified mail, return receipt requested, postage prepaid; or (d) one (1) day after deposit with a nationally recognized overnight courier, specifying next day delivery, with written verification of receipt.

13.7 Brokers or Finders. Each party represents and warrants to the others that such party is not and will not be obligated for any broker's or finder's fee or commission (collectively "**Broker Fees**") in connection with the transactions described herein. Each Lender agrees to indemnify and to hold the Borrowers harmless from any liability for any Broker Fee (and the cost of defending against such liability or asserted liability) for which such Lender or any of such Lender's directors, officers, employees, agents or affiliates is responsible. Each Borrower agrees to indemnify and to hold each Lender harmless from any liability for any Broker Fee (and the cost of defending against such liability or asserted liability) for which such Company or any of its directors, officers, employees, agents or affiliates is responsible.

13.8 Expenses. Each party shall pay all costs and expenses that it incurs with respect to its negotiation, execution, delivery and performance of this Agreement and the Collateral Documents; provided, however, that the Borrowers shall reimburse the reasonable fees and expenses of the Lenders, not to exceed One Hundred Thousand Dollars (US\$100,000.00).

13.9 Indemnification; Subsequent Costs.

13.9.1 Each Borrower agrees to pay, or reimburse the Lenders for payment of, within (5) five business days of demand therefor (i) all reasonable costs and expenses incurred by Agent in connection with any amendment, refinancing or restructuring of this Agreement or the Collateral Documents or any arrangements contemplated herein or therein, and (ii) all reasonable costs and expenses of the Lenders in connection with any action or proceeding relating to a court order, injunction or other process or decree restraining or seeking to restrain the Lenders from paying any amount under, or otherwise relating in any way to, any Note and any and all reasonable costs and expenses which any of them may incur relative to any payment under any Note. At any Lender's option, all of said amounts required to be paid by the Borrowers, if not paid when due, may be charged by such Lender as interest against the Indebtedness.

13.9.2 Each Borrower agrees to indemnify and hold harmless each Lender and its partners, officers, employees, agents and representatives (an "**Indemnified Party**") from all losses, charges, demands, costs, penalties, fines, damages, liabilities, settlements, fees, expenses and disbursements of whatever kind or nature ("**Losses**"), incurred by any Indemnified Party (a) by reason of an Event of Default, (b) by enforcing the obligations of any Borrower or Subsidiary under this Agreement or any of the Collateral Documents, as applicable, (c) as taxes or fees (other than a tax based upon the interest income of a Lender pursuant to the Notes or capital gains on the sale or other disposition of the Securities) in respect of this Agreement or the Collateral Documents, together with any interest or penalties thereon or (d) in the prosecution, defense, participation or involvement by an Indemnified Party in any action, suit, claim, proceeding, examination or investigation based upon, arising out, related to or in connection with this Agreement or any of Collateral Documents, excluding, however, any Losses that result solely from the gross negligence or willful misconduct of the Indemnified Party or the breach by a Lender of any of its covenants contained in this Agreement or the Collateral Documents or applicable laws.

13.9.3 Each Borrower agrees to defend, indemnify and hold harmless the Indemnified Parties from and against any and all Losses based upon, arising out of, related to or in connection with (i) the presence, use, disposal, release or threatened release of any hazardous or toxic substances on, from or affecting any premises owned or occupied by any Borrower or Subsidiary in violation of or non-compliance with applicable federal, state and local environmental protection, toxic substance and other similar laws and regulations, (ii) any personal injury (including wrongful death) or property damage (real or personal) arising out of or related to any hazardous or toxic substances, (iii) any lawsuit or other proceeding brought or threatened, settlement reached or governmental order or decree relating to any hazardous or toxic substances, (iv) the cost of remediation or monitoring of all hazardous or toxic substances in violation of or non-compliance with applicable federal, state and local environmental protection, toxic substance and other similar laws and regulations from all or any portion of any premises owned by any Borrower or Subsidiary, (v) complying or coming into compliance with all applicable federal, state and local environmental protection, toxic substance and other similar laws and regulations and/or (vi) any violation of applicable federal, state and local environmental protection, toxic substance and other similar laws and regulations.

13.9.4 The obligations of the Borrowers under this Section 13.10 shall be in addition to any and all other obligations and liabilities the Borrowers under this Agreement, the Collateral Documents, at common law or pursuant to any other agreement.

13.10 Further Action. Each Borrower, from time to time, upon written request of a Lender will make, execute, acknowledge and deliver or cause to be made, executed, acknowledged and delivered, all such further and additional instruments, and take all such further action as may reasonably be required to carry out the intent and purpose of this Agreement and the Collateral Documents.

13.11 Joint and Several Liability. Each of the Borrowers acknowledges and agrees that it is the intent of the parties that each such Borrower be primarily liable for the obligations as a joint and several obligor, and the obligations of such Borrower shall be absolute, unconditional and irrevocable irrespective of any lack of validity, legality or enforceability of this Agreement, any Note or Collateral Document as to any other Borrower, any reduction, limitation, impairment or termination of any Indebtedness with respect to any other Borrower and any other circumstance which might otherwise constitute a defense available to, or a legal or equitable discharge of, any other Borrower, any surety or any guarantor.

13.12 Successors and Assigns. This Agreement shall be binding upon and shall inure to the benefit of the Borrowers and the Lenders and their respective successors and assigns. The foregoing shall not be deemed to authorize any assignment by any Borrower of its rights or duties hereunder, and, except as otherwise provided herein, no such assignment shall be made (or effective) without the prior written approval of the Lenders.

13.13 Validity. In case any one or more of the obligations of the Borrowers under this Agreement, the Notes or any of the other Collateral Documents shall be invalid, illegal or unenforceable in any jurisdiction, the validity, legality and enforceability of the remaining obligations of the Borrowers shall not in any way be affected or impaired thereby, and such invalidity, illegality or unenforceability in one jurisdiction shall not affect the validity, legality or enforceability of the obligations of the Borrowers under this Agreement, the Notes or any of the other Collateral Documents in any other jurisdiction.

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

13.15 Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be an original, but all of which together shall be deemed to constitute one instrument.

Signature Page Follows.

IN WITNESS WHEREOF, the parties have caused this Agreement to be duly executed and delivered by their proper and duly authorized officers as of the date first written above.

PARENT:

724 SOLUTIONS INC.

By:

Name:

Title:

U.S. SUB:

724 SOLUTIONS SOFTWARE, INC.

By:

Name:

Title:

LENDER:

AUSTIN VENTURES VI, L.P.

By: AV Partners VI, L.P., its general partner

By:

Name:

Title:

LENDER:

AUSTIN VENTURES VIII, L.P.

By: AV Partners VIII, L.P., its general partner

By:

Name:

Title:

LENDER:

AUSTIN VENTURES VI
AFFILIATES FUND, L.P.

By: AV Partners VI, L.P., its general partner

By:

Name:

Title:

Counterpart Signature Page to Loan Agreement

SCHEDULE OF LENDERS

LENDER	PERCENTAGE ALLOCATION
Austin Ventures VI, L.P. 300 West Sixth Street Suite 2300 Austin, Texas 78701	7.7873%
Austin Ventures VI Affiliates Fund, L.P. 300 West Sixth Street Suite 2300 Austin, Texas 78701	0.2190%
Austin Ventures VIII, L.P. 300 West Sixth Street Suite 2300 Austin, Texas 78701	91.9937%
Total	100%

Schedule of Lenders to 724 Solutions, Inc. Loan Agreement

EXHIBIT A

FORM OF SECURED CONVERTIBLE PROMISSORY NOTE

EXHIBIT B

REGISTRATION RIGHTS AGREEMENT

EXHIBIT C

SECURITY AGREEMENT

EXHIBIT D

GUARANTY

EXHIBIT E

INTELLECTUAL PROPERTY SECURITY AGREEMENT

QuickLinks

[SECURED CONVERTIBLE NOTE PURCHASE AGREEMENT](#)

[RECITALS](#)

[AGREEMENT](#)

[Signature Page Follows.](#)

[SCHEDULE OF LENDERS](#)

[EXHIBIT A FORM OF SECURED CONVERTIBLE PROMISSORY NOTE](#)

[EXHIBIT B REGISTRATION RIGHTS AGREEMENT](#)

[EXHIBIT C SECURITY AGREEMENT](#)

[EXHIBIT D GUARANTY](#)

[EXHIBIT E INTELLECTUAL PROPERTY SECURITY AGREEMENT](#)

SECURITY AGREEMENT

THIS SECURITY AGREEMENT (the "**Agreement**") dated as of May 14, 2004, is entered into by and among the 724 Solutions Inc., a Canadian corporation ("**Parent**"), and 724 Solutions Software, Inc., a Delaware corporation ("**US Sub**" and together with Parent, the "**Borrowers**") and each other entity identified on the Schedule of Debtors attached hereto, (together with the Borrowers and such other entities that from time to time become parties hereto, each being a "**Debtor**;" collectively, the "**Debtors**") and each lender identified on the Schedule of Lenders attached hereto (together, each being a "**Lender**;" collectively, the "**Lenders**"). The addresses for the Debtors and the Lenders are set forth on the Schedule of Debtors and Schedule of Lenders, as applicable.

RECITALS

WHEREAS, the Borrowers have entered into that certain Secured Convertible Note Purchase Agreement dated as of May 14, 2004 (as amended, supplemented, amended and restated or otherwise modified from time to time the "**Purchase Agreement**") with the Lenders, pursuant to which the Borrowers have agreed to issue and sell, and the Lenders have agreed to purchase, subject to the satisfaction of certain terms and conditions, Secured Convertible Promissory Notes in the respective principal amounts set forth in the Purchase Agreement (the "**Notes**"). Capitalized terms not otherwise defined herein shall have the meaning ascribed to such terms in the Purchase Agreement.

WHEREAS, pursuant to the Purchase Agreement, the Lenders have required each Debtor that is not also a Borrower to execute, deliver and perform under a Guaranty in the form attached to the Purchase Agreement (the "**Guaranty**").

WHEREAS, pursuant to the Purchase Agreement, the Lenders have required that each of the Debtors grant (or cause to be granted) certain liens and security interests to and for the benefit of the Lenders, all to secure the obligations of each Debtor under the Purchase Agreement and Collateral Documents to which such Debtor is a party.

WHEREAS, the Debtors have directly and indirectly benefited and will directly and indirectly benefit from the transactions evidenced by and contemplated in the Purchase Agreement and the Collateral Documents and have consented to the execution and delivery of the Purchase Agreement and the Collateral Documents (collectively, the "**Financing Documents**").

AGREEMENT

NOW, THEREFORE, in consideration of the premises and for other good and valuable consideration, the adequacy, receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

ARTICLE 1

Definitions

Section 1.1 Definitions. References to "Sections," "subsections," "Exhibits" and "Schedules" shall be to Sections, subsections, Exhibits and Schedules, respectively, of this Agreement unless otherwise specifically provided. All references to statutes and regulations shall include any amendments of the same and any successor statutes and regulations. References to particular sections of the UCC should be read to refer also to parallel sections of the Uniform Commercial Code as enacted in each state or other jurisdiction where any portion of the Collateral is or may be located.

The following terms have the meanings indicated below, all such definitions to be equally applicable to the singular and plural forms of the terms defined:

"Account" means any "account," as such term is defined in Article or Chapter 9 of the UCC, now owned or hereafter acquired by a Debtor, and, in any event, shall include, without limitation, each of the following, whether now owned or hereafter acquired by such Debtor: (a) all rights of such Debtor to payment for goods sold or leased or services rendered, whether or not earned by performance, (b) all accounts receivable of such Debtor, (c) all rights of such Debtor to receive any payment of money or other form of consideration, (d) all security pledged, assigned or granted to or held by such Debtor to secure any of the foregoing, (e) all guaranties of, or indemnifications with respect to, any of the foregoing, and (f) all rights of such Debtor as an unpaid seller of goods or services, including, but not limited to, all rights of stoppage in transit, replevin, reclamation and resale.

"Chattel Paper" means any "chattel paper," as such term is defined in Article or Chapter 9 of the UCC, now owned or hereafter acquired by a Debtor, and shall include electronic chattel paper and tangible chattel paper.

"Copyright Licenses" shall mean all license agreements with any other person in connection with any of the Copyrights or such other person's copyrights, whether a Debtor is a licensor or a licensee under any such license agreement, including, without limitation, the license agreements listed on Schedule E hereto and made a part hereof, subject, in each case, to the terms of such license agreements and the right to prepare for sale, sell and advertise for sale, all inventory now or hereafter covered by such licenses.

"Copyrights" shall mean all copyrights and mask works, whether or not registered, including, but not limited to, all applications for registration of all copyrights and mask works, including, but not limited to all copyrights and mask works, and all applications for registration of all copyrights and mask works identified on Schedule E attached hereto and made a part hereof, and including without limitation (a) the right to sue or otherwise recover for any and all past, present and future infringements and misappropriations thereof; (b) all income, royalties, damages and other payments now and hereafter due and/or payable with respect thereto (including, without limitation, payments under all Copyright Licenses entered into in connection therewith, and damages and payments for past or future infringements thereof); and (c) all rights corresponding thereto and all modifications, adaptations, translations, enhancements and derivative works, renewals thereof, and all other rights of any kind whatsoever of a Debtor accruing thereunder or pertaining thereto (Copyrights and Copyright Licenses being, collectively, the **"Copyright Collateral"**).

"Deposit Account" shall mean a demand, time, savings, passbook, or similar account maintained with a bank. The term does not include investment property, investment accounts or accounts evidenced by an instrument.

"Document" means any "document," as such term is defined in Article or Chapter 9 of the UCC, now owned or hereafter acquired by any Debtor, including, without limitation, all documents of title and all receipts covering, evidencing or representing goods now owned or hereafter acquired by a Debtor.

"Equipment" means any "equipment," as such term is defined in Article or Chapter 9 of the UCC, now owned or hereafter acquired by a Debtor and, in any event, shall include, without limitation, all machinery, equipment, furniture, trade fixtures, tractors, trailers, rolling stock, vessels, aircraft and vehicles now owned or hereafter acquired by such Debtor and any and all additions, substitutions and replacements of any of the foregoing, wherever located, together with all attachments, components, parts, equipment and accessories installed thereon or affixed thereto.

"General Intangibles" means any "general intangibles," as such term is defined in Article or Chapter 9 of the UCC, now owned or hereafter acquired by a Debtor and, in any event, shall include, without limitation, each of the following, whether now owned or hereafter acquired by such Debtor: (a) all of such Debtor's Patents, Patent Licenses, Copyrights, Copyright Licenses, Trademarks, Trademark Licenses, trade secrets, registrations, goodwill, franchises, permits, proprietary information, customer lists, designs, inventions and all other intellectual property and proprietary rights, including without limitation those described on Schedule E attached hereto and incorporated herein by reference (collectively, the **"Intellectual Property Collateral"**); (b) all of such Debtor's books, records, data, plans, manuals, computer software, computer tapes, computer disks, computer programs, source codes, object codes and all rights of such Debtor to retrieve data and other information from third parties; (c) all of such Debtor's contract rights, commercial tort claims, partnership interests, membership interests, joint venture interests, securities, deposit accounts, investment accounts and certificates of deposit; (d) all rights of such Debtor to payment under chattel paper, documents, instruments and similar agreements; (e) letters of credit, letters of credit rights supporting obligations and rights to payment for money or funds advanced or sold of such Debtor; (f) all tax refunds and tax refund claims of such Debtor; (g) all choses in action and causes of action of such Debtor (whether arising in contract, tort or otherwise and whether or not currently in litigation) and all judgments in favor of such Debtor; (h) all rights and claims of such Debtor under warranties and indemnities; and (i) all rights of such Debtor under any insurance, surety or similar contract or arrangement.

"Governmental Authority" shall mean any nation or government, any state, province or other political subdivision thereof, any central bank (or similar monetary or regulatory authority) thereof, any entity exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government, and any corporation or other entity owned or controlled, through stock or capital ownership or otherwise, by any of the foregoing.

"Instrument" means any "instrument," as such term is defined in Article or Chapter 9 of the UCC, now owned or hereafter acquired by any Debtor, and, in any event, shall include all promissory notes, drafts, bills of exchange and trade acceptances, whether now owned or hereafter acquired.

"Intellectual Property Collateral" is defined in clause (a) of the definition of General Intangibles.

"Inventory" means any "inventory," as such term is defined in Article or Chapter 9 of the UCC, now owned or hereafter acquired by a Debtor, and, in any event, shall include, without limitation, each of the following, whether now owned or hereafter acquired by such Debtor: (a) all goods and other personal property of such Debtor that are held for sale or lease or to be furnished under any contract of service; (b) all raw materials, work-in-process, finished goods, supplies and materials of such Debtor; (c) all wrapping, packaging, advertising and shipping materials of such Debtor; (d) all goods that have been returned to, repossessed by or stopped in transit by such Debtor; and (e) all Documents evidencing any of the foregoing.

"Investment Property" means any "investment property" as such term is defined in Article or Chapter 9 of the UCC, now owned or hereafter acquired by a Debtor, and in any event, shall include without limitation all shares of stock and other equity, partnership or membership interests constituting securities, of the Subsidiaries of such Debtor from time to time owned or acquired by such Debtor in any manner (including, without limitation, the Pledged Shares), and the certificates and all dividends, cash, instruments, rights and other property from time to time received, receivable or otherwise distributed or distributable in respect of or in exchange for any or all of such shares;

"Patent Licenses" shall mean all license agreements with any other person in connection with any of the Patents or such other person's patents, whether a Debtor is a licensor or a licensee under any such license agreement, including, without limitation, the license agreements listed on Schedule E hereto and made a part hereof, subject, in each case, to the terms of such license agreements and the right to prepare for sale, sell and advertise for sale, all inventory now or hereafter covered by such licenses.

"Patents" shall mean all patents, patent applications, industrial design registrations, industrial design applications and patentable inventions, including, without limitation, all patents and patent applications identified on Schedule E attached hereto and made a part hereof, and including without limitation (a) all inventions and improvements described and claimed therein, and patentable inventions, (b) the right to sue or otherwise recover for any and all past, present and future infringements and misappropriations thereof, (c) all income, royalties, damages and other payments now and hereafter due and/or payable with respect thereto (including, without limitation, payments under all Patent Licenses entered into in connection therewith, and damages and payments for past or future infringements thereof), and (d) all rights corresponding thereto in the United States and all reissues, divisions, continuations, continuations-in-part, substitutes, renewals, and extensions thereof, all improvements thereon, and all other rights of any kind whatsoever of a Debtor accruing thereunder or pertaining thereto (Patents and Patent Licenses being, collectively, the **"Patent Collateral"**).

"Pledged Shares" means the shares of capital stock or other equity, partnership or membership interests described on Schedule D attached hereto and incorporated herein by reference.

"PPSA" means the Personal Property Security Act (Ontario), as amended from time to time, provided that if the validity, perfection or effect of non-perfection of the security interest created hereunder in any Collateral is governed by the Personal Property Security Act in effect in any other jurisdiction, "PPSA" means the Personal Property Security Act as in effect in such other jurisdiction for purposes of the provisions hereof relating to such perfection or the effect of perfection or non-perfection.

"Proceeds" means any "proceeds," as such term is defined in Article or Chapter 9 of the UCC and, in any event, shall include, but not be limited to, (a) any and all proceeds of any insurance, indemnity, warranty or guaranty payable to a Debtor from time to time with respect to any of the Collateral, (b) any and all payments (in any form whatsoever) made or due and payable to a Debtor from time to time in connection with any requisition, confiscation, condemnation, seizure or forfeiture of all or any part of the Collateral by any governmental authority (or any Person acting, or purporting to act, for or on behalf of any governmental authority), and (c) any and all other amounts from time to time paid or payable under or in connection with any of the Collateral.

"Software" means all (i) computer programs and supporting information provided in connection with a transaction relating to the program, and (ii) computer programs embedded in goods and any supporting information provided in connection with a transaction relating to the program whether or not the program is associated with the goods in such a manner that it customarily is considered part of the goods, and whether or not, by becoming the owner of the goods, a person acquires a right to use the program in connection with the goods, and whether or not the program is embedded in goods that consist solely of the medium in which the program is embedded.

"Trademark Licenses" shall mean all license agreements with any other person in connection with any of the Trademarks or such other person's names or trademarks, whether a Debtor is a licensor or a licensee under any such license agreement, including, without limitation, the license agreements listed on Schedule E hereto and made a part hereof, subject, in each case, to the terms of such license agreements, and the right to prepare for sale, sell and advertise for sale, all inventory now or hereafter covered by such licenses.

"**Trademarks**" shall mean all trademarks, service marks, trade names, trade dress or other indicia of trade origin, trademark and service mark registrations, and applications for trademark or service mark registrations (except for "intent to use" applications for trademark or service mark registrations filed pursuant to Section 1(b) of the Lanham Act, unless and until an Amendment to Allege Use or a Statement of Use under Sections 1(c) and 1(d) of said Act has been filed), domain names, and any renewals thereof, including, without limitation, each registration and application identified on Schedule E attached hereto and made a part hereof, and including without limitation (a) the right to sue or otherwise recover for any and all past, present and future infringements and misappropriations thereof, (b) all income, royalties, damages and other payments now and hereafter due and/or payable with respect thereto (including, without limitation, payments under all Trademark Licenses entered into in connection therewith, and damages and payments for past or future infringements thereof) and (c) all rights corresponding thereto in the United States and all other rights of any kind whatsoever of a Debtor accruing thereunder or pertaining thereto, together in each case with the goodwill of the business connected with the use of, and symbolized by, each such trademark, service mark, trade name, trade dress or other indicia of trade origin (Trademarks and Trademark Licenses being, collectively, the "**Trademark Collateral**").

"**UCC**" means the Uniform Commercial Code as in effect in the State of New York; provided, that if, by applicable law, the perfection or effect of perfection or non-perfection of the security interest created hereunder in any Collateral is governed by the Uniform Commercial Code as in effect on or after the date hereof in any other jurisdiction, "UCC" means the Uniform Commercial Code as in effect in such other jurisdiction for purposes of the provisions hereof relating to such perfection or the effect of perfection or non-perfection.

