

TERCON INVESTMENTS LTD.

as Obligor

and

**WF FUND III LIMITED PARTNERSHIP,
carrying on business as WELLINGTON FINANCIAL LP
AND WELLINGTON FINANCIAL FUND III**

as Secured Creditor

SECURITY AGREEMENT

October 1st, 2007

SECURITY AGREEMENT

Security agreement dated October 1, 2007 made by Tercon Investments Ltd. to and in favour of WF Fund III Limited Partnership, carrying on business as Wellington Financial LP and Wellington Financial Fund III.

RECITALS:

- (a) The Obligor is or will become indebted or liable to the Secured Creditor pursuant to its Series A Secured Debentures in the aggregate principal amount of \$5,000,000.00 (Cdn.) dated October 1, 2007 (as the same may be amended, restated, supplemented or replaced from time to time, the "Secured Debenture") and pursuant to an Operating Loan Agreement between the Obligor and the Secured Party dated October 1, 2007 (as the same may be amended, restated, supplemented or replaced from time to time, the "Operating Loan Agreement");
- (b) Pursuant to Section 4.1 of the Secured Debenture, the Obligor is required to execute and deliver this Agreement in favour of the Secured Creditor.

In consideration of the foregoing and other good and valuable consideration, the receipt and adequacy of which are acknowledged, the Obligor agrees as follows.

ARTICLE 1 INTERPRETATION

Section 1.1 Defined Terms.

As used in this Agreement, the following terms have the following meanings:

"Agreement" means this security agreement.

"Collateral" has the meaning specified in Section 2.1.

"Credit Documents" means the Secured Debenture, the Operating Loan Agreement, this Agreement and each other Security Document (as such term is defined in the Secured Debenture).

"Event of Default" means an Event of Default as that term is defined under either the Debenture or the Operating Loan Agreement;

"Expenses" has the meaning specified in Section 2.2(b).

"Governmental Entity" means any international tribunal, agency, body commission or other authority, any government, executive, parliament, legislature or local authority, or any governmental entity, ministry, department or agency or regulatory

authority, court, tribunal, commission or board of or within Canada, or any other foreign jurisdiction, or any political subdivision of any thereof or any authority having jurisdiction therein or any quasi governmental or private body exercising any regulatory, expropriation or taxing authority under or for the account of any of the above.

"Instruments" means (i) a bill, note or cheque within the meaning of the *Bills of Exchange Act* (Canada) or any other writing that evidences a right to the payment of money and is of a type that in the ordinary course of business is transferred by delivery with any necessary endorsement or assignment, or (ii) a letter of credit and an advice of credit if the letter or advice states that it must be surrendered upon claiming payment thereunder, or (iii) chattel paper or any other writing that evidences both a monetary obligation and a security interest in or a lease of specific goods, or (iv) documents of title or any other writing that purports to be issued by or addressed to a bailee and purports to cover such goods in the bailee's possession as are identified or fungible portions of an identified mass, and that in the ordinary course of business is treated as establishing that the Person in possession of it is entitled to receive, hold and dispose of the document and the goods it covers, or (v) any document or writing commonly known as an instrument.

"Intellectual Property" means domestic and foreign: (i) patents, applications for patents and reissues, divisions, continuations, renewals, extensions and continuations-in-part of patents or patent applications; (ii) proprietary and non-public business information, including inventions (whether patentable or not), invention disclosures, improvements, discoveries, trade secrets, confidential information, know-how, methods, processes, designs, technology, technical data, schematics, formulae and customer lists, and documentation relating to any of the foregoing; (iii) copyrights, copyright registrations and applications for copyright registration; (iv) mask works, mask work registrations and applications for mask work registrations; (v) designs, design registrations, design registration applications and integrated circuit topographies; (vi) trade names, business names, corporate names, domain names, website names and world wide web addresses, common law trade-marks, trade-mark registrations, trade-mark applications, trade dress and logos, and the goodwill associated with any of the foregoing; (vii) computer software and programs (both source code and object code form), all proprietary rights in the computer software and programs and all documentation and other materials related to the computer software and programs; and (viii) any other intellectual property and industrial property.

"Lien" means (i) any mortgage, charge, pledge, hypothecation, security interest, assignment by way of security, encumbrance, lien (statutory or otherwise), hire purchase agreement, conditional sale agreement, deposit arrangement, title retention agreement or arrangement, or any other assignment, arrangement or

condition that in substance secures payment or performance of an obligation, (ii) any trust arrangement, (iii) any arrangement which creates a right of set-off out of the ordinary course of business, or (iv) any agreement to grant any such rights or interests.

"Obligor" means Tercon Investments Ltd., a corporation incorporated and existing under the laws of British Columbia, and its successors and permitted assigns.

"Registrable Intellectual Property" means any Intellectual Property in respect of which ownership, title, security interests, charges or encumbrances are capable of registration, recording or notation with any Governmental Entity pursuant to applicable laws.

"Restricted Asset" has the meaning specified in Section 2.4(1).

"Secured Creditor" means WF Fund III Limited Partnership, carrying on business as Wellington Financial LP and Wellington Financial Fund III and its successors and assigns.

"Secured Obligations" has the meaning specified in Section 2.2(a).

"Security" means an obligation of an issuer or a share, participation or other interest in an issuer or in property or an enterprise of an issuer,

- (a) that is represented by a security certificate in bearer form or registered form, or the transfer of which may be registered on books maintained for that purpose by or on behalf of the issuer,
- (b) that is one of a class or series, or by its terms is divisible into a class or series, of shares, participations, interests or obligations, and
- (c) that,
 - (i) is, or is of a type, dealt in or traded on securities exchanges or securities markets, or
 - (ii) is a medium for investment and by its terms expressly provides that it is a security for the purposes of the *Securities Transfer Act* (Ontario);

but excludes

- (d) any ULC Shares.

"Security Interest" has the meaning specified in Section 2.2.

"ULC Shares" means shares in any unlimited company or unlimited liability corporation at any time owned or otherwise held by the Obligor.

Section 1.2 Interpretation.

- (1) Terms defined in the *Personal Property Security Act* (Ontario) or the *Securities Transfer Act* (Ontario) and used but not otherwise defined in this Agreement have the same meanings.
- (2) Capitalized terms used in this Agreement but not defined have the meanings given to them in the Secured Debenture.
- (3) Any reference in any Credit Document to Liens permitted by the Secured Debenture and any right of the Obligor to create or suffer to exist Liens permitted by the Secured Debenture are not intended to and do not and will not subordinate the Security Interest to any such Lien or give priority to any Person over the Secured Creditor.
- (4) In this Agreement the words "including", "includes" and "include" mean "including (or includes or include) without limitation". The expressions "Article", "Section" and other subdivision followed by a number mean and refer to the specified Article, Section or other subdivision of this Agreement.
- (5) Any reference in this Agreement to gender includes all genders. Words importing the singular number only include the plural and vice versa.
- (6) The division of this Agreement into Articles, Sections and other subdivisions and the insertion of headings are for convenient reference only and do not affect its interpretation.
- (7) The schedules attached to this Agreement form an integral part of it for all purposes of it.
- (8) Except as otherwise provided in this Agreement, any reference to this Agreement, any Credit Document or any Security Document refers to this Agreement or such Credit Document or Security Document as the same may have been or may from time to time be amended, modified, extended, renewed, restated, replaced or supplemented and includes all schedules attached to it. Except as otherwise provided in this Agreement, any reference in this Agreement to a statute refers to such statute and all rules and regulations made under it as the same may have been or may from time to time be amended or re-enacted.

ARTICLE 2 SECURITY

Section 2.1 Grant of Security.

Subject to Section 2.4, the Obligor grants to the Secured Creditor, a security interest in, and assigns, mortgages, charges, hypothecates and pledges to the Secured Creditor, all of the property and undertaking of the Obligor now owned or hereafter acquired and all of the property and undertaking in which the Obligor now has or hereafter acquires any interest (collectively, the "Collateral") including all of the Obligor's:

- (a) present and after-acquired personal property;
- (b) inventory including goods held for sale, lease or resale, goods furnished or to be furnished to third parties under contracts of lease, consignment or service, goods which are raw materials or work in process, goods used in or procured for packing and materials used or consumed in the business of the Obligor;
- (c) equipment, machinery, furniture, fixtures, plant, vehicles and other goods of every kind and description and all licences and other rights and all related records, files, charts, plans, drawings, specifications, manuals and documents;
- (d) accounts due or accruing and all related agreements, books, accounts, invoices, letters, documents and papers recording, evidencing or relating to them;
- (e) money, documents of title and chattel paper;
- (f) Instruments and Securities, including the Instruments and Securities listed in Schedule A;
- (g) intangibles including all security interests, goodwill, choses in action, contracts, contract rights, licenses and other contractual benefits;
- (h) Intellectual Property including the Registrable Intellectual Property listed in Schedule B;
- (i) all substitutions and replacements of and increases, additions and, where applicable, accessions to the property described in Section 2.1(a) through Section 2.1(h) inclusive; and
- (j) all proceeds in any form derived directly or indirectly from any dealing with all or any part of the property described in Section 2.1(a)

through Section 2.1(i) inclusive, including the proceeds of such proceeds.

Section 2.2 Secured Obligations.

The security interest, assignment, mortgage, charge, hypothecation and pledge granted by this Agreement (collectively, the "Security Interest") secures the payment and performance of:

- (a) all debts, liabilities and obligations, present or future, direct or indirect, absolute or contingent, matured or unmatured, at any time or from time to time due or accruing due and owing by or otherwise payable by the Obligor to the Secured Creditor in any currency, however or wherever incurred, and whether incurred by the Obligor alone or jointly with another or others and whether as principal, guarantor or surety and in whatever name or style (collectively, and together with the Expenses, the "Secured Obligations"); and
- (b) all expenses, costs and charges incurred by or on behalf of the Secured Creditor in connection with this Agreement, the Security Interest or the Collateral, including all legal fees, court costs, receiver's or agent's remuneration and other expenses of taking possession of, repairing, protecting, insuring, preparing for disposition, realizing, collecting, selling, transferring, delivering or obtaining payment for the Collateral, and of taking, defending or participating in any action or proceeding in connection with any of the foregoing matters or otherwise in connection with the Secured Creditor's interest in any Collateral, whether or not directly relating to the enforcement of this Agreement or any other Credit Document (collectively, the "Expenses").

Section 2.3 Attachment.

- (1) The Obligor acknowledges that (i) value has been given, (ii) it has rights in the Collateral (other than after-acquired Collateral), (iii) it has not agreed to postpone the time of attachment of the Security Interest, and (iv) it has received a copy of this Agreement.
- (2) The Obligor shall not permit any of the Securities at any time to be or to become uncertificated securities.
- (3) The Obligor delivers to and deposits with the Secured Creditor any and all certificates evidencing the Securities listed in Schedule A, together with, in each case, a stock power duly endorsed in blank for transfer and an irrevocable directors or other applicable resolution of entity in from which the

Securities are issued, consenting to the transfer by the Obligor and the Obligor hereby grants control over such Securities to the Secured Creditor in accordance with the provisions of the *Securities Transfer Act* (Ontario). The Obligor also delivers to and deposits with the Secured Creditor any promissory note or other Instruments evidencing any amount payable in excess of \$100,000 or evidencing any rights to goods having a value in excess of \$100,000.

- (4) If the Obligor acquires any Securities or any Instruments (other than Instruments evidencing amounts payable of less than \$100,000 or evidencing any rights to goods having a value less than \$100,000), the Obligor will notify the Secured Creditor in writing and provide the Secured Creditor with a revised Schedule A recording the acquisition and particulars of such Instruments or Securities within 5 days after such acquisition. Upon request by the Secured Creditor, the Obligor will promptly deliver to and deposit with the Secured Creditor, or cause the Secured Creditor to have control over, such Securities or Instruments (other than Instruments evidencing amounts payable of less than \$100,000 or evidencing any rights to goods having a value less than \$100,000) as security for the Secured Obligations. The Obligor will also promptly inform the Secured Creditor in writing of the acquisition by the Obligor of any ULC Shares.
- (5) At the request of the Secured Creditor the Obligor will (i) cause the transfer of any Securities or Instruments to the Secured Creditor to be registered wherever such registration may be required or advisable in the reasonable opinion of the Secured Creditor, (ii) duly endorse any such Securities or Instruments for transfer in blank or register them in the name of the Secured Creditor or its nominee or otherwise as the Secured Creditor may reasonably direct, (iii) immediately deliver to the Secured Creditor any and all consents or other documents which may be necessary to effect the transfer of any such Securities or Instruments to the Secured Creditor or any third party and (iv) deliver to or otherwise cause the Secured Creditor to have control over such Securities or Instruments in accordance with the provisions of the *Securities Transfer Act* (Ontario). Upon the discharge of the Security Interest in accordance with Section 5.2 hereof, the Secured Creditor shall promptly cause all Securities or Instruments transferred to it or to any third party pursuant to this Section 2.3(5) to be transferred back to the Obligor including duly endorsing any such Securities or Instruments for transfer back to the Obligor and delivering to the Obligor any and all consents or other documents which may be necessary to effect the transfer of any such Securities or Instruments to the Obligor.

- (6) The Obligor will promptly notify the Secured Creditor in writing of the acquisition by the Obligor of any Registrable Intellectual Property. The Obligor will provide the Secured Creditor with a revised Schedule B recording the acquisition and particulars of such additional Intellectual Property.

Section 2.4 Scope of Security Interest.

- (1) To the extent that an assignment of amounts payable and other proceeds arising under or in connection with, or the grant of a security interest in any agreement, licence, permit or quota of the Obligor would result in the termination of such agreement, licence, permit or quota (each, a "Restricted Asset"), the Security Interest with respect to each Restricted Asset will constitute a trust created in favour of the Secured Creditor pursuant to which the Obligor holds as trustee all proceeds arising under or in connection with the Restricted Asset in trust for the Secured Creditor on the following basis:
 - (a) until the Security Interest is enforceable and subject to the Secured Debenture, the Obligor is entitled to receive all such proceeds; and
 - (b) whenever the Security Interest is enforceable, (i) all rights of the Obligor to receive such proceeds cease and all such proceeds will be immediately paid over to the Secured Creditor and (ii) the Obligor will take all actions requested by the Secured Creditor to collect and enforce payment and other rights arising under the Restricted Asset.

The Obligor will use all commercially reasonable efforts to obtain the consent of each other party to any and all Restricted Assets to the assignment of such Restricted Asset to the Secured Creditor in accordance with this Agreement. The Obligor will also use all commercially reasonable efforts to ensure that all agreements entered into on and after the date of this Agreement expressly permit assignments of the benefits of such agreements as collateral security to the Secured Creditor in accordance with the terms of this Agreement.

- (2) The Security Interest with respect to trade-marks constitutes a security interest in, and a charge, hypothecation and pledge of, such Collateral in favour of the Secured Creditor, but does not constitute an assignment or mortgage of such Collateral to the Secured Creditor.
- (3) Until the Security Interest is enforceable, the grant of the Security Interest in the Intellectual Property does not affect in any way the Obligor's rights to commercially exploit the Intellectual Property, defend it, enforce the Obligor's rights in it or with respect to it against third parties in any court or claim and be entitled to receive any damages with respect to any infringement of it.

- (4) The Security Interest does not extend to consumer goods or ULC Shares.
- (5) The Security Interest does not extend or apply to the last day of the term of any lease or sublease of real property or any agreement for a lease or sublease of real property, now held or hereafter acquired by the Obligor, but the Obligor will stand possessed of any such last day upon trust to assign and dispose of it as the Secured Creditor may reasonably direct.

Section 2.5 Grant of Licence to Use Intellectual Property.

At such time as the Secured Creditor is lawfully entitled to exercise its rights and remedies under Article 3, the Obligor grants to the Secured Creditor an irrevocable, nonexclusive licence (exercisable without payment of royalty or other compensation to the Obligor) to use, assign or sublicense any Intellectual Property in which the Obligor has rights wherever the same may be located, including in such licence access to (i) all media in which any of the licensed items may be recorded or stored, and (ii) all software and computer programs used for compilation or print-out. The license granted under this Section is to enable the Secured Creditor to exercise its rights and remedies under Article 3 and for no other purpose.

Section 2.6 Care and Custody of Collateral.

- (1) The Secured Creditor has no obligation to keep Collateral in its possession identifiable.
- (2) The Secured Creditor may, after the Security Interest is enforceable, (i) notify any Person obligated on an Instrument, Security or account to make payments to the Secured Creditor, whether or not the Obligor was previously making collections on such accounts, chattel paper, instruments, and (ii) assume control of any proceeds arising from the Collateral.
- (3) The Secured Creditor has no obligation to collect dividends, distributions or interest payable on, or exercise any option or right in connection with, any Securities or Instruments. The Secured Creditor has no obligation to protect or preserve any Securities or Instruments from depreciating in value or becoming worthless and is released from all responsibility for any loss of value. In the physical keeping of any Securities, the Secured Creditor is only obliged to exercise the same degree of care as it would exercise with respect to its own Securities kept at the same place.

Section 2.7 Rights of the Obligor.

- (1) Until the Security Interest is enforceable, the Obligor is entitled to vote the Securities that are part of the Collateral and to receive all dividends and distributions on such Securities. In order to allow the Obligor to vote any Securities registered in the Secured Creditor's name or the name of its

nominee, at the request and the expense of the Obligor, the Secured Creditor will, prior to the Security Interest being enforceable, and may, after the Security Interest is enforceable, execute valid proxies appointing proxyholders to attend and act at meetings of shareholders, and execute resolutions in writing, all pursuant to the relevant provisions of the issuer's governing legislation. Whenever the Security Interest is enforceable, all rights of the Obligor to vote (under any proxy given by the Secured Creditor (or its nominee) or otherwise) or to receive distributions or dividends cease and all such rights become vested solely and absolutely in the Secured Creditor.

- (2) Any distributions or dividends received by the Obligor contrary to Section 2.7(1) or any other moneys or property received by the Obligor after the Security Interest is enforceable will be received as trustee for the Secured Creditor and shall be immediately paid over to the Secured Creditor.

Section 2.8 Expenses.

The Obligor is liable for and will pay on demand by the Secured Creditor any and all Expenses.

**ARTICLE 3
ENFORCEMENT**

Section 3.1 Enforcement.

The Security Interest becomes and is enforceable against the Obligor upon the occurrence and during the continuance of an Event of Default.

Section 3.2 Remedies.

Whenever the Security Interest is enforceable, the Secured Creditor may realize upon the Collateral and enforce the rights of the Secured Creditor by:

- (a) entry onto any premises where Collateral consisting of tangible personal property may be located;
- (b) entry into possession of the Collateral by any method permitted by law;
- (c) sale, grant of options to purchase, or lease of all or any part of the Collateral;
- (d) holding, storing and keeping idle or operating all or any part of the Collateral;

- (e) exercising and enforcing all rights and remedies of a holder of the Securities and Instruments as if the Secured Creditor were the absolute owner thereof (including, if necessary, causing the Collateral to be registered in the name of the Secured Creditor or its nominee if not already done);
- (f) collection of any proceeds arising in respect of the Collateral;
- (g) collection, realization or sale of, or other dealing with, accounts;
- (h) license or sublicense, whether on an exclusive or nonexclusive basis, of any Intellectual Property for such term and on such conditions and in such manner as the Secured Creditor in its sole judgment determines (taking into account such provisions as may be necessary to protect and preserve such Intellectual Property);
- (i) instruction to any bank which has entered into a control agreement with the Secured Creditor to transfer all moneys, Securities and Instruments held by such depository bank to an account maintained with or by the Secured Creditor;
- (j) application of any moneys constituting Collateral or proceeds thereof in accordance with Section 5.11;
- (k) appointment by instrument in writing of a receiver (which term as used in this Agreement includes a receiver and manager) or agent of all or any part of the Collateral and removal or replacement from time to time of any receiver or agent;
- (l) institution of proceedings in any court of competent jurisdiction for the appointment of a receiver of all or any part of the Collateral;
- (m) institution of proceedings in any court of competent jurisdiction for sale or foreclosure of all or any part of the Collateral;
- (n) filing of proofs of claim and other documents to establish claims to the Collateral in any proceeding relating to the Obligor; and
- (o) any other remedy or proceeding authorized or permitted under the *Personal Property Security Act* (Ontario) or otherwise by law or equity.

Section 3.3 Additional Rights.

In addition to the remedies set forth in Section 3.2 and elsewhere in this Agreement, whenever the Security Interest is enforceable, the Secured Creditor may:

- (a) require the Obligor, at the Obligor's expense, to assemble the Collateral at a place or places designated by notice in writing and the Obligor agrees to so assemble the Collateral immediately upon receipt of such notice;
- (b) require the Obligor, by notice in writing, to disclose to the Secured Creditor the location or locations of the Collateral and the Obligor agrees to promptly make such disclosure when so required;
- (c) repair, process, modify, complete or otherwise deal with the Collateral and prepare for the disposition of the Collateral, whether on the premises of the Obligor or otherwise;
- (d) redeem any prior security interest against any Collateral, procure the transfer of such security interest to itself, or settle and pass the accounts of the prior mortgagee, chargee or encumbrancer (any accounts to be conclusive and binding on Obligor);
- (e) pay any liability secured by any Lien against any Collateral (the Obligor will immediately on demand reimburse the Secured Creditor for all such payments);
- (f) carry on all or any part of the business of the Obligor and, to the exclusion of all others including the Obligor, enter upon, occupy and use all or any of the premises, buildings, and other property of or used by the Obligor for such time as the Secured Creditor sees fit, free of charge, and the Secured Creditor is not liable to the Obligor for any act, omission or negligence in so doing or for any rent, charges, depreciation or damages incurred in connection with or resulting from such action;
- (g) borrow for the purpose of carrying on the business of the Obligor or for the maintenance, preservation or protection of the Collateral and grant a security interest in the Collateral, whether or not in priority to the Security Interest, to secure repayment;
- (h) commence, continue or defend any judicial or administrative proceedings for the purpose of protecting, seizing, collecting, realizing or obtaining possession or payment of the Collateral, and give good and valid receipts and discharges in respect of the Collateral and compromise or give time for the payment or performance of all or any part of the accounts or any other obligation of any third party to the Obligor; and

- (i) at any public sale, and to the extent permitted by law on any private sale, bid for and purchase any or all of the Collateral offered for sale and upon compliance with the terms of such sale, hold, retain and dispose of such Collateral without any further accountability to the Obligor or any other Person with respect to such holding, retention or disposition, except as required by law. In any such sale to the Secured Creditor, the Secured Creditor may, for the purpose of making payment for all or any part of the Collateral so purchased, use any claim for Secured Obligations then due and payable to it as a credit against the purchase price.

Section 3.4 Exercise of Remedies.

The remedies under Section 3.2 and Section 3.3 may be exercised from time to time separately or in combination and are in addition to, and not in substitution for, any other rights of the Secured Creditor however arising or created. The Secured Creditor is not bound to exercise any right or remedy, and the exercise of rights and remedies is without prejudice to the rights of the Secured Creditor in respect of the Secured Obligations including the right to claim for any deficiency.

Section 3.5 Receiver's Powers.

- (1) Any receiver appointed by the Secured Creditor is vested with the rights and remedies which could have been exercised by the Secured Creditor in respect of the Obligor or the Collateral and such other powers and discretions as are granted in the instrument of appointment and any supplemental instruments. The identity of the receiver, its replacement and its remuneration are within the sole and unfettered discretion of the Secured Creditor.
- (2) Any receiver appointed by the Secured Creditor will act as agent for the Secured Creditor for the purposes of taking possession of the Collateral, but otherwise and for all other purposes (except as provided below), as agent for the Obligor. The receiver may sell, lease, or otherwise dispose of Collateral as agent for the Obligor or as agent for the Secured Creditor as the Secured Creditor may determine in its discretion. The Obligor agrees to ratify and confirm all actions of the receiver acting as agent for the Obligor, and to release and indemnify the receiver in respect of all such actions.
- (3) The Secured Creditor, in appointing or refraining from appointing any receiver, does not incur liability to the receiver, the Obligor or otherwise and is not responsible for any misconduct or negligence of such receiver.

Section 3.6 Appointment of Attorney.

The Obligor hereby irrevocably constitutes and appoints the Secured Creditor (and any officer of the Secured Creditor) the true and lawful attorney of the Obligor.

As the attorney of the Obligor, the Secured Creditor has the power to exercise for and in the name of the Obligor with full power of substitution, upon the occurrence and during the continuance of an Event of Default, any of the Obligor's right (including the right of disposal), title and interest in and to the Collateral including the execution, endorsement, delivery and transfer of the Collateral to the Secured Creditor, its nominees or transferees, and the Secured Creditor and its nominees or transferees are hereby empowered to exercise all rights and powers and to perform all acts of ownership with respect to the Collateral to the same extent as the Obligor might do. This power of attorney is irrevocable, is coupled with an interest, has been given for valuable consideration (the receipt and adequacy of which is acknowledged) and survives, and does not terminate upon, the bankruptcy, dissolution, winding up or insolvency of the Obligor. This power of attorney extends to and is binding upon the Obligor's successors and permitted assigns. The Obligor authorizes the Secured Creditor to delegate in writing to another Person any power and authority of the Secured Creditor under this power of attorney as may be necessary or desirable in the opinion of the Secured Creditor, and to revoke or suspend such delegation. The power of attorney granted by the Obligor hereby shall automatically terminate and be of no further force or effect upon the discharge of the Security Interest in accordance with Section 5.2 hereof.

Section 3.7 Dealing with the Collateral.

- (1) The Secured Creditor is not obliged to exhaust its recourse against the Obligor or any other Person or against any other security it may hold in respect of the Secured Obligations before realizing upon or otherwise dealing with the Collateral in such manner as the Secured Creditor may consider desirable.
- (2) The Secured Creditor may grant extensions or other indulgences, take and give up securities, accept compositions, grant releases and discharges and otherwise deal with the Obligor and with other Persons, sureties or securities as it may see fit without prejudice to the Secured Obligations, the liability of the Obligor or the rights of the Secured Creditor in respect of the Collateral.
- (3) Except as otherwise provided by law or this Agreement, the Secured Creditor is not (i) liable or accountable for any failure to collect, realize or obtain payment in respect of the Collateral, (ii) bound to institute proceedings for the purpose of collecting, enforcing, realizing or obtaining payment of the Collateral or for the purpose of preserving any rights of any Persons in respect of the Collateral, (iii) responsible for any loss occasioned by any sale or other dealing with the Collateral or by the retention of or failure to sell or otherwise deal with the Collateral, or (iv) bound to protect the Collateral from depreciating in value or becoming worthless.

Section 3.8 Standards of Sale.

Without prejudice to the ability of the Secured Creditor to dispose of the Collateral in any manner which is commercially reasonable, the Obligor acknowledges that:

- (a) the Collateral may be disposed of in whole or in part;
- (b) the Collateral may be disposed of by public auction, public tender or private contract, with or without advertising and without any other formality;
- (c) any assignee of such Collateral may be the Secured Creditor or a customer of any such Person;
- (d) any sale conducted by the Secured Creditor will be at such time and place, on such notice and in accordance with such procedures as the Secured Creditor, in its sole discretion, may deem advantageous;
- (e) the Collateral may be disposed of in any manner and on any terms necessary to avoid violation of applicable law (including compliance with such procedures as may restrict the number of prospective bidders and purchasers, require that the prospective bidders and purchasers have certain qualifications, and restrict the prospective bidders and purchasers to Persons who will represent and agree that they are purchasing for their own account for investment and not with a view to the distribution or resale of the Collateral) or in order to obtain any required approval of the disposition (or of the resulting purchase) by any governmental or regulatory authority or official;
- (f) a disposition of the Collateral may be on such terms and conditions as to credit or otherwise as the Secured Creditor, in its sole discretion, may deem advantageous; and
- (g) the Secured Creditor may establish an upset or reserve bid or price in respect of the Collateral.

Section 3.9 Dealings by Third Parties.

- (1) No Person dealing with the Secured Creditor or an agent or receiver is required to determine (i) whether the Security Interest has become enforceable, (ii) whether the powers which such Person is purporting to exercise have become exercisable, (iii) whether any money remains due to the Secured Creditor by the Obligor, (iv) the necessity or expediency of the stipulations and conditions subject to which any sale or lease is made, (v) the propriety or regularity of any sale or other dealing by the Secured Creditor

with the Collateral, or (vi) how any money paid to Secured Creditor has been applied.

- (2) Any bona fide purchaser of all or any part of the Collateral from the Secured Creditor or any receiver or agent will hold the Collateral absolutely, free from any claim or right of whatever kind, including any equity of redemption, of the Obligor, which it specifically waives (to the fullest extent permitted by law) as against any such purchaser together with all rights of redemption, stay or appraisal which the Obligor has or may have under any rule of law or statute now existing or hereafter adopted.

ARTICLE 4 REPRESENTATIONS, WARRANTIES AND COVENANTS

Section 4.1 General Representations, Warranties and Covenants.

The Obligor represents and warrants and covenants and agrees, acknowledging and confirming that the Secured Creditor is relying on such representations, warranties, covenants and agreements, that:

- (a) **Continuous Perfection.** Schedule C sets out the Obligor's place of business or, if more than one, the Obligor's chief executive office. Such place of business or chief executive office, as the case may be, has been located at such address for the 60 days immediately preceding the date of this Agreement. Schedule C also sets out the address at which the books and records of the Obligor are located, the address at which senior management of the Obligor are located and conduct their deliberations and make their decisions with respect to the business of the Obligor and the address from which the invoices and accounts of the Obligor are issued. The Obligor will not change the location of any of these items, people or addresses without providing at least 30 days prior written notice to the Secured Creditor. Except for sales of inventory made in the ordinary course of business, the Collateral, to the extent not delivered to the Collateral Agent pursuant to Section 2.3(3), has been kept for the 60 days immediately preceding the date of this Agreement and will be kept at those locations listed on Schedule C, and the Obligor will not remove the Collateral from such locations, without providing at least 30 days prior written notice to the Secured Creditor. The Obligor will not change its name in any manner without providing at least 30 days prior written notice to the Secured Creditor.

- (b) **Restriction on Disposition.** The Obligor will not sell, assign, convey, exchange, lease, release or abandon, or otherwise dispose of, any Collateral except as expressly permitted in the Secured Debenture.
- (c) **Negative Pledge.** The Obligor will not create or suffer to exist, any Lien on the Collateral, except for Liens permitted by the Secured Debenture.
- (d) **Account Debtors.** None of the account debtors in respect of any accounts, chattel paper or intangibles and none of the obligors in respect of any Instruments included in the Collateral as of the date hereof is (i) a Governmental Entity, or (ii) in the case of any account in excess of \$100,000, is located outside of Canada or the United States of America.
- (e) **Securities and Instruments.**
 - (i) Schedule A lists all Securities and Instruments owned or held by the Obligor on the date of this Agreement and all such Securities are represented by certificated securities.
 - (ii) Securities that are Collateral have been, where applicable, duly and validly issued and acquired and are fully paid and non-assessable. Schedule A sets out, for each class of Securities listed in the schedule, the percentage amount that such Securities represent of all issued and outstanding Securities of that class.
 - (iii) Except as described in Schedule A, no transfer restrictions apply to the Securities and Instruments listed in Schedule A. The Obligor has delivered to the Secured Creditor copies of all shareholder, partnership or trust agreements applicable to each issuer of such Securities and Instruments which are in the Obligor's possession or control.
 - (iv) No Person has or will have any written or oral option, warrant, right, call, commitment, conversion right, right of exchange or other agreement or any right or privilege (whether by law, preemptive or contractual) capable of becoming an option, warrant, right, call, commitment, conversion right, right of exchange or other agreement to acquire any right or interest in any of the Securities and Instruments that are Collateral.

- (v) The Securities that are Collateral constitute, where applicable, the legal, valid and binding obligation of the obligor of such Securities, enforceable in accordance with their terms, subject only to any limitation under applicable laws relating to (i) bankruptcy, insolvency, fraudulent conveyance, arrangement, reorganization or creditors' rights generally, and (ii) the discretion that a court may exercise in the granting of equitable remedies.
- (vi) The pledge, assignment and delivery to the Secured Creditor of the Collateral consisting of certificated Securities pursuant to this Agreement creates a valid and perfected first ranking security interest in such certificated Securities, and the proceeds of them. Such Securities and the proceeds from them are not subject to any prior Lien or any agreement purporting to grant to any third party a Lien on the property or assets of the Obligor which would include the Securities except for Permitted Encumbrances. The Secured Creditor is entitled to all the rights, priorities and benefits afforded by the *Personal Property Security Act* (Ontario) or other relevant personal property security legislation as enacted in any relevant jurisdiction to perfect security interests in respect of such Collateral.
- (f) **Status of Accounts Collateral.** The Obligor will maintain books and records pertaining to the Collateral in such detail, form and scope as the Secured Creditor reasonably requires, and keep all originals of the chattel paper which evidence accounts at locations specified on Schedule B. The Obligor will immediately notify the Secured Creditor if any account in excess of \$500,000 arises out of contracts with any Governmental Entity, and execute any instruments and take any steps required by the Secured Creditor in order that all moneys due or to become due under the contract are assigned to the Secured Creditor and notice of such assignment is given to the Governmental Entity. The Obligor will also immediately notify the Secured Creditor if any account in excess of \$500,000 is with an account debtor located outside of Canada or the United States of America.
- (g) **Additional Security Perfection and Protection of Security Interest.** The Obligor will grant to the Secured Creditor, security interests, assignments, mortgages, charges, hypothecations and pledges in such property and undertaking of the Obligor that is not subject to a valid and perfected first ranking security interest (subject only to Permitted Liens) constituted by the Security Documents, in each relevant

jurisdiction as determined by the Secured Creditor. The Obligor will perform all acts, execute and deliver all agreements, documents and instruments and take such other steps as are requested by the Secured Creditor at any time to register, file, signify, publish, perfect, maintain, protect, and enforce the Security Interest including: (i) executing, recording and filing of financing or other statements, and paying all taxes, fees and other charges payable, (ii) placing notations on its books of account to disclose the Security Interest, (iii) delivering acknowledgements, confirmations and subordinations that may be necessary to ensure that the Security Documents constitute a valid and perfected first ranking security interest (subject only to Permitted Liens), (iv) executing and delivering any agreements, documents and instruments that may be needed under or in connection with the *Securities Transfer Act* (Ontario) and (v) delivering opinions of counsel in respect of matters contemplated by this paragraph. The documents and opinions contemplated by this paragraph must be in form and substance satisfactory to the Secured Creditor.

Section 4.2 Representations, Warranties and Covenants Concerning Intellectual Property.

The Obligor represents and warrants and covenants and agrees, acknowledging and confirming that the Secured Creditor is relying on such representations, warranties, covenants and agreements, that:

- (a) Schedule B lists all Registrable Intellectual Property that is owned by the Obligor on the date of this Agreement.
- (b) All Registrable Intellectual Property of the Obligor is valid, subsisting, unexpired and enforceable, has not been abandoned and, to the knowledge of the Obligor, does not infringe the Intellectual Property rights of any other Person.
- (c) No decision or judgment has been rendered by any Governmental Entity which would limit, cancel or question the validity of, or the Obligor's rights in, any Intellectual Property in any respect.
- (d) No action or proceeding is pending, or, to the knowledge of the Obligor, threatened, on the date hereof seeking to limit, cancel or question the validity of any Intellectual Property or the Obligor's ownership interest therein, or which, if adversely determined, would have a Material adverse effect on the value of any Intellectual Property.

- (e) The Obligor will take all reasonable and necessary steps, including in any proceeding before the Canadian Intellectual Property Office or any similar Governmental Entity of any jurisdiction, to maintain and pursue each application (and to obtain the relevant registration) and to maintain each registration of the material Registrable Intellectual Property, including, without limitation, filing of applications for renewal, affidavits of use and affidavits of incontestability.
- (f) In the event that any material Intellectual Property of the Obligor is infringed, misappropriated or diluted by a third party, the Obligor will
 - (i) take such actions as the Obligor reasonably deems appropriate under the circumstances to protect such Intellectual Property and
 - (ii) if such Intellectual Property is of material economic value, promptly notify the Secured Creditor after it learns thereof and sue for infringement, misappropriation or dilution, to seek injunctive relief where appropriate and to recover any and all damages for such infringement, misappropriation or dilution.
- (g) Immediately upon the request of the Secured Creditor, the Obligor will furnish the Secured Creditor in writing the description of all Registrable Intellectual Property or applications for Registrable Intellectual Property of the Obligor. In addition, the Obligor will deliver to the Secured Creditor a copy of the certificate of registration of, or application for, such Registrable Intellectual Property with a Confirmation of Security Interest in the form of Schedule D in respect of such Registrable Intellectual Property confirming the assignment for security of such Registrable Intellectual Property to the Secured Creditor and immediately make all such filings, registrations and recordings as are necessary or appropriate to perfect the Security Interest granted to the Secured Creditor in the Registrable Intellectual Property.

ARTICLE 5 GENERAL

Section 5.1 Notices.

Any notice, direction or other communication (each a "Notice") given regarding the matters contemplated by this Agreement must be in writing, sent by personal delivery, courier or facsimile (but not by electronic mail) and addressed:

(a) to the Secured Creditor at:

WF Fund III Limited Partnership
161 Bay Street
Suite 2520
Toronto, ON M5J 2S1

Attention: Mark McQueen
Facsimile: 416-682-1160

with a copy to:

Minden Gross LLP
145 King Street West
Suite 2200
Toronto, ON M5H 4G2

Attention: Daniel Rothberg
Facsimile: 416-864-9223

(b) to the Obligor at:

Tercon Investments Ltd.
#100 - 2079 Falcon Road
Kamloops, BC V2C 4J2

Attention: Mr. Milan Soucek
Facsimile: (250) 372-1555

A Notice is deemed to be delivered and received (i) if sent by personal delivery, on the date of delivery if it is a Business Day and the delivery was made prior to 4:00 p.m. (local time in place of receipt) and otherwise on the next Business Day, (ii) if sent by same-day service courier, on the date of delivery if sent on a Business Day and delivery was made prior to 4:00 p.m. (local time in place of receipt) and otherwise on the next Business Day, (iii) if sent by overnight courier, on the next Business Day, or (iv) if sent by facsimile, on the Business Day following the date of confirmation of transmission by the originating facsimile. A party may change its address for service from time to time by providing a Notice in accordance with the foregoing. Any subsequent Notice must be sent to the party at its changed address. Any element of a party's address that is not specifically changed in a Notice will be assumed not to be changed.

Section 5.2 Discharge.

The Security Interest will not be discharged except by a written release or discharge signed by the Secured Creditor. The Obligor will be entitled to require a discharge by notice to the Secured Creditor upon, but only upon, (i) full and indefeasible payment and performance of the Secured Obligations and (ii) the Secured Creditor having no obligations under any Credit Document. Upon discharge of the Security Interest and at the request and expense of the Obligor, the Secured Creditor will execute and deliver to the Obligor such financing statements and other documents or instruments as the Obligor may reasonably require and the Secured Creditor will redeliver to the Obligor, or as the Obligor may otherwise direct the Secured Creditor, any Collateral in its possession.

Section 5.3 No Merger, Survival of Representations and Warranties.

This Agreement does not operate by way of merger of any of the Secured Obligations and no judgment recovered by the Secured Creditor will operate by way of merger of, or in any way affect, the Security Interest, which is in addition to, and not in substitution for, any other security now or hereafter held by the Secured Creditor in respect of the Secured Obligations. The representations, warranties and covenants of the Obligor in this Agreement survive the execution and delivery of this Agreement and any advances under the Secured Debenture. Notwithstanding any investigation made by or on behalf of the Secured Creditor these covenants, representations and warranties continue in full force and effect.

Section 5.4 Further Assurances.

The Obligor will do all acts and things and execute and deliver, or cause to be executed and delivered, all agreements, documents and instruments that the Secured Creditor may require and take all further steps relating to the Collateral or any other property or assets of the Obligor that the Secured Creditor may require, including any agreements, documents or instruments required under or in connection with the *Securities Transfer Act (Ontario)* for (i) protecting the Collateral, (ii) perfecting the Security Interest, and (iii) exercising all powers, authorities and discretions conferred upon the Secured Creditor. After the Security Interest becomes enforceable, the Obligor will do all acts and things and execute and deliver all documents and instruments that the Secured Creditor may require for facilitating the sale or other disposition of the Collateral in connection with its realization.

Section 5.5 Supplemental Security.

This Agreement is in addition to, without prejudice to and supplemental to all other security now held or which may hereafter be held by the Secured Creditor.

Section 5.6 Successors and Assigns.

This Agreement is binding on the Obligor and its successors and assigns, and enures to the benefit of the Secured Creditor and its successors and assigns. This Agreement may be assigned by the Secured Creditor without the consent of, or notice to, the Obligor, to such Person as the Secured Creditor may determine and, in such event, such Person will be entitled to all of the rights and remedies of the Secured Creditor as set forth in this Agreement or otherwise. In any action brought by an assignee to enforce any such right or remedy, the Obligor will not assert against the assignee any claim or defence which the Obligor now has or may have against the Secured Creditor. The Obligor may not assign, transfer or delegate any of its rights or obligations under this Agreement without the prior written consent of the Secured Creditor which may be unreasonably withheld.

Section 5.7 Amalgamation.

The Obligor acknowledges and agrees that in the event it amalgamates with any other corporation or corporations, it is the intention of the parties that the Security Interest (i) subject to Section 2.4, extends to: (A) all of the property and undertaking that any of the amalgamating corporations then owns, (B) all of the property and undertaking that the amalgamated corporation thereafter acquires, (C) all of the property and undertaking in which any of the amalgamating corporations then has any interest and (D) all of the property and undertaking in which the amalgamated corporation thereafter acquires any interest; and (ii) secures the payment and performance of all debts, liabilities and obligations, present or future, direct or indirect, absolute or contingent, matured or unmatured, at any time or from time to time due or accruing due and owing by or otherwise payable by each of the amalgamating corporations and the amalgamated corporation to the Secured Creditor in any currency, however or wherever incurred, and whether incurred alone or jointly with another or others and whether as principal, guarantor or surety and whether incurred prior to, at the time of or subsequent to the amalgamation. The Security Interest attaches to the additional collateral at the time of amalgamation and to any collateral thereafter owned or acquired by the amalgamated corporation when such becomes owned or is acquired. Upon any such amalgamation, the defined term "Obligor" means, collectively, each of the amalgamating corporations and the amalgamated corporation, the defined term "Collateral" means all of the property and undertaking and interests described in (i) above, and the defined term "Secured Obligations" means the obligations described in (ii) above.

Section 5.8 Severability.

If any court of competent jurisdiction from which no appeal exists or is taken, determines any provision of this Agreement to be illegal, invalid or unenforceable,

that provision will be severed from this Agreement and the remaining provisions will remain in full force and effect.

Section 5.9 Amendment.

This Agreement may only be amended, supplemented or otherwise modified by written agreement executed by the Secured Creditor and the Obligor.

Section 5.10 Waivers, etc.

- (1) No consent or waiver by the Secured Creditor in respect of this Agreement is binding unless made in writing and signed by an authorized officer of the Secured Creditor. Any consent or waiver given under this Agreement is effective only in the specific instance and for the specific purpose for which given. No waiver of any of the provisions of this Agreement constitutes a waiver of any other provision.
- (2) A failure or delay on the part of the Secured Creditor in exercising a right under this Agreement does not operate as a waiver of, or impair, any right of the Secured Creditor however arising. A single or partial exercise of a right on the part of the Secured Creditor does not preclude any other or further exercise of that right or the exercise of any other right by the Secured Creditor.

Section 5.11 Application of Proceeds of Security.

All monies collected by the Secured Creditor upon the enforcement of its rights and remedies under the Security Documents and the Liens created by them including any sale or other disposition of the Collateral, together with all other monies received by the Secured Creditor under the Security Documents, will be applied as provided in the Secured Debenture. To the extent any other Credit Document requires proceeds of collateral under such Credit Document to be applied in accordance with the provisions of this Agreement, the Secured Creditor shall apply such proceeds in accordance with this Section.

Section 5.12 Conflict.

In the event of any conflict between one or more provisions of this Agreement, the provisions of the Secured Debenture and the provisions of the Operating Loan Agreement which cannot be resolved by all such provisions being complied with, the provisions contained in the Secured Debenture will prevail to the extent of such conflict.

Section 5.13 Governing Law.

This Agreement will be governed by, interpreted and enforced in accordance with the laws of the Province of Ontario and the federal laws of Canada applicable therein.

Section 5.14 Termination, Survival.

Upon discharge of the Security Interest pursuant to Section 5.2 hereof, this Agreement shall automatically terminate. The provisions of Article 5 shall survive any termination of this Agreement.

IN WITNESS WHEREOF the Obligor has executed this Agreement.

TERCON INVESTMENTS LTD.

Per:



Authorized Signing Officer

#1263953 v1 | 4061837

TERCON MRC LIMITED

as Obligor

and

**WF FUND III LIMITED PARTNERSHIP,
carrying on business as WELLINGTON FINANCIAL LP
AND WELLINGTON FINANCIAL FUND III**

as Secured Creditor

SECURITY AGREEMENT

October 1, 2007

SECURITY AGREEMENT

Security agreement dated as of October 1, 2007 made by Tercon MRC Limited to and in favour of WF Fund III Limited Partnership, carrying on business as Wellington Financial LP and Wellington Financial Fund III.

RECITALS:

- (a) The Borrower is or will become indebted or liable to the Secured Creditor pursuant to its Series A Secured Debentures in the aggregate principal amount of \$5,000,000.00 (Cdn.) dated October 1, 2007 (as the same may be amended, restated, supplemented or replaced from time to time, the "Secured Debenture") and pursuant to an Operating Loan Agreement between the Borrower and the Secured Party dated October 1, 2007 (as the same may be amended, restated, supplemented or replaced from time to time, the "Operating Loan Agreement");
- (b) To secure the due performance of the Borrower's obligations to the Secured Creditor under *inter alia* the Secured Debenture and the Operating Loan Agreement, the Obligor has entered into a form of Guarantee dated October 1, 2007 in favor of the Secured Creditor (as the same may be amended, restated, supplemented or replaced from time to time, the "Guarantee"); and
- (c) Pursuant to Section 4.1 of the Secured Debenture, the Obligor is required to execute and deliver this Agreement in favour of the Secured Creditor.

In consideration of the foregoing and other good and valuable consideration, the receipt and adequacy of which are acknowledged, the Obligor agrees as follows.

ARTICLE 1 INTERPRETATION

Section 1.1 Defined Terms.

As used in this Agreement, the following terms have the following meanings:

"Agreement" means this security agreement.

"Borrower" means Tercon Investments Ltd.

"Collateral" has the meaning specified in Section 2.1.

"Credit Documents" means the Secured Debenture, the Operating Loan Agreement, this Agreement and each other Security Document (as such term is defined in the Secured Debenture).

"Event of Default" has the meaning ascribed thereto in the Guarantee;

"Expenses" has the meaning specified in Section 2.2(b).

"Governmental Entity" means any international tribunal, agency, body commission or other authority, any government, executive, parliament, legislature or local authority, or any governmental entity, ministry, department or agency or regulatory authority, court, tribunal, commission or board of or within Canada, or any other foreign jurisdiction, or any political subdivision of any thereof or any authority having jurisdiction therein or any quasi governmental or private body exercising any regulatory, expropriation or taxing authority under or for the account of any of the above.

"Instruments" means (i) a bill, note or cheque within the meaning of the *Bills of Exchange Act* (Canada) or any other writing that evidences a right to the payment of money and is of a type that in the ordinary course of business is transferred by delivery with any necessary endorsement or assignment, or (ii) a letter of credit and an advice of credit if the letter or advice states that it must be surrendered upon claiming payment thereunder, or (iii) chattel paper or any other writing that evidences both a monetary obligation and a security interest in or a lease of specific goods, or (iv) documents of title or any other writing that purports to be issued by or addressed to a bailee and purports to cover such goods in the bailee's possession as are identified or fungible portions of an identified mass, and that in the ordinary course of business is treated as establishing that the Person in possession of it is entitled to receive, hold and dispose of the document and the goods it covers, or (v) any document or writing commonly known as an instrument.

"Intellectual Property" means domestic and foreign: (i) patents, applications for patents and reissues, divisions, continuations, renewals, extensions and continuations-in-part of patents or patent applications; (ii) proprietary and non-public business information, including inventions (whether patentable or not), invention disclosures, improvements, discoveries, trade secrets, confidential information, know-how, methods, processes, designs, technology, technical data, schematics, formulae and customer lists, and documentation relating to any of the foregoing; (iii) copyrights, copyright registrations and applications for copyright registration; (iv) mask works, mask work registrations and applications for mask work registrations; (v) designs, design registrations, design registration applications and integrated circuit topographies; (vi) trade names, business names, corporate names, domain names, website names and world wide web addresses, common law trade-marks, trade-mark registrations, trade-mark applications, trade dress and

logos, and the goodwill associated with any of the foregoing; (vii) computer software and programs (both source code and object code form), all proprietary rights in the computer software and programs and all documentation and other materials related to the computer software and programs; and (viii) any other intellectual property and industrial property.

"Lien" means (i) any mortgage, charge, pledge, hypothecation, security interest, assignment by way of security, encumbrance, lien (statutory or otherwise), hire purchase agreement, conditional sale agreement, deposit arrangement, title retention agreement or arrangement, or any other assignment, arrangement or condition that in substance secures payment or performance of an obligation, (ii) any trust arrangement, (iii) any arrangement which creates a right of set-off out of the ordinary course of business, or (iv) any agreement to grant any such rights or interests.

"Obligor" means Tercon MRC Limited, a corporation incorporated and existing under the laws of British Columbia, and its successors and permitted assigns.

"Registrable Intellectual Property" means any Intellectual Property in respect of which ownership, title, security interests, charges or encumbrances are capable of registration, recording or notation with any Governmental Entity pursuant to applicable laws.

"Restricted Asset" has the meaning specified in Section 2.4(1).

"Secured Creditor" means WF Fund III Limited Partnership, carrying on business as Wellington Financial LP and Wellington Financial Fund III and its successors and assigns.

"Secured Obligations" has the meaning specified in Section 2.2(a).

"Security" means an obligation of an issuer or a share, participation or other interest in an issuer or in property or an enterprise of an issuer,

- (a) that is represented by a security certificate in bearer form or registered form, or the transfer of which may be registered on books maintained for that purpose by or on behalf of the issuer,
- (b) that is one of a class or series, or by its terms is divisible into a class or series, of shares, participations, interests or obligations, and
- (c) that,
 - (i) is, or is of a type, dealt in or traded on securities exchanges or securities markets, or

- (ii) is a medium for investment and by its terms expressly provides that it is a security for the purposes of the *Securities Transfer Act* (Ontario);

but excludes

- (d) any ULC Shares.

"Security Interest" has the meaning specified in Section 2.2.

"ULC Shares" means shares in any unlimited company or unlimited liability corporation at any time owned or otherwise held by the Obligor.

Section 1.2 Interpretation.

- (1) Terms defined in the *Personal Property Security Act* (Ontario) or the *Securities Transfer Act* (Ontario) and used but not otherwise defined in this Agreement have the same meanings.
- (2) Capitalized terms used in this Agreement but not defined have the meanings given to them in the Secured Debenture.
- (3) Any reference in any Credit Document to Liens permitted by the Secured Debenture and any right of the Obligor to create or suffer to exist Liens permitted by the Secured Debenture are not intended to and do not and will not subordinate the Security Interest to any such Lien or give priority to any Person over the Secured Creditor.
- (4) In this Agreement the words **"including"**, **"includes"** and **"include"** mean **"including (or includes or include) without limitation"**. The expressions **"Article"**, **"Section"** and other subdivision followed by a number mean and refer to the specified Article, Section or other subdivision of this Agreement.
- (5) Any reference in this Agreement to gender includes all genders. Words importing the singular number only include the plural and vice versa.
- (6) The division of this Agreement into Articles, Sections and other subdivisions and the insertion of headings are for convenient reference only and do not affect its interpretation.
- (7) The schedules attached to this Agreement form an integral part of it for all purposes of it.
- (8) Except as otherwise provided in this Agreement, any reference to this Agreement, any Credit Document or any Security Document refers to this Agreement or such Credit Document or Security Document as the same may

have been or may from time to time be amended, modified, extended, renewed, restated, replaced or supplemented and includes all schedules attached to it. Except as otherwise provided in this Agreement, any reference in this Agreement to a statute refers to such statute and all rules and regulations made under it as the same may have been or may from time to time be amended or re-enacted.

ARTICLE 2 SECURITY

Section 2.1 Grant of Security.

Subject to Section 2.4, the Obligor grants to the Secured Creditor, a security interest in, and assigns, mortgages, charges, hypothecates and pledges to the Secured Creditor, all of the property and undertaking of the Obligor now owned or hereafter acquired and all of the property and undertaking in which the Obligor now has or hereafter acquires any interest (collectively, the "Collateral") including all of the Obligor's:

- (a) present and after-acquired personal property;
- (b) inventory including goods held for sale, lease or resale, goods furnished or to be furnished to third parties under contracts of lease, consignment or service, goods which are raw materials or work in process, goods used in or procured for packing and materials used or consumed in the business of the Obligor;
- (c) equipment, machinery, furniture, fixtures, plant, vehicles and other goods of every kind and description and all licences and other rights and all related records, files, charts, plans, drawings, specifications, manuals and documents;
- (d) accounts due or accruing and all related agreements, books, accounts, invoices, letters, documents and papers recording, evidencing or relating to them;
- (e) money, documents of title and chattel paper;
- (f) Instruments and Securities, including the Instruments and Securities listed in Schedule A;
- (g) intangibles including all security interests, goodwill, choses in action, contracts, contract rights, licenses and other contractual benefits;

- (h) Intellectual Property including the Registrable Intellectual Property listed in Schedule B;
- (i) all substitutions and replacements of and increases, additions and, where applicable, accessions to the property described in Section 2.1(a) through Section 2.1(h) inclusive; and
- (j) all proceeds in any form derived directly or indirectly from any dealing with all or any part of the property described in Section 2.1(a) through Section 2.1(i) inclusive, including the proceeds of such proceeds.

Section 2.2 Secured Obligations.

The security interest, assignment, mortgage, charge, hypothecation and pledge granted by this Agreement (collectively, the "Security Interest") secures the payment and performance of:

- (a) all debts, liabilities and obligations, present or future, direct or indirect, absolute or contingent, matured or unmatured, at any time or from time to time due or accruing due and owing by or otherwise payable by the Obligor to the Secured Creditor in any currency, however or wherever incurred, and whether incurred by the Obligor alone or jointly with another or others and whether as principal, guarantor or surety and in whatever name or style (collectively, and together with the Expenses, the "Secured Obligations"); and
- (b) all expenses, costs and charges incurred by or on behalf of the Secured Creditor in connection with this Agreement, the Security Interest or the Collateral, including all legal fees, court costs, receiver's or agent's remuneration and other expenses of taking possession of, repairing, protecting, insuring, preparing for disposition, realizing, collecting, selling, transferring, delivering or obtaining payment for the Collateral, and of taking, defending or participating in any action or proceeding in connection with any of the foregoing matters or otherwise in connection with the Secured Creditor's interest in any Collateral, whether or not directly relating to the enforcement of this Agreement or any other Credit Document (collectively, the "Expenses").

Section 2.3 Attachment.

- (1) The Obligor acknowledges that (i) value has been given, (ii) it has rights in the Collateral (other than after-acquired Collateral), (iii) it has not agreed to

postpone the time of attachment of the Security Interest, and (iv) it has received a copy of this Agreement.

- (2) The Obligor shall not permit any of the Securities at any time to be or to become uncertificated securities.
- (3) The Obligor delivers to and deposits with the Secured Creditor any and all certificates evidencing the Securities listed in Schedule A, together with, in each case, a stock power duly endorsed in blank for transfer and an irrevocable directors or other applicable resolution of entity in from which the Securities are issued, consenting to the transfer by the Obligor and the Obligor hereby grants control over such Securities to the Secured Creditor in accordance with the provisions of the *Securities Transfer Act* (Ontario). The Obligor also delivers to and deposits with the Secured Creditor any promissory note or other Instruments evidencing any amount payable in excess of \$100,000 or evidencing any rights to goods having a value in excess of \$100,000.
- (4) If the Obligor acquires any Securities or any Instruments (other than Instruments evidencing amounts payable of less than \$100,000 or evidencing any rights to goods having a value less than \$100,000), the Obligor will notify the Secured Creditor in writing and provide the Secured Creditor with a revised Schedule A recording the acquisition and particulars of such Instruments or Securities within 5 days after such acquisition. Upon request by the Secured Creditor, the Obligor will promptly deliver to and deposit with the Secured Creditor, or cause the Secured Creditor to have control over, such Securities or Instruments (other than Instruments evidencing amounts payable of less than \$100,000 or evidencing any rights to goods having a value less than \$100,000) as security for the Secured Obligations. The Obligor will also promptly inform the Secured Creditor in writing of the acquisition by the Obligor of any ULC Shares.
- (5) At the request of the Secured Creditor the Obligor will (i) cause the transfer of any Securities or Instruments to the Secured Creditor to be registered wherever such registration may be required or advisable in the reasonable opinion of the Secured Creditor, (ii) duly endorse any such Securities or Instruments for transfer in blank or register them in the name of the Secured Creditor or its nominee or otherwise as the Secured Creditor may reasonably direct, (iii) immediately deliver to the Secured Creditor any and all consents or other documents which may be necessary to effect the transfer of any such Securities or Instruments to the Secured Creditor or any third party and (iv) deliver to or otherwise cause the Secured Creditor to have control over such Securities or Instruments in accordance with the provisions of the *Securities*

Transfer Act (Ontario). Upon the discharge of the Security Interest in accordance with Section 5.2 hereof, the Secured Creditor shall promptly cause all Securities or Instruments transferred to it or to any third party pursuant to this Section 2.3(5) to be transferred back to the Obligor including duly endorsing any such Securities or Instruments for transfer back to the Obligor and delivering to the Obligor any and all consents or other documents which may be necessary to effect the transfer of any such Securities or Instruments to the Obligor.

- (6) The Obligor will promptly notify the Secured Creditor in writing of the acquisition by the Obligor of any Registrable Intellectual Property. The Obligor will provide the Secured Creditor with a revised Schedule B recording the acquisition and particulars of such additional Intellectual Property.

Section 2.4 Scope of Security Interest.

- (1) To the extent that an assignment of amounts payable and other proceeds arising under or in connection with, or the grant of a security interest in any agreement, licence, permit or quota of the Obligor would result in the termination of such agreement, licence, permit or quota (each, a "Restricted Asset"), the Security Interest with respect to each Restricted Asset will constitute a trust created in favour of the Secured Creditor pursuant to which the Obligor holds as trustee all proceeds arising under or in connection with the Restricted Asset in trust for the Secured Creditor on the following basis:
 - (a) until the Security Interest is enforceable and subject to the Secured Debenture, the Obligor is entitled to receive all such proceeds; and
 - (b) whenever the Security Interest is enforceable, (i) all rights of the Obligor to receive such proceeds cease and all such proceeds will be immediately paid over to the Secured Creditor and (ii) the Obligor will take all actions requested by the Secured Creditor to collect and enforce payment and other rights arising under the Restricted Asset.

The Obligor will use all commercially reasonable efforts to obtain the consent of each other party to any and all Restricted Assets to the assignment of such Restricted Asset to the Secured Creditor in accordance with this Agreement. The Obligor will also use all commercially reasonable efforts to ensure that all agreements entered into on and after the date of this Agreement expressly permit assignments of the benefits of such agreements as collateral security to the Secured Creditor in accordance with the terms of this Agreement.

- (2) The Security Interest with respect to trade-marks constitutes a security interest in, and a charge, hypothecation and pledge of, such Collateral in

favour of the Secured Creditor, but does not constitute an assignment or mortgage of such Collateral to the Secured Creditor.

- (3) Until the Security Interest is enforceable, the grant of the Security Interest in the Intellectual Property does not affect in any way the Obligor's rights to commercially exploit the Intellectual Property, defend it, enforce the Obligor's rights in it or with respect to it against third parties in any court or claim and be entitled to receive any damages with respect to any infringement of it.
- (4) The Security Interest does not extend to consumer goods or ULC Shares.
- (5) The Security Interest does not extend or apply to the last day of the term of any lease or sublease of real property or any agreement for a lease or sublease of real property, now held or hereafter acquired by the Obligor, but the Obligor will stand possessed of any such last day upon trust to assign and dispose of it as the Secured Creditor may reasonably direct.

Section 2.5 Grant of Licence to Use Intellectual Property.

At such time as the Secured Creditor is lawfully entitled to exercise its rights and remedies under Article 3, the Obligor grants to the Secured Creditor an irrevocable, nonexclusive licence (exercisable without payment of royalty or other compensation to the Obligor) to use, assign or sublicense any Intellectual Property in which the Obligor has rights wherever the same may be located, including in such licence access to (i) all media in which any of the licensed items may be recorded or stored, and (ii) all software and computer programs used for compilation or print-out. The license granted under this Section is to enable the Secured Creditor to exercise its rights and remedies under Article 3 and for no other purpose.

Section 2.6 Care and Custody of Collateral.

- (1) The Secured Creditor has no obligation to keep Collateral in its possession identifiable.
- (2) The Secured Creditor may, after the Security Interest is enforceable, (i) notify any Person obligated on an Instrument, Security or account to make payments to the Secured Creditor, whether or not the Obligor was previously making collections on such accounts, chattel paper, instruments, and (ii) assume control of any proceeds arising from the Collateral.
- (3) The Secured Creditor has no obligation to collect dividends, distributions or interest payable on, or exercise any option or right in connection with, any Securities or Instruments. The Secured Creditor has no obligation to protect or preserve any Securities or Instruments from depreciating in value or becoming worthless and is released from all responsibility for any loss of

value. In the physical keeping of any Securities, the Secured Creditor is only obliged to exercise the same degree of care as it would exercise with respect to its own Securities kept at the same place.

Section 2.7 Rights of the Obligor.

- (1) Until the Security Interest is enforceable, the Obligor is entitled to vote the Securities that are part of the Collateral and to receive all dividends and distributions on such Securities. In order to allow the Obligor to vote any Securities registered in the Secured Creditor's name or the name of its nominee, at the request and the expense of the Obligor, the Secured Creditor will, prior to the Security Interest being enforceable, and may, after the Security Interest is enforceable, execute valid proxies appointing proxyholders to attend and act at meetings of shareholders, and execute resolutions in writing, all pursuant to the relevant provisions of the issuer's governing legislation. Whenever the Security Interest is enforceable, all rights of the Obligor to vote (under any proxy given by the Secured Creditor (or its nominee) or otherwise) or to receive distributions or dividends cease and all such rights become vested solely and absolutely in the Secured Creditor.
- (2) Any distributions or dividends received by the Obligor contrary to Section 2.7(1) or any other moneys or property received by the Obligor after the Security Interest is enforceable will be received as trustee for the Secured Creditor and shall be immediately paid over to the Secured Creditor.

Section 2.8 Expenses.

The Obligor is liable for and will pay on demand by the Secured Creditor any and all Expenses.

**ARTICLE 3
ENFORCEMENT**

Section 3.1 Enforcement.

The Security Interest becomes and is enforceable against the Obligor upon the occurrence and during the continuance of an Event of Default.

Section 3.2 Remedies.

Whenever the Security Interest is enforceable, the Secured Creditor may realize upon the Collateral and enforce the rights of the Secured Creditor by:

- (a) entry onto any premises where Collateral consisting of tangible personal property may be located;

- (b) entry into possession of the Collateral by any method permitted by law;
- (c) sale, grant of options to purchase, or lease of all or any part of the Collateral;
- (d) holding, storing and keeping idle or operating all or any part of the Collateral;
- (e) exercising and enforcing all rights and remedies of a holder of the Securities and Instruments as if the Secured Creditor were the absolute owner thereof (including, if necessary, causing the Collateral to be registered in the name of the Secured Creditor or its nominee if not already done);
- (f) collection of any proceeds arising in respect of the Collateral;
- (g) collection, realization or sale of, or other dealing with, accounts;
- (h) license or sublicense, whether on an exclusive or nonexclusive basis, of any Intellectual Property for such term and on such conditions and in such manner as the Secured Creditor in its sole judgment determines (taking into account such provisions as may be necessary to protect and preserve such Intellectual Property);
- (i) instruction to any bank which has entered into a control agreement with the Secured Creditor to transfer all moneys, Securities and Instruments held by such depository bank to an account maintained with or by the Secured Creditor;
- (j) application of any moneys constituting Collateral or proceeds thereof in accordance with Section 5.11;
- (k) appointment by instrument in writing of a receiver (which term as used in this Agreement includes a receiver and manager) or agent of all or any part of the Collateral and removal or replacement from time to time of any receiver or agent;
- (l) institution of proceedings in any court of competent jurisdiction for the appointment of a receiver of all or any part of the Collateral;
- (m) institution of proceedings in any court of competent jurisdiction for sale or foreclosure of all or any part of the Collateral;

- (n) filing of proofs of claim and other documents to establish claims to the Collateral in any proceeding relating to the Obligor; and
- (o) any other remedy or proceeding authorized or permitted under the *Personal Property Security Act* (Ontario) or otherwise by law or equity.

Section 3.3 Additional Rights.

In addition to the remedies set forth in Section 3.2 and elsewhere in this Agreement, whenever the Security Interest is enforceable, the Secured Creditor may:

- (a) require the Obligor, at the Obligor's expense, to assemble the Collateral at a place or places designated by notice in writing and the Obligor agrees to so assemble the Collateral immediately upon receipt of such notice;
- (b) require the Obligor, by notice in writing, to disclose to the Secured Creditor the location or locations of the Collateral and the Obligor agrees to promptly make such disclosure when so required;
- (c) repair, process, modify, complete or otherwise deal with the Collateral and prepare for the disposition of the Collateral, whether on the premises of the Obligor or otherwise;
- (d) redeem any prior security interest against any Collateral, procure the transfer of such security interest to itself, or settle and pass the accounts of the prior mortgagee, chargee or encumbrancer (any accounts to be conclusive and binding on Obligor);
- (e) pay any liability secured by any Lien against any Collateral (the Obligor will immediately on demand reimburse the Secured Creditor for all such payments);
- (f) carry on all or any part of the business of the Obligor and, to the exclusion of all others including the Obligor, enter upon, occupy and use all or any of the premises, buildings, and other property of or used by the Obligor for such time as the Secured Creditor sees fit, free of charge, and the Secured Creditor is not liable to the Obligor for any act, omission or negligence in so doing or for any rent, charges, depreciation or damages incurred in connection with or resulting from such action;
- (g) borrow for the purpose of carrying on the business of the Obligor or for the maintenance, preservation or protection of the Collateral and

grant a security interest in the Collateral, whether or not in priority to the Security Interest, to secure repayment;

- (h) commence, continue or defend any judicial or administrative proceedings for the purpose of protecting, seizing, collecting, realizing or obtaining possession or payment of the Collateral, and give good and valid receipts and discharges in respect of the Collateral and compromise or give time for the payment or performance of all or any part of the accounts or any other obligation of any third party to the Obligor; and
- (i) at any public sale, and to the extent permitted by law on any private sale, bid for and purchase any or all of the Collateral offered for sale and upon compliance with the terms of such sale, hold, retain and dispose of such Collateral without any further accountability to the Obligor or any other Person with respect to such holding, retention or disposition, except as required by law. In any such sale to the Secured Creditor, the Secured Creditor may, for the purpose of making payment for all or any part of the Collateral so purchased, use any claim for Secured Obligations then due and payable to it as a credit against the purchase price.

Section 3.4 Exercise of Remedies.

The remedies under Section 3.2 and Section 3.3 may be exercised from time to time separately or in combination and are in addition to, and not in substitution for, any other rights of the Secured Creditor however arising or created. The Secured Creditor is not bound to exercise any right or remedy, and the exercise of rights and remedies is without prejudice to the rights of the Secured Creditor in respect of the Secured Obligations including the right to claim for any deficiency.

Section 3.5 Receiver's Powers.

- (1) Any receiver appointed by the Secured Creditor is vested with the rights and remedies which could have been exercised by the Secured Creditor in respect of the Obligor or the Collateral and such other powers and discretions as are granted in the instrument of appointment and any supplemental instruments. The identity of the receiver, its replacement and its remuneration are within the sole and unfettered discretion of the Secured Creditor.
- (2) Any receiver appointed by the Secured Creditor will act as agent for the Secured Creditor for the purposes of taking possession of the Collateral, but otherwise and for all other purposes (except as provided below), as agent for the Obligor. The receiver may sell, lease, or otherwise dispose of Collateral as agent for the Obligor or as agent for the Secured Creditor as the Secured

Creditor may determine in its discretion. The Obligor agrees to ratify and confirm all actions of the receiver acting as agent for the Obligor, and to release and indemnify the receiver in respect of all such actions.

- (3) The Secured Creditor, in appointing or refraining from appointing any receiver, does not incur liability to the receiver, the Obligor or otherwise and is not responsible for any misconduct or negligence of such receiver.

Section 3.6 Appointment of Attorney.

The Obligor hereby irrevocably constitutes and appoints the Secured Creditor (and any officer of the Secured Creditor) the true and lawful attorney of the Obligor. As the attorney of the Obligor, the Secured Creditor has the power to exercise for and in the name of the Obligor with full power of substitution, upon the occurrence and during the continuance of an Event of Default, any of the Obligor's right (including the right of disposal), title and interest in and to the Collateral including the execution, endorsement, delivery and transfer of the Collateral to the Secured Creditor, its nominees or transferees, and the Secured Creditor and its nominees or transferees are hereby empowered to exercise all rights and powers and to perform all acts of ownership with respect to the Collateral to the same extent as the Obligor might do. This power of attorney is irrevocable, is coupled with an interest, has been given for valuable consideration (the receipt and adequacy of which is acknowledged) and survives, and does not terminate upon, the bankruptcy, dissolution, winding up or insolvency of the Obligor. This power of attorney extends to and is binding upon the Obligor's successors and permitted assigns. The Obligor authorizes the Secured Creditor to delegate in writing to another Person any power and authority of the Secured Creditor under this power of attorney as may be necessary or desirable in the opinion of the Secured Creditor, and to revoke or suspend such delegation. The power of attorney granted by the Obligor hereby shall automatically terminate and be of no further force or effect upon the discharge of the Security Interest in accordance with Section 5.2 hereof.

Section 3.7 Dealing with the Collateral.

- (1) The Secured Creditor is not obliged to exhaust its recourse against the Obligor or any other Person or against any other security it may hold in respect of the Secured Obligations before realizing upon or otherwise dealing with the Collateral in such manner as the Secured Creditor may consider desirable.
- (2) The Secured Creditor may grant extensions or other indulgences, take and give up securities, accept compositions, grant releases and discharges and otherwise deal with the Obligor and with other Persons, sureties or securities as it may see fit without prejudice to the Secured Obligations, the liability of the Obligor or the rights of the Secured Creditor in respect of the Collateral.

- (3) Except as otherwise provided by law or this Agreement, the Secured Creditor is not (i) liable or accountable for any failure to collect, realize or obtain payment in respect of the Collateral, (ii) bound to institute proceedings for the purpose of collecting, enforcing, realizing or obtaining payment of the Collateral or for the purpose of preserving any rights of any Persons in respect of the Collateral, (iii) responsible for any loss occasioned by any sale or other dealing with the Collateral or by the retention of or failure to sell or otherwise deal with the Collateral, or (iv) bound to protect the Collateral from depreciating in value or becoming worthless.

Section 3.8 Standards of Sale.

Without prejudice to the ability of the Secured Creditor to dispose of the Collateral in any manner which is commercially reasonable, the Obligor acknowledges that:

- (a) the Collateral may be disposed of in whole or in part;
- (b) the Collateral may be disposed of by public auction, public tender or private contract, with or without advertising and without any other formality;
- (c) any assignee of such Collateral may be the Secured Creditor or a customer of any such Person;
- (d) any sale conducted by the Secured Creditor will be at such time and place, on such notice and in accordance with such procedures as the Secured Creditor, in its sole discretion, may deem advantageous;
- (e) the Collateral may be disposed of in any manner and on any terms necessary to avoid violation of applicable law (including compliance with such procedures as may restrict the number of prospective bidders and purchasers, require that the prospective bidders and purchasers have certain qualifications, and restrict the prospective bidders and purchasers to Persons who will represent and agree that they are purchasing for their own account for investment and not with a view to the distribution or resale of the Collateral) or in order to obtain any required approval of the disposition (or of the resulting purchase) by any governmental or regulatory authority or official;
- (f) a disposition of the Collateral may be on such terms and conditions as to credit or otherwise as the Secured Creditor, in its sole discretion, may deem advantageous; and

- (g) the Secured Creditor may establish an upset or reserve bid or price in respect of the Collateral.

Section 3.9 Dealings by Third Parties.

- (1) No Person dealing with the Secured Creditor or an agent or receiver is required to determine (i) whether the Security Interest has become enforceable, (ii) whether the powers which such Person is purporting to exercise have become exercisable, (iii) whether any money remains due to the Secured Creditor by the Obligor, (iv) the necessity or expediency of the stipulations and conditions subject to which any sale or lease is made, (v) the propriety or regularity of any sale or other dealing by the Secured Creditor with the Collateral, or (vi) how any money paid to Secured Creditor has been applied.
- (2) Any bona fide purchaser of all or any part of the Collateral from the Secured Creditor or any receiver or agent will hold the Collateral absolutely, free from any claim or right of whatever kind, including any equity of redemption, of the Obligor, which it specifically waives (to the fullest extent permitted by law) as against any such purchaser together with all rights of redemption, stay or appraisal which the Obligor has or may have under any rule of law or statute now existing or hereafter adopted.

**ARTICLE 4
REPRESENTATIONS, WARRANTIES AND COVENANTS**

Section 4.1 General Representations, Warranties and Covenants.

The Obligor represents and warrants and covenants and agrees, acknowledging and confirming that the Secured Creditor is relying on such representations, warranties, covenants and agreements, that:

- (a) **Continuous Perfection.** Schedule C sets out the Obligor's place of business or, if more than one, the Obligor's chief executive office. Such place of business or chief executive office, as the case may be, has been located at such address for the 60 days immediately preceding the date of this Agreement. Schedule C also sets out the address at which the books and records of the Obligor are located, the address at which senior management of the Obligor are located and conduct their deliberations and make their decisions with respect to the business of the Obligor and the address from which the invoices and accounts of the Obligor are issued. The Obligor will not change the location of any of these items, people or addresses without providing at least 30 days prior written notice to the Secured Creditor. Except for sales of

inventory made in the ordinary course of business, the Collateral, to the extent not delivered to the Collateral Agent pursuant to Section 2.3(3), has been kept for the 60 days immediately preceding the date of this Agreement and will be kept at those locations listed on Schedule C, and the Obligor will not remove the Collateral from such locations, without providing at least 30 days prior written notice to the Secured Creditor. The Obligor will not change its name in any manner without providing at least 30 days prior written notice to the Secured Creditor.

- (b) **Restriction on Disposition.** The Obligor will not sell, assign, convey, exchange, lease, release or abandon, or otherwise dispose of, any Collateral except as expressly permitted in the Secured Debenture.
- (c) **Negative Pledge.** The Obligor will not create or suffer to exist, any Lien on the Collateral, except for Liens permitted by the Secured Debenture.
- (d) **Account Debtors.** None of the account debtors in respect of any accounts, chattel paper or intangibles and none of the obligors in respect of any Instruments included in the Collateral as of the date hereof is (i) a Governmental Entity, or (ii) in the case of any account in excess of \$100,000, is located outside of Canada or the United States of America.
- (e) **Securities and Instruments.**
 - (i) Schedule A lists all Securities and Instruments owned or held by the Obligor on the date of this Agreement and all such Securities are represented by certificated securities.
 - (ii) Securities that are Collateral have been, where applicable, duly and validly issued and acquired and are fully paid and non-assessable. Schedule A sets out, for each class of Securities listed in the schedule, the percentage amount that such Securities represent of all issued and outstanding Securities of that class.
 - (iii) Except as described in Schedule A, no transfer restrictions apply to the Securities and Instruments listed in Schedule A. The Obligor has delivered to the Secured Creditor copies of all shareholder, partnership or trust agreements applicable to each issuer of such Securities and Instruments which are in the Obligor's possession or control.

- (iv) No Person has or will have any written or oral option, warrant, right, call, commitment, conversion right, right of exchange or other agreement or any right or privilege (whether by law, preemptive or contractual) capable of becoming an option, warrant, right, call, commitment, conversion right, right of exchange or other agreement to acquire any right or interest in any of the Securities and Instruments that are Collateral.
 - (v) The Securities that are Collateral constitute, where applicable, the legal, valid and binding obligation of the obligor of such Securities, enforceable in accordance with their terms, subject only to any limitation under applicable laws relating to (i) bankruptcy, insolvency, fraudulent conveyance, arrangement, reorganization or creditors' rights generally, and (ii) the discretion that a court may exercise in the granting of equitable remedies.
 - (vi) The pledge, assignment and delivery to the Secured Creditor of the Collateral consisting of certificated Securities pursuant to this Agreement creates a valid and perfected first ranking security interest in such certificated Securities, and the proceeds of them. Such Securities and the proceeds from them are not subject to any prior Lien or any agreement purporting to grant to any third party a Lien on the property or assets of the Obligor which would include the Securities except for Permitted Encumbrances. The Secured Creditor is entitled to all the rights, priorities and benefits afforded by the *Personal Property Security Act* (Ontario) or other relevant personal property security legislation as enacted in any relevant jurisdiction to perfect security interests in respect of such Collateral.
- (f) **Status of Accounts Collateral.** The Obligor will maintain books and records pertaining to the Collateral in such detail, form and scope as the Secured Creditor reasonably requires, and keep all originals of the chattel paper which evidence accounts at locations specified on Schedule B. The Obligor will immediately notify the Secured Creditor if any account in excess of \$500,000 arises out of contracts with any Governmental Entity, and execute any instruments and take any steps required by the Secured Creditor in order that all moneys due or to become due under the contract are assigned to the Secured Creditor and notice of such assignment is given to the Governmental Entity. The Obligor will also immediately notify the Secured Creditor if any

account in excess of \$500,000 is with an account debtor located outside of Canada or the United States of America.

- (g) **Additional Security Perfection and Protection of Security Interest.** The Obligor will grant to the Secured Creditor, security interests, assignments, mortgages, charges, hypothecations and pledges in such property and undertaking of the Obligor that is not subject to a valid and perfected first ranking security interest (subject only to Permitted Liens) constituted by the Security Documents, in each relevant jurisdiction as determined by the Secured Creditor. The Obligor will perform all acts, execute and deliver all agreements, documents and instruments and take such other steps as are requested by the Secured Creditor at any time to register, file, signify, publish, perfect, maintain, protect, and enforce the Security Interest including: (i) executing, recording and filing of financing or other statements, and paying all taxes, fees and other charges payable, (ii) placing notations on its books of account to disclose the Security Interest, (iii) delivering acknowledgements, confirmations and subordinations that may be necessary to ensure that the Security Documents constitute a valid and perfected first ranking security interest (subject only to Permitted Liens), (iv) executing and delivering any agreements, documents and instruments that may be needed under or in connection with the *Securities Transfer Act* (Ontario) and (v) delivering opinions of counsel in respect of matters contemplated by this paragraph. The documents and opinions contemplated by this paragraph must be in form and substance satisfactory to the Secured Creditor.

Section 4.2 Representations, Warranties and Covenants Concerning Intellectual Property.

The Obligor represents and warrants and covenants and agrees, acknowledging and confirming that the Secured Creditor is relying on such representations, warranties, covenants and agreements, that:

- (a) Schedule B lists all Registrable Intellectual Property that is owned by the Obligor on the date of this Agreement.
- (b) All Registrable Intellectual Property of the Obligor is valid, subsisting, unexpired and enforceable, has not been abandoned and, to the knowledge of the Obligor, does not infringe the Intellectual Property rights of any other Person.

- (c) No decision or judgment has been rendered by any Governmental Entity which would limit, cancel or question the validity of, or the Obligor's rights in, any Intellectual Property in any respect.
- (d) No action or proceeding is pending, or, to the knowledge of the Obligor, threatened, on the date hereof seeking to limit, cancel or question the validity of any Intellectual Property or the Obligor's ownership interest therein, or which, if adversely determined, would have a Material adverse effect on the value of any Intellectual Property.
- (e) The Obligor will take all reasonable and necessary steps, including in any proceeding before the Canadian Intellectual Property Office or any similar Governmental Entity of any jurisdiction, to maintain and pursue each application (and to obtain the relevant registration) and to maintain each registration of the material Registrable Intellectual Property, including, without limitation, filing of applications for renewal, affidavits of use and affidavits of incontestability.
- (f) In the event that any material Intellectual Property of the Obligor is infringed, misappropriated or diluted by a third party, the Obligor will (i) take such actions as the Obligor reasonably deems appropriate under the circumstances to protect such Intellectual Property and (ii) if such Intellectual Property is of material economic value, promptly notify the Secured Creditor after it learns thereof and sue for infringement, misappropriation or dilution, to seek injunctive relief where appropriate and to recover any and all damages for such infringement, misappropriation or dilution.
- (g) Immediately upon the request of the Secured Creditor, the Obligor will furnish the Secured Creditor in writing the description of all Registrable Intellectual Property or applications for Registrable Intellectual Property of the Obligor. In addition, the Obligor will deliver to the Secured Creditor a copy of the certificate of registration of, or application for, such Registrable Intellectual Property with a Confirmation of Security Interest in the form of Schedule D in respect of such Registrable Intellectual Property confirming the assignment for security of such Registrable Intellectual Property to the Secured Creditor and immediately make all such filings, registrations and recordings as are necessary or appropriate to perfect the Security Interest granted to the Secured Creditor in the Registrable Intellectual Property.

**ARTICLE 5
GENERAL**

Section 5.1 Notices.

Any notice, direction or other communication (each a "Notice") given regarding the matters contemplated by this Agreement must be in writing, sent by personal delivery, courier or facsimile (but not by electronic mail) and addressed:

(a) to the Secured Creditor at:

WF Fund III Limited Partnership
161 Bay Street
Suite 2520
Toronto, ON M5J 2S1

Attention: Mark McQueen
Facsimile: 416-682-1160

with a copy to:

Minden Gross LLP
145 King Street West
Suite 2200
Toronto, ON M5H 4G2

Attention: Daniel Rothberg
Facsimile: 416-864-9223

(b) to the Obligor at:

Tercon MRC Limited
#100 - 2079 Falcon Road
Kamloops, BC V2C 4J2
Attention: Mr. Milan Soucek
Facsimile: (250) 372-1555

A Notice is deemed to be delivered and received (i) if sent by personal delivery, on the date of delivery if it is a Business Day and the delivery was made prior to 4:00 p.m. (local time in place of receipt) and otherwise on the next Business Day, (ii) if sent by same-day service courier, on the date of delivery if sent on a Business Day and delivery was made prior to 4:00 p.m. (local time in place of receipt) and otherwise on the next Business Day, (iii) if sent by overnight courier, on the next Business Day, or (iv) if sent by facsimile, on the Business Day following the date of

confirmation of transmission by the originating facsimile. A party may change its address for service from time to time by providing a Notice in accordance with the foregoing. Any subsequent Notice must be sent to the party at its changed address. Any element of a party's address that is not specifically changed in a Notice will be assumed not to be changed.

Section 5.2 Discharge.

The Security Interest will not be discharged except by a written release or discharge signed by the Secured Creditor. The Obligor will be entitled to require a discharge by notice to the Secured Creditor upon, but only upon, (i) full and indefeasible payment and performance of the Secured Obligations and (ii) the Secured Creditor having no obligations under any Credit Document. Upon discharge of the Security Interest and at the request and expense of the Obligor, the Secured Creditor will execute and deliver to the Obligor such financing statements and other documents or instruments as the Obligor may reasonably require and the Secured Creditor will redeliver to the Obligor, or as the Obligor may otherwise direct the Secured Creditor, any Collateral in its possession.

Section 5.3 No Merger, Survival of Representations and Warranties.

This Agreement does not operate by way of merger of any of the Secured Obligations and no judgment recovered by the Secured Creditor will operate by way of merger of, or in any way affect, the Security Interest, which is in addition to, and not in substitution for, any other security now or hereafter held by the Secured Creditor in respect of the Secured Obligations. The representations, warranties and covenants of the Obligor in this Agreement survive the execution and delivery of this Agreement and any advances under the Secured Debenture. Notwithstanding any investigation made by or on behalf of the Secured Creditor these covenants, representations and warranties continue in full force and effect.

Section 5.4 Further Assurances.

The Obligor will do all acts and things and execute and deliver, or cause to be executed and delivered, all agreements, documents and instruments that the Secured Creditor may require and take all further steps relating to the Collateral or any other property or assets of the Obligor that the Secured Creditor may require, including any agreements, documents or instruments required under or in connection with the *Securities Transfer Act* (Ontario) for (i) protecting the Collateral, (ii) perfecting the Security Interest, and (iii) exercising all powers, authorities and discretions conferred upon the Secured Creditor. After the Security Interest becomes enforceable, the Obligor will do all acts and things and execute and deliver all documents and instruments that the Secured Creditor may require for facilitating the sale or other disposition of the Collateral in connection with its realization.

Section 5.5 Supplemental Security.

This Agreement is in addition to, without prejudice to and supplemental to all other security now held or which may hereafter be held by the Secured Creditor.

Section 5.6 Successors and Assigns.

This Agreement is binding on the Obligor and its successors and assigns, and enures to the benefit of the Secured Creditor and its successors and assigns. This Agreement may be assigned by the Secured Creditor without the consent of, or notice to, the Obligor, to such Person as the Secured Creditor may determine and, in such event, such Person will be entitled to all of the rights and remedies of the Secured Creditor as set forth in this Agreement or otherwise. In any action brought by an assignee to enforce any such right or remedy, the Obligor will not assert against the assignee any claim or defence which the Obligor now has or may have against the Secured Creditor. The Obligor may not assign, transfer or delegate any of its rights or obligations under this Agreement without the prior written consent of the Secured Creditor which may be unreasonably withheld.

Section 5.7 Amalgamation.

The Obligor acknowledges and agrees that in the event it amalgamates with any other corporation or corporations, it is the intention of the parties that the Security Interest (i) subject to Section 2.4, extends to: (A) all of the property and undertaking that any of the amalgamating corporations then owns, (B) all of the property and undertaking that the amalgamated corporation thereafter acquires, (C) all of the property and undertaking in which any of the amalgamating corporations then has any interest and (D) all of the property and undertaking in which the amalgamated corporation thereafter acquires any interest; and (ii) secures the payment and performance of all debts, liabilities and obligations, present or future, direct or indirect, absolute or contingent, matured or unmatured, at any time or from time to time due or accruing due and owing by or otherwise payable by each of the amalgamating corporations and the amalgamated corporation to the Secured Creditor in any currency, however or wherever incurred, and whether incurred alone or jointly with another or others and whether as principal, guarantor or surety and whether incurred prior to, at the time of or subsequent to the amalgamation. The Security Interest attaches to the additional collateral at the time of amalgamation and to any collateral thereafter owned or acquired by the amalgamated corporation when such becomes owned or is acquired. Upon any such amalgamation, the defined term "Obligor" means, collectively, each of the amalgamating corporations and the amalgamated corporation, the defined term "Collateral" means all of the property and undertaking and interests described in (i) above, and the defined term "Secured Obligations" means the obligations described in (ii) above.

Section 5.8 Severability.

If any court of competent jurisdiction from which no appeal exists or is taken, determines any provision of this Agreement to be illegal, invalid or unenforceable, that provision will be severed from this Agreement and the remaining provisions will remain in full force and effect.

Section 5.9 Amendment.

This Agreement may only be amended, supplemented or otherwise modified by written agreement executed by the Secured Creditor and the Obligor.

Section 5.10 Waivers, etc.

- (1) No consent or waiver by the Secured Creditor in respect of this Agreement is binding unless made in writing and signed by an authorized officer of the Secured Creditor. Any consent or waiver given under this Agreement is effective only in the specific instance and for the specific purpose for which given. No waiver of any of the provisions of this Agreement constitutes a waiver of any other provision.
- (2) A failure or delay on the part of the Secured Creditor in exercising a right under this Agreement does not operate as a waiver of, or impair, any right of the Secured Creditor however arising. A single or partial exercise of a right on the part of the Secured Creditor does not preclude any other or further exercise of that right or the exercise of any other right by the Secured Creditor.

Section 5.11 Application of Proceeds of Security.

All monies collected by the Secured Creditor upon the enforcement of its rights and remedies under the Security Documents and the Liens created by them including any sale or other disposition of the Collateral, together with all other monies received by the Secured Creditor under the Security Documents, will be applied as provided in the Secured Debenture. To the extent any other Credit Document requires proceeds of collateral under such Credit Document to be applied in accordance with the provisions of this Agreement, the Secured Creditor shall apply such proceeds in accordance with this Section.

Section 5.12 Conflict.

In the event of any conflict between one or more provisions of this Agreement, the provisions of the Secured Debenture and the provisions of the Operating Loan Agreement which cannot be resolved by all such provisions being complied with, the provisions contained in the Secured Debenture will prevail to the extent of such conflict.

Section 5.13 Governing Law.

This Agreement will be governed by, interpreted and enforced in accordance with the laws of the Province of Ontario and the federal laws of Canada applicable therein.

Section 5.14 Termination, Survival.

Upon discharge of the Security Interest pursuant to Section 5.2 hereof, this Agreement shall automatically terminate. The provisions of Article 5 shall survive any termination of this Agreement.

IN WITNESS WHEREOF the Obligor has executed this Agreement.

TERCON MRC LIMITED

Per:



Authorized Signing Officer

#1264127 v1 | 4061837

TERCON EQUIPMENT LTD.

as Obligor

and

**WF FUND III LIMITED PARTNERSHIP,
carrying on business as WELLINGTON FINANCIAL LP
AND WELLINGTON FINANCIAL FUND III**

as Secured Creditor

SECURITY AGREEMENT

October 1, 2007

SECURITY AGREEMENT

Security agreement dated as of October 1, 2007 made by Tercon Equipment Ltd. to and in favour of WF Fund III Limited Partnership, carrying on business as Wellington Financial LP and Wellington Financial Fund III.

RECITALS:

- (a) The Borrower is or will become indebted or liable to the Secured Creditor pursuant to its Series A Secured Debentures in the aggregate principal amount of \$5,000,000.00 (Cdn.) dated October 1, 2007 (as the same may be amended, restated, supplemented or replaced from time to time, the "Secured Debenture") and pursuant to an Operating Loan Agreement between the Borrower and the Secured Party dated October 1, 2007 (as the same may be amended, restated, supplemented or replaced from time to time, the "Operating Loan Agreement");
- (b) To secure the due performance of the Borrower's obligations to the Secured Creditor under *inter alia* the Secured Debenture and the Operating Loan Agreement, the Obligor has entered into a form of Guarantee dated October 1, 2007 in favor of the Secured Creditor (as the same may be amended, restated, supplemented or replaced from time to time, the "Guarantee"); and
- (c) Pursuant to Section 4.1 of the Secured Debenture, the Obligor is required to execute and deliver this Agreement in favour of the Secured Creditor.

In consideration of the foregoing and other good and valuable consideration, the receipt and adequacy of which are acknowledged, the Obligor agrees as follows.

ARTICLE 1 INTERPRETATION

Section 1.1 Defined Terms.

As used in this Agreement, the following terms have the following meanings:

"Agreement" means this security agreement.

"Borrower" means Tercon Investments Ltd.

"Collateral" has the meaning specified in Section 2.1.

"Credit Documents" means the Secured Debenture, the Operating Loan Agreement, this Agreement and each other Security Document (as such term is defined in the Secured Debenture).

"Event of Default" has the meaning ascribed thereto in the Guarantee;

"Expenses" has the meaning specified in Section 2.2(b).

"Governmental Entity" means any international tribunal, agency, body commission or other authority, any government, executive, parliament, legislature or local authority, or any governmental entity, ministry, department or agency or regulatory authority, court, tribunal, commission or board of or within Canada, or any other foreign jurisdiction, or any political subdivision of any thereof or any authority having jurisdiction therein or any quasi governmental or private body exercising any regulatory, expropriation or taxing authority under or for the account of any of the above.

"Instruments" means (i) a bill, note or cheque within the meaning of the *Bills of Exchange Act* (Canada) or any other writing that evidences a right to the payment of money and is of a type that in the ordinary course of business is transferred by delivery with any necessary endorsement or assignment, or (ii) a letter of credit and an advice of credit if the letter or advice states that it must be surrendered upon claiming payment thereunder, or (iii) chattel paper or any other writing that evidences both a monetary obligation and a security interest in or a lease of specific goods, or (iv) documents of title or any other writing that purports to be issued by or addressed to a bailee and purports to cover such goods in the bailee's possession as are identified or fungible portions of an identified mass, and that in the ordinary course of business is treated as establishing that the Person in possession of it is entitled to receive, hold and dispose of the document and the goods it covers, or (v) any document or writing commonly known as an instrument.

"Intellectual Property" means domestic and foreign: (i) patents, applications for patents and reissues, divisions, continuations, renewals, extensions and continuations-in-part of patents or patent applications; (ii) proprietary and non-public business information, including inventions (whether patentable or not), invention disclosures, improvements, discoveries, trade secrets, confidential information, know-how, methods, processes; designs, technology, technical data, schematics, formulae and customer lists, and documentation relating to any of the foregoing; (iii) copyrights, copyright registrations and applications for copyright registration; (iv) mask works, mask work registrations and applications for mask work registrations; (v) designs, design registrations, design registration applications and integrated circuit topographies; (vi) trade names, business names, corporate names, domain names, website names and world wide web addresses, common law trade-marks, trade-mark registrations, trade-mark applications, trade dress and

logos, and the goodwill associated with any of the foregoing; (vii) computer software and programs (both source code and object code form), all proprietary rights in the computer software and programs and all documentation and other materials related to the computer software and programs; and (viii) any other intellectual property and industrial property.

"Lien" means (i) any mortgage, charge, pledge, hypothecation, security interest, assignment by way of security, encumbrance, lien (statutory or otherwise), hire purchase agreement, conditional sale agreement, deposit arrangement, title retention agreement or arrangement, or any other assignment, arrangement or condition that in substance secures payment or performance of an obligation, (ii) any trust arrangement, (iii) any arrangement which creates a right of set-off out of the ordinary course of business, or (iv) any agreement to grant any such rights or interests.

"Obligor" means Tercon Equipment Ltd., a corporation incorporated and existing under the laws of British Columbia, and its successors and permitted assigns.

"Registrable Intellectual Property" means any Intellectual Property in respect of which ownership, title, security interests, charges or encumbrances are capable of registration, recording or notation with any Governmental Entity pursuant to applicable laws.

"Restricted Asset" has the meaning specified in Section 2.4(1).

"Secured Creditor" means WF Fund III Limited Partnership, carrying on business as Wellington Financial LP and Wellington Financial Fund III and its successors and assigns.

"Secured Obligations" has the meaning specified in Section 2.2(a).

"Security" means an obligation of an issuer or a share, participation or other interest in an issuer or in property or an enterprise of an issuer,

- (a) that is represented by a security certificate in bearer form or registered form, or the transfer of which may be registered on books maintained for that purpose by or on behalf of the issuer,
- (b) that is one of a class or series, or by its terms is divisible into a class or series, of shares, participations, interests or obligations, and
- (c) that,
 - (i) is, or is of a type, dealt in or traded on securities exchanges or securities markets, or

- (ii) is a medium for investment and by its terms expressly provides that it is a security for the purposes of the *Securities Transfer Act* (Ontario);

but excludes

- (d) any ULC Shares.

"Security Interest" has the meaning specified in Section 2.2.

"ULC Shares" means shares in any unlimited company or unlimited liability corporation at any time owned or otherwise held by the Obligor.

Section 1.2 Interpretation.

- (1) Terms defined in the *Personal Property Security Act* (Ontario) or the *Securities Transfer Act* (Ontario) and used but not otherwise defined in this Agreement have the same meanings.
- (2) Capitalized terms used in this Agreement but not defined have the meanings given to them in the Secured Debenture.
- (3) Any reference in any Credit Document to Liens permitted by the Secured Debenture and any right of the Obligor to create or suffer to exist Liens permitted by the Secured Debenture are not intended to and do not and will not subordinate the Security Interest to any such Lien or give priority to any Person over the Secured Creditor.
- (4) In this Agreement the words "including", "includes" and "include" mean "including (or includes or include) without limitation". The expressions "Article", "Section" and other subdivision followed by a number mean and refer to the specified Article, Section or other subdivision of this Agreement.
- (5) Any reference in this Agreement to gender includes all genders. Words importing the singular number only include the plural and vice versa.
- (6) The division of this Agreement into Articles, Sections and other subdivisions and the insertion of headings are for convenient reference only and do not affect its interpretation.
- (7) The schedules attached to this Agreement form an integral part of it for all purposes of it.
- (8) Except as otherwise provided in this Agreement, any reference to this Agreement, any Credit Document or any Security Document refers to this Agreement or such Credit Document or Security Document as the same may

have been or may from time to time be amended, modified, extended, renewed, restated, replaced or supplemented and includes all schedules attached to it. Except as otherwise provided in this Agreement, any reference in this Agreement to a statute refers to such statute and all rules and regulations made under it as the same may have been or may from time to time be amended or re-enacted.

ARTICLE 2 SECURITY

Section 2.1 Grant of Security.

Subject to Section 2.4, the Obligor grants to the Secured Creditor, a security interest in, and assigns, mortgages, charges, hypothecates and pledges to the Secured Creditor, all of the property and undertaking of the Obligor now owned or hereafter acquired and all of the property and undertaking in which the Obligor now has or hereafter acquires any interest (collectively, the "Collateral") including all of the Obligor's:

- (a) present and after-acquired personal property;
- (b) inventory including goods held for sale, lease or resale, goods furnished or to be furnished to third parties under contracts of lease, consignment or service, goods which are raw materials or work in process, goods used in or procured for packing and materials used or consumed in the business of the Obligor;
- (c) equipment, machinery, furniture, fixtures, plant, vehicles and other goods of every kind and description and all licences and other rights and all related records, files, charts, plans, drawings, specifications, manuals and documents;
- (d) accounts due or accruing and all related agreements, books, accounts, invoices, letters, documents and papers recording, evidencing or relating to them;
- (e) money, documents of title and chattel paper;
- (f) Instruments and Securities, including the Instruments and Securities listed in Schedule A;
- (g) intangibles including all security interests, goodwill, choses in action, contracts, contract rights, licenses and other contractual benefits;

- (h) Intellectual Property including the Registrable Intellectual Property listed in Schedule B;
- (i) all substitutions and replacements of and increases, additions and, where applicable, accessions to the property described in Section 2.1(a) through Section 2.1(h) inclusive; and
- (j) all proceeds in any form derived directly or indirectly from any dealing with all or any part of the property described in Section 2.1(a) through Section 2.1(i) inclusive, including the proceeds of such proceeds.

Section 2.2 Secured Obligations.

The security interest, assignment, mortgage, charge, hypothecation and pledge granted by this Agreement (collectively, the "Security Interest") secures the payment and performance of:

- (a) all debts, liabilities and obligations, present or future, direct or indirect, absolute or contingent, matured or unmatured, at any time or from time to time due or accruing due and owing by or otherwise payable by the Obligor to the Secured Creditor in any currency, however or wherever incurred, and whether incurred by the Obligor alone or jointly with another or others and whether as principal, guarantor or surety and in whatever name or style (collectively, and together with the Expenses, the "Secured Obligations"); and
- (b) all expenses, costs and charges incurred by or on behalf of the Secured Creditor in connection with this Agreement, the Security Interest or the Collateral, including all legal fees, court costs, receiver's or agent's remuneration and other expenses of taking possession of, repairing, protecting, insuring, preparing for disposition, realizing, collecting, selling, transferring, delivering or obtaining payment for the Collateral, and of taking, defending or participating in any action or proceeding in connection with any of the foregoing matters or otherwise in connection with the Secured Creditor's interest in any Collateral, whether or not directly relating to the enforcement of this Agreement or any other Credit Document (collectively, the "Expenses").

Section 2.3 Attachment.

- (1) The Obligor acknowledges that (i) value has been given, (ii) it has rights in the Collateral (other than after-acquired Collateral), (iii) it has not agreed to

postpone the time of attachment of the Security Interest, and (iv) it has received a copy of this Agreement.