ARTICLE 2 **Security Interest**

Section 2.1 Security Interest. As collateral security for the prompt payment and performance in full when due of the Indebtedness (whether at stated maturity, by acceleration or otherwise), each Debtor hereby pledges, assigns, transfers and conveys to the Lenders as collateral, and grants the Lenders a continuing lien on and security interest in, all of such Debtor's right, title and interest in and to the following, whether now owned or hereafter arising or acquired and wherever located (collectively, the "**Collateral**"):

- (a) all Accounts;
- (b) all Chattel Paper;
- (c) all General Intangibles;
- (d) all Equipment;
- (e) all Inventory;
- (f) all Documents;
- (g) all Instruments;
- (h) all Deposit Accounts and any cash collateral, deposit account or investment account established or maintained hereunder, including without limitation under Section 6.3 hereof;

(i) all computer records ("**Computer Records**") and Software, whether relating to the foregoing Collateral or otherwise, but in the case of such Software, subject to the rights of any non-affiliated licensee of software;

(j) all Investment Property; and

(k) the Proceeds, in cash or otherwise, of any of the property described in the foregoing clauses (a) through (j) and all liens, security, rights, remedies and claims of such Debtor with respect thereto;

provided, however, that "Collateral" shall not include rights under or with respect to any General Intangible, license, permit or authorization to the extent that applicable law prohibits the assignment of, or the granting of a security interest in, any such General Intangible, license, permit or authorization, or to the extent that the assignment of, or the granting of a security interest in, any such General Intangible, license, permit or authorization would be invalid or unenforceable under applicable law.

Each Debtor hereby irrevocably authorizes the Lenders at any time and from time to time to file in any filing office in any UCC or PPSA jurisdiction, any financing statement, initial financing statements and amendments thereto that (a) indicate any or all of the Collateral upon which the Debtors have granted a Lien, and (b) provide any other information required by Part 5 of Article 9 of the UCC, including organizational information and in the case of a fixture filing or indicating Collateral as as-extracted collateral or timber to be cut, a sufficient description of real property to which the Collateral related. Each Debtor agrees to furnish any such information required by the preceding paragraph to the Lenders promptly upon request.

Section 2.1 Debtors Remain Liable. Notwithstanding anything to the contrary contained herein, (a) the Debtors shall remain liable under the contracts, agreements, documents and instruments included in the Collateral to the extent set forth therein to perform all of its duties and obligations thereunder to the same extent as if this Agreement had not been executed, (b) the exercise by the Lenders of any of their respective rights or remedies hereunder shall not release the Debtors from any of their duties or obligations under the contracts, agreements, documents and instruments included in the Collateral, and (c) the Lenders shall not have any indebtedness, liability or obligation (by assumption or otherwise) under any of the contracts, agreements, documents and instruments included in the Collateral by reason of this Agreement, and the Lenders shall not be obligated to perform any of the obligations or duties of the Debtors thereunder or to take any action to collect or enforce any claim for payment assigned hereunder.

ARTICLE 3 **Representations and Warranties**

To induce the Lenders to enter into this Agreement and the Purchase Agreement, each Debtor represents and warrants to the Lenders that as of the date hereof:

Section 3.1 Title. Such Debtor is, and with respect to Collateral acquired after the date hereof, such Debtor will be, the legal and beneficial owner of the Collateral free and clear of any Lien or other encumbrance, except for the Permitted Liens and the other Liens permitted under Section 10.2 of the Purchase Agreement, provided that, other than the Lien established hereby, no Lien on the Investment Property shall constitute a Permitted Lien or a Lien otherwise permitted under Section 10.2 of the Purchase Agreement.

Section 3.2 Financing Statements. No financing statement, security agreement or other Lien instrument covering all or any part of the Collateral is on file in any public office with respect to any outstanding obligation of such Debtor except (i) as may have been filed in favor of the Lenders pursuant to this Agreement, the Purchase Agreement and the other Collateral Documents and (ii) financing statements filed to perfect Permitted Liens or other Liens permitted under Section 10.2 of the Purchase Agreement. As of the date hereof, and to each Debtor's knowledge, except as otherwise disclosed on Schedule F hereto, no Debtor does business or has done business under a trade name or any name other than its legal name set forth at the beginning of this Agreement.

Section 3.3 Principal Place of Business; Registered Organization; Change in Form or Jurisdiction . The principal place of business and chief executive office of such Debtor, and the office where such Debtor keeps its books and records, is located at the address of such Debtor shown on the signature page hereto. Each Debtor is duly organized and validly existing as a corporation (or other business organization) under the laws of its jurisdiction of organization, as set forth on Schedule C, and has the registration number set forth on such Schedule C, and each Debtor has not changed its corporate form or its jurisdiction of organization at any time during the past five (5) years, except as set forth on such Schedule C.

Section 3.4 Location of Collateral .

(a) All Inventory (except Inventory in transit) and Equipment (other than vehicles) of each Debtor in the possession of such Debtor are located at the places specified on Schedule A hereto.

(b) The name and address of the landlord leasing any location to any Debtor is identified on Schedule A hereto.

(c) The name of and address of each bailee or warehouseman and the location of any Inventory or Equipment held by such bailee or warehouseman is identified on Schedule A hereto.

(d) All Deposit Accounts of each Debtor are located at the banks and have the account numbers specified on Schedule A attached hereto.

(e) None of the Inventory or Equipment of such Debtor (other than trailers, rolling stock, vessels, aircraft and vehicles) is evidenced by a Document (including, without limitation, a negotiable document of title).

Section 3.5 Perfection. Upon (a) the filing of UCC or PPSA financing statements in the jurisdictions listed on Schedule B attached hereto, (b) the recording of this Agreement in the United States Patent and Trademark Office and the United States Copyright Office and in the Canadian Intellectual Property Office ("*CIPO*"), and (c) the Lenders' obtaining possession of the certificates evidencing the Pledged Shares accompanied by duly executed stock powers or instruments of transfer or assignments in blank, or upon the execution and delivery of control agreements or similar documentation (with respect to any cash collateral or deposit account established hereunder), the security interest in favor of the Lenders created herein will constitute a valid and perfected Lien upon and security interest in the Collateral which may be created and perfected either under the UCC or the PPSA by filing financing statements or obtaining possession thereof and by a filing with the Patent and Trademark Office, the United States Copyright Office and CIPO, subject to: (i) no other Liens with respect to the Pledged Shares and (ii) only to those Liens (if any) which constitute Permitted Liens or other Liens permitted under Section 10.2 of the Purchase Agreement with respect to all other Collateral.

Section 3.6 Pledged Shares.

(a) The Pledged Shares that are shares of a corporation have been duly authorized and validly issued and are fully paid and nonassessable, and the Pledged Shares that are membership interests or partnership units (if any) have been validly granted, under the laws of the jurisdiction of organization of the issuers thereof, and, to the extent applicable, are fully paid and nonassessable. No such membership or partnership interests constitute "securities" within the meaning of Article 8 of the UCC, and each Debtor covenants and agrees not to allow any such membership or partnership interest to become "securities" for purposes of Article 8 of the UCC.

(b) Each Debtor is the legal and beneficial owner of the Pledged Shares, free and clear of any Lien (other than the Liens created by this Agreement), and such Debtor has not sold, granted any option with respect to, assigned, transferred or otherwise disposed of any of its rights or interest in or to the Pledged Shares. None of the Pledged Shares are subject to any contractual or other restrictions upon the pledge or other transfer of such Pledged Shares, other than those imposed by securities laws generally. No issuer of Pledged Shares is party to any agreement granting "control" (as defined in Section 8-106 of the UCC) of such Debtor's Pledged Shares to any third party. All such Pledged Shares are held by each Debtor directly and not through any securities intermediary.

(c) On the date hereof, the Pledged Shares constitute the percentage of the issued and outstanding shares of stock, partnership units or membership interests of the issuers thereof indicated on Schedule D and such schedule contains a description of all shares of capital stock, membership interests and other equity interests of or in any Subsidiaries owned by such Debtor (as such Schedule D may from time to time be supplemented, amended or modified in accordance with the terms of this Agreement).

Section 3.7 Intellectual Property.

(a) Set forth on Schedule E is a complete and accurate list of the Trademarks, Patents and Copyrights owned by the Debtors as of the date hereof. Each Debtor has made all necessary filings and recordings to protect and maintain its interest in the Trademarks and Patents set forth on Schedule E, including, without limitation, all necessary filings and recordings, and payments of all maintenance fees, in the United States Patent and Trademark Office, CIPO and any other similar office or agency to the extent such Trademarks and Patents are material to such Debtor's business. Also set forth on Schedule E is a complete and accurate list of all of the material Patent Licenses owned by the Debtors as of the date hereof. There are no material Trademark Licenses or Copyright Licenses.

(b) (i) Each Trademark of the Debtors set forth on Schedule E is subsisting and has not been adjudged invalid, unregistrable or unenforceable, in whole or in part, and, to the Debtors' knowledge, is valid, registrable and enforceable, and (ii) the Debtors have notified the Lenders in writing of all uses of any material item of Trademark Collateral of which any Debtor is aware which could reasonably be expected to lead to such item becoming invalid or unenforceable, including unauthorized uses by third parties and uses which were not supported by the goodwill of the business connected with such Collateral.

(c) (i) Each Patent of the Debtors set forth on Schedule E is subsisting and has not been adjudged invalid, unpatentable or unenforceable, in whole or in part, and, to the Debtors' knowledge, is valid, patentable and enforceable except as otherwise set forth on Schedule E, (ii) each of the Patent Licenses set forth on Schedule E is validly subsisting and has not been adjudged invalid or unenforceable, in whole or in part, and, to the Debtors' knowledge, is valid and enforceable, and (iii) the Debtors have notified the Lenders in writing of all uses of any item of Patent Collateral material to any Debtor's business of which any Debtor is aware which could reasonably be expected to lead to such item becoming invalid or unenforceable.

(d) (i) Each Copyright of the Debtors set forth on Schedule E is subsisting and has not been adjudged invalid, uncopyrightable or unenforceable, in whole or in part, and, to the Debtors' knowledge, is valid, copyrightable and enforceable, (ii) each of the Copyright Licenses set forth on Schedule E is validly subsisting and has not been adjudged invalid or unenforceable, in whole or in part, and, to the Debtors' knowledge, is valid and enforceable, and (iii) the Debtors have notified the Lenders in writing of all uses of any item of Copyright Collateral material to any Debtor's business of which any Debtor is aware which could reasonably be expected to lead to such item becoming invalid or unenforceable.

(e) The Debtors have not made a previous assignment, sale, transfer or agreement constituting a present or future assignment, sale, transfer or encumbrance of any of the Intellectual Property Collateral, except with respect to non-exclusive licenses granted in the ordinary course of business or as permitted by this Agreement, the Purchase Agreement or the Collateral Documents. No Debtor has granted any license, shop right, release, covenant not to sue, or non-assertion assurance to any person with respect to any part of the Intellectual Property Collateral, except as set forth on Schedule E.

(f) Each Debtor has marked its products with the trademark registration symbol, copyright notices, the numbers of all appropriate patents, the common law trademark symbol or the designation "patent pending," as the case may be, to the extent that Debtor, in good faith, believes is reasonably and commercially practicable.

(g) Except for the Patent Licenses listed on Schedule E hereto under which a Debtor is a licensee and the matters listed on Schedule G, no Debtor has knowledge of the existence of any right or any claim (other than as provided by this Agreement) that is likely to be made under or against any item of Intellectual Property Collateral contained on Schedule E to the extent such claim could reasonably be expected to have a Material Adverse Effect.

(h) Except as set forth on Schedule G, no claim has been made and is continuing or, to any Debtor's knowledge, threatened that the use by any Debtor of any item of Intellectual Property Collateral is invalid or unenforceable or that the use by any Debtor of any Intellectual Property Collateral does or may violate the rights of any person. To the Debtors' knowledge, there is currently no infringement or unauthorized use of any item of Intellectual Property Collateral.

(i) No consent of any party (other than such Debtor) to any Patent License constituting Intellectual Property Collateral is required, or purports to be required, to be obtained by or on behalf of such Debtor in connection with the execution, delivery and performance of this Agreement that has not been obtained. Each Patent License constituting Intellectual Property Collateral is in full force and effect and constitutes a valid and legally enforceable obligation of the applicable Debtor and (to the knowledge of the Debtors) each other party thereto except as enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws affecting the enforcement of creditor's rights generally and by general equitable principles (whether enforcement is sought by proceedings in equity or at law). No consent or authorization of, filing with or other act by or in respect of any governmental authority is required in connection with the execution, delivery, performance, validity or enforceability of any of the Patent Licenses by any party thereto other than those which have been duly obtained, made or performed and are in full force and effect. Neither the Debtors nor (to the knowledge of any Debtor) any other party to any Patent License constituting Collateral is in default in the performance or observance of any of the terms thereof, except for such defaults as would not reasonably be expected, in the aggregate, to have a material adverse effect on the value of the Intellectual Property Collateral. To the knowledge of such Debtor, the right, title and interest of the applicable Debtor in, to and under each Patent License, Copyright License and Trademark License constituting Intellectual Property Collateral is not subject to any defense, offset, counterclaim or claim.

- (j) All moral rights or similar rights have been waived in favor of the Debtors, their successors and assigns.

ARTICLE 4
Covenants

Each Debtor covenants and agrees with the Lenders that until the Indebtedness is paid and performed in full and all commitments to lend or provide other credit accommodations under the Purchase Agreement have been terminated:

Section 4.1 Encumbrances. Each Debtor shall not create, permit or suffer to exist, and shall defend the Collateral against, any Lien (other than the Permitted Liens or other Liens permitted under Section 10.2 of the Purchase Agreement) or any restriction upon the pledge or other transfer thereof (other than as provided in the Purchase Agreement), and shall, subject only to the Permitted Liens and the other Liens permitted under Section 10.2 of the Purchase Agreement, defend such Debtor's title to and other rights in the Collateral and the Lenders' pledge and collateral assignment of and security interest in the Collateral against the claims and demands of all Persons. Except to the extent permitted by the Purchase Agreement or in connection with any release of Collateral under Section 7.13 hereof (but only to the extent of any Collateral so released), such Debtor shall do nothing to impair the rights of the Lenders in the Collateral.

Section 4.2 Collection of Accounts and Contracts. Each Debtor shall, in accordance with its usual business practices in effect from time to time, endeavor to collect or cause to be collected from each account debtor under its Accounts, as and when due, any and all amounts owing under such Accounts.

Section 4.3 Disposition of Collateral. To the extent prohibited by the terms of the Purchase Agreement, no Debtor shall enter into or consummate any transfer or other disposition of assets without the prior written consent of the Lenders, except as permitted under the terms of the Purchase Agreement.

Section 4.4 Further Assurances. At any time and from time to time, upon the request of the Lenders, and at the sole expense of the Debtors, each Debtor shall promptly execute and deliver all such further agreements, documents and instruments and take such further action as the Lenders may reasonably deem necessary or appropriate to preserve and perfect their security interests in and pledges and collateral assignments of the Collateral (including causing the Lenders' names to be noted as secured parties on any certificate of title for a titled good if such notation is a condition of either Lender's ability to enforce its security interest in such Collateral) and carry out the provisions and purposes of this Agreement or to enable the Lenders to exercise and enforce their rights and remedies hereunder with respect to any of the Collateral. Except as otherwise expressly permitted by the terms of the Purchase Agreement relating to disposition of assets and except for Permitted Liens and other Liens permitted by Section 10.2 of the Purchase Agreement, each Debtor agrees to maintain and preserve the Lenders' security interests in and pledges and collateral assignments of the Collateral hereunder. Without limiting the generality of the foregoing, such Debtor shall (a) execute and deliver to the Lenders such financing statements as the Lenders may from time to time reasonably require; and (b) execute and deliver to the Lenders such other agreements, documents and instruments, including without limitation control agreements or stock powers, as the Lenders may reasonably require to perfect and maintain the validity, effectiveness and priority of the Liens intended to be created by the Purchase Agreement, this Agreement and the other Collateral Documents.

Section 4.5 Insurance. The Collateral pledged by such Debtor or the Debtors will be insured (to the extent such Collateral is insurable) with insurance coverage in such amounts and of such types as are required by the terms of the Purchase Agreement. In the case of all such insurance policies, each such Debtor shall designate the Lenders as mortgagees or lender loss payees and such policies shall provide that any loss be payable to the Lenders, as mortgagees or lender loss payees, as their interests may appear. Further, upon the request of the Lenders, each such Debtor shall deliver certificates evidencing such policies, including all endorsements thereon and those required hereunder, to the Lenders; and each such Debtor assigns to the Lenders, as additional security hereunder, all its rights to receive proceeds of insurance with respect to the Collateral. All such insurance shall, by its terms, provide that the applicable carrier shall, prior to any cancellation before the expiration date thereof, mail thirty (30) days' prior written notice to the Lenders of such cancellation. Each Debtor further shall provide the Lenders upon request with evidence reasonably satisfactory to the Lenders that each such Debtor is at all times in compliance with this paragraph. Upon the occurrence and during the continuance of an Event of Default, the Lenders may act as each such Debtor's attorney-in-fact in obtaining, adjusting, settling and compromising such insurance and endorsing any drafts. Upon such Debtor's failure to insure the Collateral as required in this covenant, the Lenders may procure such insurance and the costs therefor shall be charged to such Debtor, payable on demand, with interest at the highest rate set forth in the Purchase Agreement and added to the Indebtedness secured hereby. The disposition of proceeds payable to such Debtor of any insurance on the Collateral (the "**Insurance Proceeds**") shall be governed by the following:

(a) provided that no Event of Default has occurred and is continuing hereunder, (a) if the amount of Insurance Proceeds in respect of any loss or casualty does not exceed One Hundred Thousand Dollars (US\$100,000), such Debtor shall be entitled, in the event of such loss or casualty, to receive all such Insurance Proceeds and to apply the same toward the replacement of the Collateral affected thereby or to the purchase of other assets to be used in such Debtor's business (provided that such assets shall be subjected to a first lien in favor of the Lenders); and (b) if the amount of Insurance Proceeds in respect of any loss or casualty exceeds One Hundred Thousand Dollars (US\$100,000), such Insurance Proceeds shall be paid to and received by the Lenders, for release to such Debtor for the replacement of the Collateral affected thereby or to the purchase of other assets to be used in such Debtor's business (provided that such assets shall be subjected to a first ranking lien and security interest in favor of the Lenders); or, upon written request of such Debtor (accompanied by reasonable supporting documentation), for such other use or purpose as approved by the Lenders, in their reasonable discretion, it being understood and agreed in connection with any release of funds under this subparagraph (b), that the Lenders may impose reasonable and customary conditions on the disbursement of such Insurance Proceeds; and

(b) if an Event of Default has occurred or is continuing and is not waived as provided in the Purchase Agreement, all Insurance Proceeds in respect of any loss or casualty shall be paid to and received by the Lenders, to be applied by the Lenders against the Indebtedness and/or to be held by the Lenders as cash collateral for the Indebtedness, as the Lenders may direct in their sole discretion.

Section 4.6 Furnishing of Information and Inspection Rights. Each Debtor will, at any time and from time to time during regular business hours, upon reasonable advance notice (except if any Event of Default has occurred and is continuing, when no prior notice shall be required), permit the Lenders, or their lenders or representatives, to examine and make copies of and abstracts from all Records, to visit the offices and properties of such Debtor for the purpose of examining such Records, and to discuss matters relating to Debtor's performance hereunder and under the other Purchase Agreement with any of the officers, directors, employees or independent public accountants of such Debtor having knowledge of such matters; provided, however, that each of the Lenders acknowledge that, in exercising the rights and privileges conferred in this Section 4.6, it or its lenders and representatives may, from time to time, obtain knowledge of information, practices, books, correspondence and records of a confidential nature and in which such Debtor has a proprietary interest. The Lenders agree that all such information, practices, books, correspondence and records are to be regarded as confidential information and shall be accorded treatment substantially similar to that which the Lenders accord their own confidential information; provided, however, that the Lenders may reply to a request from any Person for information related to any Collateral referred to in any financing statement filed to perfect the security interest and liens established hereby, to the extent necessary to maintain the perfection or priority of such security interests or liens, or otherwise required under applicable law. Furthermore, such Debtor shall permit the Lenders and its representatives to examine, inspect and audit the Collateral and to examine, inspect and audit such Debtor's books and Records to the extent provided under the Purchase Agreement.

Section 4.7 Corporate Changes. Each Debtor shall not change its name, identity, corporate structure or jurisdiction of organization in any manner that might make any UCC financing statement filed in connection with this Agreement seriously misleading within the meaning of Section 9-506 of the UCC or might make the debtor information on any PPSA financing statement inaccurate unless such Debtor shall have given the Lenders thirty (30) days prior written notice with respect to any change in such Debtor's corporate structure, jurisdiction of organization, name or identity and shall have taken all action deemed reasonably necessary by the Lenders under the circumstances to protect their Liens and maintain the perfection and priority thereof. Such Debtor shall give prompt written notice of any change in its principal place of business, chief executive office or place where it keeps its books and records.

Section 4.8 Books and Records. Each Debtor shall keep accurate and complete books and records (the "**Records**") of the Collateral and such Debtor's business and financial condition in accordance with the Purchase Agreement.

Section 4.9 Equipment and Inventory.

(a) Each Debtor shall keep the Equipment (other than vehicles) and Inventory (other than Inventory in transit) which is in such Debtor's possession or in the possession of any bailee or warehouseman at any of the locations specified on Schedule A hereto or, upon prompt written notice to the Lenders, at such other places within the United States of America and each other jurisdiction where all action required to perfect the Lenders' security interests in the Equipment and Inventory with the priority required by this Agreement shall have been taken (including the execution and delivery of landlord consents or bailee waivers in form and substance acceptable to the Lenders).

(b) Each Debtor shall maintain the Equipment and Inventory in accordance with the terms of the Purchase Agreement.

Section 4.10 Notification. Each Debtor shall promptly notify the Lenders in writing of any Lien, encumbrance or claim (other than a Permitted Lien or other Liens permitted under Section 10.2 of the Purchase Agreement, to the extent not otherwise subject to any notice requirements under the Purchase Agreement) that has attached to or been made or asserted against any of the Collateral upon becoming aware of the existence of such Lien, encumbrance or claim.

Section 4.11 Collection of Accounts. So long as no Event of Default has occurred and is continuing and except as otherwise provided in this Section 4.11 and Section 6.3, each Debtor shall have the right to collect and receive payments on its Accounts, and to use and expend the same in its operations in each case in compliance with the terms of each of the Purchase Agreement.

Section 4.12 Voting Rights; Distributions, Etc.