- (2) The Obligor shall not permit any of the Securities at any time to be or to become uncertificated securities.
- (3) The Obligor delivers to and deposits with the Secured Creditor any and all certificates evidencing the Securities listed in Schedule A, together with, in each case, a stock power duly endorsed in blank for transfer and an irrevocable directors or other applicable resolution of entity in from which the Securities are issued, consenting to the transfer by the Obligor and the Obligor hereby grants control over such Securities to the Secured Creditor in accordance with the provisions of the *Securities Transfer Act* (Ontario). The Obligor also delivers to and deposits with the Secured Creditor any promissory note or other Instruments evidencing any amount payable in excess of \$100,000 or evidencing any rights to goods having a value in excess of \$100,000.
- (4) If the Obligor acquires any Securities or any Instruments (other than Instruments evidencing amounts payable of less than \$100,000 or evidencing any rights to goods having a value less than \$100,000), the Obligor will notify the Secured Creditor in writing and provide the Secured Creditor with a revised Schedule A recording the acquisition and particulars of such Instruments or Securities within 5 days after such acquisition. Upon request by the Secured Creditor, the Obligor will promptly deliver to and deposit with the Secured Creditor, or cause the Secured Creditor to have control over, such Securities or Instruments (other than Instruments evidencing amounts payable of less than \$100,000 or evidencing any rights to goods having a value less than \$100,000) as security for the Secured Obligations. The Obligor will also promptly inform the Secured Creditor in writing of the acquisition by the Obligor of any ULC Shares.
- (5) At the request of the Secured Creditor the Obligor will (i) cause the transfer of any Securities or Instruments to the Secured Creditor to be registered wherever such registration may be required or advisable in the reasonable opinion of the Secured Creditor, (ii) duly endorse any such Securities or Instruments for transfer in blank or register them in the name of the Secured Creditor or its nominee or otherwise as the Secured Creditor may reasonably direct, (iii) immediately deliver to the Secured Creditor any and all consents or other documents which may be necessary to effect the transfer of any such Securities or Instruments to the Secured Creditor or any third party and (iv) deliver to or otherwise cause the Secured Creditor to have control over such Securities or Instruments in accordance with the provisions of the *Securities*

Transfer Act (Ontario). Upon the discharge of the Security Interest in accordance with Section 5.2 hereof, the Secured Creditor shall promptly cause all Securities or Instruments transferred to it or to any third party pursuant to this Section 2.3(5) to be transferred back to the Obligor including duly endorsing any such Securities or Instruments for transfer back to the Obligor and delivering to the Obligor any and all consents or other documents which may be necessary to effect the transfer of any such Securities or Instruments to the Obligor.

- (6) The Obligor will promptly notify the Secured Creditor in writing of the acquisition by the Obligor of any Registrable Intellectual Property. The Obligor will provide the Secured Creditor with a revised Schedule B recording the acquisition and particulars of such additional Intellectual Property.

Section 2.4 Scope of Security Interest.

- (1) To the extent that an assignment of amounts payable and other proceeds arising under or in connection with, or the grant of a security interest in any agreement, licence, permit or quota of the Obligor would result in the termination of such agreement, licence, permit or quota (each, a "Restricted Asset"), the Security Interest with respect to each Restricted Asset will constitute a trust created in favour of the Secured Creditor pursuant to which the Obligor holds as trustee all proceeds arising under or in connection with the Restricted Asset in trust for the Secured Creditor on the following basis:
 - (a) until the Security Interest is enforceable and subject to the Secured Debenture, the Obligor is entitled to receive all such proceeds; and
 - (b) whenever the Security Interest is enforceable, (i) all rights of the Obligor to receive such proceeds cease and all such proceeds will be immediately paid over to the Secured Creditor and (ii) the Obligor will take all actions requested by the Secured Creditor to collect and enforce payment and other rights arising under the Restricted Asset.

The Obligor will use all commercially reasonable efforts to obtain the consent of each other party to any and all Restricted Assets to the assignment of such Restricted Asset to the Secured Creditor in accordance with this Agreement. The Obligor will also use all commercially reasonable efforts to ensure that all agreements entered into on and after the date of this Agreement expressly permit assignments of the benefits of such agreements as collateral security to the Secured Creditor in accordance with the terms of this Agreement.

- (2) The Security Interest with respect to trade-marks constitutes a security interest in, and a charge, hypothecation and pledge of, such Collateral in

favour of the Secured Creditor, but does not constitute an assignment or mortgage of such Collateral to the Secured Creditor.

- (3) Until the Security Interest is enforceable, the grant of the Security Interest in the Intellectual Property does not affect in any way the Obligor's rights to commercially exploit the Intellectual Property, defend it, enforce the Obligor's rights in it or with respect to it against third parties in any court or claim and be entitled to receive any damages with respect to any infringement of it.
- (4) The Security Interest does not extend to consumer goods or ULC Shares.
- (5) The Security Interest does not extend or apply to the last day of the term of any lease or sublease of real property or any agreement for a lease or sublease of real property, now held or hereafter acquired by the Obligor, but the Obligor will stand possessed of any such last day upon trust to assign and dispose of it as the Secured Creditor may reasonably direct.

Section 2.5 Grant of Licence to Use Intellectual Property.

At such time as the Secured Creditor is lawfully entitled to exercise its rights and remedies under Article 3, the Obligor grants to the Secured Creditor an irrevocable, nonexclusive licence (exercisable without payment of royalty or other compensation to the Obligor) to use, assign or sublicense any Intellectual Property in which the Obligor has rights wherever the same may be located, including in such licence access to (i) all media in which any of the licensed items may be recorded or stored, and (ii) all software and computer programs used for compilation or print-out. The license granted under this Section is to enable the Secured Creditor to exercise its rights and remedies under Article 3 and for no other purpose.

Section 2.6 Care and Custody of Collateral.

- (1) The Secured Creditor has no obligation to keep Collateral in its possession identifiable.
- (2) The Secured Creditor may, after the Security Interest is enforceable, (i) notify any Person obligated on an Instrument, Security or account to make payments to the Secured Creditor, whether or not the Obligor was previously making collections on such accounts, chattel paper, instruments, and (ii) assume control of any proceeds arising from the Collateral.
- (3) The Secured Creditor has no obligation to collect dividends, distributions or interest payable on, or exercise any option or right in connection with, any Securities or Instruments. The Secured Creditor has no obligation to protect or preserve any Securities or Instruments from depreciating in value or becoming worthless and is released from all responsibility for any loss of

value. In the physical keeping of any Securities, the Secured Creditor is only obliged to exercise the same degree of care as it would exercise with respect to its own Securities kept at the same place.

Section 2.7 Rights of the Obligor.

- (1) Until the Security Interest is enforceable, the Obligor is entitled to vote the Securities that are part of the Collateral and to receive all dividends and distributions on such Securities. In order to allow the Obligor to vote any Securities registered in the Secured Creditor's name or the name of its nominee, at the request and the expense of the Obligor, the Secured Creditor will, prior to the Security Interest being enforceable, and may, after the Security Interest is enforceable, execute valid proxies appointing proxyholders to attend and act at meetings of shareholders, and execute resolutions in writing, all pursuant to the relevant provisions of the issuer's governing legislation. Whenever the Security Interest is enforceable, all rights of the Obligor to vote (under any proxy given by the Secured Creditor (or its nominee) or otherwise) or to receive distributions or dividends cease and all such rights become vested solely and absolutely in the Secured Creditor.
- (2) Any distributions or dividends received by the Obligor contrary to Section 2.7(1) or any other moneys or property received by the Obligor after the Security Interest is enforceable will be received as trustee for the Secured Creditor and shall be immediately paid over to the Secured Creditor.

Section 2.8 Expenses.

The Obligor is liable for and will pay on demand by the Secured Creditor any and all Expenses.

**ARTICLE 3
ENFORCEMENT**

Section 3.1 Enforcement.

The Security Interest becomes and is enforceable against the Obligor upon the occurrence and during the continuance of an Event of Default.

Section 3.2 Remedies.

Whenever the Security Interest is enforceable, the Secured Creditor may realize upon the Collateral and enforce the rights of the Secured Creditor by:

- (a) entry onto any premises where Collateral consisting of tangible personal property may be located;

- (b) entry into possession of the Collateral by any method permitted by law;
- (c) sale, grant of options to purchase, or lease of all or any part of the Collateral;
- (d) holding, storing and keeping idle or operating all or any part of the Collateral;
- (e) exercising and enforcing all rights and remedies of a holder of the Securities and Instruments as if the Secured Creditor were the absolute owner thereof (including, if necessary, causing the Collateral to be registered in the name of the Secured Creditor or its nominee if not already done);
- (f) collection of any proceeds arising in respect of the Collateral;
- (g) collection, realization or sale of, or other dealing with, accounts;
- (h) license or sublicense, whether on an exclusive or nonexclusive basis, of any Intellectual Property for such term and on such conditions and in such manner as the Secured Creditor in its sole judgment determines (taking into account such provisions as may be necessary to protect and preserve such Intellectual Property);
- (i) instruction to any bank which has entered into a control agreement with the Secured Creditor to transfer all moneys, Securities and Instruments held by such depository bank to an account maintained with or by the Secured Creditor;
- (j) application of any moneys constituting Collateral or proceeds thereof in accordance with Section 5.11;
- (k) appointment by instrument in writing of a receiver (which term as used in this Agreement includes a receiver and manager) or agent of all or any part of the Collateral and removal or replacement from time to time of any receiver or agent;
- (l) institution of proceedings in any court of competent jurisdiction for the appointment of a receiver of all or any part of the Collateral;
- (m) institution of proceedings in any court of competent jurisdiction for sale or foreclosure of all or any part of the Collateral;

- (n) filing of proofs of claim and other documents to establish claims to the Collateral in any proceeding relating to the Obligor; and
- (o) any other remedy or proceeding authorized or permitted under the *Personal Property Security Act* (Ontario) or otherwise by law or equity.

Section 3.3 Additional Rights.

In addition to the remedies set forth in Section 3.2 and elsewhere in this Agreement, whenever the Security Interest is enforceable, the Secured Creditor may:

- (a) require the Obligor, at the Obligor's expense, to assemble the Collateral at a place or places designated by notice in writing and the Obligor agrees to so assemble the Collateral immediately upon receipt of such notice;
- (b) require the Obligor, by notice in writing, to disclose to the Secured Creditor the location or locations of the Collateral and the Obligor agrees to promptly make such disclosure when so required;
- (c) repair, process, modify, complete or otherwise deal with the Collateral and prepare for the disposition of the Collateral, whether on the premises of the Obligor or otherwise;
- (d) redeem any prior security interest against any Collateral, procure the transfer of such security interest to itself, or settle and pass the accounts of the prior mortgagee, chargee or encumbrancer (any accounts to be conclusive and binding on Obligor);
- (e) pay any liability secured by any Lien against any Collateral (the Obligor will immediately on demand reimburse the Secured Creditor for all such payments);
- (f) carry on all or any part of the business of the Obligor and, to the exclusion of all others including the Obligor, enter upon, occupy and use all or any of the premises, buildings, and other property of or used by the Obligor for such time as the Secured Creditor sees fit, free of charge, and the Secured Creditor is not liable to the Obligor for any act, omission or negligence in so doing or for any rent, charges, depreciation or damages incurred in connection with or resulting from such action;
- (g) borrow for the purpose of carrying on the business of the Obligor or for the maintenance, preservation or protection of the Collateral and

grant a security interest in the Collateral, whether or not in priority to the Security Interest, to secure repayment;

- (h) commence, continue or defend any judicial or administrative proceedings for the purpose of protecting, seizing, collecting, realizing or obtaining possession or payment of the Collateral, and give good and valid receipts and discharges in respect of the Collateral and compromise or give time for the payment or performance of all or any part of the accounts or any other obligation of any third party to the Obligor; and
- (i) at any public sale, and to the extent permitted by law on any private sale, bid for and purchase any or all of the Collateral offered for sale and upon compliance with the terms of such sale, hold, retain and dispose of such Collateral without any further accountability to the Obligor or any other Person with respect to such holding, retention or disposition, except as required by law. In any such sale to the Secured Creditor, the Secured Creditor may, for the purpose of making payment for all or any part of the Collateral so purchased, use any claim for Secured Obligations then due and payable to it as a credit against the purchase price.

Section 3.4 Exercise of Remedies.

The remedies under Section 3.2 and Section 3.3 may be exercised from time to time separately or in combination and are in addition to, and not in substitution for, any other rights of the Secured Creditor however arising or created. The Secured Creditor is not bound to exercise any right or remedy, and the exercise of rights and remedies is without prejudice to the rights of the Secured Creditor in respect of the Secured Obligations including the right to claim for any deficiency.

Section 3.5 Receiver's Powers.

- (1) Any receiver appointed by the Secured Creditor is vested with the rights and remedies which could have been exercised by the Secured Creditor in respect of the Obligor or the Collateral and such other powers and discretions as are granted in the instrument of appointment and any supplemental instruments. The identity of the receiver, its replacement and its remuneration are within the sole and unfettered discretion of the Secured Creditor.
- (2) Any receiver appointed by the Secured Creditor will act as agent for the Secured Creditor for the purposes of taking possession of the Collateral, but otherwise and for all other purposes (except as provided below), as agent for the Obligor. The receiver may sell, lease, or otherwise dispose of Collateral as agent for the Obligor or as agent for the Secured Creditor as the Secured

Creditor may determine in its discretion. The Obligor agrees to ratify and confirm all actions of the receiver acting as agent for the Obligor, and to release and indemnify the receiver in respect of all such actions.

- (3) The Secured Creditor, in appointing or refraining from appointing any receiver, does not incur liability to the receiver, the Obligor or otherwise and is not responsible for any misconduct or negligence of such receiver.

Section 3.6 Appointment of Attorney.

The Obligor hereby irrevocably constitutes and appoints the Secured Creditor (and any officer of the Secured Creditor) the true and lawful attorney of the Obligor. As the attorney of the Obligor, the Secured Creditor has the power to exercise for and in the name of the Obligor with full power of substitution, upon the occurrence and during the continuance of an Event of Default, any of the Obligor's right (including the right of disposal), title and interest in and to the Collateral including the execution, endorsement, delivery and transfer of the Collateral to the Secured Creditor, its nominees or transferees, and the Secured Creditor and its nominees or transferees are hereby empowered to exercise all rights and powers and to perform all acts of ownership with respect to the Collateral to the same extent as the Obligor might do. This power of attorney is irrevocable, is coupled with an interest, has been given for valuable consideration (the receipt and adequacy of which is acknowledged) and survives, and does not terminate upon, the bankruptcy, dissolution, winding up or insolvency of the Obligor. This power of attorney extends to and is binding upon the Obligor's successors and permitted assigns. The Obligor authorizes the Secured Creditor to delegate in writing to another Person any power and authority of the Secured Creditor under this power of attorney as may be necessary or desirable in the opinion of the Secured Creditor, and to revoke or suspend such delegation. The power of attorney granted by the Obligor hereby shall automatically terminate and be of no further force or effect upon the discharge of the Security Interest in accordance with Section 5.2 hereof.

Section 3.7 Dealing with the Collateral.

- (1) The Secured Creditor is not obliged to exhaust its recourse against the Obligor or any other Person or against any other security it may hold in respect of the Secured Obligations before realizing upon or otherwise dealing with the Collateral in such manner as the Secured Creditor may consider desirable.
- (2) The Secured Creditor may grant extensions or other indulgences, take and give up securities, accept compositions, grant releases and discharges and otherwise deal with the Obligor and with other Persons, sureties or securities as it may see fit without prejudice to the Secured Obligations, the liability of the Obligor or the rights of the Secured Creditor in respect of the Collateral.

- (3) Except as otherwise provided by law or this Agreement, the Secured Creditor is not (i) liable or accountable for any failure to collect, realize or obtain payment in respect of the Collateral, (ii) bound to institute proceedings for the purpose of collecting, enforcing, realizing or obtaining payment of the Collateral or for the purpose of preserving any rights of any Persons in respect of the Collateral, (iii) responsible for any loss occasioned by any sale or other dealing with the Collateral or by the retention of or failure to sell or otherwise deal with the Collateral, or (iv) bound to protect the Collateral from depreciating in value or becoming worthless.

Section 3.8 Standards of Sale.

Without prejudice to the ability of the Secured Creditor to dispose of the Collateral in any manner which is commercially reasonable, the Obligor acknowledges that:

- (a) the Collateral may be disposed of in whole or in part;
- (b) the Collateral may be disposed of by public auction, public tender or private contract, with or without advertising and without any other formality;
- (c) any assignee of such Collateral may be the Secured Creditor or a customer of any such Person;
- (d) any sale conducted by the Secured Creditor will be at such time and place, on such notice and in accordance with such procedures as the Secured Creditor, in its sole discretion, may deem advantageous;
- (e) the Collateral may be disposed of in any manner and on any terms necessary to avoid violation of applicable law (including compliance with such procedures as may restrict the number of prospective bidders and purchasers, require that the prospective bidders and purchasers have certain qualifications, and restrict the prospective bidders and purchasers to Persons who will represent and agree that they are purchasing for their own account for investment and not with a view to the distribution or resale of the Collateral) or in order to obtain any required approval of the disposition (or of the resulting purchase) by any governmental or regulatory authority or official;
- (f) a disposition of the Collateral may be on such terms and conditions as to credit or otherwise as the Secured Creditor, in its sole discretion, may deem advantageous; and

- (g) the Secured Creditor may establish an upset or reserve bid or price in respect of the Collateral.

Section 3.9 Dealings by Third Parties.

- (1) No Person dealing with the Secured Creditor or an agent or receiver is required to determine (i) whether the Security Interest has become enforceable, (ii) whether the powers which such Person is purporting to exercise have become exercisable, (iii) whether any money remains due to the Secured Creditor by the Obligor, (iv) the necessity or expediency of the stipulations and conditions subject to which any sale or lease is made, (v) the propriety or regularity of any sale or other dealing by the Secured Creditor with the Collateral, or (vi) how any money paid to Secured Creditor has been applied.
- (2) Any bona fide purchaser of all or any part of the Collateral from the Secured Creditor or any receiver or agent will hold the Collateral absolutely, free from any claim or right of whatever kind, including any equity of redemption, of the Obligor, which it specifically waives (to the fullest extent permitted by law) as against any such purchaser together with all rights of redemption, stay or appraisal which the Obligor has or may have under any rule of law or statute now existing or hereafter adopted.

**ARTICLE 4
REPRESENTATIONS, WARRANTIES AND COVENANTS**

Section 4.1 General Representations, Warranties and Covenants.

The Obligor represents and warrants and covenants and agrees, acknowledging and confirming that the Secured Creditor is relying on such representations, warranties, covenants and agreements, that:

- (a) **Continuous Perfection.** Schedule C sets out the Obligor's place of business or, if more than one, the Obligor's chief executive office. Such place of business or chief executive office, as the case may be, has been located at such address for the 60 days immediately preceding the date of this Agreement. Schedule C also sets out the address at which the books and records of the Obligor are located, the address at which senior management of the Obligor are located and conduct their deliberations and make their decisions with respect to the business of the Obligor and the address from which the invoices and accounts of the Obligor are issued. The Obligor will not change the location of any of these items, people or addresses without providing at least 30 days prior written notice to the Secured Creditor. Except for sales of

inventory made in the ordinary course of business, the Collateral, to the extent not delivered to the Collateral Agent pursuant to Section 2.3(3), has been kept for the 60 days immediately preceding the date of this Agreement and will be kept at those locations listed on Schedule C, and the Obligor will not remove the Collateral from such locations, without providing at least 30 days prior written notice to the Secured Creditor. The Obligor will not change its name in any manner without providing at least 30 days prior written notice to the Secured Creditor.

- (b) **Restriction on Disposition.** The Obligor will not sell, assign, convey, exchange, lease, release or abandon, or otherwise dispose of, any Collateral except as expressly permitted in the Secured Debenture.
- (c) **Negative Pledge.** The Obligor will not create or suffer to exist, any Lien on the Collateral, except for Liens permitted by the Secured Debenture.
- (d) **Account Debtors.** None of the account debtors in respect of any accounts, chattel paper or intangibles and none of the obligors in respect of any Instruments included in the Collateral as of the date hereof is (i) a Governmental Entity, or (ii) in the case of any account in excess of \$100,000, is located outside of Canada or the United States of America.
- (e) **Securities and Instruments.**
 - (i) Schedule A lists all Securities and Instruments owned or held by the Obligor on the date of this Agreement and all such Securities are represented by certificated securities.
 - (ii) Securities that are Collateral have been, where applicable, duly and validly issued and acquired and are fully paid and non-assessable. Schedule A sets out, for each class of Securities listed in the schedule, the percentage amount that such Securities represent of all issued and outstanding Securities of that class.
 - (iii) Except as described in Schedule A, no transfer restrictions apply to the Securities and Instruments listed in Schedule A. The Obligor has delivered to the Secured Creditor copies of all shareholder, partnership or trust agreements applicable to each issuer of such Securities and Instruments which are in the Obligor's possession or control.

- (iv) No Person has or will have any written or oral option, warrant, right, call, commitment, conversion right, right of exchange or other agreement or any right or privilege (whether by law, preemptive or contractual) capable of becoming an option, warrant, right, call, commitment, conversion right, right of exchange or other agreement to acquire any right or interest in any of the Securities and Instruments that are Collateral.
 - (v) The Securities that are Collateral constitute, where applicable, the legal, valid and binding obligation of the obligor of such Securities, enforceable in accordance with their terms, subject only to any limitation under applicable laws relating to (i) bankruptcy, insolvency, fraudulent conveyance, arrangement, reorganization or creditors' rights generally, and (ii) the discretion that a court may exercise in the granting of equitable remedies.
 - (vi) The pledge, assignment and delivery to the Secured Creditor of the Collateral consisting of certificated Securities pursuant to this Agreement creates a valid and perfected first ranking security interest in such certificated Securities, and the proceeds of them. Such Securities and the proceeds from them are not subject to any prior Lien or any agreement purporting to grant to any third party a Lien on the property or assets of the Obligor which would include the Securities except for Permitted Encumbrances. The Secured Creditor is entitled to all the rights, priorities and benefits afforded by the *Personal Property Security Act* (Ontario) or other relevant personal property security legislation as enacted in any relevant jurisdiction to perfect security interests in respect of such Collateral.
- (f) **Status of Accounts Collateral.** The Obligor will maintain books and records pertaining to the Collateral in such detail, form and scope as the Secured Creditor reasonably requires, and keep all originals of the chattel paper which evidence accounts at locations specified on Schedule B. The Obligor will immediately notify the Secured Creditor if any account in excess of \$500,000 arises out of contracts with any Governmental Entity, and execute any instruments and take any steps required by the Secured Creditor in order that all moneys due or to become due under the contract are assigned to the Secured Creditor and notice of such assignment is given to the Governmental Entity. The Obligor will also immediately notify the Secured Creditor if any

account in excess of \$500,000 is with an account debtor located outside of Canada or the United States of America.

- (g) **Additional Security Perfection and Protection of Security Interest.** The Obligor will grant to the Secured Creditor, security interests, assignments, mortgages, charges, hypothecations and pledges in such property and undertaking of the Obligor that is not subject to a valid and perfected first ranking security interest (subject only to Permitted Liens) constituted by the Security Documents, in each relevant jurisdiction as determined by the Secured Creditor. The Obligor will perform all acts, execute and deliver all agreements, documents and instruments and take such other steps as are requested by the Secured Creditor at any time to register, file, signify, publish, perfect, maintain, protect, and enforce the Security Interest including: (i) executing, recording and filing of financing or other statements, and paying all taxes, fees and other charges payable, (ii) placing notations on its books of account to disclose the Security Interest, (iii) delivering acknowledgements, confirmations and subordinations that may be necessary to ensure that the Security Documents constitute a valid and perfected first ranking security interest (subject only to Permitted Liens), (iv) executing and delivering any agreements, documents and instruments that may be needed under or in connection with the *Securities Transfer Act (Ontario)* and (v) delivering opinions of counsel in respect of matters contemplated by this paragraph. The documents and opinions contemplated by this paragraph must be in form and substance satisfactory to the Secured Creditor.

Section 4.2 Representations, Warranties and Covenants Concerning Intellectual Property.

The Obligor represents and warrants and covenants and agrees, acknowledging and confirming that the Secured Creditor is relying on such representations, warranties, covenants and agreements, that:

- (a) Schedule B lists all Registrable Intellectual Property that is owned by the Obligor on the date of this Agreement.
- (b) All Registrable Intellectual Property of the Obligor is valid, subsisting, unexpired and enforceable, has not been abandoned and, to the knowledge of the Obligor, does not infringe the Intellectual Property rights of any other Person.

- (c) No decision or judgment has been rendered by any Governmental Entity which would limit, cancel or question the validity of, or the Obligor's rights in, any Intellectual Property in any respect.
- (d) No action or proceeding is pending, or, to the knowledge of the Obligor, threatened, on the date hereof seeking to limit, cancel or question the validity of any Intellectual Property or the Obligor's ownership interest therein, or which, if adversely determined, would have a Material adverse effect on the value of any Intellectual Property.
- (e) The Obligor will take all reasonable and necessary steps, including in any proceeding before the Canadian Intellectual Property Office or any similar Governmental Entity of any jurisdiction, to maintain and pursue each application (and to obtain the relevant registration) and to maintain each registration of the material Registrable Intellectual Property, including, without limitation, filing of applications for renewal, affidavits of use and affidavits of incontestability.
- (f) In the event that any material Intellectual Property of the Obligor is infringed, misappropriated or diluted by a third party, the Obligor will (i) take such actions as the Obligor reasonably deems appropriate under the circumstances to protect such Intellectual Property and (ii) if such Intellectual Property is of material economic value, promptly notify the Secured Creditor after it learns thereof and sue for infringement, misappropriation or dilution, to seek injunctive relief where appropriate and to recover any and all damages for such infringement, misappropriation or dilution.
- (g) Immediately upon the request of the Secured Creditor, the Obligor will furnish the Secured Creditor in writing the description of all Registrable Intellectual Property or applications for Registrable Intellectual Property of the Obligor. In addition, the Obligor will deliver to the Secured Creditor a copy of the certificate of registration of, or application for, such Registrable Intellectual Property with a Confirmation of Security Interest in the form of Schedule D in respect of such Registrable Intellectual Property confirming the assignment for security of such Registrable Intellectual Property to the Secured Creditor and immediately make all such filings, registrations and recordings as are necessary or appropriate to perfect the Security Interest granted to the Secured Creditor in the Registrable Intellectual Property.

**ARTICLE 5
GENERAL**

Section 5.1 Notices.

Any notice, direction or other communication (each a "Notice") given regarding the matters contemplated by this Agreement must be in writing, sent by personal delivery, courier or facsimile (but not by electronic mail) and addressed:

(a) to the Secured Creditor at:

WF Fund III Limited Partnership
161 Bay Street
Suite 2520
Toronto, ON M5J 2S1

Attention: Mark McQueen
Facsimile: 416-682-1160

with a copy to:

Minden Gross LLP
145 King Street West
Suite 2200
Toronto, ON M5H 4G2

Attention: Daniel Rothberg
Facsimile: 416-864-9223

(b) to the Obligor at:

Tercon Equipment Ltd.
#100 - 2079 Falcon Road
Kamloops, BC V2C 4J2
Attention: Mr. Milan Soucek
Facsimile: (250) 372-1555

A Notice is deemed to be delivered and received (i) if sent by personal delivery, on the date of delivery if it is a Business Day and the delivery was made prior to 4:00 p.m. (local time in place of receipt) and otherwise on the next Business Day, (ii) if sent by same-day service courier, on the date of delivery if sent on a Business Day and delivery was made prior to 4:00 p.m. (local time in place of receipt) and otherwise on the next Business Day, (iii) if sent by overnight courier, on the next Business Day, or (iv) if sent by facsimile, on the Business Day following the date of

confirmation of transmission by the originating facsimile. A party may change its address for service from time to time by providing a Notice in accordance with the foregoing. Any subsequent Notice must be sent to the party at its changed address. Any element of a party's address that is not specifically changed in a Notice will be assumed not to be changed.

Section 5.2 Discharge.

The Security Interest will not be discharged except by a written release or discharge signed by the Secured Creditor. The Obligor will be entitled to require a discharge by notice to the Secured Creditor upon, but only upon, (i) full and indefeasible payment and performance of the Secured Obligations and (ii) the Secured Creditor having no obligations under any Credit Document. Upon discharge of the Security Interest and at the request and expense of the Obligor, the Secured Creditor will execute and deliver to the Obligor such financing statements and other documents or instruments as the Obligor may reasonably require and the Secured Creditor will redeliver to the Obligor, or as the Obligor may otherwise direct the Secured Creditor, any Collateral in its possession.

Section 5.3 No Merger, Survival of Representations and Warranties.

This Agreement does not operate by way of merger of any of the Secured Obligations and no judgment recovered by the Secured Creditor will operate by way of merger of, or in any way affect, the Security Interest, which is in addition to, and not in substitution for, any other security now or hereafter held by the Secured Creditor in respect of the Secured Obligations. The representations, warranties and covenants of the Obligor in this Agreement survive the execution and delivery of this Agreement and any advances under the Secured Debenture. Notwithstanding any investigation made by or on behalf of the Secured Creditor these covenants, representations and warranties continue in full force and effect.

Section 5.4 Further Assurances.

The Obligor will do all acts and things and execute and deliver, or cause to be executed and delivered, all agreements, documents and instruments that the Secured Creditor may require and take all further steps relating to the Collateral or any other property or assets of the Obligor that the Secured Creditor may require, including any agreements, documents or instruments required under or in connection with the *Securities Transfer Act* (Ontario) for (i) protecting the Collateral, (ii) perfecting the Security Interest, and (iii) exercising all powers, authorities and discretions conferred upon the Secured Creditor. After the Security Interest becomes enforceable, the Obligor will do all acts and things and execute and deliver all documents and instruments that the Secured Creditor may require for facilitating the sale or other disposition of the Collateral in connection with its realization.

Section 5.5 Supplemental Security.

This Agreement is in addition to, without prejudice to and supplemental to all other security now held or which may hereafter be held by the Secured Creditor.

Section 5.6 Successors and Assigns.

This Agreement is binding on the Obligor and its successors and assigns, and enures to the benefit of the Secured Creditor and its successors and assigns. This Agreement may be assigned by the Secured Creditor without the consent of, or notice to, the Obligor, to such Person as the Secured Creditor may determine and, in such event, such Person will be entitled to all of the rights and remedies of the Secured Creditor as set forth in this Agreement or otherwise. In any action brought by an assignee to enforce any such right or remedy, the Obligor will not assert against the assignee any claim or defence which the Obligor now has or may have against the Secured Creditor. The Obligor may not assign, transfer or delegate any of its rights or obligations under this Agreement without the prior written consent of the Secured Creditor which may be unreasonably withheld.

Section 5.7 Amalgamation.

The Obligor acknowledges and agrees that in the event it amalgamates with any other corporation or corporations, it is the intention of the parties that the Security Interest (i) subject to Section 2.4, extends to: (A) all of the property and undertaking that any of the amalgamating corporations then owns, (B) all of the property and undertaking that the amalgamated corporation thereafter acquires, (C) all of the property and undertaking in which any of the amalgamating corporations then has any interest and (D) all of the property and undertaking in which the amalgamated corporation thereafter acquires any interest; and (ii) secures the payment and performance of all debts, liabilities and obligations, present or future, direct or indirect, absolute or contingent, matured or unmatured, at any time or from time to time due or accruing due and owing by or otherwise payable by each of the amalgamating corporations and the amalgamated corporation to the Secured Creditor in any currency, however or wherever incurred, and whether incurred alone or jointly with another or others and whether as principal, guarantor or surety and whether incurred prior to, at the time of or subsequent to the amalgamation. The Security Interest attaches to the additional collateral at the time of amalgamation and to any collateral thereafter owned or acquired by the amalgamated corporation when such becomes owned or is acquired. Upon any such amalgamation, the defined term "Obligor" means, collectively, each of the amalgamating corporations and the amalgamated corporation, the defined term "Collateral" means all of the property and undertaking and interests described in (i) above, and the defined term "Secured Obligations" means the obligations described in (ii) above.

Section 5.8 Severability.

If any court of competent jurisdiction from which no appeal exists or is taken, determines any provision of this Agreement to be illegal, invalid or unenforceable, that provision will be severed from this Agreement and the remaining provisions will remain in full force and effect.

Section 5.9 Amendment.

This Agreement may only be amended, supplemented or otherwise modified by written agreement executed by the Secured Creditor and the Obligor.

Section 5.10 Waivers, etc.

- (1) No consent or waiver by the Secured Creditor in respect of this Agreement is binding unless made in writing and signed by an authorized officer of the Secured Creditor. Any consent or waiver given under this Agreement is effective only in the specific instance and for the specific purpose for which given. No waiver of any of the provisions of this Agreement constitutes a waiver of any other provision.
- (2) A failure or delay on the part of the Secured Creditor in exercising a right under this Agreement does not operate as a waiver of, or impair, any right of the Secured Creditor however arising. A single or partial exercise of a right on the part of the Secured Creditor does not preclude any other or further exercise of that right or the exercise of any other right by the Secured Creditor.

Section 5.11 Application of Proceeds of Security.

All monies collected by the Secured Creditor upon the enforcement of its rights and remedies under the Security Documents and the Liens created by them including any sale or other disposition of the Collateral, together with all other monies received by the Secured Creditor under the Security Documents, will be applied as provided in the Secured Debenture. To the extent any other Credit Document requires proceeds of collateral under such Credit Document to be applied in accordance with the provisions of this Agreement, the Secured Creditor shall apply such proceeds in accordance with this Section.

Section 5.12 Conflict.

In the event of any conflict between one or more provisions of this Agreement, the provisions of the Secured Debenture and the provisions of the Operating Loan Agreement which cannot be resolved by all such provisions being complied with, the provisions contained in the Secured Debenture will prevail to the extent of such conflict.

Section 5.13 Governing Law.

This Agreement will be governed by, interpreted and enforced in accordance with the laws of the Province of Ontario and the federal laws of Canada applicable therein.

Section 5.14 Termination, Survival.

Upon discharge of the Security Interest pursuant to Section 5.2 hereof, this Agreement shall automatically terminate. The provisions of Article 5 shall survive any termination of this Agreement.

IN WITNESS WHEREOF the Obligor has executed this Agreement.

TERCON EQUIPMENT LTD.

Per:



Authorized Signing Officer

#1264116 v1 | 4061837

TERCON MINING LTD.

as Obligor

and

**WF FUND III LIMITED PARTNERSHIP,
carrying on business as WELLINGTON FINANCIAL LP
AND WELLINGTON FINANCIAL FUND III**

as Secured Creditor

SECURITY AGREEMENT

October 1, 2007

SECURITY AGREEMENT

Security agreement dated as of October 1, 2007 made by Tercon Mining Ltd. to and in favour of WF Fund III Limited Partnership, carrying on business as Wellington Financial LP and Wellington Financial Fund III.

RECITALS:

- (a) The Borrower is or will become indebted or liable to the Secured Creditor pursuant to its Series A Secured Debentures in the aggregate principal amount of \$5,000,000.00 (Cdn.) dated October 1, 2007 (as the same may be amended, restated, supplemented or replaced from time to time, the "Secured Debenture") and pursuant to an Operating Loan Agreement between the Borrower and the Secured Party dated October 1, 2007 (as the same may be amended, restated, supplemented or replaced from time to time, the "Operating Loan Agreement");
- (b) To secure the due performance of the Borrower's obligations to the Secured Creditor under *inter alia* the Secured Debenture and the Operating Loan Agreement, the Obligor has entered into a form of Guarantee dated October 1, 2007 in favor of the Secured Creditor (as the same may be amended, restated, supplemented or replaced from time to time, the "Guarantee"); and
- (c) Pursuant to Section 4.1 of the Secured Debenture, the Obligor is required to execute and deliver this Agreement in favour of the Secured Creditor.

In consideration of the foregoing and other good and valuable consideration, the receipt and adequacy of which are acknowledged, the Obligor agrees as follows.

ARTICLE 1 INTERPRETATION

Section 1.1 Defined Terms.

As used in this Agreement, the following terms have the following meanings:

"Agreement" means this security agreement.

"Borrower" means Tercon Investments Ltd.

"Collateral" has the meaning specified in Section 2.1.

"Credit Documents" means the Secured Debenture, the Operating Loan Agreement, this Agreement and each other Security Document (as such term is defined in the Secured Debenture).

"Event of Default" has the meaning ascribed thereto in the Guarantee;

"Expenses" has the meaning specified in Section 2.2(b).

"Governmental Entity" means any international tribunal, agency, body commission or other authority, any government, executive, parliament, legislature or local authority, or any governmental entity, ministry, department or agency or regulatory authority, court, tribunal, commission or board of or within Canada, or any other foreign jurisdiction, or any political subdivision of any thereof or any authority having jurisdiction therein or any quasi governmental or private body exercising any regulatory, expropriation or taxing authority under or for the account of any of the above.

"Instruments" means (i) a bill, note or cheque within the meaning of the *Bills of Exchange Act* (Canada) or any other writing that evidences a right to the payment of money and is of a type that in the ordinary course of business is transferred by delivery with any necessary endorsement or assignment, or (ii) a letter of credit and an advice of credit if the letter or advice states that it must be surrendered upon claiming payment thereunder, or (iii) chattel paper or any other writing that evidences both a monetary obligation and a security interest in or a lease of specific goods, or (iv) documents of title or any other writing that purports to be issued by or addressed to a bailee and purports to cover such goods in the bailee's possession as are identified or fungible portions of an identified mass, and that in the ordinary course of business is treated as establishing that the Person in possession of it is entitled to receive, hold and dispose of the document and the goods it covers, or (v) any document or writing commonly known as an instrument.

"Intellectual Property" means domestic and foreign: (i) patents, applications for patents and reissues, divisions, continuations, renewals, extensions and continuations-in-part of patents or patent applications; (ii) proprietary and non-public business information, including inventions (whether patentable or not), invention disclosures, improvements, discoveries, trade secrets, confidential information, know-how, methods, processes, designs, technology, technical data, schematics, formulae and customer lists, and documentation relating to any of the foregoing; (iii) copyrights, copyright registrations and applications for copyright registration; (iv) mask works, mask work registrations and applications for mask work registrations; (v) designs, design registrations, design registration applications and integrated circuit topographies; (vi) trade names, business names, corporate names, domain names, website names and world wide web addresses, common law trade-marks, trade-mark registrations, trade-mark applications, trade dress and

logos, and the goodwill associated with any of the foregoing; (vii) computer software and programs (both source code and object code form), all proprietary rights in the computer software and programs and all documentation and other materials related to the computer software and programs; and (viii) any other intellectual property and industrial property.

"Lien" means (i) any mortgage, charge, pledge, hypothecation, security interest, assignment by way of security, encumbrance, lien (statutory or otherwise), hire purchase agreement, conditional sale agreement, deposit arrangement, title retention agreement or arrangement, or any other assignment, arrangement or condition that in substance secures payment or performance of an obligation, (ii) any trust arrangement, (iii) any arrangement which creates a right of set-off out of the ordinary course of business, or (iv) any agreement to grant any such rights or interests.

"Obligor" means Tercon Mining Ltd., a corporation incorporated and existing under the laws of British Columbia, and its successors and permitted assigns.

"Registrable Intellectual Property" means any Intellectual Property in respect of which ownership, title, security interests, charges or encumbrances are capable of registration, recording or notation with any Governmental Entity pursuant to applicable laws.

"Restricted Asset" has the meaning specified in Section 2.4(1).

"Secured Creditor" means WF Fund III Limited Partnership, carrying on business as Wellington Financial LP and Wellington Financial Fund III and its successors and assigns.

"Secured Obligations" has the meaning specified in Section 2.2(a).

"Security" means an obligation of an issuer or a share, participation or other interest in an issuer or in property or an enterprise of an issuer,

- (a) that is represented by a security certificate in bearer form or registered form, or the transfer of which may be registered on books maintained for that purpose by or on behalf of the issuer,
- (b) that is one of a class or series, or by its terms is divisible into a class or series, of shares, participations, interests or obligations, and
- (c) that,
 - (i) is, or is of a type, dealt in or traded on securities exchanges or securities markets, or

- (ii) is a medium for investment and by its terms expressly provides that it is a security for the purposes of the *Securities Transfer Act* (Ontario);

but excludes

- (d) any ULC Shares.

"Security Interest" has the meaning specified in Section 2.2.

"ULC Shares" means shares in any unlimited company or unlimited liability corporation at any time owned or otherwise held by the Obligor.

Section 1.2 Interpretation.

- (1) Terms defined in the *Personal Property Security Act* (Ontario) or the *Securities Transfer Act* (Ontario) and used but not otherwise defined in this Agreement have the same meanings.
- (2) Capitalized terms used in this Agreement but not defined have the meanings given to them in the Secured Debenture.
- (3) Any reference in any Credit Document to Liens permitted by the Secured Debenture and any right of the Obligor to create or suffer to exist Liens permitted by the Secured Debenture are not intended to and do not and will not subordinate the Security Interest to any such Lien or give priority to any Person over the Secured Creditor.
- (4) In this Agreement the words "including", "includes" and "include" mean "including (or includes or include) without limitation". The expressions "Article", "Section" and other subdivision followed by a number mean and refer to the specified Article, Section or other subdivision of this Agreement.
- (5) Any reference in this Agreement to gender includes all genders. Words importing the singular number only include the plural and vice versa.
- (6) The division of this Agreement into Articles, Sections and other subdivisions and the insertion of headings are for convenient reference only and do not affect its interpretation.
- (7) The schedules attached to this Agreement form an integral part of it for all purposes of it.
- (8) Except as otherwise provided in this Agreement, any reference to this Agreement, any Credit Document or any Security Document refers to this Agreement or such Credit Document or Security Document as the same may

have been or may from time to time be amended, modified, extended, renewed, restated, replaced or supplemented and includes all schedules attached to it. Except as otherwise provided in this Agreement, any reference in this Agreement to a statute refers to such statute and all rules and regulations made under it as the same may have been or may from time to time be amended or re-enacted.

ARTICLE 2 SECURITY

Section 2.1 Grant of Security.

Subject to Section 2.4, the Obligor grants to the Secured Creditor, a security interest in, and assigns, mortgages, charges, hypothecates and pledges to the Secured Creditor, all of the property and undertaking of the Obligor now owned or hereafter acquired and all of the property and undertaking in which the Obligor now has or hereafter acquires any interest (collectively, the "Collateral") including all of the Obligor's:

- (a) present and after-acquired personal property;
- (b) inventory including goods held for sale, lease or resale, goods furnished or to be furnished to third parties under contracts of lease, consignment or service, goods which are raw materials or work in process, goods used in or procured for packing and materials used or consumed in the business of the Obligor;
- (c) equipment, machinery, furniture, fixtures, plant, vehicles and other goods of every kind and description and all licences and other rights and all related records, files, charts, plans, drawings, specifications, manuals and documents;
- (d) accounts due or accruing and all related agreements, books, accounts, invoices, letters, documents and papers recording, evidencing or relating to them;
- (e) money, documents of title and chattel paper;
- (f) Instruments and Securities, including the Instruments and Securities listed in Schedule A;
- (g) intangibles including all security interests, goodwill, choses in action, contracts, contract rights, licenses and other contractual benefits;

- (h) Intellectual Property including the Registrable Intellectual Property listed in Schedule B;
- (i) all substitutions and replacements of and increases, additions and, where applicable, accessions to the property described in Section 2.1(a) through Section 2.1(h) inclusive; and
- (j) all proceeds in any form derived directly or indirectly from any dealing with all or any part of the property described in Section 2.1(a) through Section 2.1(i) inclusive, including the proceeds of such proceeds.

Section 2.2 Secured Obligations.

The security interest, assignment, mortgage, charge, hypothecation and pledge granted by this Agreement (collectively, the "Security Interest") secures the payment and performance of:

- (a) all debts, liabilities and obligations, present or future, direct or indirect, absolute or contingent, matured or unmatured, at any time or from time to time due or accruing due and owing by or otherwise payable by the Obligor to the Secured Creditor in any currency, however or wherever incurred, and whether incurred by the Obligor alone or jointly with another or others and whether as principal, guarantor or surety and in whatever name or style (collectively, and together with the Expenses, the "Secured Obligations"); and
- (b) all expenses, costs and charges incurred by or on behalf of the Secured Creditor in connection with this Agreement, the Security Interest or the Collateral, ~~including all legal fees, court costs, receiver's or agent's remuneration and other expenses of taking possession of, repairing, protecting, insuring, preparing for disposition, realizing, collecting, selling, transferring, delivering or obtaining payment for the Collateral, and of taking, defending or participating in any action or proceeding in connection with any of the foregoing matters or otherwise in connection with the Secured Creditor's interest in any Collateral, whether or not directly relating to the enforcement of this Agreement or any other Credit Document (collectively, the "Expenses").~~

Section 2.3 Attachment.

- (1) The Obligor acknowledges that (i) value has been given, (ii) it has rights in the Collateral (other than after-acquired Collateral), (iii) it has not agreed to

postpone the time of attachment of the Security Interest, and (iv) it has received a copy of this Agreement.

- (2) The Obligor shall not permit any of the Securities at any time to be or to become uncertificated securities.
- (3) The Obligor delivers to and deposits with the Secured Creditor any and all certificates evidencing the Securities listed in Schedule A, together with, in each case, a stock power duly endorsed in blank for transfer and an irrevocable directors or other applicable resolution of entity in from which the Securities are issued, consenting to the transfer by the Obligor and the Obligor hereby grants control over such Securities to the Secured Creditor in accordance with the provisions of the *Securities Transfer Act* (Ontario). The Obligor also delivers to and deposits with the Secured Creditor any promissory note or other Instruments evidencing any amount payable in excess of \$100,000 or evidencing any rights to goods having a value in excess of \$100,000.
- (4) If the Obligor acquires any Securities or any Instruments (other than Instruments evidencing amounts payable of less than \$100,000 or evidencing any rights to goods having a value less than \$100,000), the Obligor will notify the Secured Creditor in writing and provide the Secured Creditor with a revised Schedule A recording the acquisition and particulars of such Instruments or Securities within 5 days after such acquisition. Upon request by the Secured Creditor, the Obligor will promptly deliver to and deposit with the Secured Creditor, or cause the Secured Creditor to have control over, such Securities or Instruments (other than Instruments evidencing amounts payable of less than \$100,000 or evidencing any rights to goods having a value less than \$100,000) as security for the Secured Obligations. The Obligor will also promptly inform the Secured Creditor in writing of the acquisition by the Obligor of any ULC Shares.
- (5) At the request of the Secured Creditor the Obligor will (i) cause the transfer of any Securities or Instruments to the Secured Creditor to be registered wherever such registration may be required or advisable in the reasonable opinion of the Secured Creditor, (ii) duly endorse any such Securities or Instruments for transfer in blank or register them in the name of the Secured Creditor or its nominee or otherwise as the Secured Creditor may reasonably direct, (iii) immediately deliver to the Secured Creditor any and all consents or other documents which may be necessary to effect the transfer of any such Securities or Instruments to the Secured Creditor or any third party and (iv) deliver to or otherwise cause the Secured Creditor to have control over such Securities or Instruments in accordance with the provisions of the *Securities*

Transfer Act (Ontario). Upon the discharge of the Security Interest in accordance with Section 5.2 hereof, the Secured Creditor shall promptly cause all Securities or Instruments transferred to it or to any third party pursuant to this Section 2.3(5) to be transferred back to the Obligor including duly endorsing any such Securities or Instruments for transfer back to the Obligor and delivering to the Obligor any and all consents or other documents which may be necessary to effect the transfer of any such Securities or Instruments to the Obligor.

- (6) The Obligor will promptly notify the Secured Creditor in writing of the acquisition by the Obligor of any Registrable Intellectual Property. The Obligor will provide the Secured Creditor with a revised Schedule B recording the acquisition and particulars of such additional Intellectual Property.

Section 2.4 Scope of Security Interest.

- (1) To the extent that an assignment of amounts payable and other proceeds arising under or in connection with, or the grant of a security interest in any agreement, licence, permit or quota of the Obligor would result in the termination of such agreement, licence, permit or quota (each, a "Restricted Asset"), the Security Interest with respect to each Restricted Asset will constitute a trust created in favour of the Secured Creditor pursuant to which the Obligor holds as trustee all proceeds arising under or in connection with the Restricted Asset in trust for the Secured Creditor on the following basis:
 - (a) until the Security Interest is enforceable and subject to the Secured Debenture, the Obligor is entitled to receive all such proceeds; and
 - (b) whenever the Security Interest is enforceable, (i) all rights of the Obligor to receive such proceeds cease and all such proceeds will be immediately paid over to the Secured Creditor and (ii) the Obligor will take all actions requested by the Secured Creditor to collect and enforce payment and other rights arising under the Restricted Asset.

The Obligor will use all commercially reasonable efforts to obtain the consent of each other party to any and all Restricted Assets to the assignment of such Restricted Asset to the Secured Creditor in accordance with this Agreement. The Obligor will also use all commercially reasonable efforts to ensure that all agreements entered into on and after the date of this Agreement expressly permit assignments of the benefits of such agreements as collateral security to the Secured Creditor in accordance with the terms of this Agreement.

- (2) The Security Interest with respect to trade-marks constitutes a security interest in, and a charge, hypothecation and pledge of, such Collateral in

favour of the Secured Creditor, but does not constitute an assignment or mortgage of such Collateral to the Secured Creditor.

- (3) Until the Security Interest is enforceable, the grant of the Security Interest in the Intellectual Property does not affect in any way the Obligor's rights to commercially exploit the Intellectual Property, defend it, enforce the Obligor's rights in it or with respect to it against third parties in any court or claim and be entitled to receive any damages with respect to any infringement of it.
- (4) The Security Interest does not extend to consumer goods or ULC Shares.
- (5) The Security Interest does not extend or apply to the last day of the term of any lease or sublease of real property or any agreement for a lease or sublease of real property, now held or hereafter acquired by the Obligor, but the Obligor will stand possessed of any such last day upon trust to assign and dispose of it as the Secured Creditor may reasonably direct.

Section 2.5 Grant of Licence to Use Intellectual Property.

At such time as the Secured Creditor is lawfully entitled to exercise its rights and remedies under Article 3, the Obligor grants to the Secured Creditor an irrevocable, nonexclusive licence (exercisable without payment of royalty or other compensation to the Obligor) to use, assign or sublicense any Intellectual Property in which the Obligor has rights wherever the same may be located, including in such licence access to (i) all media in which any of the licensed items may be recorded or stored, and (ii) all software and computer programs used for compilation or print-out. The license granted under this Section is to enable the Secured Creditor to exercise its rights and remedies under Article 3 and for no other purpose.

Section 2.6 Care and Custody of Collateral.

- (1) The Secured Creditor has no obligation to keep Collateral in its possession identifiable.
- (2) The Secured Creditor may, after the Security Interest is enforceable, (i) notify any Person obligated on an Instrument, Security or account to make payments to the Secured Creditor, whether or not the Obligor was previously making collections on such accounts, chattel paper, instruments, and (ii) assume control of any proceeds arising from the Collateral.
- (3) The Secured Creditor has no obligation to collect dividends, distributions or interest payable on, or exercise any option or right in connection with, any Securities or Instruments. The Secured Creditor has no obligation to protect or preserve any Securities or Instruments from depreciating in value or becoming worthless and is released from all responsibility for any loss of

value. In the physical keeping of any Securities, the Secured Creditor is only obliged to exercise the same degree of care as it would exercise with respect to its own Securities kept at the same place.

Section 2.7 Rights of the Obligor.

- (1) Until the Security Interest is enforceable, the Obligor is entitled to vote the Securities that are part of the Collateral and to receive all dividends and distributions on such Securities. In order to allow the Obligor to vote any Securities registered in the Secured Creditor's name or the name of its nominee, at the request and the expense of the Obligor, the Secured Creditor will, prior to the Security Interest being enforceable, and may, after the Security Interest is enforceable, execute valid proxies appointing proxyholders to attend and act at meetings of shareholders, and execute resolutions in writing, all pursuant to the relevant provisions of the issuer's governing legislation. Whenever the Security Interest is enforceable, all rights of the Obligor to vote (under any proxy given by the Secured Creditor (or its nominee) or otherwise) or to receive distributions or dividends cease and all such rights become vested solely and absolutely in the Secured Creditor.
- (2) Any distributions or dividends received by the Obligor contrary to Section 2.7(1) or any other moneys or property received by the Obligor after the Security Interest is enforceable will be received as trustee for the Secured Creditor and shall be immediately paid over to the Secured Creditor.

Section 2.8 Expenses.

The Obligor is liable for and will pay on demand by the Secured Creditor any and all Expenses.

**ARTICLE 3
ENFORCEMENT**

Section 3.1 Enforcement.

The Security Interest becomes and is enforceable against the Obligor upon the occurrence and during the continuance of an Event of Default.

Section 3.2 Remedies.

Whenever the Security Interest is enforceable, the Secured Creditor may realize upon the Collateral and enforce the rights of the Secured Creditor by:

- (a) entry onto any premises where Collateral consisting of tangible personal property may be located;

- (b) entry into possession of the Collateral by any method permitted by law;
 - (c) sale, grant of options to purchase, or lease of all or any part of the Collateral;
 - (d) holding, storing and keeping idle or operating all or any part of the Collateral;
 - (e) exercising and enforcing all rights and remedies of a holder of the Securities and Instruments as if the Secured Creditor were the absolute owner thereof (including, if necessary, causing the Collateral to be registered in the name of the Secured Creditor or its nominee if not already done);
 - (f) collection of any proceeds arising in respect of the Collateral;
 - (g) collection, realization or sale of, or other dealing with, accounts;
 - (h) license or sublicense, whether on an exclusive or nonexclusive basis, of any Intellectual Property for such term and on such conditions and in such manner as the Secured Creditor in its sole judgment determines (taking into account such provisions as may be necessary to protect and preserve such Intellectual Property);
 - (i) instruction to any bank which has entered into a control agreement with the Secured Creditor to transfer all moneys, Securities and Instruments held by such depository bank to an account maintained with or by the Secured Creditor;
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- (j) application of any moneys constituting Collateral or proceeds thereof in accordance with Section 5.11;
 - (k) appointment by instrument in writing of a receiver (which term as used in this Agreement includes a receiver and manager) or agent of all or any part of the Collateral and removal or replacement from time to time of any receiver or agent;
 - (l) institution of proceedings in any court of competent jurisdiction for the appointment of a receiver of all or any part of the Collateral;
 - (m) institution of proceedings in any court of competent jurisdiction for sale or foreclosure of all or any part of the Collateral;

- (n) filing of proofs of claim and other documents to establish claims to the Collateral in any proceeding relating to the Obligor; and
- (o) any other remedy or proceeding authorized or permitted under the *Personal Property Security Act* (Ontario) or otherwise by law or equity.

Section 3.3 Additional Rights.

In addition to the remedies set forth in Section 3.2 and elsewhere in this Agreement, whenever the Security Interest is enforceable, the Secured Creditor may:

- (a) require the Obligor, at the Obligor's expense, to assemble the Collateral at a place or places designated by notice in writing and the Obligor agrees to so assemble the Collateral immediately upon receipt of such notice;
- (b) require the Obligor, by notice in writing, to disclose to the Secured Creditor the location or locations of the Collateral and the Obligor agrees to promptly make such disclosure when so required;
- (c) repair, process, modify, complete or otherwise deal with the Collateral and prepare for the disposition of the Collateral, whether on the premises of the Obligor or otherwise;
- (d) redeem any prior security interest against any Collateral, procure the transfer of such security interest to itself, or settle and pass the accounts of the prior mortgagee, chargee or encumbrancer (any accounts to be conclusive and binding on Obligor);
- (e) pay any liability secured by any Lien against any Collateral (the Obligor will immediately on demand reimburse the Secured Creditor for all such payments);
- (f) carry on all or any part of the business of the Obligor and, to the exclusion of all others including the Obligor, enter upon, occupy and use all or any of the premises, buildings, and other property of or used by the Obligor for such time as the Secured Creditor sees fit, free of charge, and the Secured Creditor is not liable to the Obligor for any act, omission or negligence in so doing or for any rent, charges, depreciation or damages incurred in connection with or resulting from such action;
- (g) borrow for the purpose of carrying on the business of the Obligor or for the maintenance, preservation or protection of the Collateral and

grant a security interest in the Collateral, whether or not in priority to the Security Interest, to secure repayment;

- (h) commence, continue or defend any judicial or administrative proceedings for the purpose of protecting, seizing, collecting, realizing or obtaining possession or payment of the Collateral, and give good and valid receipts and discharges in respect of the Collateral and compromise or give time for the payment or performance of all or any part of the accounts or any other obligation of any third party to the Obligor; and
- (i) at any public sale, and to the extent permitted by law on any private sale, bid for and purchase any or all of the Collateral offered for sale and upon compliance with the terms of such sale, hold, retain and dispose of such Collateral without any further accountability to the Obligor or any other Person with respect to such holding, retention or disposition, except as required by law. In any such sale to the Secured Creditor, the Secured Creditor may, for the purpose of making payment for all or any part of the Collateral so purchased, use any claim for Secured Obligations then due and payable to it as a credit against the purchase price.

Section 3.4 Exercise of Remedies.

The remedies under Section 3.2 and Section 3.3 may be exercised from time to time separately or in combination and are in addition to, and not in substitution for, any other rights of the Secured Creditor however arising or created. The Secured Creditor is not bound to exercise any right or remedy, and the exercise of rights and remedies is without prejudice to the rights of the Secured Creditor in respect of the Secured Obligations including the right to claim for any deficiency.

Section 3.5 Receiver's Powers.

- (1) Any receiver appointed by the Secured Creditor is vested with the rights and remedies which could have been exercised by the Secured Creditor in respect of the Obligor or the Collateral and such other powers and discretions as are granted in the instrument of appointment and any supplemental instruments. The identity of the receiver, its replacement and its remuneration are within the sole and unfettered discretion of the Secured Creditor.
- (2) Any receiver appointed by the Secured Creditor will act as agent for the Secured Creditor for the purposes of taking possession of the Collateral, but otherwise and for all other purposes (except as provided below), as agent for the Obligor. The receiver may sell, lease, or otherwise dispose of Collateral as agent for the Obligor or as agent for the Secured Creditor as the Secured

Creditor may determine in its discretion. The Obligor agrees to ratify and confirm all actions of the receiver acting as agent for the Obligor, and to release and indemnify the receiver in respect of all such actions.

- (3) The Secured Creditor, in appointing or refraining from appointing any receiver, does not incur liability to the receiver, the Obligor or otherwise and is not responsible for any misconduct or negligence of such receiver.

Section 3.6 Appointment of Attorney.

The Obligor hereby irrevocably constitutes and appoints the Secured Creditor (and any officer of the Secured Creditor) the true and lawful attorney of the Obligor. As the attorney of the Obligor, the Secured Creditor has the power to exercise for and in the name of the Obligor with full power of substitution, upon the occurrence and during the continuance of an Event of Default, any of the Obligor's right (including the right of disposal), title and interest in and to the Collateral including the execution, endorsement, delivery and transfer of the Collateral to the Secured Creditor, its nominees or transferees, and the Secured Creditor and its nominees or transferees are hereby empowered to exercise all rights and powers and to perform all acts of ownership with respect to the Collateral to the same extent as the Obligor might do. This power of attorney is irrevocable, is coupled with an interest, has been given for valuable consideration (the receipt and adequacy of which is acknowledged) and survives, and does not terminate upon, the bankruptcy, dissolution, winding up or insolvency of the Obligor. This power of attorney extends to and is binding upon the Obligor's successors and permitted assigns. The Obligor authorizes the Secured Creditor to delegate in writing to another Person any power and authority of the Secured Creditor under this power of attorney as may be necessary or desirable in the opinion of the Secured Creditor, and to revoke or suspend such delegation. The power of attorney granted by the Obligor hereby shall automatically terminate and be of no further force or effect upon the discharge of the Security Interest in accordance with Section 5.2 hereof.

Section 3.7 Dealing with the Collateral.

- (1) The Secured Creditor is not obliged to exhaust its recourse against the Obligor or any other Person or against any other security it may hold in respect of the Secured Obligations before realizing upon or otherwise dealing with the Collateral in such manner as the Secured Creditor may consider desirable.
- (2) The Secured Creditor may grant extensions or other indulgences, take and give up securities, accept compositions, grant releases and discharges and otherwise deal with the Obligor and with other Persons, sureties or securities as it may see fit without prejudice to the Secured Obligations, the liability of the Obligor or the rights of the Secured Creditor in respect of the Collateral.

- (3) Except as otherwise provided by law or this Agreement, the Secured Creditor is not (i) liable or accountable for any failure to collect, realize or obtain payment in respect of the Collateral, (ii) bound to institute proceedings for the purpose of collecting, enforcing, realizing or obtaining payment of the Collateral or for the purpose of preserving any rights of any Persons in respect of the Collateral, (iii) responsible for any loss occasioned by any sale or other dealing with the Collateral or by the retention of or failure to sell or otherwise deal with the Collateral, or (iv) bound to protect the Collateral from depreciating in value or becoming worthless.

Section 3.8 Standards of Sale.

Without prejudice to the ability of the Secured Creditor to dispose of the Collateral in any manner which is commercially reasonable, the Obligor acknowledges that:

- (a) the Collateral may be disposed of in whole or in part;
- (b) the Collateral may be disposed of by public auction, public tender or private contract, with or without advertising and without any other formality;
- (c) any assignee of such Collateral may be the Secured Creditor or a customer of any such Person;
- (d) any sale conducted by the Secured Creditor will be at such time and place, on such notice and in accordance with such procedures as the Secured Creditor, in its sole discretion, may deem advantageous;
- (e) the Collateral may be disposed of in any manner and on any terms necessary to avoid violation of applicable law (including compliance with such procedures as may restrict the number of prospective bidders and purchasers, require that the prospective bidders and purchasers have certain qualifications, and restrict the prospective bidders and purchasers to Persons who will represent and agree that they are purchasing for their own account for investment and not with a view to the distribution or resale of the Collateral) or in order to obtain any required approval of the disposition (or of the resulting purchase) by any governmental or regulatory authority or official;
- (f) a disposition of the Collateral may be on such terms and conditions as to credit or otherwise as the Secured Creditor, in its sole discretion, may deem advantageous; and

- (g) the Secured Creditor may establish an upset or reserve bid or price in respect of the Collateral.

Section 3.9 Dealings by Third Parties.

- (1) No Person dealing with the Secured Creditor or an agent or receiver is required to determine (i) whether the Security Interest has become enforceable, (ii) whether the powers which such Person is purporting to exercise have become exercisable, (iii) whether any money remains due to the Secured Creditor by the Obligor, (iv) the necessity or expediency of the stipulations and conditions subject to which any sale or lease is made, (v) the propriety or regularity of any sale or other dealing by the Secured Creditor with the Collateral, or (vi) how any money paid to Secured Creditor has been applied.
- (2) Any bona fide purchaser of all or any part of the Collateral from the Secured Creditor or any receiver or agent will hold the Collateral absolutely, free from any claim or right of whatever kind, including any equity of redemption, of the Obligor, which it specifically waives (to the fullest extent permitted by law) as against any such purchaser together with all rights of redemption, stay or appraisal which the Obligor has or may have under any rule of law or statute now existing or hereafter adopted.

**ARTICLE 4
REPRESENTATIONS, WARRANTIES AND COVENANTS**

Section 4.1 General Representations, Warranties and Covenants.

The Obligor represents and warrants and covenants and agrees, ~~acknowledging and confirming that the Secured Creditor is relying on such~~ representations, warranties, covenants and agreements, that:

- (a) **Continuous Perfection.** Schedule C sets out the Obligor's place of business or, if more than one, the Obligor's chief executive office. Such place of business or chief executive office, as the case may be, has been located at such address for the 60 days immediately preceding the date of this Agreement. Schedule C also sets out the address at which the books and records of the Obligor are located, the address at which senior management of the Obligor are located and conduct their deliberations and make their decisions with respect to the business of the Obligor and the address from which the invoices and accounts of the Obligor are issued. The Obligor will not change the location of any of these items, people or addresses without providing at least 30 days prior written notice to the Secured Creditor. Except for sales of

inventory made in the ordinary course of business, the Collateral, to the extent not delivered to the Collateral Agent pursuant to Section 2.3(3), has been kept for the 60 days immediately preceding the date of this Agreement and will be kept at those locations listed on Schedule C, and the Obligor will not remove the Collateral from such locations, without providing at least 30 days prior written notice to the Secured Creditor. The Obligor will not change its name in any manner without providing at least 30 days prior written notice to the Secured Creditor.

- (b) **Restriction on Disposition.** The Obligor will not sell, assign, convey, exchange, lease, release or abandon, or otherwise dispose of, any Collateral except as expressly permitted in the Secured Debenture.
- (c) **Negative Pledge.** The Obligor will not create or suffer to exist, any Lien on the Collateral, except for Liens permitted by the Secured Debenture.
- (d) **Account Debtors.** None of the account debtors in respect of any accounts, chattel paper or intangibles and none of the obligors in respect of any Instruments included in the Collateral as of the date hereof is (i) a Governmental Entity, or (ii) in the case of any account in excess of \$100,000, is located outside of Canada or the United States of America.
- (e) **Securities and Instruments.**
 - (i) Schedule A lists all Securities and Instruments owned or held by the Obligor on the date of this Agreement and all such Securities are represented by certificated securities.
 - (ii) Securities that are Collateral have been, where applicable, duly and validly issued and acquired and are fully paid and non-assessable. Schedule A sets out, for each class of Securities listed in the schedule, the percentage amount that such Securities represent of all issued and outstanding Securities of that class.
 - (iii) Except as described in Schedule A, no transfer restrictions apply to the Securities and Instruments listed in Schedule A. The Obligor has delivered to the Secured Creditor copies of all shareholder, partnership or trust agreements applicable to each issuer of such Securities and Instruments which are in the Obligor's possession or control.

- (iv) No Person has or will have any written or oral option, warrant, right, call, commitment, conversion right, right of exchange or other agreement or any right or privilege (whether by law, preemptive or contractual) capable of becoming an option, warrant, right, call, commitment, conversion right, right of exchange or other agreement to acquire any right or interest in any of the Securities and Instruments that are Collateral.
 - (v) The Securities that are Collateral constitute, where applicable, the legal, valid and binding obligation of the obligor of such Securities, enforceable in accordance with their terms, subject only to any limitation under applicable laws relating to (i) bankruptcy, insolvency, fraudulent conveyance, arrangement, reorganization or creditors' rights generally, and (ii) the discretion that a court may exercise in the granting of equitable remedies.
 - (vi) The pledge, assignment and delivery to the Secured Creditor of the Collateral consisting of certificated Securities pursuant to this Agreement creates a valid and perfected first ranking security interest in such certificated Securities, and the proceeds of them. Such Securities and the proceeds from them are not subject to any prior Lien or any agreement purporting to grant to any third party a Lien on the property or assets of the Obligor which would include the Securities except for Permitted Encumbrances. The Secured Creditor is entitled to all the rights, priorities and benefits afforded by the *Personal Property Security Act* (Ontario) or other relevant personal property security legislation as enacted in any relevant jurisdiction to perfect security interests in respect of such Collateral.
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- (f) **Status of Accounts Collateral.** The Obligor will maintain books and records pertaining to the Collateral in such detail, form and scope as the Secured Creditor reasonably requires, and keep all originals of the chattel paper which evidence accounts at locations specified on Schedule B. The Obligor will immediately notify the Secured Creditor if any account in excess of \$500,000 arises out of contracts with any Governmental Entity, and execute any instruments and take any steps required by the Secured Creditor in order that all moneys due or to become due under the contract are assigned to the Secured Creditor and notice of such assignment is given to the Governmental Entity. The Obligor will also immediately notify the Secured Creditor if any

account in excess of \$500,000 is with an account debtor located outside of Canada or the United States of America.

- (g) **Additional Security Perfection and Protection of Security Interest.** The Obligor will grant to the Secured Creditor, security interests, assignments, mortgages, charges, hypothecations and pledges in such property and undertaking of the Obligor that is not subject to a valid and perfected first ranking security interest (subject only to Permitted Liens) constituted by the Security Documents, in each relevant jurisdiction as determined by the Secured Creditor. The Obligor will perform all acts, execute and deliver all agreements, documents and instruments and take such other steps as are requested by the Secured Creditor at any time to register, file, signify, publish, perfect, maintain, protect, and enforce the Security Interest including: (i) executing, recording and filing of financing or other statements, and paying all taxes, fees and other charges payable, (ii) placing notations on its books of account to disclose the Security Interest, (iii) delivering acknowledgements, confirmations and subordinations that may be necessary to ensure that the Security Documents constitute a valid and perfected first ranking security interest (subject only to Permitted Liens), (iv) executing and delivering any agreements, documents and instruments that may be needed under or in connection with the *Securities Transfer Act* (Ontario) and (v) delivering opinions of counsel in respect of matters contemplated by this paragraph. The documents and opinions contemplated by this paragraph must be in form and substance satisfactory to the Secured Creditor.

Section 4.2 Representations, Warranties and Covenants Concerning Intellectual Property.

The Obligor represents and warrants and covenants and agrees, acknowledging and confirming that the Secured Creditor is relying on such representations, warranties, covenants and agreements, that:

- (a) Schedule B lists all Registrable Intellectual Property that is owned by the Obligor on the date of this Agreement.
- (b) All Registrable Intellectual Property of the Obligor is valid, subsisting, unexpired and enforceable, has not been abandoned and, to the knowledge of the Obligor, does not infringe the Intellectual Property rights of any other Person.

- (c) No decision or judgment has been rendered by any Governmental Entity which would limit, cancel or question the validity of, or the Obligor's rights in, any Intellectual Property in any respect.
 - (d) No action or proceeding is pending, or, to the knowledge of the Obligor, threatened, on the date hereof seeking to limit, cancel or question the validity of any Intellectual Property or the Obligor's ownership interest therein, or which, if adversely determined, would have a Material adverse effect on the value of any Intellectual Property.
 - (e) The Obligor will take all reasonable and necessary steps, including in any proceeding before the Canadian Intellectual Property Office or any similar Governmental Entity of any jurisdiction, to maintain and pursue each application (and to obtain the relevant registration) and to maintain each registration of the material Registrable Intellectual Property, including, without limitation, filing of applications for renewal, affidavits of use and affidavits of incontestability.
 - (f) In the event that any material Intellectual Property of the Obligor is infringed, misappropriated or diluted by a third party, the Obligor will (i) take such actions as the Obligor reasonably deems appropriate under the circumstances to protect such Intellectual Property and (ii) if such Intellectual Property is of material economic value, promptly notify the Secured Creditor after it learns thereof and sue for infringement, misappropriation or dilution, to seek injunctive relief where appropriate and to recover any and all damages for such infringement, misappropriation or dilution.
-
- (g) Immediately upon the request of the Secured Creditor, the Obligor will furnish the Secured Creditor in writing the description of all Registrable Intellectual Property or applications for Registrable Intellectual Property of the Obligor. In addition, the Obligor will deliver to the Secured Creditor a copy of the certificate of registration of, or application for, such Registrable Intellectual Property with a Confirmation of Security Interest in the form of Schedule D in respect of such Registrable Intellectual Property confirming the assignment for security of such Registrable Intellectual Property to the Secured Creditor and immediately make all such filings, registrations and recordings as are necessary or appropriate to perfect the Security Interest granted to the Secured Creditor in the Registrable Intellectual Property.

**ARTICLE 5
GENERAL**

Section 5.1 Notices.

Any notice, direction or other communication (each a "Notice") given regarding the matters contemplated by this Agreement must be in writing, sent by personal delivery, courier or facsimile (but not by electronic mail) and addressed:

(a) to the Secured Creditor at:

WF Fund III Limited Partnership
161 Bay Street
Suite 2520
Toronto, ON M5J 2S1

Attention: Mark McQueen
Facsimile: 416-682-1160

with a copy to:

Minden Gross LLP
145 King Street West
Suite 2200
Toronto, ON M5H 4G2

Attention: Daniel Rothberg
Facsimile: 416-864-9223

(b) to the Obligor at:

Tercon Mining Ltd.
#100 - 2079 Falcon Road
Kamloops, BC V2C 4J2
Attention: Mr. Milan Soucek
Facsimile: (250) 372-1555

A Notice is deemed to be delivered and received (i) if sent by personal delivery, on the date of delivery if it is a Business Day and the delivery was made prior to 4:00 p.m. (local time in place of receipt) and otherwise on the next Business Day, (ii) if sent by same-day service courier, on the date of delivery if sent on a Business Day and delivery was made prior to 4:00 p.m. (local time in place of receipt) and otherwise on the next Business Day, (iii) if sent by overnight courier, on the next Business Day, or (iv) if sent by facsimile, on the Business Day following the date of

confirmation of transmission by the originating facsimile. A party may change its address for service from time to time by providing a Notice in accordance with the foregoing. Any subsequent Notice must be sent to the party at its changed address. Any element of a party's address that is not specifically changed in a Notice will be assumed not to be changed.

Section 5.2 Discharge.

The Security Interest will not be discharged except by a written release or discharge signed by the Secured Creditor. The Obligor will be entitled to require a discharge by notice to the Secured Creditor upon, but only upon, (i) full and indefeasible payment and performance of the Secured Obligations and (ii) the Secured Creditor having no obligations under any Credit Document. Upon discharge of the Security Interest and at the request and expense of the Obligor, the Secured Creditor will execute and deliver to the Obligor such financing statements and other documents or instruments as the Obligor may reasonably require and the Secured Creditor will redeliver to the Obligor, or as the Obligor may otherwise direct the Secured Creditor, any Collateral in its possession.

Section 5.3 No Merger, Survival of Representations and Warranties.

This Agreement does not operate by way of merger of any of the Secured Obligations and no judgment recovered by the Secured Creditor will operate by way of merger of, or in any way affect, the Security Interest, which is in addition to, and not in substitution for, any other security now or hereafter held by the Secured Creditor in respect of the Secured Obligations. The representations, warranties and covenants of the Obligor in this Agreement survive the execution and delivery of this Agreement and any advances under the Secured Debenture. Notwithstanding any investigation made by or on behalf of the Secured Creditor these covenants, representations and warranties continue in full force and effect.

Section 5.4 Further Assurances.

The Obligor will do all acts and things and execute and deliver, or cause to be executed and delivered, all agreements, documents and instruments that the Secured Creditor may require and take all further steps relating to the Collateral or any other property or assets of the Obligor that the Secured Creditor may require, including any agreements, documents or instruments required under or in connection with the *Securities Transfer Act* (Ontario) for (i) protecting the Collateral, (ii) perfecting the Security Interest, and (iii) exercising all powers, authorities and discretions conferred upon the Secured Creditor. After the Security Interest becomes enforceable, the Obligor will do all acts and things and execute and deliver all documents and instruments that the Secured Creditor may require for facilitating the sale or other disposition of the Collateral in connection with its realization.

Section 5.5 Supplemental Security.

This Agreement is in addition to, without prejudice to and supplemental to all other security now held or which may hereafter be held by the Secured Creditor.

Section 5.6 Successors and Assigns.

This Agreement is binding on the Obligor and its successors and assigns, and enures to the benefit of the Secured Creditor and its successors and assigns. This Agreement may be assigned by the Secured Creditor without the consent of, or notice to, the Obligor, to such Person as the Secured Creditor may determine and, in such event, such Person will be entitled to all of the rights and remedies of the Secured Creditor as set forth in this Agreement or otherwise. In any action brought by an assignee to enforce any such right or remedy, the Obligor will not assert against the assignee any claim or defence which the Obligor now has or may have against the Secured Creditor. The Obligor may not assign, transfer or delegate any of its rights or obligations under this Agreement without the prior written consent of the Secured Creditor which may be unreasonably withheld.

Section 5.7 Amalgamation.

The Obligor acknowledges and agrees that in the event it amalgamates with any other corporation or corporations, it is the intention of the parties that the Security Interest (i) subject to Section 2.4, extends to: (A) all of the property and undertaking that any of the amalgamating corporations then owns, (B) all of the property and undertaking that the amalgamated corporation thereafter acquires, (C) all of the property and undertaking in which any of the amalgamating corporations then has any interest and (D) all of the property and undertaking in which the amalgamated corporation thereafter acquires any interest; and (ii) secures the payment and performance of all debts, liabilities and obligations, present or future, ~~direct or indirect, absolute or contingent, matured or unmatured, at any time or~~ from time to time due or accruing due and owing by or otherwise payable by each of the amalgamating corporations and the amalgamated corporation to the Secured Creditor in any currency, however or wherever incurred, and whether incurred alone or jointly with another or others and whether as principal, guarantor or surety and whether incurred prior to, at the time of or subsequent to the amalgamation. The Security Interest attaches to the additional collateral at the time of amalgamation and to any collateral thereafter owned or acquired by the amalgamated corporation when such becomes owned or is acquired. Upon any such amalgamation, the defined term "Obligor" means, collectively, each of the amalgamating corporations and the amalgamated corporation, the defined term "Collateral" means all of the property and undertaking and interests described in (i) above, and the defined term "Secured Obligations" means the obligations described in (ii) above.

Section 5.8 Severability.

If any court of competent jurisdiction from which no appeal exists or is taken, determines any provision of this Agreement to be illegal, invalid or unenforceable, that provision will be severed from this Agreement and the remaining provisions will remain in full force and effect.

Section 5.9 Amendment.

This Agreement may only be amended, supplemented or otherwise modified by written agreement executed by the Secured Creditor and the Obligor.

Section 5.10 Waivers, etc.

- (1) No consent or waiver by the Secured Creditor in respect of this Agreement is binding unless made in writing and signed by an authorized officer of the Secured Creditor. Any consent or waiver given under this Agreement is effective only in the specific instance and for the specific purpose for which given. No waiver of any of the provisions of this Agreement constitutes a waiver of any other provision.
- (2) A failure or delay on the part of the Secured Creditor in exercising a right under this Agreement does not operate as a waiver of, or impair, any right of the Secured Creditor however arising. A single or partial exercise of a right on the part of the Secured Creditor does not preclude any other or further exercise of that right or the exercise of any other right by the Secured Creditor.

Section 5.11 Application of Proceeds of Security.

All monies collected by the Secured Creditor upon the enforcement of its rights and remedies under the Security Documents and the Liens created by them including any sale or other disposition of the Collateral, together with all other monies received by the Secured Creditor under the Security Documents, will be applied as provided in the Secured Debenture. To the extent any other Credit Document requires proceeds of collateral under such Credit Document to be applied in accordance with the provisions of this Agreement, the Secured Creditor shall apply such proceeds in accordance with this Section.

Section 5.12 Conflict.

In the event of any conflict between one or more provisions of this Agreement, the provisions of the Secured Debenture and the provisions of the Operating Loan Agreement which cannot be resolved by all such provisions being complied with, the provisions contained in the Secured Debenture will prevail to the extent of such conflict.

Section 5.13 Governing Law.

This Agreement will be governed by, interpreted and enforced in accordance with the laws of the Province of Ontario and the federal laws of Canada applicable therein.

Section 5.14 Termination, Survival.

Upon discharge of the Security Interest pursuant to Section 5.2 hereof, this Agreement shall automatically terminate. The provisions of Article 5 shall survive any termination of this Agreement.

IN WITNESS WHEREOF the Obligor has executed this Agreement.

TERCON MINING LTD.

Per:


Authorized Signing Officer

#1264122 v1 | 4061837

TERCON MINING PV LTD.

as Obligor

and

**WF FUND III LIMITED PARTNERSHIP,
carrying on business as WELLINGTON FINANCIAL LP
AND WELLINGTON FINANCIAL FUND III**

as Secured Creditor

SECURITY AGREEMENT

October 1, 2007

SECURITY AGREEMENT

Security agreement dated as of October 1, 2007 made by Tercon Mining PV Ltd. to and in favour of WF Fund III Limited Partnership, carrying on business as Wellington Financial LP and Wellington Financial Fund III.

RECITALS:

- (a) The Borrower is or will become indebted or liable to the Secured Creditor pursuant to its Series A Secured Debentures in the aggregate principal amount of \$5,000,000.00 (Cdn.) dated October 1, 2007 (as the same may be amended, restated, supplemented or replaced from time to time, the "Secured Debenture") and pursuant to an Operating Loan Agreement between the Borrower and the Secured Party dated October 1, 2007 (as the same may be amended, restated, supplemented or replaced from time to time, the "Operating Loan Agreement");
- (b) To secure the due performance of the Borrower's obligations to the Secured Creditor under *inter alia* the Secured Debenture and the Operating Loan Agreement, the Obligor has entered into a form of Guarantee dated October 1, 2007 in favor of the Secured Creditor (as the same may be amended, restated, supplemented or replaced from time to time, the "Guarantee"); and
- (c) Pursuant to Section 4.1 of the Secured Debenture, the Obligor is required to execute and deliver this Agreement in favour of the Secured Creditor.

In consideration of the foregoing and other good and valuable consideration, the receipt and adequacy of which are acknowledged, the Obligor agrees as follows.

ARTICLE 1 INTERPRETATION

Section 1.1 Defined Terms.

As used in this Agreement, the following terms have the following meanings:

"Agreement" means this security agreement.

"Borrower" means Tercon Investments Ltd.

"Collateral" has the meaning specified in Section 2.1.

"Credit Documents" means the Secured Debenture, the Operating Loan Agreement, this Agreement and each other Security Document (as such term is defined in the Secured Debenture).

"Event of Default" has the meaning ascribed thereto in the Guarantee;

"Expenses" has the meaning specified in Section 2.2(b).

"Governmental Entity" means any international tribunal, agency, body commission or other authority, any government, executive, parliament, legislature or local authority, or any governmental entity, ministry, department or agency or regulatory authority, court, tribunal, commission or board of or within Canada, or any other foreign jurisdiction, or any political subdivision of any thereof or any authority having jurisdiction therein or any quasi governmental or private body exercising any regulatory, expropriation or taxing authority under or for the account of any of the above.

"Instruments" means (i) a bill, note or cheque within the meaning of the *Bills of Exchange Act* (Canada) or any other writing that evidences a right to the payment of money and is of a type that in the ordinary course of business is transferred by delivery with any necessary endorsement or assignment, or (ii) a letter of credit and an advice of credit if the letter or advice states that it must be surrendered upon claiming payment thereunder, or (iii) chattel paper or any other writing that evidences both a monetary obligation and a security interest in or a lease of specific goods, or (iv) documents of title or any other writing that purports to be issued by or addressed to a bailee and purports to cover such goods in the bailee's possession as are identified or fungible portions of an identified mass, and that in the ordinary course of business is treated as establishing that the Person in possession of it is entitled to receive, hold and dispose of the document and the goods it covers, or (v) any document or writing commonly known as an instrument.

"Intellectual Property" means domestic and foreign: (i) patents, applications for patents and reissues, divisions, continuations, renewals, extensions and continuations-in-part of patents or patent applications; (ii) proprietary and non-public business information, including inventions (whether patentable or not), invention disclosures, improvements, discoveries, trade secrets, confidential information, know-how, methods, processes, designs, technology, technical data, schematics, formulae and customer lists, and documentation relating to any of the foregoing; (iii) copyrights, copyright registrations and applications for copyright registration; (iv) mask works, mask work registrations and applications for mask work registrations; (v) designs, design registrations, design registration applications and integrated circuit topographies; (vi) trade names, business names, corporate names, domain names, website names and world wide web addresses, common law trade-marks, trade-mark registrations, trade-mark applications, trade dress and

logos, and the goodwill associated with any of the foregoing; (vii) computer software and programs (both source code and object code form), all proprietary rights in the computer software and programs and all documentation and other materials related to the computer software and programs; and (viii) any other intellectual property and industrial property.

"Lien" means (i) any mortgage, charge, pledge, hypothecation, security interest, assignment by way of security, encumbrance, lien (statutory or otherwise), hire purchase agreement, conditional sale agreement, deposit arrangement, title retention agreement or arrangement, or any other assignment, arrangement or condition that in substance secures payment or performance of an obligation, (ii) any trust arrangement, (iii) any arrangement which creates a right of set-off out of the ordinary course of business, or (iv) any agreement to grant any such rights or interests.

"Obligor" means Tercon Mining PV Ltd., a corporation incorporated and existing under the laws of British Columbia, and its successors and permitted assigns.

"Registrable Intellectual Property" means any Intellectual Property in respect of which ownership, title, security interests, charges or encumbrances are capable of registration, recording or notation with any Governmental Entity pursuant to applicable laws.

"Restricted Asset" has the meaning specified in Section 2.4(1).

"Secured Creditor" means WF Fund III Limited Partnership, carrying on business as Wellington Financial LP and Wellington Financial Fund III and its successors and assigns.

"Secured Obligations" has the meaning specified in Section 2.2(a).

"Security" means an obligation of an issuer or a share, participation or other interest in an issuer or in property or an enterprise of an issuer,

- (a) that is represented by a security certificate in bearer form or registered form, or the transfer of which may be registered on books maintained for that purpose by or on behalf of the issuer,
- (b) that is one of a class or series, or by its terms is divisible into a class or series, of shares, participations, interests or obligations, and
- (c) that,
 - (i) is, or is of a type, dealt in or traded on securities exchanges or securities markets, or

- (ii) is a medium for investment and by its terms expressly provides that it is a security for the purposes of the *Securities Transfer Act* (Ontario);

but excludes

- (d) any ULC Shares.

"Security Interest" has the meaning specified in Section 2.2.

"ULC Shares" means shares in any unlimited company or unlimited liability corporation at any time owned or otherwise held by the Obligor.

Section 1.2 Interpretation.

- (1) Terms defined in the *Personal Property Security Act* (Ontario) or the *Securities Transfer Act* (Ontario) and used but not otherwise defined in this Agreement have the same meanings.
- (2) Capitalized terms used in this Agreement but not defined have the meanings given to them in the Secured Debenture.
- (3) Any reference in any Credit Document to Liens permitted by the Secured Debenture and any right of the Obligor to create or suffer to exist Liens permitted by the Secured Debenture are not intended to and do not and will not subordinate the Security Interest to any such Lien or give priority to any Person over the Secured Creditor.
- (4) In this Agreement the words "including", "includes" and "include" mean "including (or includes or include) without limitation". The expressions "Article", "Section" and other subdivision followed by a number mean and refer to the specified Article, Section or other subdivision of this Agreement.
- (5) Any reference in this Agreement to gender includes all genders. Words importing the singular number only include the plural and vice versa.
- (6) The division of this Agreement into Articles, Sections and other subdivisions and the insertion of headings are for convenient reference only and do not affect its interpretation.
- (7) The schedules attached to this Agreement form an integral part of it for all purposes of it.
- (8) Except as otherwise provided in this Agreement, any reference to this Agreement, any Credit Document or any Security Document refers to this Agreement or such Credit Document or Security Document as the same may

have been or may from time to time be amended, modified, extended, renewed, restated, replaced or supplemented and includes all schedules attached to it. Except as otherwise provided in this Agreement, any reference in this Agreement to a statute refers to such statute and all rules and regulations made under it as the same may have been or may from time to time be amended or re-enacted.

ARTICLE 2 SECURITY

Section 2.1 Grant of Security.

Subject to Section 2.4, the Obligor grants to the Secured Creditor, a security interest in, and assigns, mortgages, charges, hypothecates and pledges to the Secured Creditor, all of the property and undertaking of the Obligor now owned or hereafter acquired and all of the property and undertaking in which the Obligor now has or hereafter acquires any interest (collectively, the "Collateral") including all of the Obligor's:

- (a) present and after-acquired personal property;
- (b) inventory including goods held for sale, lease or resale, goods furnished or to be furnished to third parties under contracts of lease, consignment or service, goods which are raw materials or work in process, goods used in or procured for packing and materials used or consumed in the business of the Obligor;
- (c) equipment, machinery, furniture, fixtures, plant, vehicles and other goods of every kind and description and all licences and other rights and all related records, files, charts, plans, drawings, specifications, manuals and documents;
- (d) accounts due or accruing and all related agreements, books, accounts, invoices, letters, documents and papers recording, evidencing or relating to them;
- (e) money, documents of title and chattel paper;
- (f) Instruments and Securities, including the Instruments and Securities listed in Schedule A;
- (g) intangibles including all security interests, goodwill, choses in action, contracts, contract rights, licenses and other contractual benefits;

- (h) Intellectual Property including the Registrable Intellectual Property listed in Schedule B;
- (i) all substitutions and replacements of and increases, additions and, where applicable, accessions to the property described in Section 2.1(a) through Section 2.1(h) inclusive; and
- (j) all proceeds in any form derived directly or indirectly from any dealing with all or any part of the property described in Section 2.1(a) through Section 2.1(i) inclusive, including the proceeds of such proceeds.

Section 2.2 Secured Obligations.

The security interest, assignment, mortgage, charge, hypothecation and pledge granted by this Agreement (collectively, the "Security Interest") secures the payment and performance of:

- (a) all debts, liabilities and obligations, present or future, direct or indirect, absolute or contingent, matured or unmatured, at any time or from time to time due or accruing due and owing by or otherwise payable by the Obligor to the Secured Creditor in any currency, however or wherever incurred, and whether incurred by the Obligor alone or jointly with another or others and whether as principal, guarantor or surety and in whatever name or style (collectively, and together with the Expenses, the "Secured Obligations"); and
- (b) all expenses, costs and charges incurred by or on behalf of the Secured Creditor in connection with this Agreement, the Security Interest or the Collateral, including all legal fees, court costs, receiver's or agent's remuneration and other expenses of taking possession of, repairing, protecting, insuring, preparing for disposition, realizing, collecting, selling, transferring, delivering or obtaining payment for the Collateral, and of taking, defending or participating in any action or proceeding in connection with any of the foregoing matters or otherwise in connection with the Secured Creditor's interest in any Collateral, whether or not directly relating to the enforcement of this Agreement or any other Credit Document (collectively, the "Expenses").

Section 2.3 Attachment.

- (1) The Obligor acknowledges that (i) value has been given, (ii) it has rights in the Collateral (other than after-acquired Collateral), (iii) it has not agreed to

postpone the time of attachment of the Security Interest, and (iv) it has received a copy of this Agreement.

- (2) The Obligor shall not permit any of the Securities at any time to be or to become uncertificated securities.
- (3) The Obligor delivers to and deposits with the Secured Creditor any and all certificates evidencing the Securities listed in Schedule A, together with, in each case, a stock power duly endorsed in blank for transfer and an irrevocable directors or other applicable resolution of entity in from which the Securities are issued, consenting to the transfer by the Obligor and the Obligor hereby grants control over such Securities to the Secured Creditor in accordance with the provisions of the *Securities Transfer Act* (Ontario). The Obligor also delivers to and deposits with the Secured Creditor any promissory note or other Instruments evidencing any amount payable in excess of \$100,000 or evidencing any rights to goods having a value in excess of \$100,000.
- (4) If the Obligor acquires any Securities or any Instruments (other than Instruments evidencing amounts payable of less than \$100,000 or evidencing any rights to goods having a value less than \$100,000), the Obligor will notify the Secured Creditor in writing and provide the Secured Creditor with a revised Schedule A recording the acquisition and particulars of such Instruments or Securities within 5 days after such acquisition. Upon request by the Secured Creditor, the Obligor will promptly deliver to and deposit with the Secured Creditor, or cause the Secured Creditor to have control over, such Securities or Instruments (other than Instruments evidencing amounts payable of less than \$100,000 or evidencing any rights to goods having a value less than \$100,000) as security for the Secured Obligations. The Obligor will also promptly inform the Secured Creditor in writing of the acquisition by the Obligor of any ULC Shares.
- (5) At the request of the Secured Creditor the Obligor will (i) cause the transfer of any Securities or Instruments to the Secured Creditor to be registered wherever such registration may be required or advisable in the reasonable opinion of the Secured Creditor, (ii) duly endorse any such Securities or Instruments for transfer in blank or register them in the name of the Secured Creditor or its nominee or otherwise as the Secured Creditor may reasonably direct, (iii) immediately deliver to the Secured Creditor any and all consents or other documents which may be necessary to effect the transfer of any such Securities or Instruments to the Secured Creditor or any third party and (iv) deliver to or otherwise cause the Secured Creditor to have control over such Securities or Instruments in accordance with the provisions of the *Securities*

Transfer Act (Ontario). Upon the discharge of the Security Interest in accordance with Section 5.2 hereof, the Secured Creditor shall promptly cause all Securities or Instruments transferred to it or to any third party pursuant to this Section 2.3(5) to be transferred back to the Obligor including duly endorsing any such Securities or Instruments for transfer back to the Obligor and delivering to the Obligor any and all consents or other documents which may be necessary to effect the transfer of any such Securities or Instruments to the Obligor.

- (6) The Obligor will promptly notify the Secured Creditor in writing of the acquisition by the Obligor of any Registrable Intellectual Property. The Obligor will provide the Secured Creditor with a revised Schedule B recording the acquisition and particulars of such additional Intellectual Property.

Section 2.4 Scope of Security Interest.

- (1) To the extent that an assignment of amounts payable and other proceeds arising under or in connection with, or the grant of a security interest in any agreement, licence, permit or quota of the Obligor would result in the termination of such agreement, licence, permit or quota (each, a "Restricted Asset"), the Security Interest with respect to each Restricted Asset will constitute a trust created in favour of the Secured Creditor pursuant to which the Obligor holds as trustee all proceeds arising under or in connection with the Restricted Asset in trust for the Secured Creditor on the following basis:
 - (a) until the Security Interest is enforceable and subject to the Secured Debenture, the Obligor is entitled to receive all such proceeds; and
 - (b) whenever the Security Interest is enforceable, (i) all rights of the Obligor to receive such proceeds cease and all such proceeds will be immediately paid over to the Secured Creditor and (ii) the Obligor will take all actions requested by the Secured Creditor to collect and enforce payment and other rights arising under the Restricted Asset.

The Obligor will use all commercially reasonable efforts to obtain the consent of each other party to any and all Restricted Assets to the assignment of such Restricted Asset to the Secured Creditor in accordance with this Agreement. The Obligor will also use all commercially reasonable efforts to ensure that all agreements entered into on and after the date of this Agreement expressly permit assignments of the benefits of such agreements as collateral security to the Secured Creditor in accordance with the terms of this Agreement.

- (2) The Security Interest with respect to trade-marks constitutes a security interest in, and a charge, hypothecation and pledge of, such Collateral in

favour of the Secured Creditor, but does not constitute an assignment or mortgage of such Collateral to the Secured Creditor.

- (3) Until the Security Interest is enforceable, the grant of the Security Interest in the Intellectual Property does not affect in any way the Obligor's rights to commercially exploit the Intellectual Property, defend it, enforce the Obligor's rights in it or with respect to it against third parties in any court or claim and be entitled to receive any damages with respect to any infringement of it.
- (4) The Security Interest does not extend to consumer goods or ULC Shares.
- (5) The Security Interest does not extend or apply to the last day of the term of any lease or sublease of real property or any agreement for a lease or sublease of real property, now held or hereafter acquired by the Obligor, but the Obligor will stand possessed of any such last day upon trust to assign and dispose of it as the Secured Creditor may reasonably direct.

Section 2.5 Grant of Licence to Use Intellectual Property.

At such time as the Secured Creditor is lawfully entitled to exercise its rights and remedies under Article 3, the Obligor grants to the Secured Creditor an irrevocable, nonexclusive licence (exercisable without payment of royalty or other compensation to the Obligor) to use, assign or sublicense any Intellectual Property in which the Obligor has rights wherever the same may be located, including in such licence access to (i) all media in which any of the licensed items may be recorded or stored, and (ii) all software and computer programs used for compilation or print-out. The license granted under this Section is to enable the Secured Creditor to exercise its rights and remedies under Article 3 and for no other purpose.

Section 2.6 Care and Custody of Collateral.

- (1) The Secured Creditor has no obligation to keep Collateral in its possession identifiable.
- (2) The Secured Creditor may, after the Security Interest is enforceable, (i) notify any Person obligated on an Instrument, Security or account to make payments to the Secured Creditor, whether or not the Obligor was previously making collections on such accounts, chattel paper, instruments, and (ii) assume control of any proceeds arising from the Collateral.
- (3) The Secured Creditor has no obligation to collect dividends, distributions or interest payable on, or exercise any option or right in connection with, any Securities or Instruments. The Secured Creditor has no obligation to protect or preserve any Securities or Instruments from depreciating in value or becoming worthless and is released from all responsibility for any loss of

value. In the physical keeping of any Securities, the Secured Creditor is only obliged to exercise the same degree of care as it would exercise with respect to its own Securities kept at the same place.

Section 2.7 Rights of the Obligor.

- (1) Until the Security Interest is enforceable, the Obligor is entitled to vote the Securities that are part of the Collateral and to receive all dividends and distributions on such Securities. In order to allow the Obligor to vote any Securities registered in the Secured Creditor's name or the name of its nominee, at the request and the expense of the Obligor, the Secured Creditor will, prior to the Security Interest being enforceable, and may, after the Security Interest is enforceable, execute valid proxies appointing proxyholders to attend and act at meetings of shareholders, and execute resolutions in writing, all pursuant to the relevant provisions of the issuer's governing legislation. Whenever the Security Interest is enforceable, all rights of the Obligor to vote (under any proxy given by the Secured Creditor (or its nominee) or otherwise) or to receive distributions or dividends cease and all such rights become vested solely and absolutely in the Secured Creditor.
- (2) Any distributions or dividends received by the Obligor contrary to Section 2.7(1) or any other moneys or property received by the Obligor after the Security Interest is enforceable will be received as trustee for the Secured Creditor and shall be immediately paid over to the Secured Creditor.

Section 2.8 Expenses.

The Obligor is liable for and will pay on demand by the Secured Creditor any and all Expenses.

**ARTICLE 3
ENFORCEMENT**

Section 3.1 Enforcement.

The Security Interest becomes and is enforceable against the Obligor upon the occurrence and during the continuance of an Event of Default.

Section 3.2 Remedies.

Whenever the Security Interest is enforceable, the Secured Creditor may realize upon the Collateral and enforce the rights of the Secured Creditor by:

- (a) entry onto any premises where Collateral consisting of tangible personal property may be located;

- (b) entry into possession of the Collateral by any method permitted by law;
- (c) sale, grant of options to purchase, or lease of all or any part of the Collateral;
- (d) holding, storing and keeping idle or operating all or any part of the Collateral;
- (e) exercising and enforcing all rights and remedies of a holder of the Securities and Instruments as if the Secured Creditor were the absolute owner thereof (including, if necessary, causing the Collateral to be registered in the name of the Secured Creditor or its nominee if not already done);
- (f) collection of any proceeds arising in respect of the Collateral;
- (g) collection, realization or sale of, or other dealing with, accounts;
- (h) license or sublicense, whether on an exclusive or nonexclusive basis, of any Intellectual Property for such term and on such conditions and in such manner as the Secured Creditor in its sole judgment determines (taking into account such provisions as may be necessary to protect and preserve such Intellectual Property);
- (i) instruction to any bank which has entered into a control agreement with the Secured Creditor to transfer all moneys, Securities and Instruments held by such depository bank to an account maintained with or by the Secured Creditor;
- (j) application of any moneys constituting Collateral or proceeds thereof in accordance with Section 5.11;
- (k) appointment by instrument in writing of a receiver (which term as used in this Agreement includes a receiver and manager) or agent of all or any part of the Collateral and removal or replacement from time to time of any receiver or agent;
- (l) institution of proceedings in any court of competent jurisdiction for the appointment of a receiver of all or any part of the Collateral;
- (m) institution of proceedings in any court of competent jurisdiction for sale or foreclosure of all or any part of the Collateral;

- (n) filing of proofs of claim and other documents to establish claims to the Collateral in any proceeding relating to the Obligor; and
- (o) any other remedy or proceeding authorized or permitted under the *Personal Property Security Act* (Ontario) or otherwise by law or equity.

Section 3.3 Additional Rights.

In addition to the remedies set forth in Section 3.2 and elsewhere in this Agreement, whenever the Security Interest is enforceable, the Secured Creditor may:

- (a) require the Obligor, at the Obligor's expense, to assemble the Collateral at a place or places designated by notice in writing and the Obligor agrees to so assemble the Collateral immediately upon receipt of such notice;
- (b) require the Obligor, by notice in writing, to disclose to the Secured Creditor the location or locations of the Collateral and the Obligor agrees to promptly make such disclosure when so required;
- (c) repair, process, modify, complete or otherwise deal with the Collateral and prepare for the disposition of the Collateral, whether on the premises of the Obligor or otherwise;
- (d) redeem any prior security interest against any Collateral, procure the transfer of such security interest to itself, or settle and pass the accounts of the prior mortgagee, chargee or encumbrancer (any accounts to be conclusive and binding on Obligor);
- (e) pay any liability secured by any Lien against any Collateral (the Obligor will immediately on demand reimburse the Secured Creditor for all such payments);
- (f) carry on all or any part of the business of the Obligor and, to the exclusion of all others including the Obligor, enter upon, occupy and use all or any of the premises, buildings, and other property of or used by the Obligor for such time as the Secured Creditor sees fit, free of charge, and the Secured Creditor is not liable to the Obligor for any act, omission or negligence in so doing or for any rent, charges, depreciation or damages incurred in connection with or resulting from such action;
- (g) borrow for the purpose of carrying on the business of the Obligor or for the maintenance, preservation or protection of the Collateral and

grant a security interest in the Collateral, whether or not in priority to the Security Interest, to secure repayment;

- (h) commence, continue or defend any judicial or administrative proceedings for the purpose of protecting, seizing, collecting, realizing or obtaining possession or payment of the Collateral, and give good and valid receipts and discharges in respect of the Collateral and compromise or give time for the payment or performance of all or any part of the accounts or any other obligation of any third party to the Obligor; and
- (i) at any public sale, and to the extent permitted by law on any private sale, bid for and purchase any or all of the Collateral offered for sale and upon compliance with the terms of such sale, hold, retain and dispose of such Collateral without any further accountability to the Obligor or any other Person with respect to such holding, retention or disposition, except as required by law. In any such sale to the Secured Creditor, the Secured Creditor may, for the purpose of making payment for all or any part of the Collateral so purchased, use any claim for Secured Obligations then due and payable to it as a credit against the purchase price.

Section 3.4 Exercise of Remedies.

The remedies under Section 3.2 and Section 3.3 may be exercised from time to time separately or in combination and are in addition to, and not in substitution for, any other rights of the Secured Creditor however arising or created. The Secured Creditor is not bound to exercise any right or remedy, and the exercise of rights and remedies is without prejudice to the rights of the Secured Creditor in respect of the Secured Obligations including the right to claim for any deficiency.