- (a) So long as no Event of Default shall have occurred and be continuing (both before and after giving effect to any of the actions or other matters described in clauses (i) or (ii) of this subparagraph):
- (i) Each Debtor shall be entitled to exercise any and all voting and other consensual rights (including, without limitation, the right to give consents, waivers and ratifications) pertaining to any of the Pledged Shares or any part thereof; provided, however, that no vote shall be cast or consent, waiver or ratification given or action taken without the prior written consent of the Lenders which would violate any provision of this Agreement or the Purchase Agreement; and
 - (ii) Except as otherwise provided by the Purchase Agreement, such Debtor shall be entitled to receive and retain any and all dividends, distributions and interest paid in respect to any of the Pledged Shares.
- (b) Upon the occurrence and during the continuance of an Event of Default:
- (i) The Lenders may, without notice to such Debtor, transfer or register in the name of the Lenders or any of their nominees, any or all of the Pledged Shares and the Proceeds thereof (in cash or otherwise) held by the Lenders hereunder, and the Lenders or their nominees may thereafter, after delivery of notice to such Debtor, exercise all voting and corporate rights at any meeting of any corporation issuing any of the Pledged Shares and any and all rights of conversion, exchange, subscription or any other rights, privileges or options pertaining to any of the Pledged Shares as if the Lenders were the absolute owners thereof, including, without limitation, the right to exchange, at their discretion, any and all of the Pledged Shares upon the merger, consolidation, reorganization, recapitalization or other readjustment of any corporation issuing any of such Pledged Shares or upon the exercise by any such issuer or the Lenders of any right, privilege or option pertaining to any of the Pledged Shares, and in connection therewith, to deposit and deliver any and all of the Pledged Shares with any committee, depository, transfer lender, registrar or other designated agency upon such terms and conditions as the Lenders may determine, all without liability except to account for property actually received by it, but the Lenders shall have no duty to exercise any of the aforesaid rights, privileges or options, and the Lenders shall not be responsible for any failure to do so or delay in so doing.
 - (ii) All rights of such Debtor to exercise the voting and other consensual rights which it would otherwise be entitled to exercise pursuant to Subsection 4.12(a)(i) and to receive the dividends, interest and other distributions which it would otherwise be authorized to receive and retain pursuant to Subsection 4.12(a)(ii) shall be suspended until such Event of Default shall no longer exist, and all such rights shall, until such Event of Default shall no longer exist, thereupon become vested in the Lenders which shall thereupon have the sole right to exercise such voting and other consensual rights and to receive, hold and dispose of as Pledged Shares such dividends, interest and other distributions.
 - (iii) All dividends, interest and other distributions which are received by such Debtor contrary to the provisions of this Subsection 4.12(b) shall be received in trust for the benefit of the Lenders, shall be segregated from other funds of such Debtor and shall be forthwith paid over to the Lenders as Collateral in the same form as so received (with any necessary endorsement).
 - (iv) Each Debtor shall execute and deliver (or cause to be executed and delivered) to the Lenders all such proxies and other instruments as the Lenders may reasonably request for the purpose of enabling the Lenders to exercise the voting and other rights which they are entitled to exercise pursuant to this Subsection 4.12(b) and to receive the dividends, interest and other distributions which they are entitled to receive and retain pursuant to this Subsection 4.12(b). The foregoing shall not in any way limit the Lenders' power and authority granted pursuant to Section 5.1 of this Agreement.

Section 4.13 Transfers and Other Liens; Additional Investments. Each Debtor agrees that, (a) except with the written consent of the Lenders, it will not permit any Subsidiary to issue to such Debtor or any of such Debtor's other Subsidiaries any shares of stock, membership interests, partnership units, notes or other securities or instruments (including without limitation the Pledged Shares) in addition to or in substitution for any of the Collateral, unless, concurrently with each issuance thereof, any and all such shares of stock, membership interests, partnership units, notes or instruments are encumbered in favor of the Lenders under this Agreement or otherwise (it being understood and agreed that all such shares of stock, membership interests, partnership units, notes or instruments issued to such Debtor shall, without further action by such Debtor or the Lenders, be automatically encumbered by this Agreement as Pledged Shares) and (b) it will promptly upon the written request of either Lender following the issuance thereof (and in any event within five (5) business days following such request) deliver to the Lenders (i) an amendment, duly executed by such Debtor, in substantially the form of Exhibit A hereto (an "**Amendment**"), in respect of such shares of stock, membership interests, partnership units, notes or instruments issued to such Debtor or (ii) a new stock pledge, duly executed by the applicable Subsidiary, in substantially the form of this Agreement (a "**New Pledge**"), in respect of such shares of stock, membership interests, partnership units, notes or instruments issued to any Subsidiary granting to the Lenders a first priority security interest, pledge and lien thereon, together in each case with all certificates, notes or other instruments representing or evidencing the same. Such Debtor hereby (x) authorizes the Lenders to attach each Amendment to this Agreement, (y) agrees that all such shares of stock, membership interests, partnership units, notes or instruments listed in any Amendment delivered to the Lenders shall for all purposes hereunder constitute Pledged Shares, and (z) is deemed to have made, upon the delivery of each such Amendment, the representations and warranties contained in Sections 3.1, 3.2, 3.5 and 3.6 of this Agreement with respect to the Collateral covered thereby.

Section 4.14 Possession; Reasonable Care. Regardless of whether an Event of Default has occurred or is continuing, the Lenders shall have the right to hold in their possession all Pledged Shares pledged, assigned or transferred hereunder and from time to time constituting a portion of the Collateral. The Lenders may appoint a Person (which in no case shall be a Debtor or an affiliate or agent of a Debtor) to hold physical custody, for the accounts of the Lenders, of any or all of the Collateral. A Lender shall be deemed to have exercised reasonable care in the custody and preservation of the Collateral in its possession if the Collateral is accorded treatment substantially equal to that which the Lender accords its own property, it being understood that a Lender shall not have any responsibility for (a) ascertaining or taking action with respect to calls, conversions, exchanges, maturities, tenders or other matters relative to any Collateral, whether or not the Lender has or is deemed to have knowledge of such matters, or (b) taking any necessary steps to preserve rights against any parties with respect to any Collateral. Following the occurrence and continuance of an Event of Default, the Lenders shall be entitled to take possession of the Collateral in accordance with the UCC or PPSA, as each may apply to the Collateral.

Section 4.15 Future Subsidiaries / Additional Collateral.

(a) With respect to each Person which becomes a Subsidiary (which, for all purposes of this Agreement, shall include any Subsidiary which is not a "controlled foreign corporation" under Section 956 of the Internal Revenue Code, or any successor provision) subsequent to the date hereof, within thirty (30) days of the date such Person becomes a Subsidiary, Debtor will cause such Subsidiary to execute and deliver to the Lenders a security agreement, substantially in the form of this Agreement (or a joinder agreement satisfactory to Lenders in the form attached hereto as Exhibit B), granting to the Lenders a first priority security interest, mortgage and lien encumbering all right, title and interest of such Person in property, rights and interests of the type included in the definition of the Collateral, subject to (i) no Liens with respect to any Pledged Shares, and (ii) only the Permitted Liens and other Liens permitted under Section 10.2 of the Purchase Agreement with respect to all other Collateral.

(b) With respect to any intellectual property owned, licensed or otherwise acquired by any Debtor after the date hereof, and with respect to any patent, trademark or copyright which is not registered or filed with CIPO, the U.S. Patent and Trademark Office, the U.S. Copyright Office or any similar office or agency at the time such Collateral is pledged by a Debtor to the Lenders pursuant to this Agreement, and which is subsequently registered or filed by such Debtor in the appropriate office, such Debtor shall execute or cause to be executed and delivered to the Lenders (i) an amendment, duly executed by such Debtor, in substantially the form of Exhibit A hereto, in respect of such additional or newly registered collateral or (ii) a new security agreement, duly executed by the applicable Debtor, in substantially the form of this Agreement, in respect of such additional or newly registered collateral, granting to the Lenders a first priority security interest, pledge and lien thereon (subject only to the Permitted Liens and the other Liens permitted under Section 10.2 of the Purchase Agreement), together in each case with all certificates, notes or other instruments representing or evidencing the same, and shall, upon either Lender's request, execute or cause to be executed any financing statement or other document (including without limitation, filings required by CIPO, the U.S. Patent and Trademark Office, the U.S. Copyright Office or any similar office or agency in connection with any such additional or newly registered collateral). Each Debtor hereby (x) authorizes the Lenders to attach each Amendment to this Agreement, (y) agrees that all such additional collateral listed in any Amendment delivered to the Lenders shall for all purposes hereunder constitute Collateral, and (z) is deemed to have made, upon the delivery of each such Amendment, the representations and warranties contained in Sections 3.1, 3.2, 3.5, and 3.7 of this Agreement with respect to the Collateral covered thereby.

(c) Prior to entering into any license agreement containing exclusivity provisions, Debtor shall notify Lenders and provide to Lenders a copy of such license agreement along with a consent to grant security in favor of Lenders executed by such licensor, in form and substance reasonably satisfactory to Lenders.

Section 4.16 Promissory Notes and Tangible Chattel Paper.

If Debtors shall, collectively, now or at any time hereafter, hold or acquire any promissory notes or tangible Chattel Paper, worth, in the aggregate, in excess of One Hundred Thousand Dollars (US\$100,000), the applicable Debtors shall forthwith endorse, assign and deliver the same to the Lenders, accompanied by such instruments of transfer or assignment duly executed in blank as the Lenders may from time to time reasonably specify.

Section 4.17 Electronic Chattel Paper and Transferable Records.

If Debtors, now or at any time hereafter, collectively hold or acquire an interest in any electronic Chattel Paper or any "transferable record," as that term is defined in the federal Electronic Signatures in Global and National Commerce Act, or in the Uniform Electronic Transactions Act as in effect in any relevant jurisdiction, worth, in the aggregate, in excess of One Hundred Thousand Dollars (US\$100,000), the applicable Debtors shall promptly notify the Lenders thereof and, at the request and option of the Lenders, shall take such action as the Lenders may reasonably request to vest in the Lenders control, under Section 9-105 of the UCC, of such electronic chattel paper or control under the federal Electronic Signatures in Global and National Commerce Act, or the Uniform Electronic Transactions Act, as so in effect in such jurisdiction, of such transferable record.

Section 4.18 Letter-of-Credit Rights.

If Debtors are, collectively, now or at any time hereafter, beneficiaries under letters of credit, with an aggregate face amount in excess of One Hundred Thousand Dollars (US\$100,000), the applicable Debtors shall promptly notify the Lenders thereof and, at the request and option of the Lenders, the applicable Debtors shall, pursuant to an agreement in form and substance reasonably satisfactory to the Lenders either (a) arrange for the issuer and any confirmer of such letters of credit to consent to an assignment to the Lenders of the proceeds of the letters of credit or (b) arrange for the Lenders to become the transferee beneficiaries of the letters of credit, with the Lenders agreeing, in each case, that the proceeds of the letters of credit are to be applied as an optional prepayment as described in the Purchase Agreement.

Section 4.19 Commercial Tort Claims.

If Debtors shall collectively, now or at any time hereafter, hold or acquire commercial tort claims, which in the aggregate are in excess of One Hundred Thousand Dollars (US\$100,000), the applicable Debtors shall immediately notify the Lenders in a writing signed by such Debtors of the particulars thereof and grant to the Lenders in such writing a security interest therein and in the proceeds thereof, all upon the terms of this Agreement, with such writing to be in form and substance reasonably satisfactory to the Lenders.

Section 4.20 Pledged Shares.

All certificates or instruments representing or evidencing the Pledged Shares or any Debtor's rights therein shall be delivered to the Lenders promptly upon Debtor gaining any rights therein, in suitable form for transfer by delivery or accompanied by duly executed stock powers or instruments of transfer or assignments in blank, all in form and substance reasonably acceptable to the Lenders.

Section 4.21 Intellectual Property.

(a) Each Debtor agrees to take all necessary steps, including, without limitation, in the United States Patent and Trademark Office or in any court, to (i) defend, enforce, preserve the validity and ownership of, and maintain each trademark registration and each Trademark License identified on Schedule E hereto, and (ii) pursue each trademark application now or hereafter identified on Schedule E hereto, including, without limitation, the filing of responses to office actions issued by the United States Patent and Trademark Office, CIPO or any similar office or agency the filing of applications for renewal, the filing of affidavits under Sections 8 and 15 of the United States Trademark Act or similar provisions under any foreign law, and the participation in opposition, cancellation, infringement and misappropriation proceedings, except, in each case in which the Debtors have determined, using their commercially reasonable judgment, that any of the foregoing is not of material economic value to them. Each Debtor agrees to take corresponding steps with respect to each new or acquired trademark registration, trademark application or any rights obtained under any Trademark License, in each case, which it is now or later becomes entitled, except in each case in which such Debtor has determined, using its commercially reasonable judgment, that any of the foregoing is not of material economic value to it. Any expenses incurred in connection with such activities shall be borne by the Debtors.

(b) Each Debtor agrees to take all necessary steps, including, without limitation, in the United States Patent and Trademark Office, CIPO or any similar office or agency or in any court, to (i) defend, enforce, preserve the validity and ownership of, and maintain each Patent and each Patent License identified on Schedule E hereto, and (ii) pursue each patent application, now or hereafter identified on Schedule E hereto, including, without limitation, the filing of divisional, continuation, continuation-in-part and substitute applications, the filing of applications for reissue, renewal or extensions, the payment of maintenance fees, and the participation in interference, reexamination, opposition, infringement and misappropriation proceedings, except in each case in which the Debtors have determined, using their commercially reasonable judgment, that any of the foregoing is not of material economic value to them. Each Debtor agrees to take corresponding steps with respect to each new or acquired Patent, patent application, or any rights obtained under any Patent License, in each case, which it is now or later becomes entitled, except in each case in which the Debtors have determined, using their commercially reasonable judgment, that any of the foregoing is not of material economic value to them. Any expenses incurred in connection with such activities shall be borne by the Debtors.

(c) Each Debtor agrees to take all necessary steps, including, without limitation, in the United States Copyright Office, CIPO or any similar office or agency or in any court, to (i) defend, enforce, and preserve the validity and ownership of each Copyright and each Copyright License identified on Schedule E hereto, and (ii) pursue each copyright and mask work application, now or hereafter identified on Schedule E hereto, including, without limitation, the payment of applicable fees, and the participation in infringement and misappropriation proceedings, except in each case in which the Debtors have determined, using their commercially reasonable judgment, that any of the foregoing is not of material economic value to them. Each Debtor agrees to take corresponding steps with respect to each new or acquired Copyright, copyright and mask work application, or any rights obtained under any Copyright License, in each case, which it is now or later becomes entitled, except in each case in which the Debtors have determined, using their commercially reasonable judgment, that any of the foregoing is not of material economic value to them. Any expenses incurred in connection with such activities shall be borne by the Debtors.

(d) The Debtors shall not abandon any Trademark, Patent, Copyright or any pending trademark, copyright, mask work or patent application, without the written consent of the Lenders, unless the Debtors shall have previously determined, using their commercially reasonable judgment, that such use or the pursuit or maintenance of such trademark registration, Patent, Copyright registration or pending trademark, copyright, mask work or patent application is not of material economic value to it, in which case, the Debtors give notice of any such abandonment to the Lenders.

(e) In the event that a Debtor becomes aware that any item of the Intellectual Property Collateral which such Debtor has determined, using its commercially reasonable judgment, to be material to its business is infringed or misappropriated by a third party, such Debtor shall notify the Lenders promptly and in writing, in reasonable detail, and shall take such actions as such Debtor or the Lenders deem reasonably appropriate under the circumstances to protect such Intellectual Property Collateral, including, without limitation, suing for infringement or misappropriation and for an injunction against such infringement or misappropriation. Any expense incurred in connection with such activities shall be borne by the Debtors. Each Debtor will advise the Lenders promptly and in writing, in reasonable detail, of any adverse determination or the institution of any proceeding (including, without limitation, the institution of any proceeding in the United States Patent and Trademark Office, the United States Copyright Office, CIPO, any similar office or agency or any court) regarding any material item of the Intellectual Property Collateral.

(f) Debtors shall perform all obligations pursuant to Trademark Licenses, Patent Licenses and Copyright Licenses.

For purposes of this Section 4.21, so long as no Event of Default has occurred and is continuing under the Purchase Agreement, the Debtors' exercise of good faith business judgment under this Section 4.21 shall be deemed to constitute the exercise of commercially reasonable judgment.

ARTICLE 5

Rights of the Lender

Section 5.1 Power of Attorney. Each Debtor hereby irrevocably constitutes and appoints the Lenders and any officer or lender thereof, with full power of substitution, as its true and lawful attorneys-in-fact with full irrevocable power and authority in the name of such Debtor or in its own name, to take, after the occurrence and during the continuance of an Event of Default, any and all actions, and to execute any and all documents and instruments which the Lenders at any time and from time to time deem necessary, to accomplish the purposes of this Agreement and, without limiting the generality of the foregoing, such Debtor hereby gives the Lenders the power and right on behalf of such Debtor to do any of the following after the occurrence and during the continuance of an Event of Default, without notice to or the consent of such Debtor:

(a) to demand, sue for, collect or receive, in the name of such Debtor or in its own name, any money or property at any time payable or receivable on account of or in exchange for any of the Collateral and, in connection therewith, endorse checks, notes, drafts, acceptances, money orders, documents of title or any other instruments for the payment of money under the Collateral or any policy of insurance;

(b) to pay or discharge taxes, Liens (other than Permitted Liens and the other Liens permitted under Section 10.2 of the Purchase Agreement) or other encumbrances levied or placed on or threatened against the Collateral;

(c) (A) to direct account debtors and any other parties liable for any payment under any of the Collateral to make payment of any and all monies due and to become due thereunder directly to the Lenders or as the Lenders shall direct; (B) to receive payment of and receipt for any and all monies, claims and other amounts due and to become due at any time in respect of or arising out of any Collateral; (C) to sign and endorse any invoices, freight or express bills, bills of lading, storage or warehouse receipts, drafts against debtors, assignments, proxies, stock powers, verifications and notices in connection with accounts and other documents relating to the Collateral; (D) to commence and prosecute any suit, action or proceeding at law or in equity in any court of competent jurisdiction to collect the Collateral or any part thereof and to enforce any other right in respect of any Collateral; (E) to defend any suit, action or proceeding brought against such Debtor with respect to any Collateral; (F) to settle, compromise or adjust any suit, action or proceeding described above and, in connection therewith, to give such discharges or releases as the Lenders may deem appropriate; (G) to exchange any of the Collateral for other property upon any merger, consolidation, reorganization, recapitalization or other readjustment of the issuer thereof and, in connection therewith, deposit any of the Collateral with any committee, depository, transfer lenders, registrar or other designated agency upon such terms as the Lenders may determine; (H) to add or release any guarantor, indorser, surety or other party to any of the Collateral; (I) to renew, extend or otherwise change the terms and conditions of any of the Collateral; (J) to make, settle, compromise or adjust any claim under or pertaining to any of the Collateral (including claims under any policy of insurance); (K) subject to any pre-existing rights or licenses, to assign any Patent, Copyright or Trademark constituting Intellectual Property Collateral (along with the goodwill of the business to which any such Patent, Copyright or Trademark pertains), for such term or terms, on such conditions and in such manner, as the Lenders shall in their sole discretion determine, and (L) to sell, transfer, pledge, convey, make any agreement with respect to, or otherwise deal with, any of the Collateral as fully and completely as though the Lenders were the absolute owners thereof for all purposes, and to do, at the Lenders' option and such Debtor's expense, at any time, or from time to time, all acts and things which the Lenders deem necessary to protect, preserve, maintain, or realize upon the Collateral and the Lenders' security interests therein.

This power of attorney is a power coupled with an interest and shall be irrevocable. The Lenders shall be under no duty to exercise or withhold the exercise of any of the rights, powers, privileges and options expressly or implicitly granted to the Lenders in this Agreement, and shall not be liable for any failure to do so or any delay in doing so. This power of attorney is conferred on the Lenders solely to protect, preserve, maintain and realize upon its security interest in the Collateral. Except as a result of a Lender's gross negligence or willful misconduct, the Lenders shall not be responsible for any decline in the value of the Collateral and shall not be required to take any steps to preserve rights against prior parties or to protect, preserve or maintain any Lien given to secure the Collateral.

Section 5.2 [Reserved].

Section 5.3 Assignment by the Lenders. The Lenders may at any time assign or otherwise transfer all or any portion of their rights and obligations as Lenders under this Agreement, the Purchase Agreement and the other Collateral Documents (including, without limitation, the Indebtedness) to any other Person, to the extent permitted by, and upon the conditions contained in, the Purchase Agreement and such Person shall thereupon become vested with all the benefits and obligations thereof granted to the Lenders herein or otherwise.

Section 5.4 Performance by the Lenders. If any Debtor shall fail to perform any covenant or agreement contained in this Agreement, the Lenders may (but shall not be obligated to) perform or attempt to perform such covenant or agreement on behalf of the Debtors, in which case the Lenders shall exercise good faith and make diligent efforts to give Debtors prompt prior written notice of such performance or attempted performance. In such event, the Debtors shall, at the request of the Lenders, promptly pay any reasonable amount expended by the Lenders in connection with such performance or attempted performance to the Lender, together with interest thereon at the interest rate set forth in the Purchase Agreement, from and including the date of such expenditure to but excluding the date such expenditure is paid in full. Notwithstanding the foregoing, it is expressly agreed that the Lenders shall not have any liability or responsibility for the performance (or non-performance) of any obligation of the Debtors under this Agreement.

Section 5.5 Certain Costs and Expenses. The Debtors shall pay or reimburse the Lenders within five (5) business days after demand for all reasonable costs and expenses (including reasonable attorney's and paralegal fees) incurred by them in connection with the enforcement, attempted enforcement, or preservation of any rights or remedies under this Agreement or any other Collateral Document during the existence of an Event of Default or after acceleration of any of the Indebtedness (including in connection with any "workout" or restructuring regarding the Indebtedness, and including in any insolvency proceeding or appellate proceeding). The agreements in this Section 5.5 shall survive the payment in full of the Indebtedness.

Section 5.6 Indemnification. The Debtors shall indemnify, defend and hold the Lenders and each of their respective officers, directors, employees, counsel, lenders and attorneys-in-fact (each, an "***Indemnified Person***") harmless from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, charges, expenses and disbursements (including reasonable attorneys' and paralegals' fees) of any kind or nature whatsoever which may at any time (including at any time following repayment of the Indebtedness and the termination, resignation or replacement of the Lenders) be imposed on, incurred by or asserted against any such Indemnified Person in any way relating to or arising out of this Agreement or any other Collateral Document or any document relating to or arising out of or referred to in this Agreement or any other Collateral Document, or the transactions contemplated hereby, or any action taken or omitted by any such Indemnified Person under or in connection with any of the foregoing, including with respect to any investigation, litigation or proceeding (including any bankruptcy proceeding or appellate proceeding) related to or arising out of this Agreement or the Indebtedness or the use of the proceeds thereof, whether or not any Indemnified Person is a party thereto (all the foregoing, collectively, the "***Indemnified Liabilities***"); provided, that the Debtors shall have no obligation under this Section 5.6 to any Indemnified Person with respect to Indemnified Liabilities to the extent resulting from the gross negligence or willful misconduct of such Indemnified Person. The agreements in this Section 5.6 shall survive payment of all other Indebtedness.