Section 3.5 Receiver's Powers.

- (1) Any receiver appointed by the Secured Creditor is vested with the rights and remedies which could have been exercised by the Secured Creditor in respect of the Obligor or the Collateral and such other powers and discretions as are granted in the instrument of appointment and any supplemental instruments. The identity of the receiver, its replacement and its remuneration are within the sole and unfettered discretion of the Secured Creditor.
- (2) Any receiver appointed by the Secured Creditor will act as agent for the Secured Creditor for the purposes of taking possession of the Collateral, but otherwise and for all other purposes (except as provided below), as agent for the Obligor. The receiver may sell, lease, or otherwise dispose of Collateral as agent for the Obligor or as agent for the Secured Creditor as the Secured

Creditor may determine in its discretion. The Obligor agrees to ratify and confirm all actions of the receiver acting as agent for the Obligor, and to release and indemnify the receiver in respect of all such actions.

- (3) The Secured Creditor, in appointing or refraining from appointing any receiver, does not incur liability to the receiver, the Obligor or otherwise and is not responsible for any misconduct or negligence of such receiver.

Section 3.6 Appointment of Attorney.

The Obligor hereby irrevocably constitutes and appoints the Secured Creditor (and any officer of the Secured Creditor) the true and lawful attorney of the Obligor. As the attorney of the Obligor, the Secured Creditor has the power to exercise for and in the name of the Obligor with full power of substitution, upon the occurrence and during the continuance of an Event of Default, any of the Obligor's right (including the right of disposal), title and interest in and to the Collateral including the execution, endorsement, delivery and transfer of the Collateral to the Secured Creditor, its nominees or transferees, and the Secured Creditor and its nominees or transferees are hereby empowered to exercise all rights and powers and to perform all acts of ownership with respect to the Collateral to the same extent as the Obligor might do. This power of attorney is irrevocable, is coupled with an interest, has been given for valuable consideration (the receipt and adequacy of which is acknowledged) and survives, and does not terminate upon, the bankruptcy, dissolution, winding up or insolvency of the Obligor. This power of attorney extends to and is binding upon the Obligor's successors and permitted assigns. The Obligor authorizes the Secured Creditor to delegate in writing to another Person any power and authority of the Secured Creditor under this power of attorney as may be necessary or desirable in the opinion of the Secured Creditor, and to revoke or suspend such delegation. The power of attorney granted by the Obligor hereby shall automatically terminate and be of no further force or effect upon the discharge of the Security Interest in accordance with Section 5.2 hereof.

Section 3.7 Dealing with the Collateral.

- (1) The Secured Creditor is not obliged to exhaust its recourse against the Obligor or any other Person or against any other security it may hold in respect of the Secured Obligations before realizing upon or otherwise dealing with the Collateral in such manner as the Secured Creditor may consider desirable.
- (2) The Secured Creditor may grant extensions or other indulgences, take and give up securities, accept compositions, grant releases and discharges and otherwise deal with the Obligor and with other Persons, sureties or securities as it may see fit without prejudice to the Secured Obligations, the liability of the Obligor or the rights of the Secured Creditor in respect of the Collateral.

- (3) Except as otherwise provided by law or this Agreement, the Secured Creditor is not (i) liable or accountable for any failure to collect, realize or obtain payment in respect of the Collateral, (ii) bound to institute proceedings for the purpose of collecting, enforcing, realizing or obtaining payment of the Collateral or for the purpose of preserving any rights of any Persons in respect of the Collateral, (iii) responsible for any loss occasioned by any sale or other dealing with the Collateral or by the retention of or failure to sell or otherwise deal with the Collateral, or (iv) bound to protect the Collateral from depreciating in value or becoming worthless.

Section 3.8 Standards of Sale.

Without prejudice to the ability of the Secured Creditor to dispose of the Collateral in any manner which is commercially reasonable, the Obligor acknowledges that:

- (a) the Collateral may be disposed of in whole or in part;
- (b) the Collateral may be disposed of by public auction, public tender or private contract, with or without advertising and without any other formality;
- (c) any assignee of such Collateral may be the Secured Creditor or a customer of any such Person;
- (d) any sale conducted by the Secured Creditor will be at such time and place, on such notice and in accordance with such procedures as the Secured Creditor, in its sole discretion, may deem advantageous;
- (e) the Collateral may be disposed of in any manner and on any terms necessary to avoid violation of applicable law (including compliance with such procedures as may restrict the number of prospective bidders and purchasers, require that the prospective bidders and purchasers have certain qualifications, and restrict the prospective bidders and purchasers to Persons who will represent and agree that they are purchasing for their own account for investment and not with a view to the distribution or resale of the Collateral) or in order to obtain any required approval of the disposition (or of the resulting purchase) by any governmental or regulatory authority or official;
- (f) a disposition of the Collateral may be on such terms and conditions as to credit or otherwise as the Secured Creditor, in its sole discretion, may deem advantageous; and

- (g) the Secured Creditor may establish an upset or reserve bid or price in respect of the Collateral.

Section 3.9 Dealings by Third Parties.

- (1) No Person dealing with the Secured Creditor or an agent or receiver is required to determine (i) whether the Security Interest has become enforceable, (ii) whether the powers which such Person is purporting to exercise have become exercisable, (iii) whether any money remains due to the Secured Creditor by the Obligor, (iv) the necessity or expediency of the stipulations and conditions subject to which any sale or lease is made, (v) the propriety or regularity of any sale or other dealing by the Secured Creditor with the Collateral, or (vi) how any money paid to Secured Creditor has been applied.
- (2) Any bona fide purchaser of all or any part of the Collateral from the Secured Creditor or any receiver or agent will hold the Collateral absolutely, free from any claim or right of whatever kind, including any equity of redemption, of the Obligor, which it specifically waives (to the fullest extent permitted by law) as against any such purchaser together with all rights of redemption, stay or appraisal which the Obligor has or may have under any rule of law or statute now existing or hereafter adopted.

**ARTICLE 4
REPRESENTATIONS, WARRANTIES AND COVENANTS**

Section 4.1 General Representations, Warranties and Covenants.

The Obligor represents and warrants and covenants and agrees, acknowledging and confirming that the Secured Creditor is relying on such representations, warranties, covenants and agreements, that:

- (a) **Continuous Perfection.** Schedule C sets out the Obligor's place of business or, if more than one, the Obligor's chief executive office. Such place of business or chief executive office, as the case may be, has been located at such address for the 60 days immediately preceding the date of this Agreement. Schedule C also sets out the address at which the books and records of the Obligor are located, the address at which senior management of the Obligor are located and conduct their deliberations and make their decisions with respect to the business of the Obligor and the address from which the invoices and accounts of the Obligor are issued. The Obligor will not change the location of any of these items, people or addresses without providing at least 30 days prior written notice to the Secured Creditor. Except for sales of

inventory made in the ordinary course of business, the Collateral, to the extent not delivered to the Collateral Agent pursuant to Section 2.3(3), has been kept for the 60 days immediately preceding the date of this Agreement and will be kept at those locations listed on Schedule C, and the Obligor will not remove the Collateral from such locations, without providing at least 30 days prior written notice to the Secured Creditor. The Obligor will not change its name in any manner without providing at least 30 days prior written notice to the Secured Creditor.

- (b) **Restriction on Disposition.** The Obligor will not sell, assign, convey, exchange, lease, release or abandon, or otherwise dispose of, any Collateral except as expressly permitted in the Secured Debenture.
- (c) **Negative Pledge.** The Obligor will not create or suffer to exist, any Lien on the Collateral, except for Liens permitted by the Secured Debenture.
- (d) **Account Debtors.** None of the account debtors in respect of any accounts, chattel paper or intangibles and none of the obligors in respect of any Instruments included in the Collateral as of the date hereof is (i) a Governmental Entity, or (ii) in the case of any account in excess of \$100,000, is located outside of Canada or the United States of America.
- (e) **Securities and Instruments.**
 - (i) Schedule A lists all Securities and Instruments owned or held by the Obligor on the date of this Agreement and all such Securities are represented by certificated securities.
 - (ii) Securities that are Collateral have been, where applicable, duly and validly issued and acquired and are fully paid and non-assessable. Schedule A sets out, for each class of Securities listed in the schedule, the percentage amount that such Securities represent of all issued and outstanding Securities of that class.
 - (iii) Except as described in Schedule A, no transfer restrictions apply to the Securities and Instruments listed in Schedule A. The Obligor has delivered to the Secured Creditor copies of all shareholder, partnership or trust agreements applicable to each issuer of such Securities and Instruments which are in the Obligor's possession or control.

- (iv) No Person has or will have any written or oral option, warrant, right, call, commitment, conversion right, right of exchange or other agreement or any right or privilege (whether by law, preemptive or contractual) capable of becoming an option, warrant, right, call, commitment, conversion right, right of exchange or other agreement to acquire any right or interest in any of the Securities and Instruments that are Collateral.
 - (v) The Securities that are Collateral constitute, where applicable, the legal, valid and binding obligation of the obligor of such Securities, enforceable in accordance with their terms, subject only to any limitation under applicable laws relating to (i) bankruptcy, insolvency, fraudulent conveyance, arrangement, reorganization or creditors' rights generally, and (ii) the discretion that a court may exercise in the granting of equitable remedies.
 - (vi) The pledge, assignment and delivery to the Secured Creditor of the Collateral consisting of certificated Securities pursuant to this Agreement creates a valid and perfected first ranking security interest in such certificated Securities, and the proceeds of them. Such Securities and the proceeds from them are not subject to any prior Lien or any agreement purporting to grant to any third party a Lien on the property or assets of the Obligor which would include the Securities except for Permitted Encumbrances. The Secured Creditor is entitled to all the rights, priorities and benefits afforded by the *Personal Property Security Act* (Ontario) or other relevant personal property security legislation as enacted in any relevant jurisdiction to perfect security interests in respect of such Collateral.
- (f) **Status of Accounts Collateral.** The Obligor will maintain books and records pertaining to the Collateral in such detail, form and scope as the Secured Creditor reasonably requires, and keep all originals of the chattel paper which evidence accounts at locations specified on Schedule B. The Obligor will immediately notify the Secured Creditor if any account in excess of \$500,000 arises out of contracts with any Governmental Entity, and execute any instruments and take any steps required by the Secured Creditor in order that all moneys due or to become due under the contract are assigned to the Secured Creditor and notice of such assignment is given to the Governmental Entity. The Obligor will also immediately notify the Secured Creditor if any

account in excess of \$500,000 is with an account debtor located outside of Canada or the United States of America.

- (g) **Additional Security Perfection and Protection of Security Interest.** The Obligor will grant to the Secured Creditor, security interests, assignments, mortgages, charges, hypothecations and pledges in such property and undertaking of the Obligor that is not subject to a valid and perfected first ranking security interest (subject only to Permitted Liens) constituted by the Security Documents, in each relevant jurisdiction as determined by the Secured Creditor. The Obligor will perform all acts, execute and deliver all agreements, documents and instruments and take such other steps as are requested by the Secured Creditor at any time to register, file, signify, publish, perfect, maintain, protect, and enforce the Security Interest including: (i) executing, recording and filing of financing or other statements, and paying all taxes, fees and other charges payable, (ii) placing notations on its books of account to disclose the Security Interest, (iii) delivering acknowledgements, confirmations and subordinations that may be necessary to ensure that the Security Documents constitute a valid and perfected first ranking security interest (subject only to Permitted Liens), (iv) executing and delivering any agreements, documents and instruments that may be needed under or in connection with the *Securities Transfer Act* (Ontario) and (v) delivering opinions of counsel in respect of matters contemplated by this paragraph. The documents and opinions contemplated by this paragraph must be in form and substance satisfactory to the Secured Creditor.

Section 4.2 Representations, Warranties and Covenants Concerning Intellectual Property.

The Obligor represents and warrants and covenants and agrees, acknowledging and confirming that the Secured Creditor is relying on such representations, warranties, covenants and agreements, that:

- (a) Schedule B lists all Registrable Intellectual Property that is owned by the Obligor on the date of this Agreement.
- (b) All Registrable Intellectual Property of the Obligor is valid, subsisting, unexpired and enforceable, has not been abandoned and, to the knowledge of the Obligor, does not infringe the Intellectual Property rights of any other Person.

- (c) No decision or judgment has been rendered by any Governmental Entity which would limit, cancel or question the validity of, or the Obligor's rights in, any Intellectual Property in any respect.
- (d) No action or proceeding is pending, or, to the knowledge of the Obligor, threatened, on the date hereof seeking to limit, cancel or question the validity of any Intellectual Property or the Obligor's ownership interest therein, or which, if adversely determined, would have a Material adverse effect on the value of any Intellectual Property.
- (e) The Obligor will take all reasonable and necessary steps, including in any proceeding before the Canadian Intellectual Property Office or any similar Governmental Entity of any jurisdiction, to maintain and pursue each application (and to obtain the relevant registration) and to maintain each registration of the material Registrable Intellectual Property, including, without limitation, filing of applications for renewal, affidavits of use and affidavits of incontestability.
- (f) In the event that any material Intellectual Property of the Obligor is infringed, misappropriated or diluted by a third party, the Obligor will (i) take such actions as the Obligor reasonably deems appropriate under the circumstances to protect such Intellectual Property and (ii) if such Intellectual Property is of material economic value, promptly notify the Secured Creditor after it learns thereof and sue for infringement, misappropriation or dilution, to seek injunctive relief where appropriate and to recover any and all damages for such infringement, misappropriation or dilution.
- (g) Immediately upon the request of the Secured Creditor, the Obligor will furnish the Secured Creditor in writing the description of all Registrable Intellectual Property or applications for Registrable Intellectual Property of the Obligor. In addition, the Obligor will deliver to the Secured Creditor a copy of the certificate of registration of, or application for, such Registrable Intellectual Property with a Confirmation of Security Interest in the form of Schedule D in respect of such Registrable Intellectual Property confirming the assignment for security of such Registrable Intellectual Property to the Secured Creditor and immediately make all such filings, registrations and recordings as are necessary or appropriate to perfect the Security Interest granted to the Secured Creditor in the Registrable Intellectual Property.

**ARTICLE 5
GENERAL**

Section 5.1 Notices.

Any notice, direction or other communication (each a "Notice") given regarding the matters contemplated by this Agreement must be in writing, sent by personal delivery, courier or facsimile (but not by electronic mail) and addressed:

(a) to the Secured Creditor at:

WF Fund III Limited Partnership
161 Bay Street
Suite 2520
Toronto, ON M5J 2S1

Attention: Mark McQueen
Facsimile: 416-682-1160

with a copy to:

Minden Gross LLP
145 King Street West
Suite 2200
Toronto, ON M5H 4G2

Attention: Daniel Rothberg
Facsimile: 416-864-9223

(b) to the Obligor at:

Tercon Mining PV Ltd.
#100 - 2079 Falcon Road
Kamloops, BC V2C 4J2
Attention: Mr. Milan Soucek
Facsimile: (250) 372-1555

A Notice is deemed to be delivered and received (i) if sent by personal delivery, on the date of delivery if it is a Business Day and the delivery was made prior to 4:00 p.m. (local time in place of receipt) and otherwise on the next Business Day, (ii) if sent by same-day service courier, on the date of delivery if sent on a Business Day and delivery was made prior to 4:00 p.m. (local time in place of receipt) and otherwise on the next Business Day, (iii) if sent by overnight courier, on the next Business Day, or (iv) if sent by facsimile, on the Business Day following the date of

confirmation of transmission by the originating facsimile. A party may change its address for service from time to time by providing a Notice in accordance with the foregoing. Any subsequent Notice must be sent to the party at its changed address. Any element of a party's address that is not specifically changed in a Notice will be assumed not to be changed.

Section 5.2 Discharge.

The Security Interest will not be discharged except by a written release or discharge signed by the Secured Creditor. The Obligor will be entitled to require a discharge by notice to the Secured Creditor upon, but only upon, (i) full and indefeasible payment and performance of the Secured Obligations and (ii) the Secured Creditor having no obligations under any Credit Document. Upon discharge of the Security Interest and at the request and expense of the Obligor, the Secured Creditor will execute and deliver to the Obligor such financing statements and other documents or instruments as the Obligor may reasonably require and the Secured Creditor will redeliver to the Obligor, or as the Obligor may otherwise direct the Secured Creditor, any Collateral in its possession.

Section 5.3 No Merger, Survival of Representations and Warranties.

This Agreement does not operate by way of merger of any of the Secured Obligations and no judgment recovered by the Secured Creditor will operate by way of merger of, or in any way affect, the Security Interest, which is in addition to, and not in substitution for, any other security now or hereafter held by the Secured Creditor in respect of the Secured Obligations. The representations, warranties and covenants of the Obligor in this Agreement survive the execution and delivery of this Agreement and any advances under the Secured Debenture. Notwithstanding any investigation made by or on behalf of the Secured Creditor these covenants, representations and warranties continue in full force and effect.

Section 5.4 Further Assurances.

The Obligor will do all acts and things and execute and deliver, or cause to be executed and delivered, all agreements, documents and instruments that the Secured Creditor may require and take all further steps relating to the Collateral or any other property or assets of the Obligor that the Secured Creditor may require, including any agreements, documents or instruments required under or in connection with the *Securities Transfer Act* (Ontario) for (i) protecting the Collateral, (ii) perfecting the Security Interest, and (iii) exercising all powers, authorities and discretions conferred upon the Secured Creditor. After the Security Interest becomes enforceable, the Obligor will do all acts and things and execute and deliver all documents and instruments that the Secured Creditor may require for facilitating the sale or other disposition of the Collateral in connection with its realization.

Section 5.5 Supplemental Security.

This Agreement is in addition to, without prejudice to and supplemental to all other security now held or which may hereafter be held by the Secured Creditor.

Section 5.6 Successors and Assigns.

This Agreement is binding on the Obligor and its successors and assigns, and enures to the benefit of the Secured Creditor and its successors and assigns. This Agreement may be assigned by the Secured Creditor without the consent of, or notice to, the Obligor, to such Person as the Secured Creditor may determine and, in such event, such Person will be entitled to all of the rights and remedies of the Secured Creditor as set forth in this Agreement or otherwise. In any action brought by an assignee to enforce any such right or remedy, the Obligor will not assert against the assignee any claim or defence which the Obligor now has or may have against the Secured Creditor. The Obligor may not assign, transfer or delegate any of its rights or obligations under this Agreement without the prior written consent of the Secured Creditor which may be unreasonably withheld.

Section 5.7 Amalgamation.

The Obligor acknowledges and agrees that in the event it amalgamates with any other corporation or corporations, it is the intention of the parties that the Security Interest (i) subject to Section 2.4, extends to: (A) all of the property and undertaking that any of the amalgamating corporations then owns, (B) all of the property and undertaking that the amalgamated corporation thereafter acquires, (C) all of the property and undertaking in which any of the amalgamating corporations then has any interest and (D) all of the property and undertaking in which the amalgamated corporation thereafter acquires any interest; and (ii) secures the payment and performance of all debts, liabilities and obligations, present or future, direct or indirect, absolute or contingent, matured or unmatured, at any time or from time to time due or accruing due and owing by or otherwise payable by each of the amalgamating corporations and the amalgamated corporation to the Secured Creditor in any currency, however or wherever incurred, and whether incurred alone or jointly with another or others and whether as principal, guarantor or surety and whether incurred prior to, at the time of or subsequent to the amalgamation. The Security Interest attaches to the additional collateral at the time of amalgamation and to any collateral thereafter owned or acquired by the amalgamated corporation when such becomes owned or is acquired. Upon any such amalgamation, the defined term "Obligor" means, collectively, each of the amalgamating corporations and the amalgamated corporation, the defined term "Collateral" means all of the property and undertaking and interests described in (i) above, and the defined term "Secured Obligations" means the obligations described in (ii) above.

Section 5.8 Severability.

If any court of competent jurisdiction from which no appeal exists or is taken, determines any provision of this Agreement to be illegal, invalid or unenforceable, that provision will be severed from this Agreement and the remaining provisions will remain in full force and effect.

Section 5.9 Amendment.

This Agreement may only be amended, supplemented or otherwise modified by written agreement executed by the Secured Creditor and the Obligor.

Section 5.10 Waivers, etc.

- (1) No consent or waiver by the Secured Creditor in respect of this Agreement is binding unless made in writing and signed by an authorized officer of the Secured Creditor. Any consent or waiver given under this Agreement is effective only in the specific instance and for the specific purpose for which given. No waiver of any of the provisions of this Agreement constitutes a waiver of any other provision.
- (2) A failure or delay on the part of the Secured Creditor in exercising a right under this Agreement does not operate as a waiver of, or impair, any right of the Secured Creditor however arising. A single or partial exercise of a right on the part of the Secured Creditor does not preclude any other or further exercise of that right or the exercise of any other right by the Secured Creditor.

Section 5.11 Application of Proceeds of Security.

All monies collected by the Secured Creditor upon the enforcement of its rights and remedies under the Security Documents and the Liens created by them including any sale or other disposition of the Collateral, together with all other monies received by the Secured Creditor under the Security Documents, will be applied as provided in the Secured Debenture. To the extent any other Credit Document requires proceeds of collateral under such Credit Document to be applied in accordance with the provisions of this Agreement, the Secured Creditor shall apply such proceeds in accordance with this Section.

Section 5.12 Conflict.

In the event of any conflict between one or more provisions of this Agreement, the provisions of the Secured Debenture and the provisions of the Operating Loan Agreement which cannot be resolved by all such provisions being complied with, the provisions contained in the Secured Debenture will prevail to the extent of such conflict.

Section 5.13 Governing Law.

This Agreement will be governed by, interpreted and enforced in accordance with the laws of the Province of Ontario and the federal laws of Canada applicable therein.

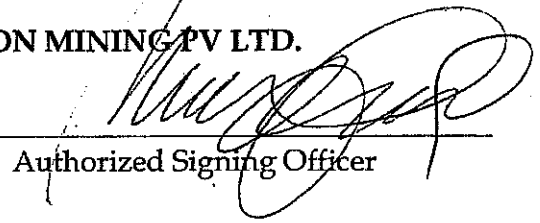
Section 5.14 Termination, Survival.

Upon discharge of the Security Interest pursuant to Section 5.2 hereof, this Agreement shall automatically terminate. The provisions of Article 5 shall survive any termination of this Agreement.

IN WITNESS WHEREOF the Obligor has executed this Agreement.

TERCON MINING PV LTD.

Per:



Authorized Signing Officer

#1264122 v1 | 4061837

TERCON CONSTRUCTION LTD.

as Obligor

and

**WF FUND III LIMITED PARTNERSHIP,
carrying on business as WELLINGTON FINANCIAL LP
AND WELLINGTON FINANCIAL FUND III**

as Secured Creditor

SECURITY AGREEMENT

October 1, 2007

SECURITY AGREEMENT

Security agreement dated as of October 1, 2007 made by Tercon Construction Ltd. to and in favour of WF Fund III Limited Partnership, carrying on business as Wellington Financial LP and Wellington Financial Fund III.

RECITALS:

- (a) The Borrower is or will become indebted or liable to the Secured Creditor pursuant to its Series A Secured Debentures in the aggregate principal amount of \$5,000,000.00 (Cdn.) dated October 1, 2007 (as the same may be amended, restated, supplemented or replaced from time to time, the "Secured Debenture") and pursuant to an Operating Loan Agreement between the Borrower and the Secured Party dated October 1, 2007 (as the same may be amended, restated, supplemented or replaced from time to time, the "Operating Loan Agreement");
- (b) To secure the due performance of the Borrower's obligations to the Secured Creditor under *inter alia* the Secured Debenture and the Operating Loan Agreement, the Obligor has entered into a form of Guarantee dated October 1, 2007 in favor of the Secured Creditor (as the same may be amended, restated, supplemented or replaced from time to time, the "Guarantee"); and
- (c) Pursuant to Section 4.1 of the Secured Debenture, the Obligor is required to execute and deliver this Agreement in favour of the Secured Creditor.

In consideration of the foregoing and other good and valuable consideration, the receipt and adequacy of which are acknowledged, the Obligor agrees as follows.

ARTICLE 1 INTERPRETATION

Section 1.1 Defined Terms.

As used in this Agreement, the following terms have the following meanings:

"Agreement" means this security agreement.

"Borrower" means Tercon Investments Ltd.

"Collateral" has the meaning specified in Section 2.1.

"Credit Documents" means the Secured Debenture, the Operating Loan Agreement, this Agreement and each other Security Document (as such term is defined in the Secured Debenture).

"Event of Default" has the meaning ascribed thereto in the Guarantee;

"Expenses" has the meaning specified in Section 2.2(b).

"Governmental Entity" means any international tribunal, agency, body commission or other authority, any government, executive, parliament, legislature or local authority, or any governmental entity, ministry, department or agency or regulatory authority, court, tribunal, commission or board of or within Canada, or any other foreign jurisdiction, or any political subdivision of any thereof or any authority having jurisdiction therein or any quasi governmental or private body exercising any regulatory, expropriation or taxing authority under or for the account of any of the above.

"Instruments" means (i) a bill, note or cheque within the meaning of the *Bills of Exchange Act* (Canada) or any other writing that evidences a right to the payment of money and is of a type that in the ordinary course of business is transferred by delivery with any necessary endorsement or assignment, or (ii) a letter of credit and an advice of credit if the letter or advice states that it must be surrendered upon claiming payment thereunder, or (iii) chattel paper or any other writing that evidences both a monetary obligation and a security interest in or a lease of specific goods, or (iv) documents of title or any other writing that purports to be issued by or addressed to a bailee and purports to cover such goods in the bailee's possession as are identified or fungible portions of an identified mass, and that in the ordinary course of business is treated as establishing that the Person in possession of it is entitled to receive, hold and dispose of the document and the goods it covers, or (v) any document or writing commonly known as an instrument.

"Intellectual Property" means domestic and foreign: (i) patents, applications for patents and reissues, divisions, continuations, renewals, extensions and continuations-in-part of patents or patent applications; (ii) proprietary and non-public business information, including inventions (whether patentable or not), invention disclosures, improvements, discoveries, trade secrets, confidential information, know-how, methods, processes, designs, technology, technical data, schematics, formulae and customer lists, and documentation relating to any of the foregoing; (iii) copyrights, copyright registrations and applications for copyright registration; (iv) mask works, mask work registrations and applications for mask work registrations; (v) designs, design registrations, design registration applications and integrated circuit topographies; (vi) trade names, business names, corporate names, domain names, website names and world wide web addresses, common law trade-marks, trade-mark registrations, trade-mark applications, trade dress and

logos, and the goodwill associated with any of the foregoing; (vii) computer software and programs (both source code and object code form), all proprietary rights in the computer software and programs and all documentation and other materials related to the computer software and programs; and (viii) any other intellectual property and industrial property.

"Lien" means (i) any mortgage, charge, pledge, hypothecation, security interest, assignment by way of security, encumbrance, lien (statutory or otherwise), hire purchase agreement, conditional sale agreement, deposit arrangement, title retention agreement or arrangement, or any other assignment, arrangement or condition that in substance secures payment or performance of an obligation, (ii) any trust arrangement, (iii) any arrangement which creates a right of set-off out of the ordinary course of business, or (iv) any agreement to grant any such rights or interests.

"Obligor" means Tercon Construction Ltd., a corporation incorporated and existing under the laws of British Columbia, and its successors and permitted assigns.

"Registrable Intellectual Property" means any Intellectual Property in respect of which ownership, title, security interests, charges or encumbrances are capable of registration, recording or notation with any Governmental Entity pursuant to applicable laws.

"Restricted Asset" has the meaning specified in Section 2.4(1).

"Secured Creditor" means WF Fund III Limited Partnership, carrying on business as Wellington Financial LP and Wellington Financial Fund III and its successors and assigns.

"Secured Obligations" has the meaning specified in Section 2.2(a).

"Security" means an obligation of an issuer or a share, participation or other interest in an issuer or in property or an enterprise of an issuer,

- (a) that is represented by a security certificate in bearer form or registered form, or the transfer of which may be registered on books maintained for that purpose by or on behalf of the issuer,
- (b) that is one of a class or series, or by its terms is divisible into a class or series, of shares, participations, interests or obligations, and
- (c) that,
 - (i) is, or is of a type, dealt in or traded on securities exchanges or securities markets, or

- (ii) is a medium for investment and by its terms expressly provides that it is a security for the purposes of the *Securities Transfer Act* (Ontario);

but excludes

- (d) any ULC Shares.

"Security Interest" has the meaning specified in Section 2.2.

"ULC Shares" means shares in any unlimited company or unlimited liability corporation at any time owned or otherwise held by the Obligor.

Section 1.2 Interpretation.

- (1) Terms defined in the *Personal Property Security Act* (Ontario) or the *Securities Transfer Act* (Ontario) and used but not otherwise defined in this Agreement have the same meanings.
- (2) Capitalized terms used in this Agreement but not defined have the meanings given to them in the Secured Debenture.
- (3) Any reference in any Credit Document to Liens permitted by the Secured Debenture and any right of the Obligor to create or suffer to exist Liens permitted by the Secured Debenture are not intended to and do not and will not subordinate the Security Interest to any such Lien or give priority to any Person over the Secured Creditor.
- (4) In this Agreement the words "including", "includes" and "include" mean "including (or includes or include) without limitation". The expressions "Article", "Section" and other subdivision followed by a number mean and refer to the specified Article, Section or other subdivision of this Agreement.
- (5) Any reference in this Agreement to gender includes all genders. Words importing the singular number only include the plural and vice versa.
- (6) The division of this Agreement into Articles, Sections and other subdivisions and the insertion of headings are for convenient reference only and do not affect its interpretation.
- (7) The schedules attached to this Agreement form an integral part of it for all purposes of it.
- (8) Except as otherwise provided in this Agreement, any reference to this Agreement, any Credit Document or any Security Document refers to this Agreement or such Credit Document or Security Document as the same may

have been or may from time to time be amended, modified, extended, renewed, restated, replaced or supplemented and includes all schedules attached to it. Except as otherwise provided in this Agreement, any reference in this Agreement to a statute refers to such statute and all rules and regulations made under it as the same may have been or may from time to time be amended or re-enacted.

ARTICLE 2 SECURITY

Section 2.1 Grant of Security.

Subject to Section 2.4, the Obligor grants to the Secured Creditor, a security interest in, and assigns, mortgages, charges, hypothecates and pledges to the Secured Creditor, all of the property and undertaking of the Obligor now owned or hereafter acquired and all of the property and undertaking in which the Obligor now has or hereafter acquires any interest (collectively, the "Collateral") including all of the Obligor's:

- (a) present and after-acquired personal property;
- (b) inventory including goods held for sale, lease or resale, goods furnished or to be furnished to third parties under contracts of lease, consignment or service, goods which are raw materials or work in process, goods used in or procured for packing and materials used or consumed in the business of the Obligor;
- (c) equipment, machinery, furniture, fixtures, plant, vehicles and other goods of every kind and description and all licences and other rights and all related records, files, charts, plans, drawings, specifications, manuals and documents;
- (d) accounts due or accruing and all related agreements, books, accounts, invoices, letters, documents and papers recording, evidencing or relating to them;
- (e) money, documents of title and chattel paper;
- (f) Instruments and Securities, including the Instruments and Securities listed in Schedule A;
- (g) intangibles including all security interests, goodwill, choses in action, contracts, contract rights, licenses and other contractual benefits;

- (h) Intellectual Property including the Registrable Intellectual Property listed in Schedule B;
- (i) all substitutions and replacements of and increases, additions and, where applicable, accessions to the property described in Section 2.1(a) through Section 2.1(h) inclusive; and
- (j) all proceeds in any form derived directly or indirectly from any dealing with all or any part of the property described in Section 2.1(a) through Section 2.1(i) inclusive, including the proceeds of such proceeds.

Section 2.2 Secured Obligations.

The security interest, assignment, mortgage, charge, hypothecation and pledge granted by this Agreement (collectively, the "Security Interest") secures the payment and performance of:

- (a) all debts, liabilities and obligations, present or future, direct or indirect, absolute or contingent, matured or unmatured, at any time or from time to time due or accruing due and owing by or otherwise payable by the Obligor to the Secured Creditor in any currency, however or wherever incurred, and whether incurred by the Obligor alone or jointly with another or others and whether as principal, guarantor or surety and in whatever name or style (collectively, together with the Expenses, the "Secured Obligations"); and
- (b) all expenses, costs and charges incurred by or on behalf of the Secured Creditor in connection with this Agreement, the Security Interest or the Collateral, including all legal fees, court costs, receiver's or agent's remuneration and other expenses of taking possession of, repairing, protecting, insuring, preparing for disposition, realizing, collecting, selling, transferring, delivering or obtaining payment for the Collateral, and of taking, defending or participating in any action or proceeding in connection with any of the foregoing matters or otherwise in connection with the Secured Creditor's interest in any Collateral, whether or not directly relating to the enforcement of this Agreement or any other Credit Document (collectively, the "Expenses").

Section 2.3 Attachment.

- (1) The Obligor acknowledges that (i) value has been given, (ii) it has rights in the Collateral (other than after-acquired Collateral), (iii) it has not agreed to

postpone the time of attachment of the Security Interest, and (iv) it has received a copy of this Agreement.

- (2) The Obligor shall not permit any of the Securities at any time to be or to become uncertificated securities.
- (3) The Obligor delivers to and deposits with the Secured Creditor any and all certificates evidencing the Securities listed in Schedule A, together with, in each case, a stock power duly endorsed in blank for transfer and an irrevocable directors or other applicable resolution of entity in from which the Securities are issued, consenting to the transfer by the Obligor and the Obligor hereby grants control over such Securities to the Secured Creditor in accordance with the provisions of the *Securities Transfer Act* (Ontario). The Obligor also delivers to and deposits with the Secured Creditor any promissory note or other Instruments evidencing any amount payable in excess of \$100,000 or evidencing any rights to goods having a value in excess of \$100,000.
- (4) If the Obligor acquires any Securities or any Instruments (other than Instruments evidencing amounts payable of less than \$100,000 or evidencing any rights to goods having a value less than \$100,000), the Obligor will notify the Secured Creditor in writing and provide the Secured Creditor with a revised Schedule A recording the acquisition and particulars of such Instruments or Securities within 5 days after such acquisition. Upon request by the Secured Creditor, the Obligor will promptly deliver to and deposit with the Secured Creditor, or cause the Secured Creditor to have control over, such Securities or Instruments (other than Instruments evidencing amounts payable of less than \$100,000 or evidencing any rights to goods having a value less than \$100,000) as security for the Secured Obligations. The Obligor will also promptly inform the Secured Creditor in writing of the acquisition by the Obligor of any ULC Shares.
- (5) At the request of the Secured Creditor the Obligor will (i) cause the transfer of any Securities or Instruments to the Secured Creditor to be registered wherever such registration may be required or advisable in the reasonable opinion of the Secured Creditor, (ii) duly endorse any such Securities or Instruments for transfer in blank or register them in the name of the Secured Creditor or its nominee or otherwise as the Secured Creditor may reasonably direct, (iii) immediately deliver to the Secured Creditor any and all consents or other documents which may be necessary to effect the transfer of any such Securities or Instruments to the Secured Creditor or any third party and (iv) deliver to or otherwise cause the Secured Creditor to have control over such Securities or Instruments in accordance with the provisions of the *Securities*

Transfer Act (Ontario). Upon the discharge of the Security Interest in accordance with Section 5.2 hereof, the Secured Creditor shall promptly cause all Securities or Instruments transferred to it or to any third party pursuant to this Section 2.3(5) to be transferred back to the Obligor including duly endorsing any such Securities or Instruments for transfer back to the Obligor and delivering to the Obligor any and all consents or other documents which may be necessary to effect the transfer of any such Securities or Instruments to the Obligor.

- (6) The Obligor will promptly notify the Secured Creditor in writing of the acquisition by the Obligor of any Registrable Intellectual Property. The Obligor will provide the Secured Creditor with a revised Schedule B recording the acquisition and particulars of such additional Intellectual Property.

Section 2.4 Scope of Security Interest.

- (1) To the extent that an assignment of amounts payable and other proceeds arising under or in connection with, or the grant of a security interest in any agreement, licence, permit or quota of the Obligor would result in the termination of such agreement, licence, permit or quota (each, a "**Restricted Asset**"), the Security Interest with respect to each Restricted Asset will constitute a trust created in favour of the Secured Creditor pursuant to which the Obligor holds as trustee all proceeds arising under or in connection with the Restricted Asset in trust for the Secured Creditor on the following basis:
 - (a) until the Security Interest is enforceable and subject to the Secured Debenture, the Obligor is entitled to receive all such proceeds; and
 - (b) whenever the Security Interest is enforceable, (i) all rights of the Obligor to receive such proceeds cease and all such proceeds will be immediately paid over to the Secured Creditor and (ii) the Obligor will take all actions requested by the Secured Creditor to collect and enforce payment and other rights arising under the Restricted Asset.

The Obligor will use all commercially reasonable efforts to obtain the consent of each other party to any and all Restricted Assets to the assignment of such Restricted Asset to the Secured Creditor in accordance with this Agreement. The Obligor will also use all commercially reasonable efforts to ensure that all agreements entered into on and after the date of this Agreement expressly permit assignments of the benefits of such agreements as collateral security to the Secured Creditor in accordance with the terms of this Agreement.

- (2) The Security Interest with respect to trade-marks constitutes a security interest in, and a charge, hypothecation and pledge of, such Collateral in

favour of the Secured Creditor, but does not constitute an assignment or mortgage of such Collateral to the Secured Creditor.

- (3) Until the Security Interest is enforceable, the grant of the Security Interest in the Intellectual Property does not affect in any way the Obligor's rights to commercially exploit the Intellectual Property, defend it, enforce the Obligor's rights in it or with respect to it against third parties in any court or claim and be entitled to receive any damages with respect to any infringement of it.
- (4) The Security Interest does not extend to consumer goods or ULC Shares.
- (5) The Security Interest does not extend or apply to the last day of the term of any lease or sublease of real property or any agreement for a lease or sublease of real property, now held or hereafter acquired by the Obligor, but the Obligor will stand possessed of any such last day upon trust to assign and dispose of it as the Secured Creditor may reasonably direct.

Section 2.5 Grant of Licence to Use Intellectual Property.

At such time as the Secured Creditor is lawfully entitled to exercise its rights and remedies under Article 3, the Obligor grants to the Secured Creditor an irrevocable, nonexclusive licence (exercisable without payment of royalty or other compensation to the Obligor) to use, assign or sublicense any Intellectual Property in which the Obligor has rights wherever the same may be located, including in such licence access to (i) all media in which any of the licensed items may be recorded or stored, and (ii) all software and computer programs used for compilation or print-out. The license granted under this Section is to enable the Secured Creditor to exercise its rights and remedies under Article 3 and for no other purpose.

Section 2.6 Care and Custody of Collateral.

- (1) The Secured Creditor has no obligation to keep Collateral in its possession identifiable.
- (2) The Secured Creditor may, after the Security Interest is enforceable, (i) notify any Person obligated on an Instrument, Security or account to make payments to the Secured Creditor, whether or not the Obligor was previously making collections on such accounts, chattel paper, instruments, and (ii) assume control of any proceeds arising from the Collateral.
- (3) The Secured Creditor has no obligation to collect dividends, distributions or interest payable on, or exercise any option or right in connection with, any Securities or Instruments. The Secured Creditor has no obligation to protect or preserve any Securities or Instruments from depreciating in value or becoming worthless and is released from all responsibility for any loss of

value. In the physical keeping of any Securities, the Secured Creditor is only obliged to exercise the same degree of care as it would exercise with respect to its own Securities kept at the same place.

Section 2.7 Rights of the Obligor.

- (1) Until the Security Interest is enforceable, the Obligor is entitled to vote the Securities that are part of the Collateral and to receive all dividends and distributions on such Securities. In order to allow the Obligor to vote any Securities registered in the Secured Creditor's name or the name of its nominee, at the request and the expense of the Obligor, the Secured Creditor will, prior to the Security Interest being enforceable, and may, after the Security Interest is enforceable, execute valid proxies appointing proxyholders to attend and act at meetings of shareholders, and execute resolutions in writing, all pursuant to the relevant provisions of the issuer's governing legislation. Whenever the Security Interest is enforceable, all rights of the Obligor to vote (under any proxy given by the Secured Creditor (or its nominee) or otherwise) or to receive distributions or dividends cease and all such rights become vested solely and absolutely in the Secured Creditor.
- (2) Any distributions or dividends received by the Obligor contrary to Section 2.7(1) or any other moneys or property received by the Obligor after the Security Interest is enforceable will be received as trustee for the Secured Creditor and shall be immediately paid over to the Secured Creditor.

Section 2.8 Expenses.

The Obligor is liable for and will pay on demand by the Secured Creditor any and all Expenses.

**ARTICLE 3
ENFORCEMENT**

Section 3.1 Enforcement.

The Security Interest becomes and is enforceable against the Obligor upon the occurrence and during the continuance of an Event of Default.

Section 3.2 Remedies.

Whenever the Security Interest is enforceable, the Secured Creditor may realize upon the Collateral and enforce the rights of the Secured Creditor by:

- (a) entry onto any premises where Collateral consisting of tangible personal property may be located;

- (b) entry into possession of the Collateral by any method permitted by law;
- (c) sale, grant of options to purchase, or lease of all or any part of the Collateral;
- (d) holding, storing and keeping idle or operating all or any part of the Collateral;
- (e) exercising and enforcing all rights and remedies of a holder of the Securities and Instruments as if the Secured Creditor were the absolute owner thereof (including, if necessary, causing the Collateral to be registered in the name of the Secured Creditor or its nominee if not already done);
- (f) collection of any proceeds arising in respect of the Collateral;
- (g) collection, realization or sale of, or other dealing with, accounts;
- (h) license or sublicense, whether on an exclusive or nonexclusive basis, of any Intellectual Property for such term and on such conditions and in such manner as the Secured Creditor in its sole judgment determines (taking into account such provisions as may be necessary to protect and preserve such Intellectual Property);
- (i) instruction to any bank which has entered into a control agreement with the Secured Creditor to transfer all moneys, Securities and Instruments held by such depository bank to an account maintained with or by the Secured Creditor;
- (j) application of any moneys constituting Collateral or proceeds thereof in accordance with Section 5.11;
- (k) appointment by instrument in writing of a receiver (which term as used in this Agreement includes a receiver and manager) or agent of all or any part of the Collateral and removal or replacement from time to time of any receiver or agent;
- (l) institution of proceedings in any court of competent jurisdiction for the appointment of a receiver of all or any part of the Collateral;
- (m) institution of proceedings in any court of competent jurisdiction for sale or foreclosure of all or any part of the Collateral;

- (n) filing of proofs of claim and other documents to establish claims to the Collateral in any proceeding relating to the Obligor; and
- (o) any other remedy or proceeding authorized or permitted under the *Personal Property Security Act* (Ontario) or otherwise by law or equity.

Section 3.3 Additional Rights.

In addition to the remedies set forth in Section 3.2 and elsewhere in this Agreement, whenever the Security Interest is enforceable, the Secured Creditor may:

- (a) require the Obligor, at the Obligor's expense, to assemble the Collateral at a place or places designated by notice in writing and the Obligor agrees to so assemble the Collateral immediately upon receipt of such notice;
- (b) require the Obligor, by notice in writing, to disclose to the Secured Creditor the location or locations of the Collateral and the Obligor agrees to promptly make such disclosure when so required;
- (c) repair, process, modify, complete or otherwise deal with the Collateral and prepare for the disposition of the Collateral, whether on the premises of the Obligor or otherwise;
- (d) redeem any prior security interest against any Collateral, procure the transfer of such security interest to itself, or settle and pass the accounts of the prior mortgagee, chargee or encumbrancer (any accounts to be conclusive and binding on Obligor);
- (e) pay any liability secured by any Lien against any Collateral (the Obligor will immediately on demand reimburse the Secured Creditor for all such payments);
- (f) carry on all or any part of the business of the Obligor and, to the exclusion of all others including the Obligor, enter upon, occupy and use all or any of the premises, buildings, and other property of or used by the Obligor for such time as the Secured Creditor sees fit, free of charge, and the Secured Creditor is not liable to the Obligor for any act, omission or negligence in so doing or for any rent, charges, depreciation or damages incurred in connection with or resulting from such action;
- (g) borrow for the purpose of carrying on the business of the Obligor or for the maintenance, preservation or protection of the Collateral and

grant a security interest in the Collateral, whether or not in priority to the Security Interest, to secure repayment;

- (h) commence, continue or defend any judicial or administrative proceedings for the purpose of protecting, seizing, collecting, realizing or obtaining possession or payment of the Collateral, and give good and valid receipts and discharges in respect of the Collateral and compromise or give time for the payment or performance of all or any part of the accounts or any other obligation of any third party to the Obligor; and
- (i) at any public sale, and to the extent permitted by law on any private sale, bid for and purchase any or all of the Collateral offered for sale and upon compliance with the terms of such sale, hold, retain and dispose of such Collateral without any further accountability to the Obligor or any other Person with respect to such holding, retention or disposition, except as required by law. In any such sale to the Secured Creditor, the Secured Creditor may, for the purpose of making payment for all or any part of the Collateral so purchased, use any claim for Secured Obligations then due and payable to it as a credit against the purchase price.

Section 3.4 Exercise of Remedies.

The remedies under Section 3.2 and Section 3.3 may be exercised from time to time separately or in combination and are in addition to, and not in substitution for, any other rights of the Secured Creditor however arising or created. The Secured Creditor is not bound to exercise any right or remedy, and the exercise of rights and remedies is without prejudice to the rights of the Secured Creditor in respect of the Secured Obligations including the right to claim for any deficiency.

Section 3.5 Receiver's Powers.

- (1) Any receiver appointed by the Secured Creditor is vested with the rights and remedies which could have been exercised by the Secured Creditor in respect of the Obligor or the Collateral and such other powers and discretions as are granted in the instrument of appointment and any supplemental instruments. The identity of the receiver, its replacement and its remuneration are within the sole and unfettered discretion of the Secured Creditor.
- (2) Any receiver appointed by the Secured Creditor will act as agent for the Secured Creditor for the purposes of taking possession of the Collateral, but otherwise and for all other purposes (except as provided below), as agent for the Obligor. The receiver may sell, lease, or otherwise dispose of Collateral as agent for the Obligor or as agent for the Secured Creditor as the Secured

Creditor may determine in its discretion. The Obligor agrees to ratify and confirm all actions of the receiver acting as agent for the Obligor, and to release and indemnify the receiver in respect of all such actions.

- (3) The Secured Creditor, in appointing or refraining from appointing any receiver, does not incur liability to the receiver, the Obligor or otherwise and is not responsible for any misconduct or negligence of such receiver.

Section 3.6 Appointment of Attorney.

The Obligor hereby irrevocably constitutes and appoints the Secured Creditor (and any officer of the Secured Creditor) the true and lawful attorney of the Obligor. As the attorney of the Obligor, the Secured Creditor has the power to exercise for and in the name of the Obligor with full power of substitution, upon the occurrence and during the continuance of an Event of Default, any of the Obligor's right (including the right of disposal), title and interest in and to the Collateral including the execution, endorsement, delivery and transfer of the Collateral to the Secured Creditor, its nominees or transferees, and the Secured Creditor and its nominees or transferees are hereby empowered to exercise all rights and powers and to perform all acts of ownership with respect to the Collateral to the same extent as the Obligor might do. This power of attorney is irrevocable, is coupled with an interest, has been given for valuable consideration (the receipt and adequacy of which is acknowledged) and survives, and does not terminate upon, the bankruptcy, dissolution, winding up or insolvency of the Obligor. This power of attorney extends to and is binding upon the Obligor's successors and permitted assigns. The Obligor authorizes the Secured Creditor to delegate in writing to another Person any power and authority of the Secured Creditor under this power of attorney as may be necessary or desirable in the opinion of the Secured Creditor, and to revoke or suspend such delegation. The power of attorney granted by the Obligor hereby shall automatically terminate and be of no further force or effect upon the discharge of the Security Interest in accordance with Section 5.2 hereof.

Section 3.7 Dealing with the Collateral.

- (1) The Secured Creditor is not obliged to exhaust its recourse against the Obligor or any other Person or against any other security it may hold in respect of the Secured Obligations before realizing upon or otherwise dealing with the Collateral in such manner as the Secured Creditor may consider desirable.
- (2) The Secured Creditor may grant extensions or other indulgences, take and give up securities, accept compositions, grant releases and discharges and otherwise deal with the Obligor and with other Persons, sureties or securities as it may see fit without prejudice to the Secured Obligations, the liability of the Obligor or the rights of the Secured Creditor in respect of the Collateral.

- (3) Except as otherwise provided by law or this Agreement, the Secured Creditor is not (i) liable or accountable for any failure to collect, realize or obtain payment in respect of the Collateral, (ii) bound to institute proceedings for the purpose of collecting, enforcing, realizing or obtaining payment of the Collateral or for the purpose of preserving any rights of any Persons in respect of the Collateral, (iii) responsible for any loss occasioned by any sale or other dealing with the Collateral or by the retention of or failure to sell or otherwise deal with the Collateral, or (iv) bound to protect the Collateral from depreciating in value or becoming worthless.

Section 3.8 Standards of Sale.

Without prejudice to the ability of the Secured Creditor to dispose of the Collateral in any manner which is commercially reasonable, the Obligor acknowledges that:

- (a) the Collateral may be disposed of in whole or in part;
- (b) the Collateral may be disposed of by public auction, public tender or private contract, with or without advertising and without any other formality;
- (c) any assignee of such Collateral may be the Secured Creditor or a customer of any such Person;
- (d) any sale conducted by the Secured Creditor will be at such time and place, on such notice and in accordance with such procedures as the Secured Creditor, in its sole discretion, may deem advantageous;
- (e) the Collateral may be disposed of in any manner and on any terms necessary to avoid violation of applicable law (including compliance with such procedures as may restrict the number of prospective bidders and purchasers, require that the prospective bidders and purchasers have certain qualifications, and restrict the prospective bidders and purchasers to Persons who will represent and agree that they are purchasing for their own account for investment and not with a view to the distribution or resale of the Collateral) or in order to obtain any required approval of the disposition (or of the resulting purchase) by any governmental or regulatory authority or official;
- (f) a disposition of the Collateral may be on such terms and conditions as to credit or otherwise as the Secured Creditor, in its sole discretion, may deem advantageous; and

- (g) the Secured Creditor may establish an upset or reserve bid or price in respect of the Collateral.

Section 3.9 Dealings by Third Parties.