ARTICLE 6

Event of Default

Section 6.1 Rights and Remedies. If an Event of Default shall have occurred and be continuing, the Lenders shall have the following rights and remedies:

(a) The Lenders may exercise any of the rights and remedies set forth in the Purchase Agreement or in this Agreement (including, without limitation, Article 5 of this Agreement) or by applicable law.

(b) In addition to all other rights and remedies granted to the Lenders in this Agreement, the Purchase Agreement or by applicable law, the Lenders shall have all of the rights and remedies of secured parties under the UCC (whether or not the UCC applies to the affected Collateral) and the Lenders may also, without previous demand or notice except as specified below or in the Purchase Agreement, sell the Collateral or any part thereof in one or more parcels at public or private sale, at any exchange, broker's board or at any of the Lenders' offices or elsewhere, for cash, on credit or for future delivery, and upon such other terms as the Lenders may, in their reasonable discretion, deem commercially reasonable or otherwise as may be permitted by law. Without limiting the generality of the foregoing, the Lenders may (A) without demand or notice to the Debtors (except as required under the Purchase Agreement or applicable law), collect, receive or take possession of the Collateral or any part thereof, and for that purpose the Lenders (and/or its lenders, servicers or other independent contractors) may enter upon any premises on which the Collateral is located and remove the Collateral therefrom or render it inoperable, and/or (B) sell, lease or otherwise dispose of the Collateral, or any part thereof, in one or more parcels at public or private sale or sales, at the Lenders' offices or elsewhere, for cash, on credit or for future delivery, with or without advertising or any other formality, all of which are waived by the Debtors to the extent permitted by law, and upon such other terms as the Lenders may, in their reasonable discretion, deem commercially reasonable or otherwise as may be permitted by law. The Lenders shall have the right at any public sale or sales, and, to the extent permitted by applicable law, at any private sale or sales, to bid (which bid may be, in whole or in part, in the form of cancellation of indebtedness) and become a purchaser of the Collateral or any part thereof free of any right of redemption on the part of the Debtors, which right of redemption is hereby expressly waived and released by the Debtors to the extent permitted by applicable law. The Lenders may require the Debtors to assemble the Collateral and make it available to the Lenders at any place designated by the Lenders to allow the Lenders to take possession or dispose of such Collateral. The Debtors agree that the Lenders shall not be obligated to give more than five (5) days prior written notice of the time and place of any public sale or of the time after which any private sale may take place and that such notice shall constitute reasonable notice of such matters. The foregoing shall not require notice if none is required by applicable law. The Lenders shall not be obligated to make any sale of Collateral if, in the exercise of its reasonable discretion, it shall determine not to do so, regardless of the fact that notice of sale of Collateral may have been given. The Lenders may, without notice or publication (except as required by applicable law), adjourn any public or private sale or cause the same to be adjourned from time to time by announcement at the time and place fixed for sale, and such sale may, without further notice, be made at the time and place to which the same was so adjourned. The Debtors shall be liable for all reasonable expenses of retaking, holding, preparing for sale or the like, and all reasonable attorneys' fees, legal expenses and other costs and expenses incurred by the Lenders in connection with the collection of the Indebtedness and the enforcement of the Lenders' rights under this Agreement and the Purchase Agreement. The Debtors shall, to the extent permitted by applicable law, remain liable for any deficiency if the proceeds of any such sale or other disposition of the Collateral (conducted in conformity with this clause (ii) and applicable law) applied to the Indebtedness are insufficient to pay the Indebtedness in full. The Lenders shall apply the proceeds from the sale of the Collateral hereunder, only as actually received, against the Indebtedness in such order and manner as provided in the Purchase Agreement.

(c) **Appointment of Receiver.** The Lenders may appoint by instrument in writing a receiver (which term shall include a receiver and manager or agent) of the Debtors and of all or any part of the Collateral and remove or replace such receiver from time to time or may institute proceedings in any court of competent jurisdiction for the appointment of a receiver. Any such receiver appointed by the Lenders, with respect to responsibility for its acts, shall, to the extent permitted by applicable law, be deemed the agent of the Debtors and not of the Lenders. Where the "**Lenders**" are referred to in this Section, the reference includes, where the context permits, any receiver so appointed and the officers, employees, servants or agents of such receiver;

(d) **Power of Attorney.** Upon the occurrence, and during the continuance of, an Event of Default, the Debtors constitute and appoint each of the Lenders from time to time, or any receiver appointed of the Debtors as provided for in this Agreement, the true and lawful attorney of the Debtors irrevocably with full power of substitution to do, make and execute all such documents, acts, matters or things with the right to use the name of the Debtors whenever and wherever it may be deemed necessary or expedient in connection with the exercise of its rights and remedies set forth in this Agreement. Without limitation, a Lender or its agent is authorized to sign any financing statements and similar forms which may be necessary or desirable to perfect the security interest granted herein in any jurisdiction on behalf of the Debtors. The Debtors declare that the irrevocable power of attorney granted in this Agreement, being coupled with an interest, is given for valuable consideration;

(e) **Collection of Accounts.** Upon the occurrence, and during the continuance of, an Event of Default the Lenders on their own account or through a receiver, receiver-manager or agent and whether alone or in conjunction with the exercise of all or any other remedies contemplated by this Agreement, shall have the right, at any time, to notify and direct Account debtors to make all payments whatever to the Lenders and the Lenders shall have the right, at any time, to hold all amounts acquired from any Account debtors and any Proceeds as part of the Collateral. Upon such occurrence and during such continuance, any payments received by the Debtors shall be held by the Debtors in trust for the Lenders in the same medium in which received, shall not be commingled with any assets of the Debtors and shall, at the request of the Lenders be turned over to the Lenders not later than the next Business day following the day of their receipt;

(f) **Carry on Business.** Upon the occurrence, and during the continuance of, an Event of Default the Lenders may carry on or concur in the carrying on of all or any part of the business of the Debtors and may, in any event, to the exclusion of all others, including the Debtors, enter upon, occupy and use all premises of or occupied or used by the Debtors and use any of the personal property (which shall include fixtures) of the Debtors for such time and such purposes as the Lender sees fit. The Lenders shall not be liable to the Debtors for any neglect in so doing or in respect of any related rent, costs, charges, depreciation or damages;

(g) **Payment of Encumbrances.** Upon the occurrence, and during the continuance of, an Event of Default the Lenders may pay any encumbrance, lien, claim or charge that may exist or be threatened against the Collateral, and any amount so paid together with costs, charges and expenses incurred shall be added to the Indebtedness;

(h) **Payment of Deficiency.** If the proceeds of realization are insufficient to pay all monetary Indebtedness, the Debtors shall forthwith pay or cause to be paid to the Lenders any deficiency and the Lenders may sue the Debtors to collect the amount of such deficiency;

(i) The Lenders may cause any or all of the Collateral held by it to be transferred into the name of the Lenders or the name or names of the Lenders' nominee or nominees.

(j) On any sale of the Collateral, the Lenders are hereby authorized to comply with any limitation or restriction with which compliance is necessary (based on a reasoned opinion of the Lenders' counsel) in order to avoid any violation of applicable law or in order to obtain any required approval of the purchaser or purchasers by any applicable Governmental Authority.

(k) The Lenders may direct account debtors and any other parties liable for any payment under any of the Collateral to make payment of any and all monies due and to become due thereunder directly to the Lenders or as the Lenders shall direct.

(l) In the event of any sale, assignment or other disposition of the Intellectual Property Collateral, the goodwill of the business connected with and symbolized by any Trademark Collateral subject to such disposition shall be included, and the Debtors shall supply to the Lenders or their designees the Debtors' know-how and expertise related to the Intellectual Property Collateral subject to such disposition, and the Debtors' notebooks, studies, reports, records, documents and things embodying the same or relating to the inventions, processes or ideas covered by and to the manufacture of any products under or in connection with the Intellectual Property Collateral subject to such disposition.

(m) For purposes of enabling the Lenders to exercise their rights and remedies under this Section 6.1 and enabling the Lenders and their successors and assigns to enjoy the full benefits of the Collateral, the Debtors hereby grant to the Lenders an irrevocable, nonexclusive license (exercisable without payment of royalty or other compensation to the Debtors) to use, assign, license or sublicense any of the Intellectual Property Collateral, Computer Records or Software (including in such license reasonable access to all media in which any of the licensed items may be recorded or stored and all computer programs used for the completion or printout thereof), exercisable upon the occurrence and during the continuance of an Event of Default (and thereafter if the Lenders succeed to any of the Collateral pursuant to an enforcement proceeding or voluntary arrangement with Debtor), except as may be prohibited by any licensing agreement relating to such Computer Records or Software. This license shall also inure to the benefit of all successors, assigns, transferees of and purchasers from the Lenders.

Section 6.2 Private Sales.

(a) In view of the fact that applicable securities laws may impose certain restrictions on the method by which a sale of the Pledged Shares may be effected after an Event of Default, Debtors agree that upon the occurrence and during the continuance of an Event of Default, Lenders may from time to time attempt to sell all or any part of the Pledged Shares by a private sale in the nature of a private placement, restricting the bidders and prospective purchasers to those who will represent and agree that they are "accredited investors" within the meaning of Regulation D promulgated pursuant to the Securities Act of 1933, as amended (the "*Securities Act*"), and are purchasing for investment only and not for distribution. In so doing, the Lenders may solicit offers for the Pledged Shares, or any part thereof, from a limited number of investors who might be interested in purchasing the Pledged Shares. Without limiting the methods or manner of disposition which could be determined to be commercially reasonable, if the Lenders hire a firm of regional or national reputation that is engaged in the business of rendering investment banking and brokerage services to solicit such offers and facilitate the sale of the Pledged Shares, then the Lenders' acceptance of the highest offer (including their own offers) obtained through such efforts of such firm shall be deemed to be a commercially reasonable method of disposition of such Pledged Shares. The Lenders shall not be under any obligation to delay a sale of any of the Pledged Shares for the period of time necessary to permit the issuer of such securities to register such securities under the laws of any jurisdiction outside the United States, under the Securities Act or under any applicable state securities laws, even if such issuer would agree to do so.

(b) The Debtors further agree to do or cause to be done, to the extent that the Debtors may do so under applicable law, all such other reasonable acts and things as may be necessary to make such sales or resales of any portion or all of the Collateral valid and binding and in compliance with any and all applicable laws, regulations, orders, writs, injunctions, decrees or awards of any and all courts, arbitrators or governmental instrumentalities, domestic or foreign, having jurisdiction over any such sale or sales, all at the Debtors' expense.

(c) Without limiting the generality of Section 6.1, the Debtors acknowledge that when disposing of any Investment Property, in the Province of Ontario, the Lenders may be unable to effect a public sale of any or all of the Investment Property, or to sell any or all of the Investment Property as a control block sale at more than a stated premium to the "market price" of any shares, stock, instruments, warrants, bonds, debenture stock and other Investment Property forming part of the Investment Property, by reason of certain prohibitions contained in the *Securities Act* (Ontario) and applicable laws of other jurisdictions, but may be compelled to resort to one or more private sales to a restricted group of purchasers who will be obliged to agree, among other things, to acquire such Investment Property as principal and to comply with other resale restrictions provided for in the *Securities Act* (Ontario) and other applicable laws. The Debtors acknowledge and agree that any such private sale may result in prices and other terms less favourable to the seller than if such sale were a public sale or a control block sale and, notwithstanding such circumstances, agrees that any such private sale shall not be deemed to have been made in a commercially unreasonable manner solely by reason of its being a private sale. The Lenders shall be under no obligation to delay a sale of any of the Investment Property for the period of time necessary to permit the issuer of such Investment Property to qualify such Investment Property for public sale under the *Securities Act* (Ontario) or under applicable securities laws of other jurisdictions, even if the issuer would agree to do so, or to permit a prospective purchaser to make a formal offer to all or substantially all holders of any class of Investment Property forming any part of the Investment Property.

(d) Upon the occurrence, and during the continuance of, an Event of Default the Lenders may elect by written notice to the Debtors and to an officer of the issuer of the Investment Property, that all or part of the rights of the Debtors in the Investment Property including, without limitation, the right to vote, give consents, waivers or ratifications and take other actions and receive dividends or other distributions, shall cease, and upon such election all such rights shall become vested in the Lender or as it may direct.

(e) Upon the occurrence, and during the continuance of, an Event of Default the Lenders may require that the Investment Property be registered in the name of the Lenders or as it may direct and the Lenders may then, without notice, exercise any and all voting and corporate rights at any meeting of the issuers thereof and exercise any and all rights, privileges or options pertaining to the Investment Property as if they were the absolute owner, including without limitation, the right to exchange at its discretion, any and all of the Investment Property upon the issuer's amalgamation, merger, consolidation, reorganization, recapitalization or other readjustment or upon the issuer's exercise of any right, privilege or option pertaining to any of the Investment Property and to deposit and deliver any and all of the Collateral with any committee, depository, transfer agent, registrar or other designated agency upon such terms and conditions as it may determine.

Section 6.3 Establishment of Cash Collateral Account; and Lock Box.

(a) Immediately upon the occurrence and during the continuance of an Event of Default (without the necessity of any notice hereunder), there shall be established by each Debtor with the Lenders, a segregated non-interest bearing cash collateral account (the "**Cash Collateral Account**") bearing a designation clearly indicating that the funds deposited therein are held for the benefit of the Lenders; provided, however, that the Cash Collateral Account may be an interest-bearing account with a commercial bank if determined by the Lenders, in their reasonable discretion, to be practicable, invested by the Lenders in their sole discretion, but without any liability for losses or the failure to achieve any particular rate of return. Furthermore, in connection with the establishment of a Cash Collateral Account under the first sentence of this Section 6.3 (and on the terms and within the time periods provided thereunder), (i) each Debtor agrees to establish and maintain (and the Lenders may establish and maintain) at Debtor's sole expense a United States Post Office lock box (the "**Lock Box**"), to which the Lenders shall have exclusive access and control. Each Debtor expressly authorizes the Lenders, from time to time, to remove the contents from the Lock Box for disposition in accordance with this Agreement; and (ii) each Debtor shall notify all account debtors that all payments made to Debtor (a) other than by electronic funds transfer, shall be remitted, for the credit of Debtor, to the Lock Box, and Debtor shall include a like statement on all invoices, and (b) by electronic funds transfer, shall be remitted to the Cash Collateral Account, and Debtor shall include a like statement on all invoices. Each Debtor agrees to execute all documents and authorizations as reasonably required by the Lenders to establish and maintain the Lock Box and the Cash Collateral Account. It is acknowledged by the parties hereto that any lockbox presently maintained or subsequently established by a Debtor with the Lenders may be used, subject to the terms hereof, to satisfy the requirements set forth in the first sentence of this Section 6.3.

(b) Immediately upon the occurrence and during the continuance of an Event of Default, any and all cash (including amounts received by electronic funds transfer), checks, drafts and other instruments for the payment of money received by each Debtor at any time, in full or partial payment of any of the Collateral consisting of Accounts or Inventory, shall forthwith upon receipt be transmitted and delivered to the Lenders, properly endorsed, where required, so that such items may be collected by Lenders. Any such amounts and other items received by a Debtor shall not be commingled with any other of such Debtor's funds or property, but will be held separate and apart from such Debtor's own funds or property, and upon express trust for the benefit of the Lenders until delivery is made to the Lenders. All items or amounts which are remitted to a Lock Box or otherwise delivered by or for the benefit of a Debtor to the Lenders on account of partial or full payment of, or any other amount payable with respect to, any of the Collateral shall, at the Lenders' option, be applied to any of the Indebtedness, whether then due or not, in the order and manner set forth in the Purchase Agreement. No Debtor shall have any right whatsoever to withdraw any funds so deposited. Each Debtor further grants to the Lenders a first security interest in and lien on all funds on deposit in such account. Each Debtor hereby irrevocably authorizes and directs the Lenders to endorse all items received for deposit to the Cash Collateral Account, notwithstanding the inclusion on any such item of a restrictive notation, e.g., "paid in full", "balance of account", or other restriction.

Section 6.4 Default Under Purchase Agreement. Subject to any applicable notice and cure provisions contained in the Purchase Agreement, the occurrence of any Event of Default (as defined in the Purchase Agreement), including without limit a breach of any of the provisions of this Agreement, shall be deemed to be an Event of Default under this Agreement. This Section 6.4 shall not limit the Events of Default set forth in the Purchase Agreement.

Section 6.5 Effect of Possession or Receiver As soon as the Lenders take possession of any Collateral or appoints a receiver, all powers, functions, rights and privileges of the Debtors and the directors and officers of the Debtors with respect to the Collateral shall cease, unless specifically continued by the written consent of the Lenders or the receiver.

Section 6.6 Set-off or Compensation In addition to and not in limitation of any rights granted now or after the date of this Agreement at law, upon the occurrence and during the continuance of an Event of Default, the Lenders may at any time and from time to time without notice to the Debtors (it being expressly waived by the Debtors) set-off and compensate and apply any and all deposits, general or special, term or demand, provisional or final, matured or unmatured, and any other indebtedness at any time owing by the Lender, or to appropriate any other properties or assets at any time held by the Lenders, to or for the credit of or the account of the Debtors, against and on account of the Indebtedness, even if any of them are contingent or unmatured.

Section 6.7 Limitation of Liability Except as a result of Lenders' gross negligence or willful misconduct, the Lenders shall not be liable or accountable:

(a) by reason of any entry into or taking possession of all or any of the Collateral, to account as mortgagee in possession or for anything except actual receipts, or for any loss on realization or any act or omission for which a secured party in possession might be liable; or

(b) for any failure to exercise its remedies, take possession of, seize, collect, realize, sell, lease or otherwise dispose of or obtain payment for the Collateral and shall not be bound to institute proceedings for such purposes or for the purpose of preserving any rights, remedies or powers of the Lender, the Debtors or any other person in respect of same.

The Lenders shall not by virtue of these presents be deemed to be mortgagees in possession of the Collateral. The Debtors releases and discharges the Lenders and the receiver from every claim of every nature, whether sounding in damages or not, which may arise or be caused to the Debtors or any person claiming through or under the Debtors by reason or as a result of anything done by the Lenders or any successor or assign claiming through or under the Lenders or the receiver under the provisions of this Agreement unless such claim be the result of dishonesty or gross neglect.

ARTICLE 7

Miscellaneous

Section 7.1 No Waiver; Cumulative Remedies. No failure on the part of the Lenders to exercise and no delay in exercising, and no course of dealing with respect to, any right, power or privilege under this Agreement shall operate as a waiver thereof, nor shall any single or partial exercise of any right, power or privilege under this Agreement preclude any other or further exercise thereof or the exercise of any other right, power, or privilege. The rights and remedies provided for in this Agreement are cumulative and not exclusive of any rights and remedies provided by law.

Section 7.2 Successors and Assigns. Subject to the terms and conditions of the Purchase Agreement, this Agreement shall be binding upon and inure to the benefit of the Debtors and the Lenders and their respective heirs, successors and assigns, except that the Debtors may not assign any of their rights or obligations under this Agreement without the prior written consent of the Lenders.

Section 7.3 AMENDMENT; ENTIRE AGREEMENT. THIS AGREEMENT AND THE PURCHASE AGREEMENT REFERRED TO HEREIN EMBODY THE FINAL, ENTIRE AGREEMENT AMONG THE PARTIES HERETO AND SUPERSEDES ANY AND ALL PRIOR COMMITMENTS, AGREEMENTS, REPRESENTATIONS AND UNDERSTANDINGS, WHETHER WRITTEN OR ORAL, RELATING TO THE SUBJECT MATTER HEREOF AND MAY NOT BE CONTRADICTED OR VARIED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS OR DISCUSSIONS OF THE PARTIES HERETO. THERE ARE NO UNWRITTEN ORAL AGREEMENTS AMONG THE PARTIES HERETO. The provisions of this Agreement may be amended or waived only by an instrument in writing signed by the parties hereto.

Section 7.4 Notices. All notices, requests, consents, approvals, waivers and other communications hereunder shall be in writing (including, by facsimile transmission) and mailed, faxed or delivered to the address or facsimile number specified for notices on signature pages hereto; or, as directed by the Debtors or the Lenders, to such other address or number as shall be designated by such party in a written notice to the other. All such notices, requests and communications shall, when sent by overnight delivery, or faxed, be effective when delivered for overnight (next business day) delivery, or transmitted in legible form by facsimile machine (with electronic confirmation of receipt), respectively, or if mailed, upon the third Business day after the date deposited into the U.S. mail, or if otherwise delivered, upon delivery; except that notices to the Lenders shall not be effective until actually received by the Lenders.

Section 7.5 GOVERNING LAW; SUBMISSION TO JURISDICTION; SERVICE OF PROCESS.

(a) THIS AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE INTERNAL LAWS OF THE STATE OF NEW YORK.

(b) ANY LEGAL ACTION OR PROCEEDING WITH RESPECT TO THIS AGREEMENT OR ANY OTHER COLLATERAL DOCUMENT MAY BE BROUGHT IN THE COURTS OF THE STATE OF TEXAS OR IN THE UNITED STATES FEDERAL COURT SITTING IN AUSTIN, TEXAS, AND BY EXECUTION AND DELIVERY OF THIS AGREEMENT, EACH OF THE DEBTORS AND THE LENDERS CONSENTS, FOR ITSELF AND IN RESPECT OF ITS PROPERTY, TO THE NON-EXCLUSIVE JURISDICTION OF THOSE COURTS. EACH OF THE DEBTORS AND THE LENDERS IRREVOCABLY WAIVES ANY OBJECTION, INCLUDING ANY OBJECTION TO THE LAYING OF VENUE OR BASED ON THE GROUNDS OF FORUM NON CONVENIENS, WHICH IT MAY NOW OR HEREAFTER HAVE TO THE BRINGING OF ANY ACTION OR PROCEEDING IN SUCH JURISDICTION IN RESPECT OF THIS AGREEMENT OR ANY COLLATERAL DOCUMENT.

Section 7.6 Headings. The headings, captions, and arrangements used in this Agreement are for convenience only and shall not affect the interpretation of this Agreement.

Section 7.7 Survival of Representations and Warranties. All representations and warranties made in this Agreement or in any certificate delivered pursuant hereto shall survive the execution and delivery of this Agreement, and no investigation by the Lenders shall affect the representations and warranties or the right of the Lenders to rely upon them.

Section 7.8 Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

Section 7.9 Waiver of Bond. In the event either of the Lenders seeks to take possession of any or all of the Collateral by judicial process, the Debtors hereby irrevocably waive any bonds and any surety or security relating thereto that may be required by applicable law as an incident to such possession, and waives any demand for possession prior to the commencement of any such suit or action.