- (1) No Person dealing with the Secured Creditor or an agent or receiver is required to determine (i) whether the Security Interest has become enforceable, (ii) whether the powers which such Person is purporting to exercise have become exercisable, (iii) whether any money remains due to the Secured Creditor by the Obligor, (iv) the necessity or expediency of the stipulations and conditions subject to which any sale or lease is made, (v) the propriety or regularity of any sale or other dealing by the Secured Creditor with the Collateral, or (vi) how any money paid to Secured Creditor has been applied.
- (2) Any bona fide purchaser of all or any part of the Collateral from the Secured Creditor or any receiver or agent will hold the Collateral absolutely, free from any claim or right of whatever kind, including any equity of redemption, of the Obligor, which it specifically waives (to the fullest extent permitted by law) as against any such purchaser together with all rights of redemption, stay or appraisal which the Obligor has or may have under any rule of law or statute now existing or hereafter adopted.

ARTICLE 4 REPRESENTATIONS, WARRANTIES AND COVENANTS

Section 4.1 General Representations, Warranties and Covenants.

The Obligor represents and warrants and covenants and agrees, acknowledging and confirming that the Secured Creditor is relying on such representations, warranties, covenants and agreements, that:

- (a) **Continuous Perfection.** Schedule C sets out the Obligor's place of business or, if more than one, the Obligor's chief executive office. Such place of business or chief executive office, as the case may be, has been located at such address for the 60 days immediately preceding the date of this Agreement. Schedule C also sets out the address at which the books and records of the Obligor are located, the address at which senior management of the Obligor are located and conduct their deliberations and make their decisions with respect to the business of the Obligor and the address from which the invoices and accounts of the Obligor are issued. The Obligor will not change the location of any of these items, people or addresses without providing at least 30 days prior written notice to the Secured Creditor. Except for sales of

inventory made in the ordinary course of business, the Collateral, to the extent not delivered to the Collateral Agent pursuant to Section 2.3(3), has been kept for the 60 days immediately preceding the date of this Agreement and will be kept at those locations listed on Schedule C, and the Obligor will not remove the Collateral from such locations, without providing at least 30 days prior written notice to the Secured Creditor. The Obligor will not change its name in any manner without providing at least 30 days prior written notice to the Secured Creditor.

- (b) **Restriction on Disposition.** The Obligor will not sell, assign, convey, exchange, lease, release or abandon, or otherwise dispose of, any Collateral except as expressly permitted in the Secured Debenture.
- (c) **Negative Pledge.** The Obligor will not create or suffer to exist, any Lien on the Collateral, except for Liens permitted by the Secured Debenture.
- (d) **Account Debtors.** None of the account debtors in respect of any accounts, chattel paper or intangibles and none of the obligors in respect of any Instruments included in the Collateral as of the date hereof is (i) a Governmental Entity, or (ii) in the case of any account in excess of \$100,000, is located outside of Canada or the United States of America.
- (e) **Securities and Instruments.**
 - (i) Schedule A lists all Securities and Instruments owned or held by the Obligor on the date of this Agreement and all such Securities are represented by certificated securities.
 - (ii) Securities that are Collateral have been, where applicable, duly and validly issued and acquired and are fully paid and non-assessable. Schedule A sets out, for each class of Securities listed in the schedule, the percentage amount that such Securities represent of all issued and outstanding Securities of that class.
 - (iii) Except as described in Schedule A, no transfer restrictions apply to the Securities and Instruments listed in Schedule A. The Obligor has delivered to the Secured Creditor copies of all shareholder, partnership or trust agreements applicable to each issuer of such Securities and Instruments which are in the Obligor's possession or control.

- (iv) No Person has or will have any written or oral option, warrant, right, call, commitment, conversion right, right of exchange or other agreement or any right or privilege (whether by law, preemptive or contractual) capable of becoming an option, warrant, right, call, commitment, conversion right, right of exchange or other agreement to acquire any right or interest in any of the Securities and Instruments that are Collateral.
 - (v) The Securities that are Collateral constitute, where applicable, the legal, valid and binding obligation of the obligor of such Securities, enforceable in accordance with their terms, subject only to any limitation under applicable laws relating to (i) bankruptcy, insolvency, fraudulent conveyance, arrangement, reorganization or creditors' rights generally, and (ii) the discretion that a court may exercise in the granting of equitable remedies.
 - (vi) The pledge, assignment and delivery to the Secured Creditor of the Collateral consisting of certificated Securities pursuant to this Agreement creates a valid and perfected first ranking security interest in such certificated Securities, and the proceeds of them. Such Securities and the proceeds from them are not subject to any prior Lien or any agreement purporting to grant to any third party a Lien on the property or assets of the Obligor which would include the Securities except for Permitted Encumbrances. The Secured Creditor is entitled to all the rights, priorities and benefits afforded by the *Personal Property Security Act* (Ontario) or other relevant personal property security legislation as enacted in any relevant jurisdiction to perfect security interests in respect of such Collateral.
- (f) **Status of Accounts Collateral.** The Obligor will maintain books and records pertaining to the Collateral in such detail, form and scope as the Secured Creditor reasonably requires, and keep all originals of the chattel paper which evidence accounts at locations specified on Schedule B. The Obligor will immediately notify the Secured Creditor if any account in excess of \$500,000 arises out of contracts with any Governmental Entity, and execute any instruments and take any steps required by the Secured Creditor in order that all moneys due or to become due under the contract are assigned to the Secured Creditor and notice of such assignment is given to the Governmental Entity. The Obligor will also immediately notify the Secured Creditor if any

account in excess of \$500,000 is with an account debtor located outside of Canada or the United States of America.

- (g) **Additional Security Perfection and Protection of Security Interest.** The Obligor will grant to the Secured Creditor, security interests, assignments, mortgages, charges, hypothecations and pledges in such property and undertaking of the Obligor that is not subject to a valid and perfected first ranking security interest (subject only to Permitted Liens) constituted by the Security Documents, in each relevant jurisdiction as determined by the Secured Creditor. The Obligor will perform all acts, execute and deliver all agreements, documents and instruments and take such other steps as are requested by the Secured Creditor at any time to register, file, signify, publish, perfect, maintain, protect, and enforce the Security Interest including: (i) executing, recording and filing of financing or other statements, and paying all taxes, fees and other charges payable, (ii) placing notations on its books of account to disclose the Security Interest, (iii) delivering acknowledgements, confirmations and subordinations that may be necessary to ensure that the Security Documents constitute a valid and perfected first ranking security interest (subject only to Permitted Liens), (iv) executing and delivering any agreements, documents and instruments that may be needed under or in connection with the *Securities Transfer Act* (Ontario) and (v) delivering opinions of counsel in respect of matters contemplated by this paragraph. The documents and opinions contemplated by this paragraph must be in form and substance satisfactory to the Secured Creditor.

Section 4.2 Representations, Warranties and Covenants Concerning Intellectual Property.

The Obligor represents and warrants and covenants and agrees, acknowledging and confirming that the Secured Creditor is relying on such representations, warranties, covenants and agreements, that:

- (a) Schedule B lists all Registrable Intellectual Property that is owned by the Obligor on the date of this Agreement.
- (b) All Registrable Intellectual Property of the Obligor is valid, subsisting, unexpired and enforceable, has not been abandoned and, to the knowledge of the Obligor, does not infringe the Intellectual Property rights of any other Person.

- (c) No decision or judgment has been rendered by any Governmental Entity which would limit, cancel or question the validity of, or the Obligor's rights in, any Intellectual Property in any respect.
- (d) No action or proceeding is pending, or, to the knowledge of the Obligor, threatened, on the date hereof seeking to limit, cancel or question the validity of any Intellectual Property or the Obligor's ownership interest therein, or which, if adversely determined, would have a Material adverse effect on the value of any Intellectual Property.
- (e) The Obligor will take all reasonable and necessary steps, including in any proceeding before the Canadian Intellectual Property Office or any similar Governmental Entity of any jurisdiction, to maintain and pursue each application (and to obtain the relevant registration) and to maintain each registration of the material Registrable Intellectual Property, including, without limitation, filing of applications for renewal, affidavits of use and affidavits of incontestability.
- (f) In the event that any material Intellectual Property of the Obligor is infringed, misappropriated or diluted by a third party, the Obligor will (i) take such actions as the Obligor reasonably deems appropriate under the circumstances to protect such Intellectual Property and (ii) if such Intellectual Property is of material economic value, promptly notify the Secured Creditor after it learns thereof and sue for infringement, misappropriation or dilution, to seek injunctive relief where appropriate and to recover any and all damages for such infringement, misappropriation or dilution.
- (g) Immediately upon the request of the Secured Creditor, the Obligor will furnish the Secured Creditor in writing the description of all Registrable Intellectual Property or applications for Registrable Intellectual Property of the Obligor. In addition, the Obligor will deliver to the Secured Creditor a copy of the certificate of registration of, or application for, such Registrable Intellectual Property with a Confirmation of Security Interest in the form of Schedule D in respect of such Registrable Intellectual Property confirming the assignment for security of such Registrable Intellectual Property to the Secured Creditor and immediately make all such filings, registrations and recordings as are necessary or appropriate to perfect the Security Interest granted to the Secured Creditor in the Registrable Intellectual Property.

**ARTICLE 5
GENERAL**

Section 5.1 Notices.

Any notice, direction or other communication (each a "Notice") given regarding the matters contemplated by this Agreement must be in writing, sent by personal delivery, courier or facsimile (but not by electronic mail) and addressed:

(a) to the Secured Creditor at:

WF Fund III Limited Partnership
161 Bay Street
Suite 2520
Toronto, ON M5J 2S1

Attention: Mark McQueen
Facsimile: 416-682-1160

with a copy to:

Minden Gross LLP
145 King Street West
Suite 2200
Toronto, ON M5H 4G2

Attention: Daniel Rothberg
Facsimile: 416-864-9223

(b) to the Obligor at:

Tercon Construction Ltd.
#100 - 2079 Falcon Road
Kamloops, BC V2C 4J2
Attention: Mr. Milan Soucek
Facsimile: (250) 372-1555

A Notice is deemed to be delivered and received (i) if sent by personal delivery, on the date of delivery if it is a Business Day and the delivery was made prior to 4:00 p.m. (local time in place of receipt) and otherwise on the next Business Day, (ii) if sent by same-day service courier, on the date of delivery if sent on a Business Day and delivery was made prior to 4:00 p.m. (local time in place of receipt) and otherwise on the next Business Day, (iii) if sent by overnight courier, on the next Business Day, or (iv) if sent by facsimile, on the Business Day following the date of

confirmation of transmission by the originating facsimile. A party may change its address for service from time to time by providing a Notice in accordance with the foregoing. Any subsequent Notice must be sent to the party at its changed address. Any element of a party's address that is not specifically changed in a Notice will be assumed not to be changed.

Section 5.2 Discharge.

The Security Interest will not be discharged except by a written release or discharge signed by the Secured Creditor. The Obligor will be entitled to require a discharge by notice to the Secured Creditor upon, but only upon, (i) full and indefeasible payment and performance of the Secured Obligations and (ii) the Secured Creditor having no obligations under any Credit Document. Upon discharge of the Security Interest and at the request and expense of the Obligor, the Secured Creditor will execute and deliver to the Obligor such financing statements and other documents or instruments as the Obligor may reasonably require and the Secured Creditor will redeliver to the Obligor, or as the Obligor may otherwise direct the Secured Creditor, any Collateral in its possession.

Section 5.3 No Merger, Survival of Representations and Warranties.

This Agreement does not operate by way of merger of any of the Secured Obligations and no judgment recovered by the Secured Creditor will operate by way of merger of, or in any way affect, the Security Interest, which is in addition to, and not in substitution for, any other security now or hereafter held by the Secured Creditor in respect of the Secured Obligations. The representations, warranties and covenants of the Obligor in this Agreement survive the execution and delivery of this Agreement and any advances under the Secured Debenture. Notwithstanding any investigation made by or on behalf of the Secured Creditor these covenants, representations and warranties continue in full force and effect.

Section 5.4 Further Assurances.

The Obligor will do all acts and things and execute and deliver, or cause to be executed and delivered, all agreements, documents and instruments that the Secured Creditor may require and take all further steps relating to the Collateral or any other property or assets of the Obligor that the Secured Creditor may require, including any agreements, documents or instruments required under or in connection with the *Securities Transfer Act* (Ontario) for (i) protecting the Collateral, (ii) perfecting the Security Interest, and (iii) exercising all powers, authorities and discretions conferred upon the Secured Creditor. After the Security Interest becomes enforceable, the Obligor will do all acts and things and execute and deliver all documents and instruments that the Secured Creditor may require for facilitating the sale or other disposition of the Collateral in connection with its realization.

Section 5.5 Supplemental Security.

This Agreement is in addition to, without prejudice to and supplemental to all other security now held or which may hereafter be held by the Secured Creditor.

Section 5.6 Successors and Assigns.

This Agreement is binding on the Obligor and its successors and assigns, and enures to the benefit of the Secured Creditor and its successors and assigns. This Agreement may be assigned by the Secured Creditor without the consent of, or notice to, the Obligor, to such Person as the Secured Creditor may determine and, in such event, such Person will be entitled to all of the rights and remedies of the Secured Creditor as set forth in this Agreement or otherwise. In any action brought by an assignee to enforce any such right or remedy, the Obligor will not assert against the assignee any claim or defence which the Obligor now has or may have against the Secured Creditor. The Obligor may not assign, transfer or delegate any of its rights or obligations under this Agreement without the prior written consent of the Secured Creditor which may be unreasonably withheld.

Section 5.7 Amalgamation.

The Obligor acknowledges and agrees that in the event it amalgamates with any other corporation or corporations, it is the intention of the parties that the Security Interest (i) subject to Section 2.4, extends to: (A) all of the property and undertaking that any of the amalgamating corporations then owns, (B) all of the property and undertaking that the amalgamated corporation thereafter acquires, (C) all of the property and undertaking in which any of the amalgamating corporations then has any interest and (D) all of the property and undertaking in which the amalgamated corporation thereafter acquires any interest; and (ii) secures the payment and performance of all debts, liabilities and obligations, present or future, direct or indirect, absolute or contingent, matured or unmatured, at any time or from time to time due or accruing due and owing by or otherwise payable by each of the amalgamating corporations and the amalgamated corporation to the Secured Creditor in any currency, however or wherever incurred, and whether incurred alone or jointly with another or others and whether as principal, guarantor or surety and whether incurred prior to, at the time of or subsequent to the amalgamation. The Security Interest attaches to the additional collateral at the time of amalgamation and to any collateral thereafter owned or acquired by the amalgamated corporation when such becomes owned or is acquired. Upon any such amalgamation, the defined term "Obligor" means, collectively, each of the amalgamating corporations and the amalgamated corporation, the defined term "Collateral" means all of the property and undertaking and interests described in (i) above, and the defined term "Secured Obligations" means the obligations described in (ii) above.

Section 5.8 Severability.

If any court of competent jurisdiction from which no appeal exists or is taken, determines any provision of this Agreement to be illegal, invalid or unenforceable, that provision will be severed from this Agreement and the remaining provisions will remain in full force and effect.

Section 5.9 Amendment.

This Agreement may only be amended, supplemented or otherwise modified by written agreement executed by the Secured Creditor and the Obligor.

Section 5.10 Waivers, etc.

- (1) No consent or waiver by the Secured Creditor in respect of this Agreement is binding unless made in writing and signed by an authorized officer of the Secured Creditor. Any consent or waiver given under this Agreement is effective only in the specific instance and for the specific purpose for which given. No waiver of any of the provisions of this Agreement constitutes a waiver of any other provision.
- (2) A failure or delay on the part of the Secured Creditor in exercising a right under this Agreement does not operate as a waiver of, or impair, any right of the Secured Creditor however arising. A single or partial exercise of a right on the part of the Secured Creditor does not preclude any other or further exercise of that right or the exercise of any other right by the Secured Creditor.

Section 5.11 Application of Proceeds of Security.

All monies collected by the Secured Creditor upon the enforcement of its rights and remedies under the Security Documents and the Liens created by them including any sale or other disposition of the Collateral, together with all other monies received by the Secured Creditor under the Security Documents, will be applied as provided in the Secured Debenture. To the extent any other Credit Document requires proceeds of collateral under such Credit Document to be applied in accordance with the provisions of this Agreement, the Secured Creditor shall apply such proceeds in accordance with this Section.

Section 5.12 Conflict.

In the event of any conflict between one or more provisions of this Agreement, the provisions of the Secured Debenture and the provisions of the Operating Loan Agreement which cannot be resolved by all such provisions being complied with, the provisions contained in the Secured Debenture will prevail to the extent of such conflict.

Section 5.13 Governing Law.

This Agreement will be governed by, interpreted and enforced in accordance with the laws of the Province of Ontario and the federal laws of Canada applicable therein.

Section 5.14 Termination, Survival.

Upon discharge of the Security Interest pursuant to Section 5.2 hereof, this Agreement shall automatically terminate. The provisions of Article 5 shall survive any termination of this Agreement.

IN WITNESS WHEREOF the Obligor has executed this Agreement.

TERCON CONSTRUCTION LTD.

Per: 

Authorized Signing Officer

#1264102 v1 | 4061837

TERCON ENTERPRISES LTD.

as Obligor

and

**WF FUND III LIMITED PARTNERSHIP,
carrying on business as WELLINGTON FINANCIAL LP
AND WELLINGTON FINANCIAL FUND III**

as Secured Creditor

SECURITY AGREEMENT

October 1, 2007

SECURITY AGREEMENT

Security agreement dated as of October 1, 2007 made by Tercon Enterprises Ltd. to and in favour of WF Fund III Limited Partnership, carrying on business as Wellington Financial LP and Wellington Financial Fund III.

RECITALS:

- (a) The Borrower is or will become indebted or liable to the Secured Creditor pursuant to its Series A Secured Debentures in the aggregate principal amount of \$5,000,000.00 (Cdn.) dated October 1, 2007 (as the same may be amended, restated, supplemented or replaced from time to time, the "Secured Debenture") and pursuant to an Operating Loan Agreement between the Borrower and the Secured Party dated October 1, 2007 (as the same may be amended, restated, supplemented or replaced from time to time, the "Operating Loan Agreement");
- (b) To secure the due performance of the Borrower's obligations to the Secured Creditor under *inter alia* the Secured Debenture and the Operating Loan Agreement, the Obligor has entered into a form of Guarantee dated October 1, 2007 in favor of the Secured Creditor (as the same may be amended, restated, supplemented or replaced from time to time, the "Guarantee"); and
- (c) Pursuant to Section 4.1 of the Secured Debenture, the Obligor is required to execute and deliver this Agreement in favour of the Secured Creditor.

In consideration of the foregoing and other good and valuable consideration, the receipt and adequacy of which are acknowledged, the Obligor agrees as follows.

ARTICLE 1 INTERPRETATION

Section 1.1 Defined Terms.

As used in this Agreement, the following terms have the following meanings:

"Agreement" means this security agreement.

"Borrower" means Tercon Investments Ltd.

"Collateral" has the meaning specified in Section 2.1:

"Credit Documents" means the Secured Debenture, the Operating Loan Agreement, this Agreement and each other Security Document (as such term is defined in the Secured Debenture).

"Event of Default" has the meaning ascribed thereto in the Guarantee;

"Expenses" has the meaning specified in Section 2.2(b).

"Governmental Entity" means any international tribunal, agency, body commission or other authority, any government, executive, parliament, legislature or local authority, or any governmental entity, ministry, department or agency or regulatory authority, court, tribunal, commission or board of or within Canada, or any other foreign jurisdiction, or any political subdivision of any thereof or any authority having jurisdiction therein or any quasi governmental or private body exercising any regulatory, expropriation or taxing authority under or for the account of any of the above.

"Instruments" means (i) a bill, note or cheque within the meaning of the *Bills of Exchange Act* (Canada) or any other writing that evidences a right to the payment of money and is of a type that in the ordinary course of business is transferred by delivery with any necessary endorsement or assignment, or (ii) a letter of credit and an advice of credit if the letter or advice states that it must be surrendered upon claiming payment thereunder, or (iii) chattel paper or any other writing that evidences both a monetary obligation and a security interest in or a lease of specific goods, or (iv) documents of title or any other writing that purports to be issued by or addressed to a bailee and purports to cover such goods in the bailee's possession as are identified or fungible portions of an identified mass, and that in the ordinary course of business is treated as establishing that the Person in possession of it is entitled to receive, hold and dispose of the document and the goods it covers, or (v) any document or writing commonly known as an instrument.

"Intellectual Property" means domestic and foreign: (i) patents, applications for patents and reissues, divisions, continuations, renewals, extensions and continuations-in-part of patents or patent applications; (ii) proprietary and non-public business information, including inventions (whether patentable or not), invention disclosures, improvements, discoveries, trade secrets, confidential information, know-how, methods, processes, designs, technology, technical data, schematics, formulae and customer lists, and documentation relating to any of the foregoing; (iii) copyrights, copyright registrations and applications for copyright registration; (iv) mask works, mask work registrations and applications for mask work registrations; (v) designs, design registrations, design registration applications and integrated circuit topographies; (vi) trade names, business names, corporate names, domain names, website names and world wide web addresses, common law trade-marks, trade-mark registrations, trade-mark applications, trade dress and

logos, and the goodwill associated with any of the foregoing; (vii) computer software and programs (both source code and object code form), all proprietary rights in the computer software and programs and all documentation and other materials related to the computer software and programs; and (viii) any other intellectual property and industrial property.

"Lien" means (i) any mortgage, charge, pledge, hypothecation, security interest, assignment by way of security, encumbrance, lien (statutory or otherwise), hire purchase agreement, conditional sale agreement, deposit arrangement, title retention agreement or arrangement, or any other assignment, arrangement or condition that in substance secures payment or performance of an obligation, (ii) any trust arrangement, (iii) any arrangement which creates a right of set-off out of the ordinary course of business, or (iv) any agreement to grant any such rights or interests.

"Obligor" means Tercon Enterprises Ltd., a corporation incorporated and existing under the laws of Alberta, and its successors and permitted assigns.

"Registrable Intellectual Property" means any Intellectual Property in respect of which ownership, title, security interests, charges or encumbrances are capable of registration, recording or notation with any Governmental Entity pursuant to applicable laws.

"Restricted Asset" has the meaning specified in Section 2.4(1).

"Secured Creditor" means WF Fund III Limited Partnership, carrying on business as Wellington Financial LP and Wellington Financial Fund III and its successors and assigns.

"Secured Obligations" has the meaning specified in Section 2.2(a).

"Security" means an obligation of an issuer or a share, participation or other interest in an issuer or in property or an enterprise of an issuer,

- (a) that is represented by a security certificate in bearer form or registered form, or the transfer of which may be registered on books maintained for that purpose by or on behalf of the issuer,
- (b) that is one of a class or series, or by its terms is divisible into a class or series, of shares, participations, interests or obligations, and
- (c) that,
 - (i) is, or is of a type, dealt in or traded on securities exchanges or securities markets, or

- (ii) is a medium for investment and by its terms expressly provides that it is a security for the purposes of the *Securities Transfer Act* (Ontario);

but excludes

- (d) any ULC Shares.

"Security Interest" has the meaning specified in Section 2.2.

"ULC Shares" means shares in any unlimited company or unlimited liability corporation at any time owned or otherwise held by the Obligor.

Section 1.2 Interpretation.

- (1) Terms defined in the *Personal Property Security Act* (Ontario) or the *Securities Transfer Act* (Ontario) and used but not otherwise defined in this Agreement have the same meanings.
- (2) Capitalized terms used in this Agreement but not defined have the meanings given to them in the Secured Debenture.
- (3) Any reference in any Credit Document to Liens permitted by the Secured Debenture and any right of the Obligor to create or suffer to exist Liens permitted by the Secured Debenture are not intended to and do not and will not subordinate the Security Interest to any such Lien or give priority to any Person over the Secured Creditor.
- (4) In this Agreement the words "including", "includes" and "include" mean "including (or includes or include) without limitation". The expressions "Article", "Section" and other subdivision followed by a number mean and refer to the specified Article, Section or other subdivision of this Agreement.
- (5) Any reference in this Agreement to gender includes all genders. Words importing the singular number only include the plural and vice versa.
- (6) The division of this Agreement into Articles, Sections and other subdivisions and the insertion of headings are for convenient reference only and do not affect its interpretation.
- (7) The schedules attached to this Agreement form an integral part of it for all purposes of it.
- (8) Except as otherwise provided in this Agreement, any reference to this Agreement, any Credit Document or any Security Document refers to this Agreement or such Credit Document or Security Document as the same may

have been or may from time to time be amended, modified, extended, renewed, restated, replaced or supplemented and includes all schedules attached to it. Except as otherwise provided in this Agreement, any reference in this Agreement to a statute refers to such statute and all rules and regulations made under it as the same may have been or may from time to time be amended or re-enacted.

ARTICLE 2 SECURITY

Section 2.1 Grant of Security.

Subject to Section 2.4, the Obligor grants to the Secured Creditor, a security interest in, and assigns, mortgages, charges, hypothecates and pledges to the Secured Creditor, all of the property and undertaking of the Obligor now owned or hereafter acquired and all of the property and undertaking in which the Obligor now has or hereafter acquires any interest (collectively, the "Collateral") including all of the Obligor's:

- (a) present and after-acquired personal property;
- (b) inventory including goods held for sale, lease or resale, goods furnished or to be furnished to third parties under contracts of lease, consignment or service, goods which are raw materials or work in process, goods used in or procured for packing and materials used or consumed in the business of the Obligor;
- (c) equipment, machinery, furniture, fixtures, plant, vehicles and other goods of every kind and description and all licences and other rights and all related records, files, charts, plans, drawings, specifications, manuals and documents;
- (d) accounts due or accruing and all related agreements, books, accounts, invoices, letters, documents and papers recording, evidencing or relating to them;
- (e) money, documents of title and chattel paper;
- (f) Instruments and Securities, including the Instruments and Securities listed in Schedule A;
- (g) intangibles including all security interests, goodwill, choses in action, contracts, contract rights, licenses and other contractual benefits;

- (h) Intellectual Property including the Registrable Intellectual Property listed in Schedule B;
- (i) all substitutions and replacements of and increases, additions and, where applicable, accessions to the property described in Section 2.1(a) through Section 2.1(h) inclusive; and
- (j) all proceeds in any form derived directly or indirectly from any dealing with all or any part of the property described in Section 2.1(a) through Section 2.1(i) inclusive, including the proceeds of such proceeds.

Section 2.2 Secured Obligations.

The security interest, assignment, mortgage, charge, hypothecation and pledge granted by this Agreement (collectively, the "Security Interest") secures the payment and performance of:

- (a) all debts, liabilities and obligations, present or future, direct or indirect, absolute or contingent, matured or unmatured, at any time or from time to time due or accruing due and owing by or otherwise payable by the Obligor to the Secured Creditor in any currency, however or wherever incurred, and whether incurred by the Obligor alone or jointly with another or others and whether as principal, guarantor or surety and in whatever name or style (collectively, and together with the Expenses, the "Secured Obligations"); and
- (b) all expenses, costs and charges incurred by or on behalf of the Secured Creditor in connection with this Agreement, the Security Interest or the Collateral, including all legal fees, court costs, receiver's or agent's remuneration and other expenses of taking possession of, repairing, protecting, insuring, preparing for disposition, realizing, collecting, selling, transferring, delivering or obtaining payment for the Collateral, and of taking, defending or participating in any action or proceeding in connection with any of the foregoing matters or otherwise in connection with the Secured Creditor's interest in any Collateral, whether or not directly relating to the enforcement of this Agreement or any other Credit Document (collectively, the "Expenses").

Section 2.3 Attachment.

- (1) The Obligor acknowledges that (i) value has been given, (ii) it has rights in the Collateral (other than after-acquired Collateral), (iii) it has not agreed to

postpone the time of attachment of the Security Interest, and (iv) it has received a copy of this Agreement.

- (2) The Obligor shall not permit any of the Securities at any time to be or to become uncertificated securities.
- (3) The Obligor delivers to and deposits with the Secured Creditor any and all certificates evidencing the Securities listed in Schedule A, together with, in each case, a stock power duly endorsed in blank for transfer and an irrevocable directors or other applicable resolution of entity in from which the Securities are issued, consenting to the transfer by the Obligor and the Obligor hereby grants control over such Securities to the Secured Creditor in accordance with the provisions of the *Securities Transfer Act* (Ontario). The Obligor also delivers to and deposits with the Secured Creditor any promissory note or other Instruments evidencing any amount payable in excess of \$100,000 or evidencing any rights to goods having a value in excess of \$100,000.
- (4) If the Obligor acquires any Securities or any Instruments (other than Instruments evidencing amounts payable of less than \$100,000 or evidencing any rights to goods having a value less than \$100,000), the Obligor will notify the Secured Creditor in writing and provide the Secured Creditor with a revised Schedule A recording the acquisition and particulars of such Instruments or Securities within 5 days after such acquisition. Upon request by the Secured Creditor, the Obligor will promptly deliver to and deposit with the Secured Creditor, or cause the Secured Creditor to have control over, such Securities or Instruments (other than Instruments evidencing amounts payable of less than \$100,000 or evidencing any rights to goods having a value less than \$100,000) as security for the Secured Obligations. The Obligor will also promptly inform the Secured Creditor in writing of the acquisition by the Obligor of any ULC Shares.
- (5) At the request of the Secured Creditor the Obligor will (i) cause the transfer of any Securities or Instruments to the Secured Creditor to be registered wherever such registration may be required or advisable in the reasonable opinion of the Secured Creditor, (ii) duly endorse any such Securities or Instruments for transfer in blank or register them in the name of the Secured Creditor or its nominee or otherwise as the Secured Creditor may reasonably direct, (iii) immediately deliver to the Secured Creditor any and all consents or other documents which may be necessary to effect the transfer of any such Securities or Instruments to the Secured Creditor or any third party and (iv) deliver to or otherwise cause the Secured Creditor to have control over such Securities or Instruments in accordance with the provisions of the *Securities*

Transfer Act (Ontario). Upon the discharge of the Security Interest in accordance with Section 5.2 hereof, the Secured Creditor shall promptly cause all Securities or Instruments transferred to it or to any third party pursuant to this Section 2.3(5) to be transferred back to the Obligor including duly endorsing any such Securities or Instruments for transfer back to the Obligor and delivering to the Obligor any and all consents or other documents which may be necessary to effect the transfer of any such Securities or Instruments to the Obligor.

- (6) The Obligor will promptly notify the Secured Creditor in writing of the acquisition by the Obligor of any Registrable Intellectual Property. The Obligor will provide the Secured Creditor with a revised Schedule B recording the acquisition and particulars of such additional Intellectual Property.

Section 2.4 Scope of Security Interest.

- (1) To the extent that an assignment of amounts payable and other proceeds arising under or in connection with, or the grant of a security interest in any agreement, licence, permit or quota of the Obligor would result in the termination of such agreement, licence, permit or quota (each, a "Restricted Asset"), the Security Interest with respect to each Restricted Asset will constitute a trust created in favour of the Secured Creditor pursuant to which the Obligor holds as trustee all proceeds arising under or in connection with the Restricted Asset in trust for the Secured Creditor on the following basis:
 - (a) until the Security Interest is enforceable and subject to the Secured Debenture, the Obligor is entitled to receive all such proceeds; and
 - (b) whenever the Security Interest is enforceable, (i) all rights of the Obligor to receive such proceeds cease and all such proceeds will be immediately paid over to the Secured Creditor and (ii) the Obligor will take all actions requested by the Secured Creditor to collect and enforce payment and other rights arising under the Restricted Asset.

The Obligor will use all commercially reasonable efforts to obtain the consent of each other party to any and all Restricted Assets to the assignment of such Restricted Asset to the Secured Creditor in accordance with this Agreement. The Obligor will also use all commercially reasonable efforts to ensure that all agreements entered into on and after the date of this Agreement expressly permit assignments of the benefits of such agreements as collateral security to the Secured Creditor in accordance with the terms of this Agreement.

- (2) The Security Interest with respect to trade-marks constitutes a security interest in, and a charge, hypothecation and pledge of, such Collateral in

favour of the Secured Creditor, but does not constitute an assignment or mortgage of such Collateral to the Secured Creditor.

- (3) Until the Security Interest is enforceable, the grant of the Security Interest in the Intellectual Property does not affect in any way the Obligor's rights to commercially exploit the Intellectual Property, defend it, enforce the Obligor's rights in it or with respect to it against third parties in any court or claim and be entitled to receive any damages with respect to any infringement of it.
- (4) The Security Interest does not extend to consumer goods or ULC Shares.
- (5) The Security Interest does not extend or apply to the last day of the term of any lease or sublease of real property or any agreement for a lease or sublease of real property, now held or hereafter acquired by the Obligor, but the Obligor will stand possessed of any such last day upon trust to assign and dispose of it as the Secured Creditor may reasonably direct.

Section 2.5 Grant of Licence to Use Intellectual Property.

At such time as the Secured Creditor is lawfully entitled to exercise its rights and remedies under Article 3, the Obligor grants to the Secured Creditor an irrevocable, nonexclusive licence (exercisable without payment of royalty or other compensation to the Obligor) to use, assign or sublicense any Intellectual Property in which the Obligor has rights wherever the same may be located, including in such licence access to (i) all media in which any of the licensed items may be recorded or stored, and (ii) all software and computer programs used for compilation or print-out. The license granted under this Section is to enable the Secured Creditor to exercise its rights and remedies under Article 3 and for no other purpose.

Section 2.6 Care and Custody of Collateral.

- (1) The Secured Creditor has no obligation to keep Collateral in its possession identifiable.
- (2) The Secured Creditor may, after the Security Interest is enforceable, (i) notify any Person obligated on an Instrument, Security or account to make payments to the Secured Creditor, whether or not the Obligor was previously making collections on such accounts, chattel paper, instruments, and (ii) assume control of any proceeds arising from the Collateral.
- (3) The Secured Creditor has no obligation to collect dividends, distributions or interest payable on, or exercise any option or right in connection with, any Securities or Instruments. The Secured Creditor has no obligation to protect or preserve any Securities or Instruments from depreciating in value or becoming worthless and is released from all responsibility for any loss of

value. In the physical keeping of any Securities, the Secured Creditor is only obliged to exercise the same degree of care as it would exercise with respect to its own Securities kept at the same place.

Section 2.7 Rights of the Obligor.

- (1) Until the Security Interest is enforceable, the Obligor is entitled to vote the Securities that are part of the Collateral and to receive all dividends and distributions on such Securities. In order to allow the Obligor to vote any Securities registered in the Secured Creditor's name or the name of its nominee, at the request and the expense of the Obligor, the Secured Creditor will, prior to the Security Interest being enforceable, and may, after the Security Interest is enforceable, execute valid proxies appointing proxyholders to attend and act at meetings of shareholders, and execute resolutions in writing, all pursuant to the relevant provisions of the issuer's governing legislation. Whenever the Security Interest is enforceable, all rights of the Obligor to vote (under any proxy given by the Secured Creditor (or its nominee) or otherwise) or to receive distributions or dividends cease and all such rights become vested solely and absolutely in the Secured Creditor.
- (2) Any distributions or dividends received by the Obligor contrary to Section 2.7(1) or any other moneys or property received by the Obligor after the Security Interest is enforceable will be received as trustee for the Secured Creditor and shall be immediately paid over to the Secured Creditor.

Section 2.8 Expenses.

The Obligor is liable for and will pay on demand by the Secured Creditor any and all Expenses.

**ARTICLE 3
ENFORCEMENT**

Section 3.1 Enforcement.

The Security Interest becomes and is enforceable against the Obligor upon the occurrence and during the continuance of an Event of Default.

Section 3.2 Remedies.

Whenever the Security Interest is enforceable, the Secured Creditor may realize upon the Collateral and enforce the rights of the Secured Creditor by:

- (a) entry onto any premises where Collateral consisting of tangible personal property may be located;

- (b) entry into possession of the Collateral by any method permitted by law;
- (c) sale, grant of options to purchase, or lease of all or any part of the Collateral;
- (d) holding, storing and keeping idle or operating all or any part of the Collateral;
- (e) exercising and enforcing all rights and remedies of a holder of the Securities and Instruments as if the Secured Creditor were the absolute owner thereof (including, if necessary, causing the Collateral to be registered in the name of the Secured Creditor or its nominee if not already done);
- (f) collection of any proceeds arising in respect of the Collateral;
- (g) collection, realization or sale of, or other dealing with, accounts;
- (h) license or sublicense, whether on an exclusive or nonexclusive basis, of any Intellectual Property for such term and on such conditions and in such manner as the Secured Creditor in its sole judgment determines (taking into account such provisions as may be necessary to protect and preserve such Intellectual Property);
- (i) instruction to any bank which has entered into a control agreement with the Secured Creditor to transfer all moneys, Securities and Instruments held by such depository bank to an account maintained with or by the Secured Creditor;
- (j) application of any moneys constituting Collateral or proceeds thereof in accordance with Section 5.11;
- (k) appointment by instrument in writing of a receiver (which term as used in this Agreement includes a receiver and manager) or agent of all or any part of the Collateral and removal or replacement from time to time of any receiver or agent;
- (l) institution of proceedings in any court of competent jurisdiction for the appointment of a receiver of all or any part of the Collateral;
- (m) institution of proceedings in any court of competent jurisdiction for sale or foreclosure of all or any part of the Collateral;

- (n) filing of proofs of claim and other documents to establish claims to the Collateral in any proceeding relating to the Obligor; and
- (o) any other remedy or proceeding authorized or permitted under the *Personal Property Security Act* (Ontario) or otherwise by law or equity.

Section 3.3 Additional Rights.

In addition to the remedies set forth in Section 3.2 and elsewhere in this Agreement, whenever the Security Interest is enforceable, the Secured Creditor may:

- (a) require the Obligor, at the Obligor's expense, to assemble the Collateral at a place or places designated by notice in writing and the Obligor agrees to so assemble the Collateral immediately upon receipt of such notice;
- (b) require the Obligor, by notice in writing, to disclose to the Secured Creditor the location or locations of the Collateral and the Obligor agrees to promptly make such disclosure when so required;
- (c) repair, process, modify, complete or otherwise deal with the Collateral and prepare for the disposition of the Collateral, whether on the premises of the Obligor or otherwise;
- (d) redeem any prior security interest against any Collateral, procure the transfer of such security interest to itself, or settle and pass the accounts of the prior mortgagee, chargee or encumbrancer (any accounts to be conclusive and binding on Obligor);
- (e) pay any liability secured by any Lien against any Collateral (the Obligor will immediately on demand reimburse the Secured Creditor for all such payments);
- (f) carry on all or any part of the business of the Obligor and, to the exclusion of all others including the Obligor, enter upon, occupy and use all or any of the premises, buildings, and other property of or used by the Obligor for such time as the Secured Creditor sees fit, free of charge, and the Secured Creditor is not liable to the Obligor for any act, omission or negligence in so doing or for any rent, charges, depreciation or damages incurred in connection with or resulting from such action;
- (g) borrow for the purpose of carrying on the business of the Obligor or for the maintenance, preservation or protection of the Collateral and

grant a security interest in the Collateral, whether or not in priority to the Security Interest, to secure repayment;

- (h) commence, continue or defend any judicial or administrative proceedings for the purpose of protecting, seizing, collecting, realizing or obtaining possession or payment of the Collateral, and give good and valid receipts and discharges in respect of the Collateral and compromise or give time for the payment or performance of all or any part of the accounts or any other obligation of any third party to the Obligor; and
- (i) at any public sale, and to the extent permitted by law on any private sale, bid for and purchase any or all of the Collateral offered for sale and upon compliance with the terms of such sale, hold, retain and dispose of such Collateral without any further accountability to the Obligor or any other Person with respect to such holding, retention or disposition, except as required by law. In any such sale to the Secured Creditor, the Secured Creditor may, for the purpose of making payment for all or any part of the Collateral so purchased, use any claim for Secured Obligations then due and payable to it as a credit against the purchase price.

Section 3.4 Exercise of Remedies.

The remedies under Section 3.2 and Section 3.3 may be exercised from time to time separately or in combination and are in addition to, and not in substitution for, any other rights of the Secured Creditor however arising or created. The Secured Creditor is not bound to exercise any right or remedy, and the exercise of rights and remedies is without prejudice to the rights of the Secured Creditor in respect of the Secured Obligations including the right to claim for any deficiency.

Section 3.5 Receiver's Powers.

- (1) Any receiver appointed by the Secured Creditor is vested with the rights and remedies which could have been exercised by the Secured Creditor in respect of the Obligor or the Collateral and such other powers and discretions as are granted in the instrument of appointment and any supplemental instruments. The identity of the receiver, its replacement and its remuneration are within the sole and unfettered discretion of the Secured Creditor.
- (2) Any receiver appointed by the Secured Creditor will act as agent for the Secured Creditor for the purposes of taking possession of the Collateral, but otherwise and for all other purposes (except as provided below), as agent for the Obligor. The receiver may sell, lease, or otherwise dispose of Collateral as agent for the Obligor or as agent for the Secured Creditor as the Secured

Creditor may determine in its discretion. The Obligor agrees to ratify and confirm all actions of the receiver acting as agent for the Obligor, and to release and indemnify the receiver in respect of all such actions.

- (3) The Secured Creditor, in appointing or refraining from appointing any receiver, does not incur liability to the receiver, the Obligor or otherwise and is not responsible for any misconduct or negligence of such receiver.

Section 3.6 Appointment of Attorney.

The Obligor hereby irrevocably constitutes and appoints the Secured Creditor (and any officer of the Secured Creditor) the true and lawful attorney of the Obligor. As the attorney of the Obligor, the Secured Creditor has the power to exercise for and in the name of the Obligor with full power of substitution, upon the occurrence and during the continuance of an Event of Default, any of the Obligor's right (including the right of disposal), title and interest in and to the Collateral including the execution, endorsement, delivery and transfer of the Collateral to the Secured Creditor, its nominees or transferees, and the Secured Creditor and its nominees or transferees are hereby empowered to exercise all rights and powers and to perform all acts of ownership with respect to the Collateral to the same extent as the Obligor might do. This power of attorney is irrevocable, is coupled with an interest, has been given for valuable consideration (the receipt and adequacy of which is acknowledged) and survives, and does not terminate upon, the bankruptcy, dissolution, winding up or insolvency of the Obligor. This power of attorney extends to and is binding upon the Obligor's successors and permitted assigns. The Obligor authorizes the Secured Creditor to delegate in writing to another Person any power and authority of the Secured Creditor under this power of attorney as may be necessary or desirable in the opinion of the Secured Creditor, and to revoke or suspend such delegation. The power of attorney granted by the Obligor hereby shall automatically terminate and be of no further force or effect upon the discharge of the Security Interest in accordance with Section 5.2 hereof.

Section 3.7 Dealing with the Collateral.

- (1) The Secured Creditor is not obliged to exhaust its recourse against the Obligor or any other Person or against any other security it may hold in respect of the Secured Obligations before realizing upon or otherwise dealing with the Collateral in such manner as the Secured Creditor may consider desirable.
- (2) The Secured Creditor may grant extensions or other indulgences, take and give up securities, accept compositions, grant releases and discharges and otherwise deal with the Obligor and with other Persons, sureties or securities as it may see fit without prejudice to the Secured Obligations, the liability of the Obligor or the rights of the Secured Creditor in respect of the Collateral.

- (3) Except as otherwise provided by law or this Agreement, the Secured Creditor is not (i) liable or accountable for any failure to collect, realize or obtain payment in respect of the Collateral, (ii) bound to institute proceedings for the purpose of collecting, enforcing, realizing or obtaining payment of the Collateral or for the purpose of preserving any rights of any Persons in respect of the Collateral, (iii) responsible for any loss occasioned by any sale or other dealing with the Collateral or by the retention of or failure to sell or otherwise deal with the Collateral, or (iv) bound to protect the Collateral from depreciating in value or becoming worthless.

Section 3.8 Standards of Sale.

Without prejudice to the ability of the Secured Creditor to dispose of the Collateral in any manner which is commercially reasonable, the Obligor acknowledges that:

- (a) the Collateral may be disposed of in whole or in part;
- (b) the Collateral may be disposed of by public auction, public tender or private contract, with or without advertising and without any other formality;
- (c) any assignee of such Collateral may be the Secured Creditor or a customer of any such Person;
- (d) any sale conducted by the Secured Creditor will be at such time and place, on such notice and in accordance with such procedures as the Secured Creditor, in its sole discretion, may deem advantageous;
- (e) the Collateral may be disposed of in any manner and on any terms necessary to avoid violation of applicable law (including compliance with such procedures as may restrict the number of prospective bidders and purchasers, require that the prospective bidders and purchasers have certain qualifications, and restrict the prospective bidders and purchasers to Persons who will represent and agree that they are purchasing for their own account for investment and not with a view to the distribution or resale of the Collateral) or in order to obtain any required approval of the disposition (or of the resulting purchase) by any governmental or regulatory authority or official;
- (f) a disposition of the Collateral may be on such terms and conditions as to credit or otherwise as the Secured Creditor, in its sole discretion, may deem advantageous; and

- (g) the Secured Creditor may establish an upset or reserve bid or price in respect of the Collateral.

Section 3.9 Dealings by Third Parties.

- (1) No Person dealing with the Secured Creditor or an agent or receiver is required to determine (i) whether the Security Interest has become enforceable, (ii) whether the powers which such Person is purporting to exercise have become exercisable, (iii) whether any money remains due to the Secured Creditor by the Obligor, (iv) the necessity or expediency of the stipulations and conditions subject to which any sale or lease is made, (v) the propriety or regularity of any sale or other dealing by the Secured Creditor with the Collateral, or (vi) how any money paid to Secured Creditor has been applied.
- (2) Any bona fide purchaser of all or any part of the Collateral from the Secured Creditor or any receiver or agent will hold the Collateral absolutely, free from any claim or right of whatever kind, including any equity of redemption, of the Obligor, which it specifically waives (to the fullest extent permitted by law) as against any such purchaser together with all rights of redemption, stay or appraisal which the Obligor has or may have under any rule of law or statute now existing or hereafter adopted.

**ARTICLE 4
REPRESENTATIONS, WARRANTIES AND COVENANTS**

Section 4.1 General Representations, Warranties and Covenants.

The Obligor represents and warrants and covenants and agrees, acknowledging and confirming that the Secured Creditor is relying on such representations, warranties, covenants and agreements, that:

- (a) **Continuous Perfection.** Schedule C sets out the Obligor's place of business or, if more than one, the Obligor's chief executive office. Such place of business or chief executive office, as the case may be, has been located at such address for the 60 days immediately preceding the date of this Agreement. Schedule C also sets out the address at which the books and records of the Obligor are located, the address at which the senior management of the Obligor are located and conduct their deliberations and make their decisions with respect to the business of the Obligor and the address from which the invoices and accounts of the Obligor are issued. The Obligor will not change the location of any of these items, people or addresses without providing at least 30 days prior written notice to the Secured Creditor. Except for sales of

inventory made in the ordinary course of business, the Collateral, to the extent not delivered to the Collateral Agent pursuant to Section 2.3(3), has been kept for the 60 days immediately preceding the date of this Agreement and will be kept at those locations listed on Schedule C, and the Obligor will not remove the Collateral from such locations, without providing at least 30 days prior written notice to the Secured Creditor. The Obligor will not change its name in any manner without providing at least 30 days prior written notice to the Secured Creditor.

- (b) **Restriction on Disposition.** The Obligor will not sell, assign, convey, exchange, lease, release or abandon, or otherwise dispose of, any Collateral except as expressly permitted in the Secured Debenture.
- (c) **Negative Pledge.** The Obligor will not create or suffer to exist, any Lien on the Collateral, except for Liens permitted by the Secured Debenture.
- (d) **Account Debtors.** None of the account debtors in respect of any accounts, chattel paper or intangibles and none of the obligors in respect of any Instruments included in the Collateral as of the date hereof is (i) a Governmental Entity, or (ii) in the case of any account in excess of \$100,000, is located outside of Canada or the United States of America.
- (e) **Securities and Instruments.**
 - (i) Schedule A lists all Securities and Instruments owned or held by the Obligor on the date of this Agreement and all such Securities are represented by certificated securities.
 - (ii) Securities that are Collateral have been, where applicable, duly and validly issued and acquired and are fully paid and non-assessable. Schedule A sets out, for each class of Securities listed in the schedule, the percentage amount that such Securities represent of all issued and outstanding Securities of that class.
 - (iii) Except as described in Schedule A, no transfer restrictions apply to the Securities and Instruments listed in Schedule A. The Obligor has delivered to the Secured Creditor copies of all shareholder, partnership or trust agreements applicable to each issuer of such Securities and Instruments which are in the Obligor's possession or control.

- (iv) No Person has or will have any written or oral option, warrant, right, call, commitment, conversion right, right of exchange or other agreement or any right or privilege (whether by law, preemptive or contractual) capable of becoming an option, warrant, right, call, commitment, conversion right, right of exchange or other agreement to acquire any right or interest in any of the Securities and Instruments that are Collateral.
- (v) The Securities that are Collateral constitute, where applicable, the legal, valid and binding obligation of the obligor of such Securities, enforceable in accordance with their terms, subject only to any limitation under applicable laws relating to (i) bankruptcy, insolvency, fraudulent conveyance, arrangement, reorganization or creditors' rights generally, and (ii) the discretion that a court may exercise in the granting of equitable remedies.
- (vi) The pledge, assignment and delivery to the Secured Creditor of the Collateral consisting of certificated Securities pursuant to this Agreement creates a valid and perfected first ranking security interest in such certificated Securities, and the proceeds of them. Such Securities and the proceeds from them are not subject to any prior Lien or any agreement purporting to grant to any third party a Lien on the property or assets of the Obligor which would include the Securities except for Permitted Encumbrances. The Secured Creditor is entitled to all the rights, priorities and benefits afforded by the *Personal Property Security Act* (Ontario) or other relevant personal property security legislation as enacted in any relevant jurisdiction to perfect security interests in respect of such Collateral.
- (f) **Status of Accounts Collateral.** The Obligor will maintain books and records pertaining to the Collateral in such detail, form and scope as the Secured Creditor reasonably requires, and keep all originals of the chattel paper which evidence accounts at locations specified on Schedule B. The Obligor will immediately notify the Secured Creditor if any account in excess of \$500,000 arises out of contracts with any Governmental Entity, and execute any instruments and take any steps required by the Secured Creditor in order that all moneys due or to become due under the contract are assigned to the Secured Creditor and notice of such assignment is given to the Governmental Entity. The Obligor will also immediately notify the Secured Creditor if any

account in excess of \$500,000 is with an account debtor located outside of Canada or the United States of America.

- (g) **Additional Security Perfection and Protection of Security Interest.** The Obligor will grant to the Secured Creditor, security interests, assignments, mortgages, charges, hypothecations and pledges in such property and undertaking of the Obligor that is not subject to a valid and perfected first ranking security interest (subject only to Permitted Liens) constituted by the Security Documents, in each relevant jurisdiction as determined by the Secured Creditor. The Obligor will perform all acts, execute and deliver all agreements, documents and instruments and take such other steps as are requested by the Secured Creditor at any time to register, file, signify, publish, perfect, maintain, protect, and enforce the Security Interest including: (i) executing, recording and filing of financing or other statements, and paying all taxes, fees and other charges payable, (ii) placing notations on its books of account to disclose the Security Interest, (iii) delivering acknowledgements, confirmations and subordinations that may be necessary to ensure that the Security Documents constitute a valid and perfected first ranking security interest (subject only to Permitted Liens), (iv) executing and delivering any agreements, documents and instruments that may be needed under or in connection with the *Securities Transfer Act* (Ontario) and (v) delivering opinions of counsel in respect of matters contemplated by this paragraph. The documents and opinions contemplated by this paragraph must be in form and substance satisfactory to the Secured Creditor.

Section 4.2 Representations, Warranties and Covenants Concerning Intellectual Property.

The Obligor represents and warrants and covenants and agrees, acknowledging and confirming that the Secured Creditor is relying on such representations, warranties, covenants and agreements, that:

- (a) Schedule B lists all Registrable Intellectual Property that is owned by the Obligor on the date of this Agreement.
- (b) All Registrable Intellectual Property of the Obligor is valid, subsisting, unexpired and enforceable, has not been abandoned and, to the knowledge of the Obligor, does not infringe the Intellectual Property rights of any other Person.

- (c) No decision or judgment has been rendered by any Governmental Entity which would limit, cancel or question the validity of, or the Obligor's rights in, any Intellectual Property in any respect.
- (d) No action or proceeding is pending, or, to the knowledge of the Obligor, threatened, on the date hereof seeking to limit, cancel or question the validity of any Intellectual Property or the Obligor's ownership interest therein, or which, if adversely determined, would have a Material adverse effect on the value of any Intellectual Property.
- (e) The Obligor will take all reasonable and necessary steps, including in any proceeding before the Canadian Intellectual Property Office or any similar Governmental Entity of any jurisdiction, to maintain and pursue each application (and to obtain the relevant registration) and to maintain each registration of the material Registrable Intellectual Property, including, without limitation, filing of applications for renewal, affidavits of use and affidavits of incontestability.
- (f) In the event that any material Intellectual Property of the Obligor is infringed, misappropriated or diluted by a third party, the Obligor will (i) take such actions as the Obligor reasonably deems appropriate under the circumstances to protect such Intellectual Property and (ii) if such Intellectual Property is of material economic value, promptly notify the Secured Creditor after it learns thereof and sue for infringement, misappropriation or dilution, to seek injunctive relief where appropriate and to recover any and all damages for such infringement, misappropriation or dilution.
- (g) Immediately upon the request of the Secured Creditor, the Obligor will furnish the Secured Creditor in writing the description of all Registrable Intellectual Property or applications for Registrable Intellectual Property of the Obligor. In addition, the Obligor will deliver to the Secured Creditor a copy of the certificate of registration of, or application for, such Registrable Intellectual Property with a Confirmation of Security Interest in the form of Schedule D in respect of such Registrable Intellectual Property confirming the assignment for security of such Registrable Intellectual Property to the Secured Creditor and immediately make all such filings, registrations and recordings as are necessary or appropriate to perfect the Security Interest granted to the Secured Creditor in the Registrable Intellectual Property.

**ARTICLE 5
GENERAL**

Section 5.1 Notices.

Any notice, direction or other communication (each a "Notice") given regarding the matters contemplated by this Agreement must be in writing, sent by personal delivery, courier or facsimile (but not by electronic mail) and addressed:

(a) to the Secured Creditor at:

WF Fund III Limited Partnership
161 Bay Street
Suite 2520
Toronto, ON M5J 2S1

Attention: Mark McQueen
Facsimile: 416-682-1160

with a copy to:

Minden Gross LLP
145 King Street West
Suite 2200
Toronto, ON M5H 4G2

Attention: Daniel Rothberg
Facsimile: 416-864-9223

(b) to the Obligor at:

Tercon Enterprises Ltd.
#100 - 2079 Falcon Road
Kamloops, BC V2C 4J2
Attention: Mr. Milan Soucek
Facsimile: (250) 372-1555

A Notice is deemed to be delivered and received (i) if sent by personal delivery, on the date of delivery if it is a Business Day and the delivery was made prior to 4:00 p.m. (local time in place of receipt) and otherwise on the next Business Day, (ii) if sent by same-day service courier, on the date of delivery if sent on a Business Day and delivery was made prior to 4:00 p.m. (local time in place of receipt) and otherwise on the next Business Day, (iii) if sent by overnight courier, on the next Business Day, or (iv) if sent by facsimile, on the Business Day following the date of

confirmation of transmission by the originating facsimile. A party may change its address for service from time to time by providing a Notice in accordance with the foregoing. Any subsequent Notice must be sent to the party at its changed address. Any element of a party's address that is not specifically changed in a Notice will be assumed not to be changed.

Section 5.2 Discharge.

The Security Interest will not be discharged except by a written release or discharge signed by the Secured Creditor. The Obligor will be entitled to require a discharge by notice to the Secured Creditor upon, but only upon, (i) full and indefeasible payment and performance of the Secured Obligations and (ii) the Secured Creditor having no obligations under any Credit Document. Upon discharge of the Security Interest and at the request and expense of the Obligor, the Secured Creditor will execute and deliver to the Obligor such financing statements and other documents or instruments as the Obligor may reasonably require and the Secured Creditor will redeliver to the Obligor, or as the Obligor may otherwise direct the Secured Creditor, any Collateral in its possession.

Section 5.3 No Merger, Survival of Representations and Warranties.

This Agreement does not operate by way of merger of any of the Secured Obligations and no judgment recovered by the Secured Creditor will operate by way of merger of, or in any way affect, the Security Interest, which is in addition to, and not in substitution for, any other security now or hereafter held by the Secured Creditor in respect of the Secured Obligations. The representations, warranties and covenants of the Obligor in this Agreement survive the execution and delivery of this Agreement and any advances under the Secured Debenture. Notwithstanding any investigation made by or on behalf of the Secured Creditor these covenants, representations and warranties continue in full force and effect.

Section 5.4 Further Assurances.

The Obligor will do all acts and things and execute and deliver, or cause to be executed and delivered, all agreements, documents and instruments that the Secured Creditor may require and take all further steps relating to the Collateral or any other property or assets of the Obligor that the Secured Creditor may require, including any agreements, documents or instruments required under or in connection with the *Securities Transfer Act* (Ontario) for (i) protecting the Collateral, (ii) perfecting the Security Interest, and (iii) exercising all powers, authorities and discretions conferred upon the Secured Creditor. After the Security Interest becomes enforceable, the Obligor will do all acts and things and execute and deliver all documents and instruments that the Secured Creditor may require for facilitating the sale or other disposition of the Collateral in connection with its realization.

Section 5.5 Supplemental Security.

This Agreement is in addition to, without prejudice to and supplemental to all other security now held or which may hereafter be held by the Secured Creditor.

Section 5.6 Successors and Assigns.

This Agreement is binding on the Obligor and its successors and assigns, and enures to the benefit of the Secured Creditor and its successors and assigns. This Agreement may be assigned by the Secured Creditor without the consent of, or notice to, the Obligor, to such Person as the Secured Creditor may determine and, in such event, such Person will be entitled to all of the rights and remedies of the Secured Creditor as set forth in this Agreement or otherwise. In any action brought by an assignee to enforce any such right or remedy, the Obligor will not assert against the assignee any claim or defence which the Obligor now has or may have against the Secured Creditor. The Obligor may not assign, transfer or delegate any of its rights or obligations under this Agreement without the prior written consent of the Secured Creditor which may be unreasonably withheld.

Section 5.7 Amalgamation.

The Obligor acknowledges and agrees that in the event it amalgamates with any other corporation or corporations, it is the intention of the parties that the Security Interest (i) subject to Section 2.4, extends to: (A) all of the property and undertaking that any of the amalgamating corporations then owns, (B) all of the property and undertaking that the amalgamated corporation thereafter acquires, (C) all of the property and undertaking in which any of the amalgamating corporations then has any interest and (D) all of the property and undertaking in which the amalgamated corporation thereafter acquires any interest; and (ii) secures the payment and performance of all debts, liabilities and obligations, present or future, direct or indirect, absolute or contingent, matured or unmatured, at any time or from time to time due or accruing due and owing by or otherwise payable by each of the amalgamating corporations and the amalgamated corporation to the Secured Creditor in any currency, however or wherever incurred, and whether incurred alone or jointly with another or others and whether as principal, guarantor or surety and whether incurred prior to, at the time of or subsequent to the amalgamation. The Security Interest attaches to the additional collateral at the time of amalgamation and to any collateral thereafter owned or acquired by the amalgamated corporation when such becomes owned or is acquired. Upon any such amalgamation, the defined term "Obligor" means, collectively, each of the amalgamating corporations and the amalgamated corporation, the defined term "Collateral" means all of the property and undertaking and interests described in (i) above, and the defined term "Secured Obligations" means the obligations described in (ii) above.

Section 5.8 Severability.

If any court of competent jurisdiction from which no appeal exists or is taken, determines any provision of this Agreement to be illegal, invalid or unenforceable, that provision will be severed from this Agreement and the remaining provisions will remain in full force and effect.

Section 5.9 Amendment.

This Agreement may only be amended, supplemented or otherwise modified by written agreement executed by the Secured Creditor and the Obligor.

Section 5.10 Waivers, etc.

- (1) No consent or waiver by the Secured Creditor in respect of this Agreement is binding unless made in writing and signed by an authorized officer of the Secured Creditor. Any consent or waiver given under this Agreement is effective only in the specific instance and for the specific purpose for which given. No waiver of any of the provisions of this Agreement constitutes a waiver of any other provision.
- (2) A failure or delay on the part of the Secured Creditor in exercising a right under this Agreement does not operate as a waiver of, or impair, any right of the Secured Creditor however arising. A single or partial exercise of a right on the part of the Secured Creditor does not preclude any other or further exercise of that right or the exercise of any other right by the Secured Creditor.

Section 5.11 Application of Proceeds of Security.

All monies collected by the Secured Creditor upon the enforcement of its rights and remedies under the Security Documents and the Liens created by them including any sale or other disposition of the Collateral, together with all other monies received by the Secured Creditor under the Security Documents, will be applied as provided in the Secured Debenture. To the extent any other Credit Document requires proceeds of collateral under such Credit Document to be applied in accordance with the provisions of this Agreement, the Secured Creditor shall apply such proceeds in accordance with this Section.

Section 5.12 Conflict.

In the event of any conflict between one or more provisions of this Agreement, the provisions of the Secured Debenture and the provisions of the Operating Loan Agreement which cannot be resolved by all such provisions being complied with, the provisions contained in the Secured Debenture will prevail to the extent of such conflict.

Section 5.13 Governing Law.

This Agreement will be governed by, interpreted and enforced in accordance with the laws of the Province of Ontario and the federal laws of Canada applicable therein.

Section 5.14 Termination, Survival.

Upon discharge of the Security Interest pursuant to Section 5.2 hereof, this Agreement shall automatically terminate. The provisions of Article 5 shall survive any termination of this Agreement.

IN WITNESS WHEREOF the Obligor has executed this Agreement.

TERCON ENTERPRISES LTD.

Per:


Authorized Signing Officer

#1264110 v1 | 4061837

TERCON PROPERTIES LTD.

as Obligor

and

**WF FUND III LIMITED PARTNERSHIP,
carrying on business as WELLINGTON FINANCIAL LP
AND WELLINGTON FINANCIAL FUND III**

as Secured Creditor

SECURITY AGREEMENT

October 1, 2007

SECURITY AGREEMENT

Security agreement dated as of October 1, 2007 made by Tercon Properties Ltd. to and in favour of WF Fund III Limited Partnership, carrying on business as Wellington Financial LP and Wellington Financial Fund III.

RECITALS:

- (a) The Borrower is or will become indebted or liable to the Secured Creditor pursuant to its Series A Secured Debentures in the aggregate principal amount of \$5,000,000.00 (Cdn.) dated October 1, 2007 (as the same may be amended, restated, supplemented or replaced from time to time, the "Secured Debenture") and pursuant to an Operating Loan Agreement between the Borrower and the Secured Party dated October 1, 2007 (as the same may be amended, restated, supplemented or replaced from time to time, the "Operating Loan Agreement");
- (b) To secure the due performance of the Borrower's obligations to the Secured Creditor under *inter alia* the Secured Debenture and the Operating Loan Agreement, the Obligor has entered into a form of Guarantee dated October 1, 2007 in favor of the Secured Creditor (as the same may be amended, restated, supplemented or replaced from time to time, the "Guarantee"); and
- (c) Pursuant to Section 4.1 of the Secured Debenture, the Obligor is required to execute and deliver this Agreement in favour of the Secured Creditor.

In consideration of the foregoing and other good and valuable consideration, the receipt and adequacy of which are acknowledged, the Obligor agrees as follows.

ARTICLE 1 INTERPRETATION

Section 1.1 Defined Terms.

As used in this Agreement, the following terms have the following meanings:

"Agreement" means this security agreement.

"Borrower" means Tercon Investments Ltd.

"Collateral" has the meaning specified in Section 2.1.

"Credit Documents" means the Secured Debenture, the Operating Loan Agreement, this Agreement and each other Security Document (as such term is defined in the Secured Debenture).

"Event of Default" has the meaning ascribed thereto in the Guarantee;

"Expenses" has the meaning specified in Section 2.2(b).

"Governmental Entity" means any international tribunal, agency, body commission or other authority, any government, executive, parliament, legislature or local authority, or any governmental entity, ministry, department or agency or regulatory authority, court, tribunal, commission or board of or within Canada, or any other foreign jurisdiction, or any political subdivision of any thereof or any authority having jurisdiction therein or any quasi governmental or private body exercising any regulatory, expropriation or taxing authority under or for the account of any of the above.

"Instruments" means (i) a bill, note or cheque within the meaning of the *Bills of Exchange Act* (Canada) or any other writing that evidences a right to the payment of money and is of a type that in the ordinary course of business is transferred by delivery with any necessary endorsement or assignment, or (ii) a letter of credit and an advice of credit if the letter or advice states that it must be surrendered upon claiming payment thereunder, or (iii) chattel paper or any other writing that evidences both a monetary obligation and a security interest in or a lease of specific goods, or (iv) documents of title or any other writing that purports to be issued by or addressed to a bailee and purports to cover such goods in the bailee's possession as are identified or fungible portions of an identified mass, and that in the ordinary course of business is treated as establishing that the Person in possession of it is entitled to receive, hold and dispose of the document and the goods it covers, or (v) any document or writing commonly known as an instrument.

"Intellectual Property" means domestic and foreign: (i) patents, applications for patents and reissues, divisions, continuations, renewals, extensions and continuations-in-part of patents or patent applications; (ii) proprietary and non-public business information, including inventions (whether patentable or not), invention disclosures, improvements, discoveries, trade secrets, confidential information, know-how, methods, processes, designs, technology, technical data, schematics, formulae and customer lists, and documentation relating to any of the foregoing; (iii) copyrights, copyright registrations and applications for copyright registration; (iv) mask works, mask work registrations and applications for mask work registrations; (v) designs, design registrations, design registration applications and integrated circuit topographies; (vi) trade names, business names, corporate names, domain names, website names and world wide web addresses, common law trade-marks, trade-mark registrations, trade-mark applications, trade dress and

logos, and the goodwill associated with any of the foregoing; (vii) computer software and programs (both source code and object code form), all proprietary rights in the computer software and programs and all documentation and other materials related to the computer software and programs; and (viii) any other intellectual property and industrial property.

"Lien" means (i) any mortgage, charge, pledge, hypothecation, security interest, assignment by way of security, encumbrance, lien (statutory or otherwise), hire purchase agreement, conditional sale agreement, deposit arrangement, title retention agreement or arrangement, or any other assignment, arrangement or condition that in substance secures payment or performance of an obligation, (ii) any trust arrangement, (iii) any arrangement which creates a right of set-off out of the ordinary course of business, or (iv) any agreement to grant any such rights or interests.

"Obligor" means Tercon Properties Ltd., a corporation incorporated and existing under the laws of British Columbia, and its successors and permitted assigns.

"Registrable Intellectual Property" means any Intellectual Property in respect of which ownership, title, security interests, charges or encumbrances are capable of registration, recording or notation with any Governmental Entity pursuant to applicable laws.

"Restricted Asset" has the meaning specified in Section 2.4(1).

"Secured Creditor" means WF Fund III Limited Partnership, carrying on business as Wellington Financial LP and Wellington Financial Fund III and its successors and assigns.

"Secured Obligations" has the meaning specified in Section 2.2(a).

"Security" means an obligation of an issuer or a share, participation or other interest in an issuer or in property or an enterprise of an issuer,

- (a) that is represented by a security certificate in bearer form or registered form, or the transfer of which may be registered on books maintained for that purpose by or on behalf of the issuer,
- (b) that is one of a class or series, or by its terms is divisible into a class or series, of shares, participations, interests or obligations, and
- (c) that,
 - (i) is, or is of a type, dealt in or traded on securities exchanges or securities markets, or

- (ii) is a medium for investment and by its terms expressly provides that it is a security for the purposes of the *Securities Transfer Act* (Ontario);

but excludes

- (d) any ULC Shares.

"Security Interest" has the meaning specified in Section 2.2.

"ULC Shares" means shares in any unlimited company or unlimited liability corporation at any time owned or otherwise held by the Obligor.

Section 1.2 Interpretation.

- (1) Terms defined in the *Personal Property Security Act* (Ontario) or the *Securities Transfer Act* (Ontario) and used but not otherwise defined in this Agreement have the same meanings.
- (2) Capitalized terms used in this Agreement but not defined have the meanings given to them in the Secured Debenture.
- (3) Any reference in any Credit Document to Liens permitted by the Secured Debenture and any right of the Obligor to create or suffer to exist Liens permitted by the Secured Debenture are not intended to and do not and will not subordinate the Security Interest to any such Lien or give priority to any Person over the Secured Creditor.
- (4) In this Agreement the words "including", "includes" and "include" mean "including (or includes or include) without limitation". The expressions "Article", "Section" and other subdivision followed by a number mean and refer to the specified Article, Section or other subdivision of this Agreement.
- (5) Any reference in this Agreement to gender includes all genders. Words importing the singular number only include the plural and vice versa.
- (6) The division of this Agreement into Articles, Sections and other subdivisions and the insertion of headings are for convenient reference only and do not affect its interpretation.
- (7) The schedules attached to this Agreement form an integral part of it for all purposes of it.
- (8) Except as otherwise provided in this Agreement, any reference to this Agreement, any Credit Document or any Security Document refers to this Agreement or such Credit Document or Security Document as the same may

have been or may from time to time be amended, modified, extended, renewed, restated, replaced or supplemented and includes all schedules attached to it. Except as otherwise provided in this Agreement, any reference in this Agreement to a statute refers to such statute and all rules and regulations made under it as the same may have been or may from time to time be amended or re-enacted.

ARTICLE 2 SECURITY

Section 2.1 Grant of Security.

Subject to Section 2.4, the Obligor grants to the Secured Creditor, a security interest in, and assigns, mortgages, charges, hypothecates and pledges to the Secured Creditor, all of the property and undertaking of the Obligor now owned or hereafter acquired and all of the property and undertaking in which the Obligor now has or hereafter acquires any interest (collectively, the "Collateral") including all of the Obligor's:

- (a) present and after-acquired personal property;
- (b) inventory including goods held for sale, lease or resale, goods furnished or to be furnished to third parties under contracts of lease, consignment or service, goods which are raw materials or work in process, goods used in or procured for packing and materials used or consumed in the business of the Obligor;
- (c) equipment, machinery, furniture, fixtures, plant, vehicles and other goods of every kind and description and all licences and other rights and all related records, files, charts, plans, drawings, specifications, manuals and documents;
- (d) accounts due or accruing and all related agreements, books, accounts, invoices, letters, documents and papers recording, evidencing or relating to them;
- (e) money, documents of title and chattel paper;
- (f) Instruments and Securities, including the Instruments and Securities listed in Schedule A;
- (g) intangibles including all security interests, goodwill, choses in action, contracts, contract rights, licenses and other contractual benefits;

- (h) Intellectual Property including the Registrable Intellectual Property listed in Schedule B;
- (i) all substitutions and replacements of and increases, additions and, where applicable, accessions to the property described in Section 2.1(a) through Section 2.1(h) inclusive; and
- (j) all proceeds in any form derived directly or indirectly from any dealing with all or any part of the property described in Section 2.1(a) through Section 2.1(i) inclusive, including the proceeds of such proceeds.

Section 2.2 Secured Obligations.

The security interest, assignment, mortgage, charge, hypothecation and pledge granted by this Agreement (collectively, the "Security Interest") secures the payment and performance of:

- (a) all debts, liabilities and obligations, present or future, direct or indirect, absolute or contingent, matured or unmatured, at any time or from time to time due or accruing due and owing by or otherwise payable by the Obligor to the Secured Creditor in any currency, however or wherever incurred, and whether incurred by the Obligor alone or jointly with another or others and whether as principal, guarantor or surety and in whatever name or style (collectively, and together with the Expenses, the "Secured Obligations"); and
- (b) all expenses, costs and charges incurred by or on behalf of the Secured Creditor in connection with this Agreement, the Security Interest or the Collateral, including all legal fees, court costs, receiver's or agent's remuneration and other expenses of taking possession of, repairing, protecting, insuring, preparing for disposition, realizing, collecting, selling, transferring, delivering or obtaining payment for the Collateral, and of taking, defending or participating in any action or proceeding in connection with any of the foregoing matters or otherwise in connection with the Secured Creditor's interest in any Collateral, whether or not directly relating to the enforcement of this Agreement or any other Credit Document (collectively, the "Expenses").

Section 2.3 Attachment.

- (1) The Obligor acknowledges that (i) value has been given, (ii) it has rights in the Collateral (other than after-acquired Collateral), (iii) it has not agreed to

postpone the time of attachment of the Security Interest, and (iv) it has received a copy of this Agreement.

- (2) The Obligor shall not permit any of the Securities at any time to be or to become uncertificated securities.
- (3) The Obligor delivers to and deposits with the Secured Creditor any and all certificates evidencing the Securities listed in Schedule A, together with, in each case, a stock power duly endorsed in blank for transfer and an irrevocable directors or other applicable resolution of entity in from which the Securities are issued, consenting to the transfer by the Obligor and the Obligor hereby grants control over such Securities to the Secured Creditor in accordance with the provisions of the *Securities Transfer Act* (Ontario). The Obligor also delivers to and deposits with the Secured Creditor any promissory note or other Instruments evidencing any amount payable in excess of \$100,000 or evidencing any rights to goods having a value in excess of \$100,000.
- (4) If the Obligor acquires any Securities or any Instruments (other than Instruments evidencing amounts payable of less than \$100,000 or evidencing any rights to goods having a value less than \$100,000), the Obligor will notify the Secured Creditor in writing and provide the Secured Creditor with a revised Schedule A recording the acquisition and particulars of such Instruments or Securities within 5 days after such acquisition. Upon request by the Secured Creditor, the Obligor will promptly deliver to and deposit with the Secured Creditor, or cause the Secured Creditor to have control over, such Securities or Instruments (other than Instruments evidencing amounts payable of less than \$100,000 or evidencing any rights to goods having a value less than \$100,000) as security for the Secured Obligations. The Obligor will also promptly inform the Secured Creditor in writing of the acquisition by the Obligor of any ULC Shares.
- (5) At the request of the Secured Creditor the Obligor will (i) cause the transfer of any Securities or Instruments to the Secured Creditor to be registered wherever such registration may be required or advisable in the reasonable opinion of the Secured Creditor, (ii) duly endorse any such Securities or Instruments for transfer in blank or register them in the name of the Secured Creditor or its nominee or otherwise as the Secured Creditor may reasonably direct, (iii) immediately deliver to the Secured Creditor any and all consents or other documents which may be necessary to effect the transfer of any such Securities or Instruments to the Secured Creditor or any third party and (iv) deliver to or otherwise cause the Secured Creditor to have control over such Securities or Instruments in accordance with the provisions of the *Securities*

Transfer Act (Ontario). Upon the discharge of the Security Interest in accordance with Section 5.2 hereof, the Secured Creditor shall promptly cause all Securities or Instruments transferred to it or to any third party pursuant to this Section 2.3(5) to be transferred back to the Obligor including duly endorsing any such Securities or Instruments for transfer back to the Obligor and delivering to the Obligor any and all consents or other documents which may be necessary to effect the transfer of any such Securities or Instruments to the Obligor.

- (6) The Obligor will promptly notify the Secured Creditor in writing of the acquisition by the Obligor of any Registrable Intellectual Property. The Obligor will provide the Secured Creditor with a revised Schedule B recording the acquisition and particulars of such additional Intellectual Property.

Section 2.4 Scope of Security Interest.

- (1) To the extent that an assignment of amounts payable and other proceeds arising under or in connection with, or the grant of a security interest in any agreement, licence, permit or quota of the Obligor would result in the termination of such agreement, licence, permit or quota (each, a "Restricted Asset"), the Security Interest with respect to each Restricted Asset will constitute a trust created in favour of the Secured Creditor pursuant to which the Obligor holds as trustee all proceeds arising under or in connection with the Restricted Asset in trust for the Secured Creditor on the following basis:
 - (a) until the Security Interest is enforceable and subject to the Secured Debenture, the Obligor is entitled to receive all such proceeds; and
 - (b) whenever the Security Interest is enforceable, (i) all rights of the Obligor to receive such proceeds cease and all such proceeds will be immediately paid over to the Secured Creditor and (ii) the Obligor will take all actions requested by the Secured Creditor to collect and enforce payment and other rights arising under the Restricted Asset.

The Obligor will use all commercially reasonable efforts to obtain the consent of each other party to any and all Restricted Assets to the assignment of such Restricted Asset to the Secured Creditor in accordance with this Agreement. The Obligor will also use all commercially reasonable efforts to ensure that all agreements entered into on and after the date of this Agreement expressly permit assignments of the benefits of such agreements as collateral security to the Secured Creditor in accordance with the terms of this Agreement.

- (2) The Security Interest with respect to trade-marks constitutes a security interest in, and a charge, hypothecation and pledge of, such Collateral in

favour of the Secured Creditor, but does not constitute an assignment or mortgage of such Collateral to the Secured Creditor.

- (3) Until the Security Interest is enforceable, the grant of the Security Interest in the Intellectual Property does not affect in any way the Obligor's rights to commercially exploit the Intellectual Property, defend it, enforce the Obligor's rights in it or with respect to it against third parties in any court or claim and be entitled to receive any damages with respect to any infringement of it.
- (4) The Security Interest does not extend to consumer goods or ULC Shares.
- (5) The Security Interest does not extend or apply to the last day of the term of any lease or sublease of real property or any agreement for a lease or sublease of real property, now held or hereafter acquired by the Obligor, but the Obligor will stand possessed of any such last day upon trust to assign and dispose of it as the Secured Creditor may reasonably direct.

Section 2.5 Grant of Licence to Use Intellectual Property.

At such time as the Secured Creditor is lawfully entitled to exercise its rights and remedies under Article 3, the Obligor grants to the Secured Creditor an irrevocable, nonexclusive licence (exercisable without payment of royalty or other compensation to the Obligor) to use, assign or sublicense any Intellectual Property in which the Obligor has rights wherever the same may be located, including in such licence access to (i) all media in which any of the licensed items may be recorded or stored, and (ii) all software and computer programs used for compilation or print-out. The license granted under this Section is to enable the Secured Creditor to exercise its rights and remedies under Article 3 and for no other purpose.

Section 2.6 Care and Custody of Collateral.

- (1) The Secured Creditor has no obligation to keep Collateral in its possession identifiable.
- (2) The Secured Creditor may, after the Security Interest is enforceable, (i) notify any Person obligated on an Instrument, Security or account to make payments to the Secured Creditor, whether or not the Obligor was previously making collections on such accounts, chattel paper, instruments, and (ii) assume control of any proceeds arising from the Collateral.
- (3) The Secured Creditor has no obligation to collect dividends, distributions or interest payable on, or exercise any option or right in connection with, any Securities or Instruments. The Secured Creditor has no obligation to protect or preserve any Securities or Instruments from depreciating in value or becoming worthless and is released from all responsibility for any loss of

value. In the physical keeping of any Securities, the Secured Creditor is only obliged to exercise the same degree of care as it would exercise with respect to its own Securities kept at the same place.

Section 2.7 Rights of the Obligor.

- (1) Until the Security Interest is enforceable, the Obligor is entitled to vote the Securities that are part of the Collateral and to receive all dividends and distributions on such Securities. In order to allow the Obligor to vote any Securities registered in the Secured Creditor's name or the name of its nominee, at the request and the expense of the Obligor, the Secured Creditor will, prior to the Security Interest being enforceable, and may, after the Security Interest is enforceable, execute valid proxies appointing proxyholders to attend and act at meetings of shareholders, and execute resolutions in writing, all pursuant to the relevant provisions of the issuer's governing legislation. Whenever the Security Interest is enforceable, all rights of the Obligor to vote (under any proxy given by the Secured Creditor (or its nominee) or otherwise) or to receive distributions or dividends cease and all such rights become vested solely and absolutely in the Secured Creditor.
- (2) Any distributions or dividends received by the Obligor contrary to Section 2.7(1) or any other moneys or property received by the Obligor after the Security Interest is enforceable will be received as trustee for the Secured Creditor and shall be immediately paid over to the Secured Creditor.

Section 2.8 Expenses.

The Obligor is liable for and will pay on demand by the Secured Creditor any and all Expenses.

**ARTICLE 3
ENFORCEMENT**

Section 3.1 Enforcement.

The Security Interest becomes and is enforceable against the Obligor upon the occurrence and during the continuance of an Event of Default.

Section 3.2 Remedies.

Whenever the Security Interest is enforceable, the Secured Creditor may realize upon the Collateral and enforce the rights of the Secured Creditor by:

- (a) entry onto any premises where Collateral consisting of tangible personal property may be located;

- (b) entry into possession of the Collateral by any method permitted by law;
 - (c) sale, grant of options to purchase, or lease of all or any part of the Collateral;
 - (d) holding, storing and keeping idle or operating all or any part of the Collateral;
 - (e) exercising and enforcing all rights and remedies of a holder of the Securities and Instruments as if the Secured Creditor were the absolute owner thereof (including, if necessary, causing the Collateral to be registered in the name of the Secured Creditor or its nominee if not already done);
 - (f) collection of any proceeds arising in respect of the Collateral;
 - (g) collection, realization or sale of, or other dealing with, accounts;
 - (h) license or sublicense, whether on an exclusive or nonexclusive basis, of any Intellectual Property for such term and on such conditions and in such manner as the Secured Creditor in its sole judgment determines (taking into account such provisions as may be necessary to protect and preserve such Intellectual Property);
 - (i) instruction to any bank which has entered into a control agreement with the Secured Creditor to transfer all moneys, Securities and Instruments held by such depositary bank to an account maintained with or by the Secured Creditor;
-
- (j) application of any moneys constituting Collateral or proceeds thereof in accordance with Section 5.11;
 - (k) appointment by instrument in writing of a receiver (which term as used in this Agreement includes a receiver and manager) or agent of all or any part of the Collateral and removal or replacement from time to time of any receiver or agent;
 - (l) institution of proceedings in any court of competent jurisdiction for the appointment of a receiver of all or any part of the Collateral;
 - (m) institution of proceedings in any court of competent jurisdiction for sale or foreclosure of all or any part of the Collateral;

- (n) filing of proofs of claim and other documents to establish claims to the Collateral in any proceeding relating to the Obligor; and
- (o) any other remedy or proceeding authorized or permitted under the *Personal Property Security Act* (Ontario) or otherwise by law or equity.

Section 3.3 Additional Rights.

In addition to the remedies set forth in Section 3.2 and elsewhere in this Agreement, whenever the Security Interest is enforceable, the Secured Creditor may:

- (a) require the Obligor, at the Obligor's expense, to assemble the Collateral at a place or places designated by notice in writing and the Obligor agrees to so assemble the Collateral immediately upon receipt of such notice;
- (b) require the Obligor, by notice in writing, to disclose to the Secured Creditor the location or locations of the Collateral and the Obligor agrees to promptly make such disclosure when so required;
- (c) repair, process, modify, complete or otherwise deal with the Collateral and prepare for the disposition of the Collateral, whether on the premises of the Obligor or otherwise;
- (d) redeem any prior security interest against any Collateral, procure the transfer of such security interest to itself, or settle and pass the accounts of the prior mortgagee, chargee or encumbrancer (any accounts to be conclusive and binding on Obligor);
- (e) pay any liability secured by any Lien against any Collateral (the Obligor will immediately on demand reimburse the Secured Creditor for all such payments);
- (f) carry on all or any part of the business of the Obligor and, to the exclusion of all others including the Obligor, enter upon, occupy and use all or any of the premises, buildings, and other property of or used by the Obligor for such time as the Secured Creditor sees fit, free of charge, and the Secured Creditor is not liable to the Obligor for any act, omission or negligence in so doing or for any rent, charges, depreciation or damages incurred in connection with or resulting from such action;
- (g) borrow for the purpose of carrying on the business of the Obligor or for the maintenance, preservation or protection of the Collateral and

grant a security interest in the Collateral, whether or not in priority to the Security Interest, to secure repayment;

- (h) commence, continue or defend any judicial or administrative proceedings for the purpose of protecting, seizing, collecting, realizing or obtaining possession or payment of the Collateral, and give good and valid receipts and discharges in respect of the Collateral and compromise or give time for the payment or performance of all or any part of the accounts or any other obligation of any third party to the Obligor; and
- (i) at any public sale, and to the extent permitted by law on any private sale, bid for and purchase any or all of the Collateral offered for sale and upon compliance with the terms of such sale, hold, retain and dispose of such Collateral without any further accountability to the Obligor or any other Person with respect to such holding, retention or disposition, except as required by law. In any such sale to the Secured Creditor, the Secured Creditor may, for the purpose of making payment for all or any part of the Collateral so purchased, use any claim for Secured Obligations then due and payable to it as a credit against the purchase price.

Section 3.4 Exercise of Remedies.

The remedies under Section 3.2 and Section 3.3 may be exercised from time to time separately or in combination and are in addition to, and not in substitution for, any other rights of the Secured Creditor however arising or created. The Secured Creditor is not bound to exercise any right or remedy, and the exercise of rights and remedies is without prejudice to the rights of the Secured Creditor in respect of the Secured Obligations including the right to claim for any deficiency.

Section 3.5 Receiver's Powers.

- (1) Any receiver appointed by the Secured Creditor is vested with the rights and remedies which could have been exercised by the Secured Creditor in respect of the Obligor or the Collateral and such other powers and discretions as are granted in the instrument of appointment and any supplemental instruments. The identity of the receiver, its replacement and its remuneration are within the sole and unfettered discretion of the Secured Creditor.
- (2) Any receiver appointed by the Secured Creditor will act as agent for the Secured Creditor for the purposes of taking possession of the Collateral, but otherwise and for all other purposes (except as provided below), as agent for the Obligor. The receiver may sell, lease, or otherwise dispose of Collateral as agent for the Obligor or as agent for the Secured Creditor as the Secured

Creditor may determine in its discretion. The Obligor agrees to ratify and confirm all actions of the receiver acting as agent for the Obligor, and to release and indemnify the receiver in respect of all such actions.

- (3) The Secured Creditor, in appointing or refraining from appointing any receiver, does not incur liability to the receiver, the Obligor or otherwise and is not responsible for any misconduct or negligence of such receiver.

Section 3.6 Appointment of Attorney.

The Obligor hereby irrevocably constitutes and appoints the Secured Creditor (and any officer of the Secured Creditor) the true and lawful attorney of the Obligor. As the attorney of the Obligor, the Secured Creditor has the power to exercise for and in the name of the Obligor with full power of substitution, upon the occurrence and during the continuance of an Event of Default, any of the Obligor's right (including the right of disposal), title and interest in and to the Collateral including the execution, endorsement, delivery and transfer of the Collateral to the Secured Creditor, its nominees or transferees, and the Secured Creditor and its nominees or transferees are hereby empowered to exercise all rights and powers and to perform all acts of ownership with respect to the Collateral to the same extent as the Obligor might do. This power of attorney is irrevocable, is coupled with an interest, has been given for valuable consideration (the receipt and adequacy of which is acknowledged) and survives, and does not terminate upon, the bankruptcy, dissolution, winding up or insolvency of the Obligor. This power of attorney extends to and is binding upon the Obligor's successors and permitted assigns. The Obligor authorizes the Secured Creditor to delegate in writing to another Person any power and authority of the Secured Creditor under this power of attorney as may be necessary or desirable in the opinion of the Secured Creditor, and to revoke or suspend such delegation. The power of attorney granted by the Obligor hereby shall automatically terminate and be of no further force or effect upon the discharge of the Security Interest in accordance with Section 5.2 hereof.

Section 3.7 Dealing with the Collateral.

- (1) The Secured Creditor is not obliged to exhaust its recourse against the Obligor or any other Person or against any other security it may hold in respect of the Secured Obligations before realizing upon or otherwise dealing with the Collateral in such manner as the Secured Creditor may consider desirable.
- (2) The Secured Creditor may grant extensions or other indulgences, take and give up securities, accept compositions, grant releases and discharges and otherwise deal with the Obligor and with other Persons, sureties or securities as it may see fit without prejudice to the Secured Obligations, the liability of the Obligor or the rights of the Secured Creditor in respect of the Collateral.

- (3) Except as otherwise provided by law or this Agreement, the Secured Creditor is not (i) liable or accountable for any failure to collect, realize or obtain payment in respect of the Collateral, (ii) bound to institute proceedings for the purpose of collecting, enforcing, realizing or obtaining payment of the Collateral or for the purpose of preserving any rights of any Persons in respect of the Collateral, (iii) responsible for any loss occasioned by any sale or other dealing with the Collateral or by the retention of or failure to sell or otherwise deal with the Collateral, or (iv) bound to protect the Collateral from depreciating in value or becoming worthless.

Section 3.8 Standards of Sale.

Without prejudice to the ability of the Secured Creditor to dispose of the Collateral in any manner which is commercially reasonable, the Obligor acknowledges that:

- (a) the Collateral may be disposed of in whole or in part;
- (b) the Collateral may be disposed of by public auction, public tender or private contract, with or without advertising and without any other formality;
- (c) any assignee of such Collateral may be the Secured Creditor or a customer of any such Person;
- (d) any sale conducted by the Secured Creditor will be at such time and place, on such notice and in accordance with such procedures as the Secured Creditor, in its sole discretion, may deem advantageous;
- (e) the Collateral may be disposed of in any manner and on any terms necessary to avoid violation of applicable law (including compliance with such procedures as may restrict the number of prospective bidders and purchasers, require that the prospective bidders and purchasers have certain qualifications, and restrict the prospective bidders and purchasers to Persons who will represent and agree that they are purchasing for their own account for investment and not with a view to the distribution or resale of the Collateral) or in order to obtain any required approval of the disposition (or of the resulting purchase) by any governmental or regulatory authority or official;
- (f) a disposition of the Collateral may be on such terms and conditions as to credit or otherwise as the Secured Creditor, in its sole discretion, may deem advantageous; and

- (g) the Secured Creditor may establish an upset or reserve bid or price in respect of the Collateral.

Section 3.9 Dealings by Third Parties.

- (1) No Person dealing with the Secured Creditor or an agent or receiver is required to determine (i) whether the Security Interest has become enforceable, (ii) whether the powers which such Person is purporting to exercise have become exercisable, (iii) whether any money remains due to the Secured Creditor by the Obligor, (iv) the necessity or expediency of the stipulations and conditions subject to which any sale or lease is made, (v) the propriety or regularity of any sale or other dealing by the Secured Creditor with the Collateral, or (vi) how any money paid to Secured Creditor has been applied.
- (2) Any bona fide purchaser of all or any part of the Collateral from the Secured Creditor or any receiver or agent will hold the Collateral absolutely, free from any claim or right of whatever kind, including any equity of redemption, of the Obligor, which it specifically waives (to the fullest extent permitted by law) as against any such purchaser together with all rights of redemption, stay or appraisal which the Obligor has or may have under any rule of law or statute now existing or hereafter adopted.

**ARTICLE 4
REPRESENTATIONS, WARRANTIES AND COVENANTS**

Section 4.1 General Representations, Warranties and Covenants.

The Obligor represents and warrants and covenants and agrees, ~~acknowledging and confirming that the Secured Creditor is relying on such~~ representations, warranties, covenants and agreements, that:

- (a) **Continuous Perfection.** Schedule C sets out the Obligor's place of business or, if more than one, the Obligor's chief executive office. Such place of business or chief executive office, as the case may be, has been located at such address for the 60 days immediately preceding the date of this Agreement. Schedule C also sets out the address at which the books and records of the Obligor are located, the address at which senior management of the Obligor are located and conduct their deliberations and make their decisions with respect to the business of the Obligor and the address from which the invoices and accounts of the Obligor are issued. The Obligor will not change the location of any of these items, people or addresses without providing at least 30 days prior written notice to the Secured Creditor. Except for sales of

inventory made in the ordinary course of business, the Collateral, to the extent not delivered to the Collateral Agent pursuant to Section 2.3(3), has been kept for the 60 days immediately preceding the date of this Agreement and will be kept at those locations listed on Schedule C, and the Obligor will not remove the Collateral from such locations, without providing at least 30 days prior written notice to the Secured Creditor. The Obligor will not change its name in any manner without providing at least 30 days prior written notice to the Secured Creditor.

- (b) **Restriction on Disposition.** The Obligor will not sell, assign, convey, exchange, lease, release or abandon, or otherwise dispose of, any Collateral except as expressly permitted in the Secured Debenture.
- (c) **Negative Pledge.** The Obligor will not create or suffer to exist, any Lien on the Collateral, except for Liens permitted by the Secured Debenture.
- (d) **Account Debtors.** None of the account debtors in respect of any accounts, chattel paper or intangibles and none of the obligors in respect of any Instruments included in the Collateral as of the date hereof is (i) a Governmental Entity, or (ii) in the case of any account in excess of \$100,000, is located outside of Canada or the United States of America.
- (e) **Securities and Instruments.**
 - (i) Schedule A lists all Securities and Instruments owned or held by the Obligor on the date of this Agreement and all such Securities are represented by certificated securities.
 - (ii) Securities that are Collateral have been, where applicable, duly and validly issued and acquired and are fully paid and non-assessable. Schedule A sets out, for each class of Securities listed in the schedule, the percentage amount that such Securities represent of all issued and outstanding Securities of that class.
 - (iii) Except as described in Schedule A, no transfer restrictions apply to the Securities and Instruments listed in Schedule A. The Obligor has delivered to the Secured Creditor copies of all shareholder, partnership or trust agreements applicable to each issuer of such Securities and Instruments which are in the Obligor's possession or control.

- (iv) No Person has or will have any written or oral option, warrant, right, call, commitment, conversion right, right of exchange or other agreement or any right or privilege (whether by law, preemptive or contractual) capable of becoming an option, warrant, right, call, commitment, conversion right, right of exchange or other agreement to acquire any right or interest in any of the Securities and Instruments that are Collateral.
 - (v) The Securities that are Collateral constitute, where applicable, the legal, valid and binding obligation of the obligor of such Securities, enforceable in accordance with their terms, subject only to any limitation under applicable laws relating to (i) bankruptcy, insolvency, fraudulent conveyance, arrangement, reorganization or creditors' rights generally, and (ii) the discretion that a court may exercise in the granting of equitable remedies.
 - (vi) The pledge, assignment and delivery to the Secured Creditor of the Collateral consisting of certificated Securities pursuant to this Agreement creates a valid and perfected first ranking security interest in such certificated Securities, and the proceeds of them. Such Securities and the proceeds from them are not subject to any prior Lien or any agreement purporting to grant to any third party a Lien on the property or assets of the Obligor which would include the Securities except for Permitted Encumbrances. The Secured Creditor is entitled to all the rights, priorities and benefits afforded by the *Personal Property Security Act* (Ontario) or other relevant personal property security legislation as enacted in any relevant jurisdiction to perfect security interests in respect of such Collateral.
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- (f) **Status of Accounts Collateral.** The Obligor will maintain books and records pertaining to the Collateral in such detail, form and scope as the Secured Creditor reasonably requires, and keep all originals of the chattel paper which evidence accounts at locations specified on Schedule B. The Obligor will immediately notify the Secured Creditor if any account in excess of \$500,000 arises out of contracts with any Governmental Entity, and execute any instruments and take any steps required by the Secured Creditor in order that all moneys due or to become due under the contract are assigned to the Secured Creditor and notice of such assignment is given to the Governmental Entity. The Obligor will also immediately notify the Secured Creditor if any

account in excess of \$500,000 is with an account debtor located outside of Canada or the United States of America.

- (g) **Additional Security Perfection and Protection of Security Interest.** The Obligor will grant to the Secured Creditor, security interests, assignments, mortgages, charges, hypothecations and pledges in such property and undertaking of the Obligor that is not subject to a valid and perfected first ranking security interest (subject only to Permitted Liens) constituted by the Security Documents, in each relevant jurisdiction as determined by the Secured Creditor. The Obligor will perform all acts, execute and deliver all agreements, documents and instruments and take such other steps as are requested by the Secured Creditor at any time to register, file, signify, publish, perfect, maintain, protect, and enforce the Security Interest including: (i) executing, recording and filing of financing or other statements, and paying all taxes, fees and other charges payable, (ii) placing notations on its books of account to disclose the Security Interest, (iii) delivering acknowledgements, confirmations and subordinations that may be necessary to ensure that the Security Documents constitute a valid and perfected first ranking security interest (subject only to Permitted Liens), (iv) executing and delivering any agreements, documents and instruments that may be needed under or in connection with the *Securities Transfer Act* (Ontario) and (v) delivering opinions of counsel in respect of matters contemplated by this paragraph. The documents and opinions contemplated by this paragraph must be in form and substance satisfactory to the Secured Creditor.

Section 4.2 Representations, Warranties and Covenants Concerning Intellectual Property.

The Obligor represents and warrants and covenants and agrees, acknowledging and confirming that the Secured Creditor is relying on such representations, warranties, covenants and agreements, that:

- (a) Schedule B lists all Registrable Intellectual Property that is owned by the Obligor on the date of this Agreement.
- (b) All Registrable Intellectual Property of the Obligor is valid, subsisting, unexpired and enforceable, has not been abandoned and, to the knowledge of the Obligor, does not infringe the Intellectual Property rights of any other Person.

- (c) No decision or judgment has been rendered by any Governmental Entity which would limit, cancel or question the validity of, or the Obligor's rights in, any Intellectual Property in any respect.
 - (d) No action or proceeding is pending, or, to the knowledge of the Obligor, threatened, on the date hereof seeking to limit, cancel or question the validity of any Intellectual Property or the Obligor's ownership interest therein, or which, if adversely determined, would have a Material adverse effect on the value of any Intellectual Property.
 - (e) The Obligor will take all reasonable and necessary steps, including in any proceeding before the Canadian Intellectual Property Office or any similar Governmental Entity of any jurisdiction, to maintain and pursue each application (and to obtain the relevant registration) and to maintain each registration of the material Registrable Intellectual Property, including, without limitation, filing of applications for renewal, affidavits of use and affidavits of incontestability.
 - (f) In the event that any material Intellectual Property of the Obligor is infringed, misappropriated or diluted by a third party, the Obligor will (i) take such actions as the Obligor reasonably deems appropriate under the circumstances to protect such Intellectual Property and (ii) if such Intellectual Property is of material economic value, promptly notify the Secured Creditor after it learns thereof and sue for infringement, misappropriation or dilution, to seek injunctive relief where appropriate and to recover any and all damages for such infringement, misappropriation or dilution.
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- (g) Immediately upon the request of the Secured Creditor, the Obligor will furnish the Secured Creditor in writing the description of all Registrable Intellectual Property or applications for Registrable Intellectual Property of the Obligor. In addition, the Obligor will deliver to the Secured Creditor a copy of the certificate of registration of, or application for, such Registrable Intellectual Property with a Confirmation of Security Interest in the form of Schedule D in respect of such Registrable Intellectual Property confirming the assignment for security of such Registrable Intellectual Property to the Secured Creditor and immediately make all such filings, registrations and recordings as are necessary or appropriate to perfect the Security Interest granted to the Secured Creditor in the Registrable Intellectual Property.

**ARTICLE 5
GENERAL**

Section 5.1 Notices.

Any notice, direction or other communication (each a "Notice") given regarding the matters contemplated by this Agreement must be in writing, sent by personal delivery, courier or facsimile (but not by electronic mail) and addressed:

(a) to the Secured Creditor at:

WF Fund III Limited Partnership
161 Bay Street
Suite 2520
Toronto, ON M5J 2S1

Attention: Mark McQueen
Facsimile: 416-682-1160

with a copy to:

Minden Gross LLP
145 King Street West
Suite 2200
Toronto, ON M5H 4G2

Attention: Daniel Rothberg
Facsimile: 416-864-9223

(b) to the Obligor at:

Tercon Properties Ltd.
#100 - 2079 Falcon Road
Kamloops, BC V2C 4J2
Attention: Mr. Milan Soucek
Facsimile: (250) 372-1555

A Notice is deemed to be delivered and received (i) if sent by personal delivery, on the date of delivery if it is a Business Day and the delivery was made prior to 4:00 p.m. (local time in place of receipt) and otherwise on the next Business Day, (ii) if sent by same-day service courier, on the date of delivery if sent on a Business Day and delivery was made prior to 4:00 p.m. (local time in place of receipt) and otherwise on the next Business Day, (iii) if sent by overnight courier, on the next Business Day, or (iv) if sent by facsimile, on the Business Day following the date of

confirmation of transmission by the originating facsimile. A party may change its address for service from time to time by providing a Notice in accordance with the foregoing. Any subsequent Notice must be sent to the party at its changed address. Any element of a party's address that is not specifically changed in a Notice will be assumed not to be changed.

Section 5.2 Discharge.

The Security Interest will not be discharged except by a written release or discharge signed by the Secured Creditor. The Obligor will be entitled to require a discharge by notice to the Secured Creditor upon, but only upon, (i) full and indefeasible payment and performance of the Secured Obligations and (ii) the Secured Creditor having no obligations under any Credit Document. Upon discharge of the Security Interest and at the request and expense of the Obligor, the Secured Creditor will execute and deliver to the Obligor such financing statements and other documents or instruments as the Obligor may reasonably require and the Secured Creditor will redeliver to the Obligor, or as the Obligor may otherwise direct the Secured Creditor, any Collateral in its possession.

Section 5.3 No Merger, Survival of Representations and Warranties.

This Agreement does not operate by way of merger of any of the Secured Obligations and no judgment recovered by the Secured Creditor will operate by way of merger of, or in any way affect, the Security Interest, which is in addition to, and not in substitution for, any other security now or hereafter held by the Secured Creditor in respect of the Secured Obligations. The representations, warranties and covenants of the Obligor in this Agreement survive the execution and delivery of this Agreement and any advances under the Secured Debenture. Notwithstanding any investigation made by or on behalf of the Secured Creditor these covenants, representations and warranties continue in full force and effect.