Section 7.10 Severability. Any provision of this Agreement which is determined by a court of competent jurisdiction to be prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions of this Agreement, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

Section 7.11 Construction. Each Debtor and each of the Lenders acknowledge that each of them has had the benefit of legal counsel of its own choice and has been afforded an opportunity to review this Agreement with its legal counsel and that this Agreement shall be construed as if jointly drafted by the Debtors and the Lenders.

Section 7.12 Termination. If all of the Indebtedness (other than contingent liabilities pursuant to any indemnity, including without limitation Sections 5.5 and 5.6 hereof, for claims which have not been asserted, or which have not yet accrued) shall have been indefeasibly paid and performed in full (in cash) and all commitments to extend credit or other credit accommodations under the Purchase Agreement have been terminated, the Lenders shall, upon the written request of the Debtors, execute and deliver to the Debtors a proper instrument or instruments acknowledging the release and termination of the security interests created by this Agreement, and shall duly assign and deliver to the Debtors (without recourse and without any representation or warranty) such of the Collateral as may be in the possession of the Lenders and has not previously been sold or otherwise applied pursuant to this Agreement.

Section 7.13 Release of Collateral. The Lenders shall, upon the written request of the Debtors, execute and deliver to the Debtors a proper instrument or instruments acknowledging the release of the security interest and liens established hereby on any Collateral (other than the Pledged Shares): (a) if the sale or other disposition of such Collateral is permitted under the terms of the Purchase Agreement and, at the time of such proposed release, both before and after giving effect thereto, no Event of Default has occurred and is continuing, (b) if the sale or other disposition of such Collateral is not permitted under the terms of the Purchase Agreement, provided that the Lenders shall have consented to such sale or disposition in accordance with the terms thereof, or (c) if such release has been approved by the Lenders.

Section 7.14 WAIVER OF JURY TRIAL. EACH DEBTOR AND EACH OF THE LENDERS WAIVES ITS RIGHTS TO A TRIAL BY JURY OF ANY CLAIM OR CAUSE OF ACTION BASED UPON OR ARISING OUT OF OR RELATED TO THIS AGREEMENT, THE PURCHASE AGREEMENT AND THE OTHER COLLATERAL DOCUMENTS, OR THE TRANSACTIONS CONTEMPLATED HEREBY OR THEREBY, IN ANY ACTION, PROCEEDING OR OTHER LITIGATION OF ANY TYPE BROUGHT BY EITHER SUCH PARTY AGAINST THE OTHER, WHETHER WITH RESPECT TO CONTRACT CLAIMS, TORT CLAIMS, OR OTHERWISE. EACH DEBTOR AND EACH OF THE LENDERS AGREE THAT ANY SUCH CLAIM OR CAUSE OF ACTION SHALL BE TRIED BY A COURT TRIAL WITHOUT A JURY. WITHOUT LIMITING THE FOREGOING, EACH SUCH PARTY FURTHER AGREES THAT ITS RIGHT TO A TRIAL BY JURY IS WAIVED BY OPERATION OF THIS SECTION AS TO ANY ACTION, COUNTERCLAIM OR OTHER PROCEEDING WHICH SEEKS, IN WHOLE OR IN PART, TO CHALLENGE THE VALIDITY OR ENFORCEABILITY OF THIS AGREEMENT, THE PURCHASE AGREEMENT OR THE OTHER COLLATERAL DOCUMENTS OR ANY PROVISION HEREOF OR THEREOF. THIS WAIVER SHALL APPLY TO ANY SUBSEQUENT AMENDMENTS, RENEWALS, SUPPLEMENTS OR MODIFICATIONS TO THIS AGREEMENT.

Section 7.15 Consistent Application. The rights and duties created by this Agreement shall, in all cases, be interpreted consistently with, and shall be in addition to (and not in lieu of), the rights and duties created by the Purchase Agreement or the other Collateral Documents. In the event that any provision of this Agreement shall be inconsistent with any provision of the Purchase Agreement, such provision of the Purchase Agreement shall govern.

Section 7.16 Continuing Lien. The security interests granted under this Security Agreement shall be continuing security interests in every respect (whether or not the outstanding balance of the Indebtedness is from time to time temporarily reduced to zero) and Lenders' security interests in the Collateral as granted herein shall continue in full force and effect for the entire duration that the Purchase Agreement remains in effect and until all of the Indebtedness is repaid and discharged in full, and no commitment (whether optional or obligatory) to extend any credit under the Purchase Agreement remains outstanding.

DEBTORS:

724 SOLUTIONS INC.

By: _____

Name: _____

Title _____

Address for Notices:

1221 State Street, Suite 200

Santa Barbara, California 93101

Attention: Chief Financial Officer

Facsimile: (805) 884-8311

724 SOLUTIONS SOFTWARE INC.

By: _____

Name: _____

Title _____

Address for Notices:

1221 State Street, Suite 200

Santa Barbara, California 93101

Attention: Chief Financial Officer

Facsimile: (805) 884-8311

724 SOLUTIONS (US) INC.

By: _____

Name: _____

Title _____

Address for Notices:

1221 State Street, Suite 200

Santa Barbara, California 93101

Attention: Chief Financial Officer

Facsimile: (805) 884-8311

724 SOLUTIONS INTERNATIONAL INC.

By: _____

Name: _____

Title _____

Address for Notices:

1221 State Street, Suite 200

Santa Barbara, California 93101

Attention: Chief Financial Officer

Facsimile: (805) 884-8311

Signature Page to Security Agreement

LENDERS:

AUSTIN VENTURES VI, L.P.

By: AV Partners VI, L.P., its General Partner

By: _____
Name: _____
Title _____

Address for Notices:
300 West Sixth Street, Suite 2300
Austin, Texas 78701
Attention: Joseph C. Aragona
Facsimile: (512) 651-8501

AUSTIN VENTURES VI AFFILIATES FUND, L.P.

By: AV Partners VI, L.P., its General Partner

By: _____
Name: _____
Title _____

Address for Notices:
300 West Sixth Street, Suite 2300
Austin, Texas 78701
Attention: Joseph C. Aragona
Facsimile: (512) 651-8501

AUSTIN VENTURES VIII, L.P.

By: AV Partners VIII, L.P., its General Partner

By: _____
Name: _____
Title _____

Address for Notices:
300 West Sixth Street, Suite 2300
Austin, Texas 78701
Attention: Joseph C. Aragona
Facsimile: (512) 651-8501

Signature Page to Security Agreement

**EXHIBIT A
TO
SECURITY AGREEMENT**

FORM OF AMENDMENT

This Amendment, dated _____, 20____, is delivered pursuant to Section [4.13/4.15] of the Security Agreement referred to below. The undersigned hereby agree that this Amendment may be attached to the Security Agreement dated as of May 14, 2004, between the undersigned and the Lenders (the "**Security Agreement**"), and [that the shares of stock, membership interests, partnership units, notes or other instruments listed on Schedule D] / [that the intellectual property listed on Schedule E] annexed hereto shall be and become part of the Collateral referred to in the Security Agreement and shall secure payment and performance of all Indebtedness as provided in the Security Agreement.

Capitalized terms used herein but not defined herein shall have the meanings therefor provided in the Security Agreement.

724 SOLUTIONS INC.

By: _____
Name: _____
Title _____

Address for Notices:
1221 State Street, Suite 200
Santa Barbara, California 93101
Attention: Chief Financial Officer
Facsimile: (805) 884-8311

724 SOLUTIONS SOFTWARE, INC.

By: _____
Name: _____
Title _____

Address for Notices:
1221 State Street, Suite 200
Santa Barbara, California 93101
Attention: Chief Financial Officer
Facsimile: (805) 884-8311

724 SOLUTIONS (US) INC.

By: _____
Name: _____
Title _____

Address for Notices:
1221 State Street, Suite 200
Santa Barbara, California 93101
Attention: Chief Financial Officer
Facsimile: (805) 884-8311

By: _____

Name: _____

Title _____

Address for Notices:

1221 State Street, Suite 200

Santa Barbara, California 93101

Attention: Chief Financial Officer

Facsimile: (805) 884-8311

EXHIBIT B

JOINDER AGREEMENT (Security Agreement)

THIS JOINDER AGREEMENT is dated as of _____, _____ by _____, a _____ ("*New Debtor*").

WHEREAS, in order to comply with Section 9.9.1 of that certain Secured Convertible Note Purchase Agreement dated as of May 14, 2004 (as amended or otherwise modified from time to time, the "*Purchase Agreement*") by and among 724 SOLUTIONS INC., a Canadian corporation, 724 SOLUTIONS SOFTWARE INC., a Delaware corporation, Austin Ventures VI, L.P., a Delaware limited partnership ("*AV VI*") and Austin Ventures VIII, L.P., a Delaware limited partnership ("*AV VIII*" and together with AV VI, the "*Lenders*"), and pursuant to Section 4.15 of that certain Security Agreement dated as of May 14, 2004 (the "*Security Agreement*") executed and delivered by the Debtors named therein ("*Debtors*") in favor of the Lenders, the New Debtor executes and delivers this Joinder Agreement.

NOW THEREFORE, as a further inducement to Lenders to continue to provide credit accommodations to Borrowers (as defined in the Purchase Agreement), New Debtor hereby covenants and agrees as follows:

B. All capitalized terms used herein shall have the meanings assigned to them in the Purchase Agreement unless expressly defined to the contrary.

C. New Debtor hereby enters into this Joinder Agreement in order to comply with Section 9.9.1 of the Purchase Agreement and does so in consideration of the Advances made or to be made from time to time under the Purchase Agreement (and the other Collateral Documents, as defined in the Purchase Agreement).

D. Schedule [insert appropriate Schedule] attached to this Joinder Agreement is intended to supplement Schedule [insert appropriate Schedule] of the Security Agreement with the respective information applicable to New Debtor.

E. New Debtor shall be considered, and deemed to be, for all purposes of the Purchase Agreement, the Security Agreement and the other Collateral Documents, a Debtor under the Security Agreement as fully as though New Debtor had executed and delivered the Security Agreement at the time originally executed and delivered under the Purchase Agreement and hereby ratifies and confirms its obligations under the Security Agreement, all in accordance with the terms thereof.

F. No Event of Default (each such term being defined in the Purchase Agreement) has occurred and is continuing under the Purchase Agreement.

G. This Joinder Agreement shall be governed by the laws of the State of New York and shall be binding upon New Debtor and its successors and assigns.

IN WITNESS WHEREOF, the undersigned New Debtor has executed and delivered this Joinder Agreement as of _____,

_____.

[NEW DEBTOR]

By:

Its:

SCHEDULE OF DEBTORS

724 Solutions, Inc.
1221 State Street, suite 200
Santa Barbara, CA 93101

724 Solutions Software, Inc.
1221 State Street, suite 200
Santa Barbara, CA 93101

724 Solutions (US), Inc.
1221 State Street, suite 200
Santa Barbara, CA 93101

724 Solutions International, Inc.
1221 State Street, suite 200
Santa Barbara, CA 93101

Schedule to Security Agreement

SCHEDULE OF LENDERS

Austin Ventures VI, L.P.

300 West Sixth Street
Suite 2300
Austin, Texas 78701

**Austin Ventures VI Affiliates
Fund, L.P.**

300 West Sixth Street
Suite 2300
Austin, Texas 78701

Austin Ventures VIII, L.P.

300 West Sixth Street
Suite 2300
Austin, Texas 78701

Schedule to Security Agreement

QuickLinks

[SECURITY AGREEMENT](#)

[RECITALS](#)

[AGREEMENT](#)

[ARTICLE 1 Definitions](#)

[ARTICLE 2 Security Interest](#)

[ARTICLE 3 Representations and Warranties](#)

[ARTICLE 4 Covenants](#)

[ARTICLE 5 Rights of the Lender](#)

[ARTICLE 6 Event of Default](#)

[ARTICLE 7 Miscellaneous](#)

[EXHIBIT A TO SECURITY AGREEMENT FORM OF AMENDMENT](#)

[EXHIBIT B JOINDER AGREEMENT \(Security Agreement\)](#)

[SCHEDULE OF DEBTORS](#)

[724 Solutions, Inc. 1221 State Street, suite 200 Santa Barbara, CA 93101](#)

[724 Solutions Software, Inc. 1221 State Street, suite 200 Santa Barbara, CA 93101](#)

[724 Solutions \(US\), Inc. 1221 State Street, suite 200 Santa Barbara, CA 93101](#)

[724 Solutions International, Inc. 1221 State Street, suite 200 Santa Barbara, CA 93101](#)

[SCHEDULE OF LENDERS](#)

[Austin Ventures VI, L.P. 300 West Sixth Street Suite 2300 Austin, Texas 78701](#)

[Austin Ventures VI Affiliates Fund, L.P. 300 West Sixth Street Suite 2300 Austin, Texas 78701](#)

[Austin Ventures VIII, L.P. 300 West Sixth Street Suite 2300 Austin, Texas 78701](#)

REGISTRATION RIGHTS AGREEMENT

THIS REGISTRATION RIGHTS AGREEMENT (this "**Agreement**"), dated as of May 14, 2004, by and among 724 Solutions Inc., a Canadian corporation (the "**Company**"), and each of those holders of common shares of the Company (the "**Common Shares**"), identified on the Schedule of Holders attached hereto (individually, a "**Holder**," collectively, the "**Holder**s").

AGREEMENT

NOW, THEREFORE, in consideration of the foregoing, the mutual covenants herein contained and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereby agree as follows:

1. Certain Definitions. As used in this Agreement, the following terms shall have the following respective meanings:

"**Commission**" shall mean the Securities and Exchange Commission or any successor agency.

"**Holder**" shall mean each Holder and any transferee of Registrable Securities from a Holder who, pursuant to Section 11 below, is entitled to registration rights hereunder.

"**Registrable Securities**" shall mean (i) Common Shares held by the Holders, however acquired including, without limitation, Common Shares acquired by the Holders upon conversion of notes issued pursuant to that certain Secured Convertible Note Purchase Agreement, dated as of May 14, 2004, by and among the Company and the Lenders listed therein, as may be amended from time to time (the "**Purchase Agreement**"), and (ii) Common Shares or other securities issued or issuable in respect of the shares described in clause (i) upon any stock split, stock dividend, recapitalization, or similar event; provided, however, that any shares described in clauses (i)-(ii) above which have been resold to the public following a registered public offering shall cease to be Registrable Securities upon such resale.

The terms "**register**," "**registered**" and "**registration**" refer to a registration effected by preparing and filing a registration statement in compliance with the Securities Act, and the declaration or ordering of the effectiveness of such registration statement.

"**Registration Expenses**" shall mean all expenses incurred by the Company or any Holder in complying with Sections 2, 3, and 6 hereof, including, without limitation, all registration, qualification and filing fees, printing expenses, escrow fees, fees and disbursements of counsel for the Company, blue sky fees and expenses and the expense of any special audits incident to or required by any such registration; provided, however, that Registration Expenses shall not include the fees and expenses of counsel to any selling Holders.

"**Securities Act**" shall mean the Securities Act of 1933, as amended.

"**Selling Expenses**" shall mean all underwriting discounts, selling commissions and stock transfer taxes applicable to the securities registered by the Holders.

2. Requested Registration.

(a) Request for Registration. If at any time the Company shall receive from any Holder or group of Holders holding at least a majority in interest of the Registrable Securities (the "**Initiating Holders**") a written request that the Company effect any registration with respect to the Registrable Securities, the Company will:

(i) promptly give written notice of the proposed registration, qualification or compliance to all other Holders; and

(ii) as soon as practicable, use its reasonable best efforts to effect such registration (including, without limitation, filing post-effective amendments, appropriate qualification under applicable blue sky or other state securities laws and appropriate compliance with applicable regulations issued under the Securities Act and any other governmental requirements or regulations) as would permit or facilitate the sale and distribution of all or such portion of such Registrable Securities as are specified in such request, together with all or such portion of the Registrable Securities of any Holder or Holders joining in such request as are specified in a written request received by the Company within ten (10) days after receipt of such written notice from the Company, subject to the terms and conditions of this Section 2;

Provided, however, that the Company shall not be obligated to take any action to effect any such registration pursuant to this Section 2:

(A) In any particular jurisdiction in which the Company would be required to execute a general consent to service of process in effecting such registration, qualification or compliance unless the Company is already subject to service in such jurisdiction and except as may be required by the Securities Act;

(B) During the period starting with the date sixty (60) days prior to the Company's estimated date of filing of, and ending on the date one hundred and eighty (180) days immediately following the effective date of, any Company-initiated registration statement pertaining to securities of the Company (other than a registration of securities in a Rule 145 transaction or with respect to an employee benefit plan), provided that the Company is actively employing in good faith all reasonable efforts to cause such registration statement to become effective;

(C) After the Company has effected two (2) registrations pursuant to this Section 2; provided, however, if the number of shares to be offered by the Holders in any such registration are reduced upon the advice of the managing underwriter below half that proposed to be offered, such registration shall not counted for purposes of determining the number of registrations effected under this Section 2(a).

Subject to the foregoing clauses (A), (B) and (C), the Company shall file a registration statement covering the Registrable Securities so requested to be registered as soon as practicable after receipt of the request or requests of the Initiating Holders.

(b) Underwriting. If the Initiating Holders intend to distribute the Registrable Securities covered by their request by means of an underwriting, they shall so advise the Company as a part of their request and the Company shall include such information in the written notice referred to in Section 2(a). The right of any Holder to registration pursuant to Section 2 shall be conditioned upon such Holder's participation in such underwriting and the inclusion of such Holder's Registrable Securities to be registered in the underwriting to the extent requested (unless otherwise mutually agreed by a majority in interest of the Holders) and to the extent provided herein. A Holder may elect to include in such underwriting all or a part of the Registrable Securities such Holder holds.

The Company shall (together with all Holders proposing to distribute their securities through such underwriting) enter into an underwriting agreement in customary form with the managing underwriter. Notwithstanding any other provision of this Section 2, if the managing underwriter advises the Initiating Holders in writing that marketing factors require a limitation of the number of shares to be underwritten, then, subject to the provisions of Section 2(a), the Company shall so advise all Holders and the number of shares that may be included in the registration and underwriting shall be allocated among all persons or entities requesting inclusion in the registration as follows: (A) all securities proposed to be offered by any holder other than the Holders or the Company for its own account shall be excluded before any Registrable Securities or securities to be offered for the account of the Company are excluded; (B) Registrable Securities (allocated among all Holders requesting inclusion thereof in the registration in proportion, as nearly as practicable, to the respective amounts of Registrable Securities proposed to be registered by such Holders at the time of filing the registration statement) shall be excluded before securities to be offered for the account of the Company are excluded; and (C) if, after all Registrable Securities have been excluded, additional limitations are required, then the number of securities to be offered for the account of the Company shall be excluded.

If any Holder of Registrable Securities disapproves of the terms of the underwriting, such person may elect to withdraw therefrom by written notice to the Company, the managing underwriter and the other Holders. The Registrable Securities and/or other securities so withdrawn shall also be withdrawn from registration; provided, however, that if by the withdrawal of such Registrable Securities a greater number of Registrable Securities held by other Holders may be included in such registration (up to the maximum of any limitation imposed by the underwriters), then the Company shall offer to all Holders who have included Registrable Securities in the registration the right to include additional Registrable Securities in the same proportion used in determining the underwriter limitation in this Section 2(b).

3. Company Registration.

(a) Notice of Registration. If the Company in its discretion shall determine to register any of its securities, either for its own account or the account of a security holder or holders exercising their respective demand registration rights, other than (i) a registration pursuant to Section 2 or 6, (ii) a registration relating solely to employee benefit plans, (iii) a registration relating solely to a Rule 145 transaction, or (iv) a registration in which the only Common Shares being registered are Common Shares issuable upon conversion of debt securities that are also being registered, the Company will:

(i) promptly give to each Holder written notice thereof; and

(ii) include in such registration (and any related qualification under blue sky laws or other compliance), and in any underwriting involved therein, all the Registrable Securities specified in a written request or requests, mailed by any Holder(s) within ten (10) days after receipt of such written notice from the Company, provided that the Company may limit, only to the extent so advised by the underwriters based on marketing limitations, the amount of Registrable Securities to be included in the registration by the Holder(s). The written request of a Holder may specify that all or a part of the Registrable Securities of such Holder shall be included in such registration.

(b) Subject to the provisos in subsection (ii) above, in all registered public offerings, whether underwritten or not, the amount of Registrable Securities of the Holders which are included in such registration, in accordance with the limitations set forth in Section 3(a)(ii) above, shall be allocated to the Holders in proportion, as nearly as practicable, to the respective amounts of Registrable Securities proposed to be registered by each of such Holders as of the date of the notice given pursuant to this Section 3.

(c) The Company may, in its sole discretion, abandon or delay any registration initiated by the Company pursuant to this Section 3.

4. Expenses of Registration. All Registration Expenses incurred in connection with any registration, qualification or compliance pursuant to Sections 2, 3 and 6 shall be borne by the Company; provided, however, the Company shall not be required to pay for any expenses of any registration proceeding begun pursuant to Section 6 if the registration request is subsequently withdrawn at the request of a majority in interest of the Initiating Holders and such withdrawal is not at the request of the Company or the underwriter(s), if any. All Selling Expenses relating to securities registered by the Holders shall be borne by the Holders of such securities pro rata on the basis of the number of shares so registered.

5. Registration Procedures. In the case of each registration, qualification or compliance effected by the Company pursuant to this Agreement the Company will keep each Holder advised in writing as to the initiation of each registration, qualification and compliance and as to the completion thereof. At its expense the Company will:

(a) Prepare and file with the Commission a registration statement with respect to such securities and use its reasonable best efforts to cause such registration statement to become and remain effective for at least one hundred twenty (120) days or until the distribution described in the registration statement has been completed; provided, however, that (i) such 120-day period shall be extended for a period of time equal to the period the Holder refrains from selling any securities included in such registration at the request of an underwriter of securities of the Company; and (ii) in the case of any registration of Registrable Securities on Form S-3 which are intended to be offered on a continuous or delayed basis, such 120-day period shall be extended, if necessary, to keep the registration statement effective until all such Registrable Securities are sold;

(b) Furnish to the Holders participating in such registration and to the underwriters of the securities being registered such number of copies of the registration statement, preliminary prospectus, final prospectus and such other documents as such Holders or underwriters may reasonably request in order to facilitate the public offering of such securities;

(c) Prepare and file with the Commission such amendments and supplements to such registration statement and the prospectus used in connection with such registration statement as may be necessary to comply with the provisions of the Securities Act with respect to the disposition of all securities covered by such registration statement or to applicable anti-fraud provisions;

(d) Use its reasonable best efforts to register and qualify the securities covered by such registration statement under such other applicable securities or blue sky laws, provided that the Company shall not be required in connection therewith or as a condition thereto to qualify to do business or to file a general consent to service of process in any such states or jurisdictions unless the Company is already subject to service in such jurisdiction and except as may be required by the Securities Act;

(e) Cause all such Registrable Securities registered pursuant hereunder to be listed on each securities exchange on which similar securities issued by the Company are then listed;

(f) Provide a transfer agent and registrar for all Registrable Securities registered pursuant to such registration statement and a CUSIP number for all such Registrable Securities, in each case not later than the effective date of such registration;

(g) Enter into an underwriting agreement in form reasonably necessary to effect the offer and sale of Registrable Securities; and

(h) Notify each Holder of Registrable Securities covered by such registration statement at any time when a prospectus relating thereto is required to be delivered under the Securities Act of the happening of any event as a result of which the prospectus included in such registration statement, as then in effect, includes an untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein not misleading in the light of circumstances then existing.

6. Registration on Form S-3. In addition to the rights set forth above, if the Holder(s) holding at least twenty-five percent (25%) of the Registrable Securities request in writing that the Company file a registration statement on Form S-3, or any successors thereto (a "**Follow-On Registration**") for a public offering of shares of Registrable Securities and the Company is entitled to use Form S-3 to register securities for such an offering, the Company shall use its reasonable best efforts to effect such registration (including, without limitation, filing post-effective amendments, appropriate qualifications under applicable blue sky or other state securities laws, and appropriate compliance with the Securities Act). The Company will promptly give written notice of the request for the proposed registration to all other Holders and include all Registrable Securities of any Holder or Holders joining in such request as are specified in a written request received by the Company within thirty (30) days after receipt of such written notice from the Company. The written request of a Holder may specify that all or part of such Holder's Registrable Securities will be included in such registration. If the Follow-On Registration is for an underwritten offering, the provisions of Section 2(b) shall apply to such registration. Notwithstanding the foregoing, the Company shall not be obligated to effect any such registration, qualification or compliance, pursuant to this Section 6:

(a) in any particular jurisdiction in which the Company would be required to qualify to do business or to execute a general consent to service of process in effecting such registration, qualification or compliance unless the Company is already subject to such service in such jurisdiction and except as may be required by the Securities Act; or

(b) during the period starting with the date thirty (30) days prior to the Company's estimated date of filing, and ending on the date one hundred and eighty (180) days immediately following the effective date of any registration statement pertaining to securities of the Company (other than a registration of securities in a Rule 145 Transaction or with respect to an employee benefit plan), provided that the Company is actively employing in good faith all reasonable efforts to cause such registration statement to become effective.

7. Termination of Registration Rights. The registration rights granted pursuant to this Agreement shall terminate, as to any Holder, upon the earlier of (i) five (5) years after the date of this Agreement and (ii) such time at which all Registrable Securities held by such Holder can be sold in a single 3-month period pursuant to Rule 144 promulgated under the Securities Act.

8. Indemnification.

(a) The Company will indemnify each Holder, each of its officers, directors and partners, legal counsel, accountants and each person controlling such Holder within the meaning of Section 15 of the Securities Act, with respect to which registration, qualification or compliance has been effected pursuant to this Agreement, and each underwriter, if any, and each person who controls any underwriter within the meaning of Section 15 of the Securities Act, against all expenses, claims, losses, damages and liabilities (or actions in respect thereof), including any of the foregoing incurred in settlement of any litigation, arising out of or based on any untrue statement (or alleged untrue statement) of a material fact contained in any registration statement, prospectus, offering circular or other document, or any amendment or supplement thereto, incident to any such registration, qualification or compliance, or based on any omission (or alleged omission) to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, or any violation by the Company of the Securities Act or any rule or regulation promulgated thereunder applicable to the Company and relating to action or inaction required of the Company in connection with any such registration, qualification or compliance, and will reimburse each such Holder, each of its officers, directors and partners and each person controlling such Holder, each such underwriter and each person who controls any such underwriter, for any legal and any other expenses reasonably incurred in connection with investigating, preparing or defending any such claim, loss, damage, liability or action, provided, however, that the indemnity agreement contained in this Section 8(a) shall not apply to amounts paid in settlement of any such loss, claim, damage, liability or action if such settlement is effected without the consent of the Company (which consent shall not be unreasonably withheld), nor shall the Company be liable in any such case for any such loss, claim, damage, liability or action to the extent that it arises out of or is based upon any untrue statement or omission or alleged untrue statement or omission, that occurs in reliance upon and in conformity with written information furnished expressly for use in connection with such registration by any such Holder or underwriter and stated to be specifically for use therein.

(b) Each Holder will, if Registrable Securities held by such Holder are included in the securities as to which such registration, qualification or compliance is being effected, indemnify the Company, each of its directors and officers, legal counsel, accountants each underwriter, if any, of the Company's securities covered by such a registration statement, each person who controls the Company or such underwriter within the meaning of Section 15 of the Securities Act, and each other such Holder, each of its officers and directors and each person controlling such Holder within the meaning of Section 15 of the Securities Act, against all expenses, claims, losses, damages and liabilities (or actions in respect thereof) arising out of or based upon any untrue statement of a material fact contained in any such registration statement, prospectus, offering circular or other document, or any omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, and will reimburse the Company, such Holders, such directors, officers, legal counsel, accountants, underwriters or control persons for any legal or any other expenses reasonably incurred in connection with investigating or defending any such claim, loss, damage, liability or action, in each case to the extent, but only to the extent, that such untrue statement or omission is made in such registration statement, prospectus, offering circular or other document in reliance upon and in conformity with written information furnished to the Company by an instrument duly executed by such Holder and stated to be specifically for use therein; provided, however, that the obligations of such Holder hereunder shall not apply to amounts paid in settlement of any such claims, losses, damages or liabilities (or actions in respect thereof) if such settlement is effected without the consent of such Holder and provided that the obligations of each such Holder hereunder shall be limited to an amount equal to the net proceeds after expenses and commissions to such Holder from Registrable Securities sold in such offering.

(c) Each party entitled to indemnification under this Section 8 (the "**Indemnified Party**") shall give notice to the party required to provide indemnification (the "**Indemnifying Party**") promptly after such Indemnified Party has actual knowledge of any claim as to which indemnity may be sought, and shall permit the Indemnifying Party to assume the defense of any such claim or any litigation resulting therefrom, provided that counsel for the Indemnifying Party, who shall conduct the defense of such claim or litigation, shall be approved by the Indemnified Party (whose approval shall not be unreasonably withheld), and the Indemnified Party may participate in such defense at such party's expense; and provided further that the failure of any Indemnified Party to give notice as provided herein shall not relieve the Indemnifying Party of its obligations under this Agreement, except to the extent, but only to the extent, that the Indemnifying Party's ability to defend against such claim or litigation is impaired as a result of such failure to give notice. No Indemnifying Party, in the defense of any such claim or litigation, shall, except with the consent of each Indemnified Party, consent to entry of any judgment or enter into any settlement which does not include as an unconditional term thereof the giving by the claimant or plaintiff to such Indemnified Party of a release from all liability in respect to such claim or litigation.

9. Information by Holder. The Holder(s) of Registrable Securities included in any registration shall furnish to the Company such information regarding such Holder or Holders and the distribution proposed by such Holder or Holders as the Company may request in writing and as shall be reasonably required in connection with any registration, qualification or compliance referred to in this Agreement.

10. Rule 144 Reporting. With a view to making available the benefits of certain rules and regulations of the Commission which may at any time permit the sale of the Restricted Securities to the public without registration, the Company agrees to:

(a) Make and keep public information available, as those terms are understood and defined in Rule 144 under the Securities Act, at all times after ninety (90) days after the effective date of the first registration under the Securities Act filed by the Company for an offering of its securities to the general public;

(b) File with the Commission in a timely manner all reports and other documents required of the Company under the Securities Act and the Securities Exchange Act of 1934, as amended (the "**Exchange Act**"), at any time after it has become subject to such reporting requirements; and

(c) So long as any of the Holders owns Restricted Securities, furnish to Holders of Registrable Securities forthwith upon written request, a written statement by the Company as to its compliance with the reporting requirements of Rule 144 (at any time after ninety (90) days after the effective date of the first registration statement filed by the Company for an offering of its securities to the general public), and of the Securities Act and the Exchange Act (at any time after it has become subject to such reporting requirements), a copy of the most recent annual or quarterly report of the Company, and such other reports and documents of the Company as a Holder of Restricted Securities may reasonably request in availing itself of any rule or regulation of the Commission allowing such Holder to sell any such securities without registration.

11. Transfer of Registration Rights. The right to cause the Company to register securities granted hereunder may be assigned (but only with all related obligations) by a Holder to a transferee or assignee who acquires the lesser of (i) all of such Holder's Registrable Securities or (ii) two hundred thousand (200,000) shares of Registrable Securities (as adjusted for stock splits, stock dividends and other like recapitalization events), provided that the Company is given written notice of such assignment at the time of or within a reasonable time after said transfer or assignment, and the transferee agrees in writing to be bound by the provisions of this Agreement regarding the right to register securities. Notwithstanding the foregoing, the rights to cause the Company to register securities may be freely assigned (a) to any partner, active or retired, of a Holder, where such Holder is a partnership, (b) to any affiliate (as that term is defined in Rule 405 promulgated by the Commission under the Securities Act) of a Holder, (c) to any officer, director, shareholder or member thereof, where such Holder is a corporation or limited liability company or (d) to the spouse, children, grandchildren or spouse of such children or grandchildren of any Holder or to trusts for the benefit of any Holder or such persons where the Holder is a natural person, provided that written notice thereof is promptly given to the Company and that the transferee agrees to be bound by the provisions of this Agreement.

12. Subsequent Grant of Registration Rights. The Company shall not grant rights to have securities other than the Registrable Securities registered under the Securities Act without the prior written consent of the Holders holding a majority of the Registrable Securities held by all Holders; provided, however, that the Company may issue registration rights similar to those provided in Sections 3 and 6 above so long as (i) such registration rights are on terms no more favorable than those provided herein and (ii) shares proposed to be offered by such holders of Common Shares are subject to exclusion from an offering prior to any shares proposed to be offered by Holders.

13. Market Stand-Off. If requested to do so by the managing underwriters of any registered offering of securities by the Company for its own account, the Holders agree to negotiate with such managing underwriters the terms of a customary lock-up arrangement to be entered into in connection such registration.

14. Governing Law. This Agreement and the legal relations between the parties arising hereunder shall be governed by and interpreted in accordance with the laws of the State of New York (without resort to the conflict of law principles thereof). The Company hereby irrevocably submits to the exclusive jurisdiction of any United States Federal Court sitting in Austin, Texas in any action or proceeding arising out of or relating to this Agreement and the Company hereby irrevocably agrees that all claims in respect of such action or proceeding shall be heard and determined in any such United States Federal Court sitting in Austin, Texas. The Company waives any objection of forum non conveniens and venue. The Company further waives any right it may otherwise have to collaterally attack any judgment entered against it. The Company irrevocably consents to the service of any and all process in any such action or proceeding brought in the State of Texas by the delivery of copies of such process to the Company at its addresses specified on the signature page hereto or by certified mail directed to such address or such other address as may be designated by the Company in a notice to the other parties that complies as to delivery with the terms of Section 17. Nothing in this Section 15 shall affect the right of any Holder to serve process in any other manner permitted by law or limit the right of the Holder (or any of them) to bring any such action or proceeding against any person or any of their property in the courts with subject matter jurisdiction of any other jurisdiction. The Company irrevocably waives any objection to the laying of venue of any such suit or proceeding in the above described courts.

15. Entire Agreement. This Agreement constitutes the full and entire understanding and agreement between the parties regarding the rights provided herein. Except as otherwise expressly provided herein, the provisions hereof shall inure to the benefit of, and be binding upon, the successors, assigns, heirs, executors and administrators of the parties hereto.

16. Notices, Etc. All notices and other communications required or permitted hereunder shall be in writing and shall be deemed effectively given upon delivery to the party to be notified in person or by courier service or ten days after deposit with the United States mail, by registered or certified mail, postage prepaid, addressed (a) if to a Holder: to such Holder's address set forth on the Schedule of Holders attached hereto, or at such other address as shall have been furnished to the other parties hereto in writing, or (b) if to the Company, to its principal place of business, or such other address as the Company shall have furnished to the other parties hereto in writing.

17. Counterparts; Facsimile Signatures. This Agreement may be executed in any number of counterparts, each of which shall be an original, but all of which together shall constitute one instrument. Signatures transmitted via facsimile shall be deemed originals for purposes of this Agreement.

18. Amendment. Any provision of this Agreement may be amended, waived or modified only upon the written consent of (i) the Company and (ii) the Holders of at least a majority in interest of the Registrable Securities. Any amendment or modification effected in accordance with this Section 19 shall be binding upon each Holder of Registrable Securities and the Company. Any amendment, waiver or modification not effected in accordance with this Section 19 shall be null and void.

Signature Page Follows.

COMPANY:

724 SOLUTIONS INC.

By: _____

Name:

Title:

HOLDERS:

AUSTIN VENTURES VI, L.P.

By: AV Partners VI, LP,
its general partner

By: _____

Name:

Title:

AUSTIN VENTURES VI AFFILIATES FUND, L.P.

By: AV Partners VI, LP,
its general partner

By: _____

Name:

Title:

AUSTIN VENTURES VIII, L.P.

By: AV Partners VI, LP,
its general partner

By: _____

Name:

Title:

Counterpart Signature Page to SVNX Registration Rights Agreement

SCHEDULE OF HOLDERS

Austin Ventures VI, L.P.
300 West Sixth Street, Suite 2300
Austin, Texas 78701
Attention: Joseph C. Aragona

Austin Ventures VI Affiliates Fund, L.P.
300 West Sixth Street, Suite 2300
Austin, Texas 78701
Attention: Joseph C. Aragona

Austin Ventures VIII, L.P.
300 West Sixth Street, Suite 2300
Austin, Texas 78701
Attention: Joseph C. Aragona

Schedule to SVNX Registration Rights Agreement

QuickLinks

[REGISTRATION RIGHTS AGREEMENT](#)

[AGREEMENT](#)

[SCHEDULE OF HOLDERS](#)

GUARANTY

THIS GUARANTY (this "**Guaranty**"), made as of May 14, 2004, by and among each of the guarantors listed on the Schedule of Guarantors (individually, a "**Guarantor**;" collectively, the "**Guarantors**") and each of the lenders listed on the Schedule of Lenders (individually, a "**Lender**;" collectively, the "**Lenders**").

RECITALS

WHEREAS, pursuant to that certain Secured Convertible Note Purchase Agreement, dated as of May 14, 2004 (as the same may be amended, restated or otherwise modified from time to time, the "**Purchase Agreement**"), 724 Solutions Inc., a Canadian corporation ("**Parent**"), and 724 Solutions Software, Inc., a Delaware corporation ("**US Sub**;" together with Parent, the "**Borrowers**") have agreed to issue and sell, and the Lenders have agreed to purchase, subject to the satisfaction of certain terms and conditions, Secured Convertible Promissory Notes in the respective principal amounts set forth in the Purchase Agreement (the "**Notes**");

WHEREAS, each of the Guarantors are affiliates of the Borrowers and share mutually in the Borrowers' success and shall receive direct and/or indirect benefits from the purchase, sale and issuance of the Notes by the Borrowers to the Lenders; and

WHEREAS, as a condition precedent to purchasing the Notes, the Guarantors are required to execute and deliver a guaranty in the form of this Guaranty.

AGREEMENT

NOW, THEREFORE, for and in consideration of the foregoing and the mutual promises, covenants and agreements hereinafter set forth, the receipt and adequacy of which are hereby acknowledged, the parties agree as follows:

1. Representations and Warranties. Each Guarantor represents and warrants as follows:

1.1 Each Guarantor is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware and has all requisite corporate power and authority to carry on its business as now conducted. Each Guarantor is duly qualified and authorized to do business as a foreign corporation in each jurisdiction where the character of its assets or the nature of its activities makes such qualification and authorization necessary.

1.2 Each Guarantor has all requisite legal and corporate power to enter into, execute and deliver this Guaranty, and this Guaranty is a legal, valid and binding obligation of each Guarantor, enforceable in accordance with its respective terms, except as the same may be limited by bankruptcy, insolvency, moratorium, and other laws of general application affecting the enforcement of creditors' rights and by general principles of equity.

1.3 All corporate and legal action on the part of each Guarantor, and its officers, directors and shareholders, needed for such Guarantor to enter into and deliver this Guaranty and to perform its obligations hereunder have been taken.

1.4 No consent, approval, order or authorization of, or designation, registration, declaration or filing with, any court, governmental agency or regulatory authority, any securities exchange or any other person or party (whether or not governmental) is required by any Guarantor in connection with the execution, delivery and performance of this Guaranty or any other documents or instruments to be executed, delivered or performed in connection herewith or therewith.

1.5 No Guarantor is in violation or default of any term of its charter or bylaws or other organizational or governing documents, or of any provision of any mortgage, indenture, agreement, instrument or contract to which it is party or by which it is bound or of any judgment, decree, order, writ or, to its knowledge, any statute, rule or regulation applicable to the Guarantor which could reasonably be expected to materially and adversely affect the Guarantor's business, assets, liabilities, financial condition, operations or prospects. Each Guarantor's execution, delivery, and performance of and compliance with this Guaranty will not, with or without the passage of time or giving of notice, result in any such material violation, or be in conflict with or constitute a default under any charter or bylaws or other organizational or governing documents, or of any provision of any mortgage, indenture, agreement, instrument or contract to which it is party or by which it is bound or of any judgment, decree, order, writ or, to its knowledge, any statute, rule or regulation applicable to the Guarantor.

2. Guaranty.

2.1 Each Guarantor hereby, jointly and severally with the other Guarantors, guarantees to each Lender the punctual payment to such Lender when due, whether by acceleration or otherwise, of the Indebtedness, including, without limitation, principal, interest (including interest accruing on or after the filing of any petition in bankruptcy, or the commencement of any insolvency, reorganization or like proceeding by or against a Borrower, whether or not a claim for post-filing or post-petition interest is allowed in such a proceeding), and all other liabilities and obligations, direct or indirect, absolute or contingent, due or to become due, now existing or hereafter incurred, which may be based upon or arise under, out of, in connection with or in respect of the Indebtedness, whether such Indebtedness is now existing or hereafter arising. Each Guarantor waives notice of acceptance of this Guaranty and presentment, demand, protest, notice of protest, dishonor, notice of dishonor, notice of demand, notice of intent to demand, notice of acceleration, notice of intent to accelerate, notice of default and diligence in collecting any Indebtedness in respect of this Guaranty or otherwise, and agrees that the Lenders may modify the terms of borrowing, compromise, extend, increase, accelerate, renew or forbear to enforce payment of any part or all of any Indebtedness, or permit the Borrowers to incur additional Indebtedness, all without notice to Guarantors and without affecting in any manner the Lenders' rights under this Guaranty. Each Guarantor further waives any and all other notices to which such Guarantor might otherwise be entitled. Each Guarantor acknowledges and agrees that the Lenders' rights under this Guaranty are not conditioned upon pursuit by the Lenders of any remedy the Lenders may have against a Borrower or any other person or any other security. No invalidity, irregularity or unenforceability of any part or all of the Indebtedness or any documents evidencing the same, by reason of any bankruptcy, insolvency or other law or order of any kind or for any other reasons, and no defense or setoff available at any time to a Borrower, shall impair, affect or be a defense or setoff to the Lenders' rights under this Guaranty.

2.2 The obligations of each Guarantors hereunder shall be absolute and unconditional, and shall be a guaranty of payment and not of collection, irrespective of the validity, regularity or enforceability of the Purchase Agreement, the Notes, any of the other Collateral Documents including this Guaranty, or any provision thereof, the absence of any action to enforce the same, any waiver or consent with respect to or any amendment of any provision thereof (provided that any amendment of this Guaranty shall be in accordance with the terms hereof), the recovery of any judgment against any Person or action to enforce the same, any failure or delay in the enforcement of the obligations of a Borrower under the Note or any related documents, or any setoff, counterclaim, recoupment, limitation, defense or termination whether with or without notice to any Guarantor. Each Guarantor hereby further covenants that no security now or subsequently held by the Lenders for the payment of the Indebtedness, whether in the nature of a security interest, pledge, lien, assignment, setoff, suretyship, guaranty, indemnity, insurance or otherwise, and no act, omission or other conduct of the Lenders in respect of such security, shall affect in any manner whatsoever the unconditional obligations of this Guaranty, and that the Lenders in their sole discretion and without notice to any of the Guarantors, may release, exchange, enforce, apply the proceeds of and otherwise deal with any such security without affecting in any manner the unconditional obligations of this Guaranty. Each Guarantor hereby waives diligence, demand for payment, filing of claims with any court, any proceeding to enforce any provision of the Purchase Agreement, the Notes or any of the other Collateral Documents, any right to require a proceeding first against a Borrower, or against any other guarantor or other Person providing collateral, or to exhaust any security for the performance of the obligations of a Borrower, any protest, presentment, notice or demand whatsoever, and each Guarantor hereby covenants that this Guaranty shall not be terminated, discharged or released except, upon final payment in full of all Indebtedness due and to become due from a Borrower, and only to the extent of any such payment, performance and discharge unless otherwise specifically provided herein.

2.3 Each Guarantor delivers this Guaranty based solely on such Guarantor's independent investigation of (or decision not to investigate) the financial condition of the Borrowers and is not relying on any information furnished by the Lenders. Each Guarantor assumes full responsibility for obtaining any further information concerning the Borrowers' financial condition, the status of the Indebtedness or any other matter which such Guarantor may deem necessary or appropriate now or later. Each Guarantor waives any duty on the part of Lenders, and agrees that it is not relying upon nor expecting the Lenders, to disclose to such Guarantor any fact now or later known by the Lenders, whether relating to the operations or condition of the Borrowers, the existence, liabilities or financial condition of any guarantor of the Indebtedness, the occurrence of any Event of Default with respect to the Indebtedness, or otherwise, notwithstanding any effect such fact may have upon such Guarantor's risk under this Guaranty or such Guarantor's rights against a Borrower. Each Guarantor knowingly accepts the full range of risk encompassed in this Guaranty, which risk includes without limit the possibility that a Borrower may incur Indebtedness to the Lenders after the financial condition of the Borrowers, or Borrower's ability to pay debts as they mature, has deteriorated.