Section 5.4 Further Assurances.

The Obligor will do all acts and things and execute and deliver, or cause to be executed and delivered, all agreements, documents and instruments that the Secured Creditor may require and take all further steps relating to the Collateral or any other property or assets of the Obligor that the Secured Creditor may require, including any agreements, documents or instruments required under or in connection with the *Securities Transfer Act* (Ontario) for (i) protecting the Collateral, (ii) perfecting the Security Interest, and (iii) exercising all powers, authorities and discretions conferred upon the Secured Creditor. After the Security Interest becomes enforceable, the Obligor will do all acts and things and execute and deliver all documents and instruments that the Secured Creditor may require for facilitating the sale or other disposition of the Collateral in connection with its realization.

Section 5.5 Supplemental Security.

This Agreement is in addition to, without prejudice to and supplemental to all other security now held or which may hereafter be held by the Secured Creditor.

Section 5.6 Successors and Assigns.

This Agreement is binding on the Obligor and its successors and assigns, and enures to the benefit of the Secured Creditor and its successors and assigns. This Agreement may be assigned by the Secured Creditor without the consent of, or notice to, the Obligor, to such Person as the Secured Creditor may determine and, in such event, such Person will be entitled to all of the rights and remedies of the Secured Creditor as set forth in this Agreement or otherwise. In any action brought by an assignee to enforce any such right or remedy, the Obligor will not assert against the assignee any claim or defence which the Obligor now has or may have against the Secured Creditor. The Obligor may not assign, transfer or delegate any of its rights or obligations under this Agreement without the prior written consent of the Secured Creditor which may be unreasonably withheld.

Section 5.7 Amalgamation.

The Obligor acknowledges and agrees that in the event it amalgamates with any other corporation or corporations, it is the intention of the parties that the Security Interest (i) subject to Section 2.4, extends to: (A) all of the property and undertaking that any of the amalgamating corporations then owns, (B) all of the property and undertaking that the amalgamated corporation thereafter acquires, (C) all of the property and undertaking in which any of the amalgamating corporations then has any interest and (D) all of the property and undertaking in which the amalgamated corporation thereafter acquires any interest; and (ii) secures the payment and performance of all debts, liabilities and obligations, present or future, ~~direct or indirect, absolute or contingent, matured or unmatured, at any time or~~ from time to time due or accruing due and owing by or otherwise payable by each of the amalgamating corporations and the amalgamated corporation to the Secured Creditor in any currency, however or wherever incurred, and whether incurred alone or jointly with another or others and whether as principal, guarantor or surety and whether incurred prior to, at the time of or subsequent to the amalgamation. The Security Interest attaches to the additional collateral at the time of amalgamation and to any collateral thereafter owned or acquired by the amalgamated corporation when such becomes owned or is acquired. Upon any such amalgamation, the defined term "Obligor" means, collectively, each of the amalgamating corporations and the amalgamated corporation, the defined term "Collateral" means all of the property and undertaking and interests described in (i) above, and the defined term "Secured Obligations" means the obligations described in (ii) above.

Section 5.8 Severability.

If any court of competent jurisdiction from which no appeal exists or is taken, determines any provision of this Agreement to be illegal, invalid or unenforceable, that provision will be severed from this Agreement and the remaining provisions will remain in full force and effect.

Section 5.9 Amendment.

This Agreement may only be amended, supplemented or otherwise modified by written agreement executed by the Secured Creditor and the Obligor.

Section 5.10 Waivers, etc.

- (1) No consent or waiver by the Secured Creditor in respect of this Agreement is binding unless made in writing and signed by an authorized officer of the Secured Creditor. Any consent or waiver given under this Agreement is effective only in the specific instance and for the specific purpose for which given. No waiver of any of the provisions of this Agreement constitutes a waiver of any other provision.
- (2) A failure or delay on the part of the Secured Creditor in exercising a right under this Agreement does not operate as a waiver of, or impair, any right of the Secured Creditor however arising. A single or partial exercise of a right on the part of the Secured Creditor does not preclude any other or further exercise of that right or the exercise of any other right by the Secured Creditor.

Section 5.11 Application of Proceeds of Security.

All monies collected by the Secured Creditor upon the enforcement of its rights and remedies under the Security Documents and the Liens created by them including any sale or other disposition of the Collateral, together with all other monies received by the Secured Creditor under the Security Documents, will be applied as provided in the Secured Debenture. To the extent any other Credit Document requires proceeds of collateral under such Credit Document to be applied in accordance with the provisions of this Agreement, the Secured Creditor shall apply such proceeds in accordance with this Section.

Section 5.12 Conflict.

In the event of any conflict between one or more provisions of this Agreement, the provisions of the Secured Debenture and the provisions of the Operating Loan Agreement which cannot be resolved by all such provisions being complied with, the provisions contained in the Secured Debenture will prevail to the extent of such conflict.

Section 5.13 Governing Law.

This Agreement will be governed by, interpreted and enforced in accordance with the laws of the Province of Ontario and the federal laws of Canada applicable therein.

Section 5.14 Termination, Survival.

Upon discharge of the Security Interest pursuant to Section 5.2 hereof, this Agreement shall automatically terminate. The provisions of Article 5 shall survive any termination of this Agreement.

IN WITNESS WHEREOF the Obligor has executed this Agreement.

TERCON PROPERTIES LTD.

Per:



Authorized Signing Officer

#1264128 v1 | 4061837

FNP VENTURES INC.

as Obligor

and

**WF FUND III LIMITED PARTNERSHIP,
carrying on business as WELLINGTON FINANCIAL LP
AND WELLINGTON FINANCIAL FUND III**

as Secured Creditor

SECURITY AGREEMENT

October 1, 2007

SECURITY AGREEMENT

Security agreement dated as of October 1, 2007 made by FNP Ventures Inc. to and in favour of WF Fund III Limited Partnership, carrying on business as Wellington Financial LP and Wellington Financial Fund III.

RECITALS:

- (a) The Borrower is or will become indebted or liable to the Secured Creditor pursuant to its Series A Secured Debentures in the aggregate principal amount of \$5,000,000.00 (Cdn.) dated October 1, 2007 (as the same may be amended, restated, supplemented or replaced from time to time, the "Secured Debenture") and pursuant to an Operating Loan Agreement between the Borrower and the Secured Party dated October 1, 2007 (as the same may be amended, restated, supplemented or replaced from time to time, the "Operating Loan Agreement");
- (b) To secure the due performance of the Borrower's obligations to the Secured Creditor under *inter alia* the Secured Debenture and the Operating Loan Agreement, the Obligor has entered into a form of Guarantee dated October 1, 2007 in favor of the Secured Creditor (as the same may be amended, restated, supplemented or replaced from time to time, the "Guarantee"); and
- (c) Pursuant to Section 4.1 of the Secured Debenture, the Obligor is required to execute and deliver this Agreement in favour of the Secured Creditor.

In consideration of the foregoing and other good and valuable consideration, the receipt and adequacy of which are acknowledged, the Obligor agrees as follows.

ARTICLE 1 INTERPRETATION

Section 1.1 Defined Terms.

As used in this Agreement, the following terms have the following meanings:

"Agreement" means this security agreement.

"Borrower" means Tercon Investments Ltd.

"Collateral" has the meaning specified in Section 2.1.

"Credit Documents" means the Secured Debenture, the Operating Loan Agreement, this Agreement and each other Security Document (as such term is defined in the Secured Debenture).

"Event of Default" has the meaning ascribed thereto in the Guarantee;

"Expenses" has the meaning specified in Section 2.2(b).

"Governmental Entity" means any international tribunal, agency, body commission or other authority, any government, executive, parliament, legislature or local authority, or any governmental entity, ministry, department or agency or regulatory authority, court, tribunal, commission or board of or within Canada, or any other foreign jurisdiction, or any political subdivision of any thereof or any authority having jurisdiction therein or any quasi governmental or private body exercising any regulatory, expropriation or taxing authority under or for the account of any of the above.

"Instruments" means (i) a bill, note or cheque within the meaning of the *Bills of Exchange Act* (Canada) or any other writing that evidences a right to the payment of money and is of a type that in the ordinary course of business is transferred by delivery with any necessary endorsement or assignment, or (ii) a letter of credit and an advice of credit if the letter or advice states that it must be surrendered upon claiming payment thereunder, or (iii) chattel paper or any other writing that evidences both a monetary obligation and a security interest in or a lease of specific goods, or (iv) documents of title or any other writing that purports to be issued by or addressed to a bailee and purports to cover such goods in the bailee's possession as are identified or fungible portions of an identified mass, and that in the ordinary course of business is treated as establishing that the Person in possession of it is entitled to receive, hold and dispose of the document and the goods it covers, or (v) any document or writing commonly known as an instrument.

"Intellectual Property" means domestic and foreign: (i) patents, applications for patents and reissues, divisions, continuations, renewals, extensions and continuations-in-part of patents or patent applications; (ii) proprietary and non-public business information, including inventions (whether patentable or not), invention disclosures, improvements, discoveries, trade secrets, confidential information, know-how, methods, processes, designs, technology, technical data, schematics, formulae and customer lists, and documentation relating to any of the foregoing; (iii) copyrights, copyright registrations and applications for copyright registration; (iv) mask works, mask work registrations and applications for mask work registrations; (v) designs, design registrations, design registration applications and integrated circuit topographies; (vi) trade names, business names, corporate names, domain names, website names and world wide web addresses, common law trade-marks, trade-mark registrations, trade-mark applications, trade dress and

logos, and the goodwill associated with any of the foregoing; (vii) computer software and programs (both source code and object code form), all proprietary rights in the computer software and programs and all documentation and other materials related to the computer software and programs; and (viii) any other intellectual property and industrial property.

"Lien" means (i) any mortgage, charge, pledge, hypothecation, security interest, assignment by way of security, encumbrance, lien (statutory or otherwise), hire purchase agreement, conditional sale agreement, deposit arrangement, title retention agreement or arrangement, or any other assignment, arrangement or condition that in substance secures payment or performance of an obligation, (ii) any trust arrangement, (iii) any arrangement which creates a right of set-off out of the ordinary course of business, or (iv) any agreement to grant any such rights or interests.

"Obligor" means FNP Ventures Inc., a corporation incorporated and existing under the laws of British Columbia, and its successors and permitted assigns.

"Registrable Intellectual Property" means any Intellectual Property in respect of which ownership, title, security interests, charges or encumbrances are capable of registration, recording or notation with any Governmental Entity pursuant to applicable laws.

"Restricted Asset" has the meaning specified in Section 2.4(1).

"Secured Creditor" means WF Fund III Limited Partnership, carrying on business as Wellington Financial LP and Wellington Financial Fund III and its successors and assigns.

"Secured Obligations" has the meaning specified in Section 2.2(a).

"Security" means an obligation of an issuer or a share, participation or other interest in an issuer or in property or an enterprise of an issuer,

- (a) that is represented by a security certificate in bearer form or registered form, or the transfer of which may be registered on books maintained for that purpose by or on behalf of the issuer,
- (b) that is one of a class or series, or by its terms is divisible into a class or series, of shares, participations, interests or obligations, and
- (c) that,
 - (i) is, or is of a type, dealt in or traded on securities exchanges or securities markets, or

- (ii) is a medium for investment and by its terms expressly provides that it is a security for the purposes of the *Securities Transfer Act* (Ontario);

but excludes

- (d) any ULC Shares.

"Security Interest" has the meaning specified in Section 2.2.

"ULC Shares" means shares in any unlimited company or unlimited liability corporation at any time owned or otherwise held by the Obligor.

Section 1.2 Interpretation.

- (1) Terms defined in the *Personal Property Security Act* (Ontario) or the *Securities Transfer Act* (Ontario) and used but not otherwise defined in this Agreement have the same meanings.
- (2) Capitalized terms used in this Agreement but not defined have the meanings given to them in the Secured Debenture.
- (3) Any reference in any Credit Document to Liens permitted by the Secured Debenture and any right of the Obligor to create or suffer to exist Liens permitted by the Secured Debenture are not intended to and do not and will not subordinate the Security Interest to any such Lien or give priority to any Person over the Secured Creditor.
- (4) In this Agreement the words "including", "includes" and "include" mean "including (or includes or include) without limitation". The expressions "Article", "Section" and other subdivision followed by a number mean and refer to the specified Article, Section or other subdivision of this Agreement.
- (5) Any reference in this Agreement to gender includes all genders. Words importing the singular number only include the plural and vice versa.
- (6) The division of this Agreement into Articles, Sections and other subdivisions and the insertion of headings are for convenient reference only and do not affect its interpretation.
- (7) The schedules attached to this Agreement form an integral part of it for all purposes of it.
- (8) Except as otherwise provided in this Agreement, any reference to this Agreement, any Credit Document or any Security Document refers to this Agreement or such Credit Document or Security Document as the same may

have been or may from time to time be amended, modified, extended, renewed, restated, replaced or supplemented and includes all schedules attached to it. Except as otherwise provided in this Agreement, any reference in this Agreement to a statute refers to such statute and all rules and regulations made under it as the same may have been or may from time to time be amended or re-enacted.

ARTICLE 2 SECURITY

Section 2.1 Grant of Security.

Subject to Section 2.4, the Obligor grants to the Secured Creditor, a security interest in, and assigns, mortgages, charges, hypothecates and pledges to the Secured Creditor, all of the property and undertaking of the Obligor now owned or hereafter acquired and all of the property and undertaking in which the Obligor now has or hereafter acquires any interest (collectively, the "Collateral") including all of the Obligor's:

- (a) present and after-acquired personal property;
- (b) inventory including goods held for sale, lease or resale, goods furnished or to be furnished to third parties under contracts of lease, consignment or service, goods which are raw materials or work in process, goods used in or procured for packing and materials used or consumed in the business of the Obligor;
- (c) equipment, machinery, furniture, fixtures, plant, vehicles and other goods of every kind and description and all licences and other rights and all related records, files, charts, plans, drawings, specifications, manuals and documents;
- (d) accounts due or accruing and all related agreements, books, accounts, invoices, letters, documents and papers recording, evidencing or relating to them;
- (e) money, documents of title and chattel paper;
- (f) Instruments and Securities, including the Instruments and Securities listed in Schedule A;
- (g) intangibles including all security interests, goodwill, choses in action, contracts, contract rights, licenses and other contractual benefits;

- (h) Intellectual Property including the Registrable Intellectual Property listed in Schedule B;
- (i) all substitutions and replacements of and increases, additions and, where applicable, accessions to the property described in Section 2.1(a) through Section 2.1(h) inclusive; and
- (j) all proceeds in any form derived directly or indirectly from any dealing with all or any part of the property described in Section 2.1(a) through Section 2.1(i) inclusive, including the proceeds of such proceeds.

Section 2.2 Secured Obligations.

The security interest, assignment, mortgage, charge, hypothecation and pledge granted by this Agreement (collectively, the "Security Interest") secures the payment and performance of:

- (a) all debts, liabilities and obligations, present or future, direct or indirect, absolute or contingent, matured or unmatured, at any time or from time to time due or accruing due and owing by or otherwise payable by the Obligor to the Secured Creditor in any currency, however or wherever incurred, and whether incurred by the Obligor alone or jointly with another or others and whether as principal, guarantor or surety and in whatever name or style (collectively, and together with the Expenses, the "Secured Obligations"); and
- (b) all expenses, costs and charges incurred by or on behalf of the Secured Creditor in connection with this Agreement, the Security Interest or the Collateral, ~~including all legal fees, court costs, receiver's or agent's remuneration and other expenses of taking possession of, repairing, protecting, insuring, preparing for disposition, realizing, collecting, selling, transferring, delivering or obtaining payment for the Collateral, and of taking, defending or participating in any action or proceeding in connection with any of the foregoing matters or otherwise in connection with the Secured Creditor's interest in any Collateral, whether or not directly relating to the enforcement of this Agreement or any other Credit Document (collectively, the "Expenses").~~

Section 2.3 Attachment.

- (1) The Obligor acknowledges that (i) value has been given, (ii) it has rights in the Collateral (other than after-acquired Collateral), (iii) it has not agreed to

postpone the time of attachment of the Security Interest, and (iv) it has received a copy of this Agreement.

- (2) The Obligor shall not permit any of the Securities at any time to be or to become uncertificated securities.
- (3) The Obligor delivers to and deposits with the Secured Creditor any and all certificates evidencing the Securities listed in Schedule A, together with, in each case, a stock power duly endorsed in blank for transfer and an irrevocable directors or other applicable resolution of entity in from which the Securities are issued, consenting to the transfer by the Obligor and the Obligor hereby grants control over such Securities to the Secured Creditor in accordance with the provisions of the *Securities Transfer Act* (Ontario). The Obligor also delivers to and deposits with the Secured Creditor any promissory note or other Instruments evidencing any amount payable in excess of \$100,000 or evidencing any rights to goods having a value in excess of \$100,000.
- (4) If the Obligor acquires any Securities or any Instruments (other than Instruments evidencing amounts payable of less than \$100,000 or evidencing any rights to goods having a value less than \$100,000), the Obligor will notify the Secured Creditor in writing and provide the Secured Creditor with a revised Schedule A recording the acquisition and particulars of such Instruments or Securities within 5 days after such acquisition. Upon request by the Secured Creditor, the Obligor will promptly deliver to and deposit with the Secured Creditor, or cause the Secured Creditor to have control over, such Securities or Instruments (other than Instruments evidencing amounts payable of less than \$100,000 or evidencing any rights to goods having a value less than \$100,000) as security for the Secured Obligations. The Obligor will also promptly inform the Secured Creditor in writing of the acquisition by the Obligor of any ULC Shares.
- (5) At the request of the Secured Creditor the Obligor will (i) cause the transfer of any Securities or Instruments to the Secured Creditor to be registered wherever such registration may be required or advisable in the reasonable opinion of the Secured Creditor, (ii) duly endorse any such Securities or Instruments for transfer in blank or register them in the name of the Secured Creditor or its nominee or otherwise as the Secured Creditor may reasonably direct, (iii) immediately deliver to the Secured Creditor any and all consents or other documents which may be necessary to effect the transfer of any such Securities or Instruments to the Secured Creditor or any third party and (iv) deliver to or otherwise cause the Secured Creditor to have control over such Securities or Instruments in accordance with the provisions of the *Securities*

Transfer Act (Ontario). Upon the discharge of the Security Interest in accordance with Section 5.2 hereof, the Secured Creditor shall promptly cause all Securities or Instruments transferred to it or to any third party pursuant to this Section 2.3(5) to be transferred back to the Obligor including duly endorsing any such Securities or Instruments for transfer back to the Obligor and delivering to the Obligor any and all consents or other documents which may be necessary to effect the transfer of any such Securities or Instruments to the Obligor.

- (6) The Obligor will promptly notify the Secured Creditor in writing of the acquisition by the Obligor of any Registrable Intellectual Property. The Obligor will provide the Secured Creditor with a revised Schedule B recording the acquisition and particulars of such additional Intellectual Property.

Section 2.4 Scope of Security Interest.

- (1) To the extent that an assignment of amounts payable and other proceeds arising under or in connection with, or the grant of a security interest in any agreement, licence, permit or quota of the Obligor would result in the termination of such agreement, licence, permit or quota (each, a "Restricted Asset"), the Security Interest with respect to each Restricted Asset will constitute a trust created in favour of the Secured Creditor pursuant to which the Obligor holds as trustee all proceeds arising under or in connection with the Restricted Asset in trust for the Secured Creditor on the following basis:
 - (a) until the Security Interest is enforceable and subject to the Secured Debenture, the Obligor is entitled to receive all such proceeds; and
 - ~~(b) whenever the Security Interest is enforceable, (i) all rights of the Obligor to receive such proceeds cease and all such proceeds will be immediately paid over to the Secured Creditor and (ii) the Obligor will take all actions requested by the Secured Creditor to collect and enforce payment and other rights arising under the Restricted Asset.~~

The Obligor will use all commercially reasonable efforts to obtain the consent of each other party to any and all Restricted Assets to the assignment of such Restricted Asset to the Secured Creditor in accordance with this Agreement. The Obligor will also use all commercially reasonable efforts to ensure that all agreements entered into on and after the date of this Agreement expressly permit assignments of the benefits of such agreements as collateral security to the Secured Creditor in accordance with the terms of this Agreement.

- (2) The Security Interest with respect to trade-marks constitutes a security interest in, and a charge, hypothecation and pledge of, such Collateral in

favour of the Secured Creditor, but does not constitute an assignment or mortgage of such Collateral to the Secured Creditor.

- (3) Until the Security Interest is enforceable, the grant of the Security Interest in the Intellectual Property does not affect in any way the Obligor's rights to commercially exploit the Intellectual Property, defend it, enforce the Obligor's rights in it or with respect to it against third parties in any court or claim and be entitled to receive any damages with respect to any infringement of it.
- (4) The Security Interest does not extend to consumer goods or ULC Shares.
- (5) The Security Interest does not extend or apply to the last day of the term of any lease or sublease of real property or any agreement for a lease or sublease of real property, now held or hereafter acquired by the Obligor, but the Obligor will stand possessed of any such last day upon trust to assign and dispose of it as the Secured Creditor may reasonably direct.

Section 2.5 Grant of Licence to Use Intellectual Property.

At such time as the Secured Creditor is lawfully entitled to exercise its rights and remedies under Article 3, the Obligor grants to the Secured Creditor an irrevocable, nonexclusive licence (exercisable without payment of royalty or other compensation to the Obligor) to use, assign or sublicense any Intellectual Property in which the Obligor has rights wherever the same may be located, including in such licence access to (i) all media in which any of the licensed items may be recorded or stored, and (ii) all software and computer programs used for compilation or print-out. The license granted under this Section is to enable the Secured Creditor to exercise its rights and remedies under Article 3 and for no other purpose.

Section 2.6 Care and Custody of Collateral.

- (1) The Secured Creditor has no obligation to keep Collateral in its possession identifiable.
- (2) The Secured Creditor may, after the Security Interest is enforceable, (i) notify any Person obligated on an Instrument, Security or account to make payments to the Secured Creditor, whether or not the Obligor was previously making collections on such accounts, chattel paper, instruments, and (ii) assume control of any proceeds arising from the Collateral.
- (3) The Secured Creditor has no obligation to collect dividends, distributions or interest payable on, or exercise any option or right in connection with, any Securities or Instruments. The Secured Creditor has no obligation to protect or preserve any Securities or Instruments from depreciating in value or becoming worthless and is released from all responsibility for any loss of

value. In the physical keeping of any Securities, the Secured Creditor is only obliged to exercise the same degree of care as it would exercise with respect to its own Securities kept at the same place.

Section 2.7 Rights of the Obligor.

- (1) Until the Security Interest is enforceable, the Obligor is entitled to vote the Securities that are part of the Collateral and to receive all dividends and distributions on such Securities. In order to allow the Obligor to vote any Securities registered in the Secured Creditor's name or the name of its nominee, at the request and the expense of the Obligor, the Secured Creditor will, prior to the Security Interest being enforceable, and may, after the Security Interest is enforceable, execute valid proxies appointing proxyholders to attend and act at meetings of shareholders, and execute resolutions in writing, all pursuant to the relevant provisions of the issuer's governing legislation. Whenever the Security Interest is enforceable, all rights of the Obligor to vote (under any proxy given by the Secured Creditor (or its nominee) or otherwise) or to receive distributions or dividends cease and all such rights become vested solely and absolutely in the Secured Creditor.
- (2) Any distributions or dividends received by the Obligor contrary to Section 2.7(1) or any other moneys or property received by the Obligor after the Security Interest is enforceable will be received as trustee for the Secured Creditor and shall be immediately paid over to the Secured Creditor.

Section 2.8 Expenses.

The Obligor is liable for and will pay on demand by the Secured Creditor any and all Expenses.

**ARTICLE 3
ENFORCEMENT**

Section 3.1 Enforcement.

The Security Interest becomes and is enforceable against the Obligor upon the occurrence and during the continuance of an Event of Default.

Section 3.2 Remedies.

Whenever the Security Interest is enforceable, the Secured Creditor may realize upon the Collateral and enforce the rights of the Secured Creditor by:

- (a) entry onto any premises where Collateral consisting of tangible personal property may be located;

- (b) entry into possession of the Collateral by any method permitted by law;
 - (c) sale, grant of options to purchase, or lease of all or any part of the Collateral;
 - (d) holding, storing and keeping idle or operating all or any part of the Collateral;
 - (e) exercising and enforcing all rights and remedies of a holder of the Securities and Instruments as if the Secured Creditor were the absolute owner thereof (including, if necessary, causing the Collateral to be registered in the name of the Secured Creditor or its nominee if not already done);
 - (f) collection of any proceeds arising in respect of the Collateral;
 - (g) collection, realization or sale of, or other dealing with, accounts;
 - (h) license or sublicense, whether on an exclusive or nonexclusive basis, of any Intellectual Property for such term and on such conditions and in such manner as the Secured Creditor in its sole judgment determines (taking into account such provisions as may be necessary to protect and preserve such Intellectual Property);
 - (i) instruction to any bank which has entered into a control agreement with the Secured Creditor to transfer all moneys, Securities and Instruments held by such depository bank to an account maintained with or by the Secured Creditor;
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- (j) application of any moneys constituting Collateral or proceeds thereof in accordance with Section 5.11;
 - (k) appointment by instrument in writing of a receiver (which term as used in this Agreement includes a receiver and manager) or agent of all or any part of the Collateral and removal or replacement from time to time of any receiver or agent;
 - (l) institution of proceedings in any court of competent jurisdiction for the appointment of a receiver of all or any part of the Collateral;
 - (m) institution of proceedings in any court of competent jurisdiction for sale or foreclosure of all or any part of the Collateral;

- (n) filing of proofs of claim and other documents to establish claims to the Collateral in any proceeding relating to the Obligor; and
- (o) any other remedy or proceeding authorized or permitted under the *Personal Property Security Act* (Ontario) or otherwise by law or equity.

Section 3.3 Additional Rights.

In addition to the remedies set forth in Section 3.2 and elsewhere in this Agreement, whenever the Security Interest is enforceable, the Secured Creditor may:

- (a) require the Obligor, at the Obligor's expense, to assemble the Collateral at a place or places designated by notice in writing and the Obligor agrees to so assemble the Collateral immediately upon receipt of such notice;
- (b) require the Obligor, by notice in writing, to disclose to the Secured Creditor the location or locations of the Collateral and the Obligor agrees to promptly make such disclosure when so required;
- (c) repair, process, modify, complete or otherwise deal with the Collateral and prepare for the disposition of the Collateral, whether on the premises of the Obligor or otherwise;
- (d) redeem any prior security interest against any Collateral, procure the transfer of such security interest to itself, or settle and pass the accounts of the prior mortgagee, chargee or encumbrancer (any accounts to be conclusive and binding on Obligor);
- (e) pay any liability secured by any Lien against any Collateral (the Obligor will immediately on demand reimburse the Secured Creditor for all such payments);
- (f) carry on all or any part of the business of the Obligor and, to the exclusion of all others including the Obligor, enter upon, occupy and use all or any of the premises, buildings, and other property of or used by the Obligor for such time as the Secured Creditor sees fit, free of charge, and the Secured Creditor is not liable to the Obligor for any act, omission or negligence in so doing or for any rent, charges, depreciation or damages incurred in connection with or resulting from such action;
- (g) borrow for the purpose of carrying on the business of the Obligor or for the maintenance, preservation or protection of the Collateral and

grant a security interest in the Collateral, whether or not in priority to the Security Interest, to secure repayment;

- (h) commence, continue or defend any judicial or administrative proceedings for the purpose of protecting, seizing, collecting, realizing or obtaining possession or payment of the Collateral; and give good and valid receipts and discharges in respect of the Collateral and compromise or give time for the payment or performance of all or any part of the accounts or any other obligation of any third party to the Obligor; and
- (i) at any public sale, and to the extent permitted by law on any private sale, bid for and purchase any or all of the Collateral offered for sale and upon compliance with the terms of such sale, hold, retain and dispose of such Collateral without any further accountability to the Obligor or any other Person with respect to such holding, retention or disposition, except as required by law. In any such sale to the Secured Creditor, the Secured Creditor may, for the purpose of making payment for all or any part of the Collateral so purchased, use any claim for Secured Obligations then due and payable to it as a credit against the purchase price.

Section 3.4 Exercise of Remedies.

The remedies under Section 3.2 and Section 3.3 may be exercised from time to time separately or in combination and are in addition to, and not in substitution for, any other rights of the Secured Creditor however arising or created. The Secured Creditor is not bound to exercise any right or remedy, and the exercise of rights and remedies is without prejudice to the rights of the Secured Creditor in respect of the Secured Obligations including the right to claim for any deficiency.

Section 3.5 Receiver's Powers.

- (1) Any receiver appointed by the Secured Creditor is vested with the rights and remedies which could have been exercised by the Secured Creditor in respect of the Obligor or the Collateral and such other powers and discretions as are granted in the instrument of appointment and any supplemental instruments. The identity of the receiver, its replacement and its remuneration are within the sole and unfettered discretion of the Secured Creditor.
- (2) Any receiver appointed by the Secured Creditor will act as agent for the Secured Creditor for the purposes of taking possession of the Collateral, but otherwise and for all other purposes (except as provided below), as agent for the Obligor. The receiver may sell, lease, or otherwise dispose of Collateral as agent for the Obligor or as agent for the Secured Creditor as the Secured

Creditor may determine in its discretion. The Obligor agrees to ratify and confirm all actions of the receiver acting as agent for the Obligor, and to release and indemnify the receiver in respect of all such actions.

- (3) The Secured Creditor, in appointing or refraining from appointing any receiver, does not incur liability to the receiver, the Obligor or otherwise and is not responsible for any misconduct or negligence of such receiver.

Section 3.6 Appointment of Attorney.

The Obligor hereby irrevocably constitutes and appoints the Secured Creditor (and any officer of the Secured Creditor) the true and lawful attorney of the Obligor. As the attorney of the Obligor, the Secured Creditor has the power to exercise for and in the name of the Obligor with full power of substitution, upon the occurrence and during the continuance of an Event of Default, any of the Obligor's right (including the right of disposal), title and interest in and to the Collateral including the execution, endorsement, delivery and transfer of the Collateral to the Secured Creditor, its nominees or transferees, and the Secured Creditor and its nominees or transferees are hereby empowered to exercise all rights and powers and to perform all acts of ownership with respect to the Collateral to the same extent as the Obligor might do. This power of attorney is irrevocable, is coupled with an interest, has been given for valuable consideration (the receipt and adequacy of which is acknowledged) and survives, and does not terminate upon, the bankruptcy, dissolution, winding up or insolvency of the Obligor. This power of attorney extends to and is binding upon the Obligor's successors and permitted assigns. The Obligor authorizes the Secured Creditor to delegate in writing to another Person any power and authority of the Secured Creditor under this power of attorney as may be necessary or desirable in the opinion of the Secured Creditor, and to revoke or suspend such delegation. The power of attorney granted by the Obligor hereby shall automatically terminate and be of no further force or effect upon the discharge of the Security Interest in accordance with Section 5.2 hereof.

Section 3.7 Dealing with the Collateral.

- (1) The Secured Creditor is not obliged to exhaust its recourse against the Obligor or any other Person or against any other security it may hold in respect of the Secured Obligations before realizing upon or otherwise dealing with the Collateral in such manner as the Secured Creditor may consider desirable.
- (2) The Secured Creditor may grant extensions or other indulgences, take and give up securities, accept compositions, grant releases and discharges and otherwise deal with the Obligor and with other Persons, sureties or securities as it may see fit without prejudice to the Secured Obligations, the liability of the Obligor or the rights of the Secured Creditor in respect of the Collateral.

- (3) Except as otherwise provided by law or this Agreement, the Secured Creditor is not (i) liable or accountable for any failure to collect, realize or obtain payment in respect of the Collateral, (ii) bound to institute proceedings for the purpose of collecting, enforcing, realizing or obtaining payment of the Collateral or for the purpose of preserving any rights of any Persons in respect of the Collateral, (iii) responsible for any loss occasioned by any sale or other dealing with the Collateral or by the retention of or failure to sell or otherwise deal with the Collateral, or (iv) bound to protect the Collateral from depreciating in value or becoming worthless.

Section 3.8 Standards of Sale.

Without prejudice to the ability of the Secured Creditor to dispose of the Collateral in any manner which is commercially reasonable, the Obligor acknowledges that:

- (a) the Collateral may be disposed of in whole or in part;
- (b) the Collateral may be disposed of by public auction, public tender or private contract, with or without advertising and without any other formality;
- (c) any assignee of such Collateral may be the Secured Creditor or a customer of any such Person;
- (d) any sale conducted by the Secured Creditor will be at such time and place, on such notice and in accordance with such procedures as the Secured Creditor, in its sole discretion, may deem advantageous;
- (e) ~~the Collateral may be disposed of in any manner and on any terms necessary to avoid violation of applicable law (including compliance with such procedures as may restrict the number of prospective bidders and purchasers, require that the prospective bidders and purchasers have certain qualifications, and restrict the prospective bidders and purchasers to Persons who will represent and agree that they are purchasing for their own account for investment and not with a view to the distribution or resale of the Collateral) or in order to obtain any required approval of the disposition (or of the resulting purchase) by any governmental or regulatory authority or official;~~
- (f) a disposition of the Collateral may be on such terms and conditions as to credit or otherwise as the Secured Creditor, in its sole discretion, may deem advantageous; and

- (g) the Secured Creditor may establish an upset or reserve bid or price in respect of the Collateral.

Section 3.9 Dealings by Third Parties.

- (1) No Person dealing with the Secured Creditor or an agent or receiver is required to determine (i) whether the Security Interest has become enforceable, (ii) whether the powers which such Person is purporting to exercise have become exercisable, (iii) whether any money remains due to the Secured Creditor by the Obligor, (iv) the necessity or expediency of the stipulations and conditions subject to which any sale or lease is made, (v) the propriety or regularity of any sale or other dealing by the Secured Creditor with the Collateral, or (vi) how any money paid to Secured Creditor has been applied.
- (2) Any bona fide purchaser of all or any part of the Collateral from the Secured Creditor or any receiver or agent will hold the Collateral absolutely, free from any claim or right of whatever kind, including any equity of redemption, of the Obligor, which it specifically waives (to the fullest extent permitted by law) as against any such purchaser together with all rights of redemption, stay or appraisal which the Obligor has or may have under any rule of law or statute now existing or hereafter adopted.

ARTICLE 4 REPRESENTATIONS, WARRANTIES AND COVENANTS

Section 4.1 General Representations, Warranties and Covenants.

The Obligor represents and warrants and covenants and agrees, acknowledging and confirming that the Secured Creditor is relying on such representations, warranties, covenants and agreements, that:

- (a) **Continuous Perfection.** Schedule C sets out the Obligor's place of business or, if more than one, the Obligor's chief executive office. Such place of business or chief executive office, as the case may be, has been located at such address for the 60 days immediately preceding the date of this Agreement. Schedule C also sets out the address at which the books and records of the Obligor are located, the address at which senior management of the Obligor are located and conduct their deliberations and make their decisions with respect to the business of the Obligor and the address from which the invoices and accounts of the Obligor are issued. The Obligor will not change the location of any of these items, people or addresses without providing at least 30 days prior written notice to the Secured Creditor. Except for sales of

inventory made in the ordinary course of business, the Collateral, to the extent not delivered to the Collateral Agent pursuant to Section 2.3(3), has been kept for the 60 days immediately preceding the date of this Agreement and will be kept at those locations listed on Schedule C, and the Obligor will not remove the Collateral from such locations, without providing at least 30 days prior written notice to the Secured Creditor. The Obligor will not change its name in any manner without providing at least 30 days prior written notice to the Secured Creditor.

- (b) **Restriction on Disposition.** The Obligor will not sell, assign, convey, exchange, lease, release or abandon, or otherwise dispose of, any Collateral except as expressly permitted in the Secured Debenture.
- (c) **Negative Pledge.** The Obligor will not create or suffer to exist, any Lien on the Collateral, except for Liens permitted by the Secured Debenture.
- (d) **Account Debtors.** None of the account debtors in respect of any accounts, chattel paper or intangibles and none of the obligors in respect of any Instruments included in the Collateral as of the date hereof is (i) a Governmental Entity, or (ii) in the case of any account in excess of \$100,000, is located outside of Canada or the United States of America.
- (e) **Securities and Instruments.**
 - (i) Schedule A lists all Securities and Instruments owned or held by the Obligor on the date of this Agreement and all such Securities are represented by certificated securities.
 - (ii) Securities that are Collateral have been, where applicable, duly and validly issued and acquired and are fully paid and non-assessable. Schedule A sets out, for each class of Securities listed in the schedule, the percentage amount that such Securities represent of all issued and outstanding Securities of that class.
 - (iii) Except as described in Schedule A, no transfer restrictions apply to the Securities and Instruments listed in Schedule A. The Obligor has delivered to the Secured Creditor copies of all shareholder, partnership or trust agreements applicable to each issuer of such Securities and Instruments which are in the Obligor's possession or control.

- (iv) No Person has or will have any written or oral option, warrant, right, call, commitment, conversion right, right of exchange or other agreement or any right or privilege (whether by law, preemptive or contractual) capable of becoming an option, warrant, right, call, commitment, conversion right, right of exchange or other agreement to acquire any right or interest in any of the Securities and Instruments that are Collateral.
 - (v) The Securities that are Collateral constitute, where applicable, the legal, valid and binding obligation of the obligor of such Securities, enforceable in accordance with their terms, subject only to any limitation under applicable laws relating to (i) bankruptcy, insolvency, fraudulent conveyance, arrangement, reorganization or creditors' rights generally, and (ii) the discretion that a court may exercise in the granting of equitable remedies.
 - (vi) The pledge, assignment and delivery to the Secured Creditor of the Collateral consisting of certificated Securities pursuant to this Agreement creates a valid and perfected first ranking security interest in such certificated Securities, and the proceeds of them. Such Securities and the proceeds from them are not subject to any prior Lien or any agreement purporting to grant to any third party a Lien on the property or assets of the Obligor which would include the Securities except for Permitted Encumbrances. The Secured Creditor is entitled to all the rights, priorities and benefits afforded by the *Personal Property Security Act* (Ontario) or other relevant personal property security legislation as enacted in any relevant jurisdiction to perfect security interests in respect of such Collateral.
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- (f) **Status of Accounts Collateral.** The Obligor will maintain books and records pertaining to the Collateral in such detail, form and scope as the Secured Creditor reasonably requires, and keep all originals of the chattel paper which evidence accounts at locations specified on Schedule B. The Obligor will immediately notify the Secured Creditor if any account in excess of \$500,000 arises out of contracts with any Governmental Entity, and execute any instruments and take any steps required by the Secured Creditor in order that all moneys due or to become due under the contract are assigned to the Secured Creditor and notice of such assignment is given to the Governmental Entity. The Obligor will also immediately notify the Secured Creditor if any

account in excess of \$500,000 is with an account debtor located outside of Canada or the United States of America.

- (g) **Additional Security Perfection and Protection of Security Interest.** The Obligor will grant to the Secured Creditor, security interests, assignments, mortgages, charges, hypothecations and pledges in such property and undertaking of the Obligor that is not subject to a valid and perfected first ranking security interest (subject only to Permitted Liens) constituted by the Security Documents, in each relevant jurisdiction as determined by the Secured Creditor. The Obligor will perform all acts, execute and deliver all agreements, documents and instruments and take such other steps as are requested by the Secured Creditor at any time to register, file, signify, publish, perfect, maintain, protect, and enforce the Security Interest including: (i) executing, recording and filing of financing or other statements, and paying all taxes, fees and other charges payable, (ii) placing notations on its books of account to disclose the Security Interest, (iii) delivering acknowledgements, confirmations and subordinations that may be necessary to ensure that the Security Documents constitute a valid and perfected first ranking security interest (subject only to Permitted Liens), (iv) executing and delivering any agreements, documents and instruments that may be needed under or in connection with the *Securities Transfer Act* (Ontario) and (v) delivering opinions of counsel in respect of matters contemplated by this paragraph. The documents and opinions contemplated by this paragraph must be in form and substance satisfactory to the Secured Creditor.

Section 4.2 Representations, Warranties and Covenants Concerning Intellectual Property.

The Obligor represents and warrants and covenants and agrees, acknowledging and confirming that the Secured Creditor is relying on such representations, warranties, covenants and agreements, that:

- (a) Schedule B lists all Registrable Intellectual Property that is owned by the Obligor on the date of this Agreement.
- (b) All Registrable Intellectual Property of the Obligor is valid, subsisting, unexpired and enforceable, has not been abandoned and, to the knowledge of the Obligor, does not infringe the Intellectual Property rights of any other Person.

- (c) No decision or judgment has been rendered by any Governmental Entity which would limit, cancel or question the validity of, or the Obligor's rights in, any Intellectual Property in any respect.
 - (d) No action or proceeding is pending, or, to the knowledge of the Obligor, threatened, on the date hereof seeking to limit, cancel or question the validity of any Intellectual Property or the Obligor's ownership interest therein, or which, if adversely determined, would have a Material adverse effect on the value of any Intellectual Property.
 - (e) The Obligor will take all reasonable and necessary steps, including in any proceeding before the Canadian Intellectual Property Office or any similar Governmental Entity of any jurisdiction, to maintain and pursue each application (and to obtain the relevant registration) and to maintain each registration of the material Registrable Intellectual Property, including, without limitation, filing of applications for renewal, affidavits of use and affidavits of incontestability.
 - (f) In the event that any material Intellectual Property of the Obligor is infringed, misappropriated or diluted by a third party, the Obligor will (i) take such actions as the Obligor reasonably deems appropriate under the circumstances to protect such Intellectual Property and (ii) if such Intellectual Property is of material economic value, promptly notify the Secured Creditor after it learns thereof and sue for infringement, misappropriation or dilution, to seek injunctive relief where appropriate and to recover any and all damages for such infringement, misappropriation or dilution.
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- (g) Immediately upon the request of the Secured Creditor, the Obligor will furnish the Secured Creditor in writing the description of all Registrable Intellectual Property or applications for Registrable Intellectual Property of the Obligor. In addition, the Obligor will deliver to the Secured Creditor a copy of the certificate of registration of, or application for, such Registrable Intellectual Property with a Confirmation of Security Interest in the form of Schedule D in respect of such Registrable Intellectual Property confirming the assignment for security of such Registrable Intellectual Property to the Secured Creditor and immediately make all such filings, registrations and recordings as are necessary or appropriate to perfect the Security Interest granted to the Secured Creditor in the Registrable Intellectual Property.

**ARTICLE 5
GENERAL**

Section 5.1 Notices.

Any notice, direction or other communication (each a "Notice") given regarding the matters contemplated by this Agreement must be in writing, sent by personal delivery, courier or facsimile (but not by electronic mail) and addressed:

(a) to the Secured Creditor at:

WF Fund III Limited Partnership
161 Bay Street
Suite 2520
Toronto, ON M5J 2S1

Attention: Mark McQueen
Facsimile: 416-682-1160

with a copy to:

Minden Gross LLP
145 King Street West
Suite 2200
Toronto, ON M5H 4G2

Attention: Daniel Rothberg
Facsimile: 416-864-9223

(b) to the Obligor at:

FNP Ventures Inc.
#100 - 2079 Falcon Road
Kamloops, BC V2C 4J2
Attention: Mr. Milan Soucek
Facsimile: (250) 372-1555

A Notice is deemed to be delivered and received (i) if sent by personal delivery, on the date of delivery if it is a Business Day and the delivery was made prior to 4:00 p.m. (local time in place of receipt) and otherwise on the next Business Day, (ii) if sent by same-day service courier, on the date of delivery if sent on a Business Day and delivery was made prior to 4:00 p.m. (local time in place of receipt) and otherwise on the next Business Day, (iii) if sent by overnight courier, on the next Business Day, or (iv) if sent by facsimile, on the Business Day following the date of

confirmation of transmission by the originating facsimile. A party may change its address for service from time to time by providing a Notice in accordance with the foregoing. Any subsequent Notice must be sent to the party at its changed address. Any element of a party's address that is not specifically changed in a Notice will be assumed not to be changed.

Section 5.2 Discharge.

The Security Interest will not be discharged except by a written release or discharge signed by the Secured Creditor. The Obligor will be entitled to require a discharge by notice to the Secured Creditor upon, but only upon, (i) full and indefeasible payment and performance of the Secured Obligations and (ii) the Secured Creditor having no obligations under any Credit Document. Upon discharge of the Security Interest and at the request and expense of the Obligor, the Secured Creditor will execute and deliver to the Obligor such financing statements and other documents or instruments as the Obligor may reasonably require and the Secured Creditor will redeliver to the Obligor, or as the Obligor may otherwise direct the Secured Creditor, any Collateral in its possession.

Section 5.3 No Merger, Survival of Representations and Warranties.

This Agreement does not operate by way of merger of any of the Secured Obligations and no judgment recovered by the Secured Creditor will operate by way of merger of, or in any way affect, the Security Interest, which is in addition to, and not in substitution for, any other security now or hereafter held by the Secured Creditor in respect of the Secured Obligations. The representations, warranties and covenants of the Obligor in this Agreement survive the execution and delivery of this Agreement and any advances under the Secured Debenture. Notwithstanding any investigation made by or on behalf of the Secured Creditor these covenants, ~~representations and warranties continue in full force and effect.~~

Section 5.4 Further Assurances.

The Obligor will do all acts and things and execute and deliver, or cause to be executed and delivered, all agreements, documents and instruments that the Secured Creditor may require and take all further steps relating to the Collateral or any other property or assets of the Obligor that the Secured Creditor may require, including any agreements, documents or instruments required under or in connection with the *Securities Transfer Act* (Ontario) for (i) protecting the Collateral, (ii) perfecting the Security Interest, and (iii) exercising all powers, authorities and discretions conferred upon the Secured Creditor. After the Security Interest becomes enforceable, the Obligor will do all acts and things and execute and deliver all documents and instruments that the Secured Creditor may require for facilitating the sale or other disposition of the Collateral in connection with its realization.

Section 5.5 Supplemental Security.

This Agreement is in addition to, without prejudice to and supplemental to all other security now held or which may hereafter be held by the Secured Creditor.

Section 5.6 Successors and Assigns.

This Agreement is binding on the Obligor and its successors and assigns, and enures to the benefit of the Secured Creditor and its successors and assigns. This Agreement may be assigned by the Secured Creditor without the consent of, or notice to, the Obligor, to such Person as the Secured Creditor may determine and, in such event, such Person will be entitled to all of the rights and remedies of the Secured Creditor as set forth in this Agreement or otherwise. In any action brought by an assignee to enforce any such right or remedy, the Obligor will not assert against the assignee any claim or defence which the Obligor now has or may have against the Secured Creditor. The Obligor may not assign, transfer or delegate any of its rights or obligations under this Agreement without the prior written consent of the Secured Creditor which may be unreasonably withheld.

Section 5.7 Amalgamation.

The Obligor acknowledges and agrees that in the event it amalgamates with any other corporation or corporations, it is the intention of the parties that the Security Interest (i) subject to Section 2.4, extends to: (A) all of the property and undertaking that any of the amalgamating corporations then owns, (B) all of the property and undertaking that the amalgamated corporation thereafter acquires, (C) all of the property and undertaking in which any of the amalgamating corporations then has any interest and (D) all of the property and undertaking in which the amalgamated corporation thereafter acquires any interest; and (ii) secures the payment and performance of all debts, liabilities and obligations, present or future, ~~direct or indirect, absolute or contingent, matured or unmatured, at any time or from time to time due or accruing due and owing by or otherwise payable by each of the amalgamating corporations and the amalgamated corporation to the Secured Creditor in any currency, however or wherever incurred, and whether incurred alone or jointly with another or others and whether as principal, guarantor or surety and whether incurred prior to, at the time of or subsequent to the amalgamation.~~ The Security Interest attaches to the additional collateral at the time of amalgamation and to any collateral thereafter owned or acquired by the amalgamated corporation when such becomes owned or is acquired. Upon any such amalgamation, the defined term "Obligor" means, collectively, each of the amalgamating corporations and the amalgamated corporation, the defined term "Collateral" means all of the property and undertaking and interests described in (i) above, and the defined term "Secured Obligations" means the obligations described in (ii) above.

Section 5.8 Severability.

If any court of competent jurisdiction from which no appeal exists or is taken, determines any provision of this Agreement to be illegal, invalid or unenforceable, that provision will be severed from this Agreement and the remaining provisions will remain in full force and effect.

Section 5.9 Amendment.

This Agreement may only be amended, supplemented or otherwise modified by written agreement executed by the Secured Creditor and the Obligor.

Section 5.10 Waivers, etc.

- (1) No consent or waiver by the Secured Creditor in respect of this Agreement is binding unless made in writing and signed by an authorized officer of the Secured Creditor. Any consent or waiver given under this Agreement is effective only in the specific instance and for the specific purpose for which given. No waiver of any of the provisions of this Agreement constitutes a waiver of any other provision.
- (2) A failure or delay on the part of the Secured Creditor in exercising a right under this Agreement does not operate as a waiver of, or impair, any right of the Secured Creditor however arising. A single or partial exercise of a right on the part of the Secured Creditor does not preclude any other or further exercise of that right or the exercise of any other right by the Secured Creditor.

Section 5.11 Application of Proceeds of Security.

All monies collected by the Secured Creditor upon the enforcement of its ~~rights and remedies under the Security Documents and the Liens created by them~~ including any sale or other disposition of the Collateral, together with all other monies received by the Secured Creditor under the Security Documents, will be applied as provided in the Secured Debenture. To the extent any other Credit Document requires proceeds of collateral under such Credit Document to be applied in accordance with the provisions of this Agreement, the Secured Creditor shall apply such proceeds in accordance with this Section.

Section 5.12 Conflict.

In the event of any conflict between one or more provisions of this Agreement, the provisions of the Secured Debenture and the provisions of the Operating Loan Agreement which cannot be resolved by all such provisions being complied with, the provisions contained in the Secured Debenture will prevail to the extent of such conflict.

Section 5.13 Governing Law.

This Agreement will be governed by, interpreted and enforced in accordance with the laws of the Province of Ontario and the federal laws of Canada applicable therein.

Section 5.14 Termination, Survival.

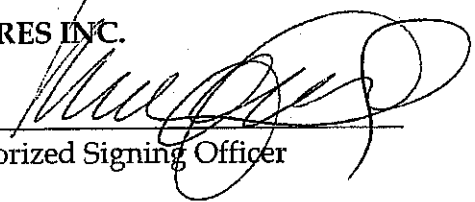
Upon discharge of the Security Interest pursuant to Section 5.2 hereof, this Agreement shall automatically terminate. The provisions of Article 5 shall survive any termination of this Agreement.

IN WITNESS WHEREOF the Obligor has executed this Agreement.

FNP VENTURES INC.

Per: _____

Authorized Signing Officer



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