2.4 Each Guarantor acknowledges that the effectiveness of this Guaranty is not conditioned on any or all of the Indebtedness being guaranteed by anyone else. Lenders, in their sole discretion, without notice to any Guarantor, may release, exchange, enforce and otherwise deal with any security now or later held by the Lenders for payment of the Indebtedness without affecting in any manner the Lenders' rights under this Guaranty. Each Guarantor acknowledges and agrees that the Lenders do not have any obligation to acquire or perfect any lien on or security interest in any asset(s), whether realty or personalty, to secure payment of the Indebtedness, and such Guarantor is not relying upon assets in which Lenders has or may have a lien or security interest for payment of the Indebtedness.

2.5 Until all of the Indebtedness has been paid in full, each Guarantor irrevocably and absolutely waives any and all rights of subrogation, contribution, indemnification, recourse, reimbursement and any similar rights against a Borrower with respect to this Guaranty, whether these rights arise under an express or implied contract or by operation of law. It is the intention of the parties that, until all of the Indebtedness has been paid in full, each Guarantor shall not be (or be deemed to be) a "creditor" (as defined in Section 101 of the U.S. Bankruptcy Code, as the same may be amended) of the Borrower (or any other guarantor) by reason of the existence of this Guaranty in the event that a Borrower becomes a debtor in any proceeding under the U.S. Bankruptcy Code. This waiver is given to induce the Lenders to enter into certain written contracts with a Borrower included in the Indebtedness. Each Guarantor warrants and agrees that none of Lenders' rights, remedies or interests shall be directly or indirectly impaired because of any of such Guarantor's status as an "insider" or "affiliate" of a Borrower, and each Guarantor shall take any action, and shall execute any document, which the Lenders may request in order to effectuate this warranty to the Lenders.

2.6 Each Guarantor waives any defense based upon or arising by reason of (a) any disability or other defense of a Borrower or any other person; (b) the cessation or limitation from any cause, other than final and irrevocable payment in full, of the Indebtedness; (c) any lack of authority of any officer, director, partner, agent or any other person acting or purporting to act on behalf of a Borrower or any defect in the formation of a Borrower; (d) the application by a Borrower of the proceeds of any Indebtedness for purposes other than the purposes represented by a Borrower to Lenders or intended or understood by the Lenders or such Guarantor; (e) any act or omission by the Lenders which directly or indirectly result in or aids the discharge of a Borrower any Indebtedness by operation of law or otherwise; or (f) any modification of the Indebtedness, in any form, including without limit the renewal, extension, acceleration or other change in time for payment of the Indebtedness, or other change in the terms of Indebtedness or any part of it, including without limit increase or decrease of the rate of interest. Each Guarantor waives any defense such Guarantor may have based upon any election of remedies by the Lenders which destroys such Guarantor's subrogation rights or such Guarantor's right to proceed against a Borrower for reimbursement, including without limit any loss of rights such Guarantor may suffer by reason of any rights, powers or remedies of a Borrower in connection with any anti-deficiency laws or any other laws limiting, qualifying or discharging the Indebtedness.

2.7 Without limiting the generality of the foregoing, the obligations of the Guarantors under this Guaranty, and the rights of the Lenders to enforce the same, by proceedings, whether by action at law, suit in equity or otherwise, shall not be in any way affected to the extent permitted by applicable law, by (i) any insolvency, bankruptcy, liquidation, reorganization, readjustment, composition, dissolution, winding up or other proceeding involving or affecting a Borrower, any or all of the Guarantors or any other person including any discharge of, or bar or stay against collecting, all or any of the Indebtedness in or as a result of any such proceeding; (ii) any change in the ownership of any of the capital stock (or other ownership interests) of a Borrower or any or all of the Guarantors, or any other party providing collateral for any Indebtedness of a Borrower covered by this Guaranty, or any of their respective Affiliates; (iii) the election by the Agent or any Lenders, in any bankruptcy proceeding of any person, to apply or not apply Section 1111(b)(2) of the U.S. Bankruptcy Code; (iv) any extension of credit or the grant of any security interest or lien under Section 363 of the U.S. Bankruptcy Code; (v) any agreement or stipulation with respect to the provision of adequate protection in any bankruptcy proceeding of any person; (vi) the avoidance of any security interest or lien in favor of the Lenders for any reason; (vii) any action taken by the Lenders that is authorized by this paragraph or any other provision of this Guaranty; or (viii) any other principle or provision of law, statutory or otherwise, which is or might be in conflict with the terms hereof.

2.8 Each Guarantor hereby waives to the fullest extent possible under applicable law, any defense based upon the doctrine of marshaling of assets or upon an election of remedies by the Lenders, including, without limitation, an election to proceeds by non-judicial rather than judicial foreclosure, and any defense based upon any statute or rule of law which provides that the obligation of a surety must be neither larger in amount nor in other respects more burdensome than that of the principal.

3. Miscellaneous.

3.1 Notwithstanding any prior revocation, termination, surrender, or discharge of this Guaranty in whole or part, the effectiveness of this Guaranty shall automatically continue or be reinstated, as the case may be, in the event that (a) any payment received or credit given by the Lenders in respect of the Indebtedness is returned, disgorged, or rescinded as a preference, impermissible setoff, fraudulent conveyance, diversion of trust funds, or otherwise under any applicable state or federal law, including, without limitation, laws pertaining to bankruptcy or insolvency, in which case this Guaranty shall be enforceable against a Guarantor as if the returned, disgorged, or rescinded payment or credit had not been received or given by the Lenders, and whether or not the Lenders relied upon this payment or credit or changed its position as a consequence of it; or (b) any liability is imposed, or sought to be imposed, against the Lenders relating to the environmental condition of, or the presence of hazardous or toxic substances on, in or about, any property given as collateral to the Lenders for the Indebtedness, whether this condition is known or unknown, now exists or subsequently arises (excluding only conditions which arise after any acquisition by the Lenders of any such property, by foreclosure, in lieu of foreclosure or otherwise, to the extent due to the wrongful act or omission of the Lenders), in which case this Guaranty shall be enforceable to the extent of all liability, costs and expenses (including without limit reasonable attorneys' fees) incurred by the Lenders as the direct or indirect result of any environmental condition or hazardous or toxic substances. For purposes of this Guaranty, "environmental condition" includes, without limitation, conditions existing with respect to the surface or ground water, drinking water supply, land surface or subsurface and the air; and "hazardous or toxic substances" shall include any and all substances now or subsequently determined by any federal, state or local authority to be hazardous or toxic, or otherwise regulated by any of these authorities. Each Guarantor will comply in all material respects with all statutes, laws, ordinances and regulations relating to the Collateral, including without limitation any registration requirements and all federal, state and local environmental protection, toxic substance and other similar laws and regulations applicable to such Guarantor's business or to any of the Collateral or any premises where any of the Collateral is located

(such Guarantor hereby representing and warranting that, as of the date hereof, it is in compliance with all such laws and regulations), and hold harmless and indemnify Lenders from and against any and all liability or claims asserted against or suffered by Lenders as a result of any failure by such Guarantor to comply with this paragraph (or any misrepresentation or breach of warranty hereunder), such indemnity to survive any payoff and discharge of the Indebtedness.

3.2 Each Guarantor acknowledges that the Lenders have the right to sell, assign, transfer, negotiate or grant participations or any interest in, any or all of the Indebtedness and any related obligations, including without limit this Guaranty to the extent permitted under the Purchase Agreement and applicable securities laws. To the extent and in connection with the above, but without limiting its ability to make other disclosures to the full extent allowable, the Lenders may disclose all documents and information which the Lenders now has or later acquires relating to such Guarantor, the Indebtedness or this Guaranty, however obtained. Each Guarantor further agrees that the Lenders may disclose the documents and information to a Borrower.

3.3 This Guaranty, together with the Security Agreement, constitute the entire agreement of Guarantors and the Lenders with respect to the subject matter of this Guaranty. No waiver, consent, modification, or change of the terms of this Guaranty shall bind Guarantors or Lenders unless in writing and signed by the waiving party or an authorized officer of the waiving party, and then this waiver, consent, modification, or change shall be effective only in the specific instance and for the specific purpose given. This Guaranty shall inure to the benefit of Lenders and its successors and assigns. This Guaranty shall be binding on Guarantors and each Guarantor's successors, and assigns, including without limit any debtor in possession or trustee in bankruptcy for such Guarantor. Each Guarantor has entered into this Guaranty in good faith for the purpose of inducing the Lenders to extend credit to make other financial accommodations to Borrower and such Guarantor acknowledges that the terms of this Guaranty are reasonable. If any provision of this Guaranty is unenforceable in whole or in part for any reason, the remaining provisions shall continue to be effective. This Agreement and the Collateral Documents shall be governed by and construed in accordance with the laws of the State of New York, without regard to the conflicts of law provisions.

3.4 Each Guarantor agrees to reimburse the Lenders for any and all reasonable costs and expenses (including without limit court costs, legal fees, and reasonable attorney fees whether inside or outside counsel is used, whether or not suit is instituted and, if instituted, whether at the trial court level, appellate level, in a bankruptcy, probate or administrative proceeding or otherwise and audit expenses) incurred in enforcing any of the duties and obligations of such Guarantor or rights of the Lenders under this Guaranty, except, however, costs and expenses arising solely as a result of the gross negligence or willful misconduct by Lenders.

3.5 Notices to the parties under this Guaranty shall be given in writing and given by personal delivery, by mail, by reputable overnight courier, by telex or by facsimile and addressed or delivered to it at its address as set forth on the signature pages hereto or at such other address of a party as designated in writing by such party. Any notice, if personally delivered or if mailed and properly addressed with postage prepaid and sent by registered or certified mail shall be deemed given when received or when delivery is refused; any notice, if given to a reputable overnight courier and properly addressed shall be deemed given two business days after the date on which it was sent, unless it is actually received sooner by the named addressee; and any notice, if delivered by telex or facsimile, shall be deemed given when received (answer back confirmed in the case of telexes and receipt confirmed in the case of facsimiles).

3.6 WAIVER OF JURY TRIAL. THE LENDERS (BY ACCEPTANCE OF THE BENEFITS HEREUNDER) AND THE GUARANTORS AFTER CONSULTING OR HAVING HAD THE OPPORTUNITY TO CONSULT WITH COUNSEL, KNOWINGLY, VOLUNTARILY AND INTENTIONALLY WAIVE ANY RIGHT ANY OF THEM MAY HAVE TO A TRIAL BY JURY IN ANY LITIGATION BASED UPON OR ARISING OUT OF THIS GUARANTY OR ANY RELATED INSTRUMENT OR AGREEMENT OR ANY OF THE TRANSACTIONS CONTEMPLATED BY THIS GUARANTY OR ANY COURSE OF CONDUCT, DEALING, STATEMENTS (WHETHER ORAL OR WRITTEN) OR ACTION OF ANY OF THEM. NEITHER THE LENDERS NOR GUARANTORS SHALL SEEK TO CONSOLIDATE, BY COUNTERCLAIM OR OTHERWISE, ANY SUCH ACTION IN WHICH A JURY TRIAL HAS BEEN WAIVED WITH ANY OTHER ACTION IN WHICH A JURY TRIAL CANNOT BE OR HAS NOT BEEN WAIVED. THESE PROVISIONS SHALL NOT BE DEEMED TO HAVE BEEN MODIFIED IN ANY RESPECT OR RELINQUISHED BY THE LENDERS OR GUARANTORS EXCEPT BY A WRITTEN INSTRUMENT EXECUTED BY ALL OF THEM.

3.7 Each Guarantor hereby irrevocably submits to the exclusive jurisdiction of any United States Federal Court sitting in Austin, Texas in any action or proceeding arising out of or relating to this Guaranty and the Guarantors hereby irrevocably agree that all claims in respect of such action or proceeding shall be heard and determined in any such United States Federal Court sitting in Austin, Texas. The Guarantors waive any objection of forum non conveniens and venue. The Guarantors further waive any right it may otherwise have to collaterally attack any judgment entered against it. Each Guarantor irrevocably consents to the service of any and all process in any such action or proceeding brought in the State of Texas by the delivery of copies of such process to a Guarantor at their respective addresses specified on the signature page hereto or by certified mail directed to such address or such other address as may be designated by a Guarantor in a notice to the other parties that complies as to delivery with the terms of Section 3.5. Nothing in this Section 3.7 shall affect the right of any Lender to serve process in any other manner permitted by law or limit the right of the Lenders (or any of them) to bring any such action or proceeding against any Person or any of their property in the courts with subject matter jurisdiction of any other jurisdiction. Each Guarantor irrevocably waives any objection to the laying of venue of any such suit or proceeding in the above described courts.

3.8 This Guaranty includes all amendments and supplements hereto and assignments hereof, and the Lenders shall not be bound by any amendment or undertaking not expressed in a writing executed by each of them.

3.9 All capitalized terms not specifically defined herein which are defined in the Purchase Agreement are used as defined in the Purchase Agreement.

3.10 The obligations of the Guarantors hereunder shall be joint and several, each with all and each with any one or more of the others, and may be enforced against each severally or jointly. Any Guarantor may be released from its obligations hereunder with or without consideration for such release and the obligations of the other Guarantor hereunder shall in no way be affected thereby. The Lenders may fail or elect not to prove a claim against any bankrupt or insolvent Guarantor and thereafter the Lenders may, without notice to any Guarantor, extend or renew any or part or all of any Indebtedness of a Borrower under the Note or otherwise and may permit any such Person to incur additional Indebtedness without affecting in any manner the unconditional obligation of each of the Guarantors hereunder. Such action shall not affect any right of contribution among the Guarantors.

3.11 If any term or provision of this Guaranty or the application thereof to any circumstance shall, to any extent, be invalid or unenforceable, the remainder of this Guaranty, or the application of such term or provision to circumstances other than those as to which it is held invalid or unenforceable, shall not be affected thereby, and each term and provision of this Guaranty shall be valid and enforceable to the fullest extent permitted by law.

3.12 Notwithstanding anything to the contrary contained herein, it is the intention of the Guarantors and the Lenders that the amount of the respective Guarantor's obligations hereunder shall be in, but not in excess of, the maximum amount thereof not subject to avoidance or recovery by operation of applicable law governing bankruptcy, reorganization, arrangement, adjustment of debts, relief of debtors, dissolution, insolvency, fraudulent transfers or conveyances or other similar laws (collectively, "**Applicable Insolvency Laws**"). To that end, but only in the event and to the extent that such Guarantor's respective obligations hereunder or any payment made pursuant thereto would, but for the operation of the foregoing proviso, be subject to avoidance or recovery under Applicable Insolvency Laws, the amount of such Guarantor's respective obligations hereunder shall be limited to the largest amount which, after giving effect thereto, would not, under Applicable Insolvency Laws, render such Guarantor's respective obligations hereunder unenforceable or avoidable or subject to recovery under Applicable Insolvency Laws. To the extent any payment actually made hereunder exceeds the limitation contained in this Section, then the amount of such excess shall, from and after the time of payment by the Guarantors (or any of them), be reimbursed by the Lenders upon demand by such Guarantors. The foregoing proviso is intended solely to preserve the rights of the Lenders hereunder against the Guarantors to the maximum extent permitted by Applicable Insolvency Laws and neither the Borrowers nor any Guarantor nor any other Person shall have any right or claim under this Section that would not otherwise be available under Applicable Insolvency Laws.

Signature page follows.

IN WITNESS WHEREOF, the undersigned Guarantors have caused this Guaranty to be duly executed and delivered by their proper and duly authorized officers as of the date first written above.

GUARANTOR:

724 SOLUTIONS (U.S.), INC.

By:

Name:

Title:

GUARANTOR:

724 SOLUTIONS INTERNATIONAL, INC.

By:

Name:

Title:

ACCEPTED AND APPROVED AS OF MAY 14, 2004:

LENDER:

AUSTIN VENTURES VI, L.P.

By: AV Partners VI, L.P., its general partner

By:

Name:

Title:

LENDER:

AUSTIN VENTURES VIII, L.P.

By: AV Partners VIII, L.P., its general partner

By:

Name:

Title:

LENDER:

AUSTIN VENTURES VI AFFILIATES FUND L.P.

By: AV Partners VI, L.P., its general partner

By:

Name:

Title:

Signature Page to SVNX Guaranty

SCHEDULE OF LENDERS

Austin Ventures VI, L.P.

300 West Sixth Street
Suite 2300
Austin, Texas 78701

**Austin Ventures VI Affiliates
Fund, L.P.**

300 West Sixth Street
Suite 2300
Austin, Texas 78701

Austin Ventures VIII, L.P.

300 West Sixth Street
Suite 2300
Austin, Texas 78701

Signature Page to SVNX Guaranty

QuickLinks

[GUARANTY](#)

[RECITALS](#)

[AGREEMENT](#)

[Signature page follows.](#)

[SCHEDULE OF LENDERS Austin Ventures VI, L.P. 300 West Sixth Street Suite 2300 Austin, Texas 78701](#)

[Austin Ventures VI Affiliates Fund, L.P. 300 West Sixth Street Suite 2300 Austin, Texas 78701](#)

[Austin Ventures VIII, L.P. 300 West Sixth Street Suite 2300 Austin, Texas 78701](#)

THIS NOTE AND THE SECURITIES ISSUABLE UPON ITS CONVERSION HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED ("ACT"), NOR HAVE THEY BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE. NEITHER THIS NOTE NOR THE SECURITIES ISSUABLE UPON ITS CONVERSION MAY BE SOLD, TRANSFERRED, HYPOTHECATED, OR OTHERWISE DISPOSED OF UNLESS A REGISTRATION STATEMENT UNDER THE ACT IS IN EFFECT AS TO SUCH TRANSFER, THE TRANSFER IS MADE IN ACCORDANCE WITH RULE 144 UNDER THE ACT OR AS OTHERWISE PERMITTED BY THE BORROWERS, OR, IN THE OPINION OF COUNSEL SATISFACTORY TO THE BORROWERS, REGISTRATION UNDER THE ACT IS UNNECESSARY IN ORDER FOR SUCH TRANSFER TO COMPLY WITH THE ACT AND WITH APPLICABLE STATE SECURITIES LAWS.

UNLESS PERMITTED UNDER APPLICABLE CANADIAN SECURITIES LEGISLATION, THE HOLDER OF THE SECURITIES EVIDENCED BY THIS CERTIFICATE SHALL NOT TRADE THE SECURITIES BEFORE SEPTEMBER 15, 2004.

SECURED CONVERTIBLE PROMISSORY NOTE

US\$

May 14, 2004

For value received, the undersigned, 724 SOLUTIONS INC., a Canadian corporation (the "**Parent**"), and 724 SOLUTIONS SOFTWARE, INC., a Delaware corporation (the "**US Sub**"; together with Parent, collectively the "**Borrowers**") jointly and severally promise to pay to the order of _____ (the "**Holder**"), the principal sum of _____ Dollars (US\$ _____), together with interest as set forth below. Except as provided in Section 2(b) below, all payments by Borrowers of amounts owing hereunder shall be in lawful money of the United States of America in immediately available funds.

This note is one (1) of a series of notes (each, a "**Note**" and collectively, the "**Notes**") the Borrowers have issued pursuant to the Secured Convertible Note Purchase Agreement, dated as of May 14, 2004, by and among the Borrowers and the Lenders listed therein, as may be amended from time to time (the "**Purchase Agreement**"), having like tenor and effect (except for variations necessary to express the name of the Holder, the issue date and the principal amount of each Note). The Notes shall rank equally without preference or priority of any kind over one another, and all payments on account of principal and interest with respect to any of the Notes shall be applied ratably and proportionately on the outstanding Notes on the basis of the principal amount of the outstanding indebtedness represented thereby. Capitalized terms used herein without definition have the meanings assigned to them in the Purchase Agreement.

1. Maturity. Unless earlier converted to common shares in the capital of Parent ("**Common Shares**") as provided in Section 3 below, the entire unpaid and unconverted principal balance and Costs, and all accrued and unpaid interest thereon, shall become due and payable on the earlier to occur of (a) the date that is three (3) years from the First Closing Date (the "**Maturity Date**") or (b) the date that such amounts are accelerated in connection with any Event of Default. The Borrowers may not, and shall have no right to, prepay (in whole or in part) any amounts owing under this Note.

2. Interest.

(a) Rate; Payment. Beginning on May 15, 2004, interest shall accrue on all amounts outstanding under this Note at the rate of Two and One-Half Percent (2.5%) per quarter, compounded quarterly. Interest payable hereunder shall be calculated on the basis of a three hundred sixty (360) day year for actual days elapsed. Beginning on the first day of the third fiscal quarter following the date of this Note and on the first day of each fiscal quarter thereafter until the Maturity Date, the Borrowers shall pay to the Holder fifty percent (50%) of the interest accrued on amounts outstanding during the prior quarter.

(b) Form of Payment.

(i) The Borrowers may make payments of interest under this Note either (i) in lawful money of the United States of America in immediately available funds or (ii) following approval by the holders of a majority of the votes cast (whether in person or by proxy) at a duly-called meeting of holders of Common Shares at which a quorum was present ("**Shareholder Approval**"), in Common Shares at the Conversion Price then in effect on the interest payment date so long as the Market Price on such date is greater than the Conversion Price then in effect.

(ii) For purposes of this Section 2(b):

"**Market Price**" means for any Trading Day, (1) the five-day volume-weighted average trading price per share (expressed in U.S. dollars as determined in accordance with the Bank of Canada "nominal rate") for the Common Shares on the Toronto Stock Exchange, calculated by dividing the total value (expressed in U.S. dollars as determined in accordance with the Bank of Canada "nominal rate") of Common Shares traded by the total volume of Common Shares traded, in each case, on the Toronto Stock Exchange or, (2) if the Common Shares are not listed on a national securities exchange, the five-day volume-weighted average trading price per share on The Nasdaq National Market, calculated as described in subsection (1) above, or (3) if the Common Shares are not quoted on The Nasdaq National Market or listed or admitted to trading on any national securities exchange, the five-day volume-weighted average trading prices in the over-the-counter market as furnished by any New York Stock Exchange member firm selected from time to time by the Parent for that purpose.

"**Trading Day**" means (1) if the Common Shares are listed or admitted for trading on any national securities exchange, any days on which such national securities exchange is open for business; (2) if the Common Shares are quoted on The Nasdaq National Market or any other system of automated dissemination of quotations of securities prices, any days on which trades may be effected through such system; or (3) if the Common Shares are not listed or admitted for trading on any national securities exchange or quoted on The Nasdaq National Market or any other system of automated dissemination of quotation of securities prices, any days on which the Common Shares are traded in a regular way in the over-the-counter market and for which a closing bid and a closing asked price for the Common Shares are available.

3. Conversion.

(a) Voluntary Conversion. At the Holder's option, any or all of the outstanding principal and, following Shareholder Approval, Costs and all accrued and unpaid interest on such principal and Costs, may be converted into such number of Common Shares as is determined by dividing (x) the amounts under the Note to be converted by (y) the Conversion Price. The "**Conversion Price**," which shall be subject to adjustment as set forth in Section 3(c) below, shall initially mean \$3.07.

(b) Mechanics of Conversion. Before the Holder shall be entitled to convert this Note in accordance with Section 3(a), the Holder shall provide written notice thereof to the Parent of its election to convert the Note and shall state therein the name or names in which the certificate or certificates for Common Shares are to be issued. The Parent shall, as soon as practicable after receipt of such notice and the original executed version of this Note, issue and deliver to the Holder, or to the nominee or nominees of the Holder, a certificate or certificates for the number of full Common Shares to which the Holder shall be entitled against surrender to it of the Note to be converted. Such conversion shall be deemed to have been made on the date of such written notice, and the party or parties entitled to receive the Common Shares issuable upon such conversion shall be treated for all purposes as the record holder or holders of such Common Shares as of such date.

(c) Conversion Price Adjustments for Certain Dilutive Issuances, Splits and Combinations. The Conversion Price shall be adjusted from time to time as follows:

(i) (A) If the Parent issues (or is deemed to issue) any Additional Shares without consideration or for a consideration per share less than the Conversion Price then in effect immediately prior to the issuance of such Additional Shares, then the Conversion Price in effect immediately prior to each such issuance shall forthwith (except as otherwise provided in this clause (i)) be adjusted to a price determined by multiplying such Conversion Price by a fraction, the numerator of which shall be the number of Common Shares Outstanding immediately prior to such issuance plus the number of Common Shares that the aggregate consideration received by the Parent for such issuance would purchase at such Conversion Price, and the denominator of which shall be the number of Common Shares Outstanding immediately prior to such issuance plus the number of shares of such Additional Shares. For purposes of this Section 3(c)(i)(A), the term "Common Shares Outstanding" means: (1) outstanding Common Shares, (2) Common Shares issuable upon conversion or exchange of the Notes and any other securities or rights (including evidences of indebtedness), directly or indirectly, convertible into or exchangeable for Common Shares (or securities convertible into or exchangeable for Common Shares) and (3) Common Shares issuable upon the exercise (whether by cash or net exercise) of any warrants, options or other rights to purchase or otherwise acquire Common Shares (or securities convertible into, exercisable for or exchangeable for Common Shares). The Common Shares described in (1) through (3) above shall be included whether vested or unvested, whether contingent or non-contingent, whether exercisable or not yet exercisable and whether or not in-the-money. Any provision herein notwithstanding, no adjustment of the Conversion Price shall result in an adjustment in the Conversion Price greater than fifteen percent (15%) of the initial Conversion Price (as proportionately adjusted pursuant to Sections 3(c)(iii) or 3(c)(iv) below for any stock splits, stock dividends and other similar recapitalizations).

(B) Any provision herein notwithstanding, no adjustment of the Conversion Price shall be made in an amount less than one cent per share, provided that any adjustments that are not required to be made by reason of this sentence shall be carried forward and shall be either taken into account in any subsequent adjustment made prior to three (3) years from the date of the event giving rise to the adjustment being carried forward, or shall be made at the end of three (3) years from the date of the event giving rise to the adjustment being carried forward. Except to the limited extent provided for in subsections (E)(3) and (E)(4), no adjustment of such Conversion Price pursuant to this Section 3(c)(i) shall have the effect of increasing the Conversion Price above the Conversion Price in effect immediately prior to such adjustment.

(C) In the case of the issuance of Additional Shares for cash, the consideration shall be deemed to be the amount of cash paid therefor before deducting any reasonable discounts, commissions or other expenses allowed, paid or incurred by the Parent for any underwriting or otherwise in connection with the issuance and sale thereof.

(D) In the case of the issuance of the Additional Shares for a consideration in whole or in part other than cash, the consideration other than cash shall be deemed to be the fair market value thereof as determined by the Board of Directors of Parent irrespective of any accounting treatment.

(E) In the case of the issuance of options to purchase, or rights to subscribe for, Common Shares, securities by their terms convertible into or exchangeable for Common Shares or options to purchase or rights to subscribe for such convertible or exchangeable securities, the following provisions shall apply for purposes of determining the number of shares of Additional Shares issued and the consideration paid therefor:

(1) The aggregate maximum number of Common Shares deliverable upon exercise (assuming the satisfaction of any conditions to exercisability, including without limitation, the passage of time, but without taking into account potential anti-dilution adjustments) of such options to purchase or rights to subscribe for Common Shares shall be deemed to have been issued at the time such options or rights were issued and for a per share consideration equal to the consideration (determined in the manner provided in Sections 3(c)(i)(C) and 3(c)(i)(D)), if any, received by the Parent upon the issuance of such options or rights plus the minimum exercise price provided in such options or rights for the Common Shares covered thereby.

(2) The aggregate maximum number of Common Shares deliverable upon conversion of, or in exchange (assuming the satisfaction of any conditions to convertibility or exchangeability, including, without limitation, the passage of time, but without taking into account potential anti-dilution adjustments) for, any such convertible or exchangeable securities or upon the exercise of options to purchase or rights to subscribe for such convertible or exchangeable securities and subsequent conversion or exchange thereof shall be deemed to have been issued at the time such securities were issued or such convertible or exchangeable securities were issued and for a consideration equal to the consideration, if any, received by the Parent for any such securities and related options or rights (excluding any cash received on account of accrued interest or accrued dividends), plus the minimum additional consideration, if any, to be received by the Parent upon the conversion or exchange of such securities or the exercise of any related options or rights (the consideration in each case to be determined in the manner provided in Sections 3(c)(i)(C) and 3(c)(i)(D)).

(3) In the event of any change in the number of Common Shares deliverable or in the consideration payable to the Parent upon exercise of such options or rights or upon conversion of or in exchange for such convertible or exchangeable securities, the Conversion Price, to the extent in any way affected by or computed using such options, rights or securities, shall be recomputed to reflect such change, but no further adjustment shall be made for the actual issuance of Common Shares or any payment of such consideration upon the exercise of any such options or rights or the conversion or exchange of such securities.

(4) Upon the expiration of any such options (or rights), the termination of any such rights to convert or exchange or the expiration of any options or rights related to such convertible or exchangeable securities, the Conversion Price, to the extent in any way affected by or computed using such options, rights or securities or options or rights related to such securities, shall be recomputed to reflect the issuance of only the number of Common Shares (and convertible or exchangeable securities that remain in effect) actually issued upon the exercise of such options or rights, upon the conversion or exchange of such securities or upon the exercise of the options or rights related to such securities.

(5) The number of Additional Shares deemed issued and the consideration deemed paid therefor pursuant to Sections 3(c)(i)(E)(1) and 3(c)(i)(E)(2) shall be appropriately adjusted to reflect any change, termination or expiration of the type described in either Section 3(c)(i)(E)(3) or 3(c)(i)(E)(4).

(ii) "**Additional Shares**" shall mean any Common Shares issued (or deemed to have been issued pursuant to Section 3(c)(i)(E)) by the Parent on or after the First Closing Date, other than:

(A) Common Shares issued pursuant to a transaction described in Sections 3(c)(iii) or 3(c)(iv) hereof;

(B) Common Shares issued upon the conversion or exercise of convertible or exercisable securities outstanding on the First Closing Date;

(C) Common Shares issued to employees, officers, consultants, directors or advisors for the primary purpose of soliciting or retaining their services pursuant to stock option plans or agreements approved by the Parent's Board of Directors; and

(D) securities issued or issuable in connection with any borrowings by the Parent from, or indebtedness of the Parent to, any institutional commercial lenders or lessors, or pursuant to any equipment leasing arrangement, provided such issuances are for other than primarily equity financing purposes and are approved the Parent's Board of Directors.

(iii) In the event the Parent should at any time or from time to time after the First Closing Date fix a record date for the effectuation of a split or subdivision of the outstanding Common Shares or the determination of holders of Common Shares entitled to receive a dividend or other distribution payable in additional Common Shares or other securities or rights convertible into, or entitling the holder thereof to receive directly or indirectly, additional Common Shares (hereinafter referred to as "**Common Shares Equivalents**") without payment of any consideration by such holder for the additional Common Shares or the Common Shares Equivalents (including the additional Common Shares issuable upon conversion or exercise thereof), then, as of such record date (or the date of such dividend distribution, split or subdivision if no record date is fixed), the Conversion Price shall be appropriately decreased so that the number of Common Shares issuable on conversion of the each Note shall be increased in proportion to such increase of the aggregate of Common Shares outstanding and those issuable with respect to such Common Shares Equivalents with the number of shares issuable with respect to Common Shares Equivalents determined from time to time in the manner provided for deemed issuances in Section 3(e)(i)(E).

(iv) If the number of Common Shares outstanding at any time after the First Closing Date is decreased by a combination of the outstanding Common Shares, then, following the record date of such combination, the Conversion Price shall be appropriately increased so that the number of Common Shares issuable on conversion of the Notes shall be decreased in proportion to such decrease in outstanding shares.

(d) Other Distributions. If the Parent declares a distribution payable in securities of other parties, evidences of indebtedness issued by the Parent or other parties, assets (excluding cash dividends) or options or rights not referred to in Section 3(c)(i)(E), then, in each such case for the purpose of this Section 3(d), the Holders shall be entitled to a proportionate share of any such distribution as though they were the holders of the number of Common Shares into which the Notes are convertible as of the record date fixed for the determination of the holders of Common Shares entitled to receive such distribution. In no event shall such a distribution be deemed a repayment of principal under the Notes.

(e) Recapitalizations. If at any time or from time to time there shall be a recapitalization of the Common Shares (other than a subdivision, combination or merger or sale of assets transaction provided for elsewhere in this section), then provision shall be made so that the Holder shall thereafter be entitled to receive upon conversion of this Note the number of shares of stock or other securities or property of the Parent or otherwise, to which a holder of Common Shares deliverable upon conversion would have been entitled on such recapitalization. In any such case, appropriate adjustment shall be made in the application of the provisions of this section with respect to the Holder's rights after the recapitalization to the end that the provisions of this section (including adjustment of the Conversion Price then in effect and the number of Common Shares issuable upon conversion of this Note) shall be applicable after that event as nearly equivalently as may be practicable.

(f) No Impairment. The Parent will not, without the consent of the Holders holding a majority-in-interest of the outstanding principal balance under the Notes, by amendment of its organizational or governing documents or through any reorganization, recapitalization, transfer of assets, consolidation, merger, 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 hereunder applicable to it, but will at all times in good faith assist in the carrying out of all the provisions of this section and in the taking of all such action as may be necessary or appropriate in order to protect the Holders' conversion rights against impairment.

(g) No Fractional Shares and Certificate as to Adjustments.

(i) No fractional shares shall be issued upon the conversion of the Notes, and the aggregate number of Common Shares to be issued to a particular Holder shall be rounded down to the nearest whole share and the Parent shall pay in cash the fair market value (as determined in good faith by its Board of Directors) of any fractional shares as of the time when entitlement to receive such fractions is determined. Whether or not fractional shares would be issuable upon such conversion shall be determined on the basis of all Notes that the Holder is at the time converting into Common Shares and the number of Common Shares issuable upon such conversion.

(ii) Upon the occurrence of each adjustment or readjustment of the Conversion Price pursuant to this section, the Parent, at its expense, shall promptly compute such adjustment or readjustment in accordance with the terms hereof and shall prepare and furnish to the Holder, on a semi-annual basis, a certificate setting forth such adjustment or readjustment and showing in detail the facts upon which such adjustment or readjustment is based. The Parent shall, upon the written request at any time of the Holder, furnish or cause to be furnished to such Holder a like certificate setting forth (A) such adjustment and readjustment, (B) the Conversion Price at the time in effect, and (C) the number of Common Shares and the amount, if any, of other property that at the time would be received upon the conversion of the Notes.

(h) Reservation of Stock Issuable Upon Conversion. The Parent shall at all times reserve and keep available out of its authorized but unissued Common Shares, solely for the purpose of effecting the conversion of the Notes, such number of its Common Shares as shall from time to time be sufficient to effect the conversion of all outstanding Notes; and if at any time the number of authorized but unissued Common Shares shall not be sufficient to effect the conversion of all then outstanding Notes, in addition to such other remedies as shall be available to the Holder, the Parent will take such corporate action as may, in the opinion of its counsel, be necessary to increase its authorized but unissued Common Shares to such number of shares as shall be sufficient for such purposes, including engaging in best efforts to obtain the requisite shareholder approval of any necessary amendment to its organizational or governing documents.

(i) Waiver of Adjustment to Conversion Price. Notwithstanding anything herein to the contrary, any downward adjustment of the Conversion Price may be waived, either prospectively or retroactively and either generally or in a particular instance, only by the written waiver of the Holders holding a majority in interest of the principal amount outstanding under all of the Notes. Any such written waiver shall bind all existing and future holders of Notes.

4. Events of Default. Upon the occurrence of an Event of Default, the Holder shall have such rights and remedies as are set forth in the Purchase Agreement or otherwise available at law.

5. Usury. It is the express intent of the Borrowers and the Holder that the payment of all or any portion of the outstanding principal balance of and accrued interest on this Note be exempt from the application of any applicable usury law or similar laws under any federal, state or foreign jurisdiction. The Borrowers hereby irrevocably waive, to the fullest extent permitted by law, any objection or defense which the Borrowers may now or hereafter have to the payment when due of any and all principal or accrued interest arising out of or relating to a claim of usury or similar laws and the Borrowers hereby agree that neither it nor any of its affiliates shall in the future bring, commence, maintain, prosecute or voluntarily aid in any action at law, proceeding in equity or other legal proceeding against the Holder based on a claim that the Borrowers' payment obligations under this Note violate the usury or similar laws of any federal, state or foreign jurisdiction. Notwithstanding the foregoing, in the event any interest is paid on this Note which is deemed to be in excess of the then legal maximum rate, that portion of the interest payment representing an amount deemed to be in excess of the then legal maximum rate shall be deemed a payment of principal and applied against the principal of this Note.

6. Guaranty Waivers.

(a) Authorizations. Each Borrower, in its capacity as a guarantor of the Indebtedness and not in its capacity as a borrower hereunder, authorizes Holder, without notice or demand and without affecting its liability hereunder, from time to time to (a) renew, extend, or otherwise change the terms hereof; (b) take and hold security for the payment of the Indebtedness, and exchange, enforce, waive and release any such security; and (c) apply such security and direct the order or manner of sale hereof as Holder, in its sole discretion, may determine.

(b) Waivers. Each Borrower, in its capacity as a guarantor of the Indebtedness and not in its capacity as a borrower hereunder, waives any right to require Holder to (a) proceed against the other Borrower; (b) proceed against or exhaust any security held from the other Borrower; or (c) pursue any other remedy in Holder's power. Holder may, at its election, exercise or decline or fail to exercise any right or remedy it may have against another Borrower or any security held by Holder, including, without limitation, the right to foreclose upon any such security by judicial or nonjudicial sale, without affecting or impairing in any way the Borrower's guarantor liability with respect to the Indebtedness. Each Borrower, in its capacity as a guarantor of the Indebtedness and not in its capacity as a borrower hereunder, waives any defense arising by reason of any disability or other defense of the other Borrower's liability for the Indebtedness. Each Borrower, as a guarantor of the Indebtedness, waives (i) any setoff, defense or counterclaim that it may have against Holder, (ii) any defense arising out of the absence, impairment or loss of any right of reimbursement or subrogation or any other rights against the other Borrower, (iii) all presentments, demands for performance, notices of nonperformance, protests, notices of protest, notices of dishonor, and notices of acceptance of such Borrower's guaranty of the Indebtedness and of the existence, creation, or incurring of new or additional indebtedness, and (iv) any right to terminate its liability with respect to the other Borrower's liability, and (v) any defense to its liability with respect to the other Borrower's liability for the Indebtedness based on (A) any changes to the Purchase Agreement and Collateral Documents, (B) any impairment or suspension of Holder's rights and remedies against the other Borrower, (C) any obligation of Holder to proceed first against the other Borrower or any of the other Borrower's assets, (D) any obligation of Holder to marshal Collateral or other assets, (E) any law providing that a guarantor's obligations to a lender may not be greater than the Indebtedness of the principal debtor whose obligations are guaranteed, and (F) any law providing that a guarantor is release from liability for guaranteed, and (G) any law providing that a guarantor is released from liability for guaranteed obligations to the extent that the principal debtor is not liable for such obligations. Each Borrower assumes the responsibility for being and keeping itself informed of the financial condition of the other Borrower and of all other circumstances bearing upon the risk of nonpayment of any Indebtedness, warrants to Holder that it will keep so informed, and agrees that absent a request for particular information by it, Holder shall have no duty to advise it of information known to Holder regarding such condition or any such circumstances.

(c) Scope of Liability. The Indebtedness are joint and several obligations of the Borrowers. Notwithstanding any other provision hereof, a Borrower's liability for the Indebtedness at any time shall not exceed the greater of (1) the sum of (a) the total of principal of the Indebtedness that such Borrower directly or indirectly received and (b) the interest and expenses accrued with respect to such principal, and (2) the greater of (a) ninety-five percent (95%) of such Borrower's Net Fair Value on the Closing Date, and (b) ninety-five percent (95%) of such Borrower's highest Net Fair Value during the period commencing after such date and terminating on the date of determination of liability hereunder (for purposes of determining Net Fair Value, the Indebtedness shall be excluded from the liabilities). For purposes of this Section 6(c):

"Fair Value": means (i) with respect to a Company's assets, if Net Fair Value is being determined as of a date on or prior to the first anniversary of the Closing Date, the lower of (1) the value of such assets as determined in accordance with U.S. Bankruptcy Code §548, or (2) the value of such assets as determined in accordance with the state fraudulent conveyance or fraudulent transfer law that would be applicable to the determination whether the obligations and/or the security interest relating thereto would constitute a fraudulent conveyance or a fraudulent transfer (the "**Applicable State Law**"), (ii) with respect to a Borrower's assets, if Net Fair Value is being determined in accordance with the Applicable State Law, (iii) with respect to a Borrower's liabilities, if Net Fair Value is being determined as of a date on or prior to the first anniversary of the Closing Date, the lower of (1) the value of such liabilities as determined in accordance with U.S. Bankruptcy Code §548 or (2) the value of such liabilities as determined in accordance with the Applicable State Law, and (iv) with respect to a Borrower's liabilities, if Net Fair Value is being determined as of a date after the first anniversary of the Closing Date, the value of such liabilities as determined in accordance with the Applicable State Law.

"Net Fair Value": means with respect to a Borrower the amount by which the Fair Value of such Borrower's assets exceeds the Fair Value of such Borrower's liabilities.

7. Obligations Secured. The obligations of the Borrowers under this Note, the Purchase Agreement and the other Collateral Documents are secured by the assets and properties of the Borrowers and certain of its Subsidiaries pursuant to the terms of the Security Agreement, the IP Security Agreement, any joinders to the Security Agreement or the IP Security Agreement, the other acknowledgments, certificates, stock powers, financing statements, instruments and other security documents executed by any Person in favor of the Lenders and all documents needed or appropriate to perfect or give notice of the Lenders' security interests in the Collateral, in each case as of the Effective Date or, in each case, as such Collateral Documents may be amended or otherwise modified from time to time after the date thereof.

8. General Provisions.

(a) The Borrowers hereby expressly waive presentment, demand, and protest, notice of demand, dishonor and nonpayment of this Note, and all other notices or demands of any kind in connection with the delivery, acceptance, performance, default or enforcement hereof.

(b) The Borrowers stipulate that the remedies at law of the Holders in the event of any default or threatened default by the Borrowers in the performance of or compliance with any of the terms of the Notes are not and will not be adequate to the fullest extent permitted by law, and that such terms may be specifically enforced by a decree for the specific performance of any agreement contained therein or by an injunction against a violation of any of the terms thereof or otherwise.

(c) The Borrowers agree to pay all reasonable costs, fees and expenses incurred by the Holder (including costs of collection, court costs and reasonable outside attorneys' fees and disbursements) in connection with the successful enforcement of the Holder's rights under this Note, including when the Borrowers fail to pay any amounts under this Note as provided hereunder (all such costs, fees and expenses being herein referred to as "*Costs*"). The Borrowers agree that any payments received by the Holder from the Borrowers hereunder will first be applied to Costs, then to interest accrued and unpaid on the principal amount and the balance to the outstanding principal amount.

(d) Nothing expressed in or to be implied from this Note is intended to give, or shall be construed to give, any person, other than the parties hereto and their permitted successors and assigns, any benefit or legal or equitable right, remedy or claim under or by virtue of this Note. Notwithstanding the foregoing, all references to the "Holder" or the "Borrowers" shall apply to their respective successors, permittees and assigns. Notwithstanding anything herein to the contrary, this Note may not be assigned or transferred by the Borrowers without the prior written consent of the Holder. The transfer of this Note by the Holder is restricted pursuant to applicable securities laws and the terms of the Purchase Agreement. In addition, until notice of any transfer by the Holder is received by the Borrowers, the Borrowers shall be entitled to treat the Holder as the registered holder of this Note.

(e) If one or more provisions of this Note are held to be unenforceable under applicable law, such provision shall be excluded from this Note and the balance of the Note shall be interpreted as if such provision were so excluded and shall be enforceable in accordance with its terms.

(f) It is agreed that no delay or omission to exercise any right, power or remedy accruing to any party, upon any breach, default or noncompliance by another party under this Note shall impair any such right, power or remedy, nor shall it be construed to be a waiver of any such breach, default or noncompliance, or any acquiescence therein, or of or in any similar breach, default or noncompliance thereafter occurring. It is further agreed that any waiver, permit, consent or approval of any kind or character on the part of the Holder of any breach, default or noncompliance under this Note or any waiver on such party's part of any provisions or conditions of this Note must be in writing and shall be effective only to the extent specifically set forth in such writing. All remedies afforded to any party shall be cumulative and not alternative.

(g) This Note shall be governed by and construed in accordance with the laws of the State of New York, without regard to the conflicts of law provisions.

(h) Upon receipt of evidence reasonably satisfactory to the Borrowers of the loss, theft, destruction or mutilation of this Note (or any security issued on conversion of this Note), the Borrowers will issue a replacement instrument, at the Borrowers' expense, representing such securities in lieu of such lost, stolen, destroyed or mutilated instrument, provided that, if requested, the Holder shall agree to indemnify the Borrowers for any losses incurred by the Borrowers with respect to such instrument.

IN WITNESS WHEREOF, each of the undersigned has caused this Note to be signed by its duly authorized officer on the date first above written.

724 SOLUTIONS INC.

By: _____

Name:

Title:

724 SOLUTIONS SOFTWARE INC.

By: _____

Name:

Title:

QuickLinks

[SECURED CONVERTIBLE PROMISSORY NOTE](#)