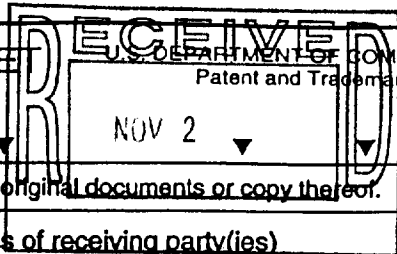


11-05-1998



SHEET 1



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Tab settings 11/2/98

To the Honorable Commissioner of Patents and Trademarks, please return the attached original documents or copy thereof.

1. Name of conveying party(ies):

Toon Boom Technologies U.S.A. Inc.

- Individual(s)
- General Partnership
- Corporation-State Delaware
- Other
- Association
- Limited Partnership

Additional name(s) of conveying party(ies) attached? Yes No

3. Nature of conveyance:

- Assignment
- Security Agreement
- Other
- Merger
- Change of Name

Execution Date: October 9, 1998

2. Name and address of receiving party(ies)

Montreal Trust Company/Compagnie
Name: Montreal Trust, as Collateral Agent

Internal Address:
Street Address: 1800 McGill College Avenue
5th floor
City: Montreal (Quebec) State: CANADA ZIP: H3A 3K9

- Individual(s) citizenship
- Association
- General Partnership
- Limited Partnership
- Corporation-State
- Other Trust Company under the Trust and

Loan Companies Act, Canada
If assignee is not domiciled in the United States, a domestic representative designation is attached: Yes No

(Designations must be a separate document from assignment)
Additional name(s) & address(es) attached? Yes No

4. Application number(s) or patent number(s):

A. Trademark Application No.(s)

74/695713

B. Trademark Registration No.(s)

Additional numbers attached? Yes No

11/04/1998 SPURNS 00000175 74695713

5. Name and address of party to whom correspondence concerning document should be mailed:

Name: USDigimation LLC

Internal Address: c/o Keystone Consulting Group, Inc.

Street Address: 7 Smedley Drive

City: Newton Square State: PA ZIP: 19073

6. Total number of applications and registrations involved: 1

7. Total fee (37 CFR 3.41).....\$ 40.00

- Enclosed
- Authorized to be charged to deposit account

8. Deposit account number:

(Attach duplicate copy of this page if paying by deposit account)

DO NOT USE THIS SPACE

9. Statement and signature.

To the best of my knowledge and belief, the foregoing information is true and correct and any attached copy is a true copy of the original document.

Laura M. de Petra
Name of Person Signing

Laura de Petra
Signature

10/29/98
Date

Total number of pages including cover sheet, attachments, and document:

Re: Trademark Application No. 74/695713
Security Agreement dated as of October 9, 1998, in
favor of Montreal Trust Company/Compagnie Montreal
Trust, as Collateral Agent

DOMESTIC REPRESENTATIVE

USDigimation LLC*, whose postal address is c/o Keystone
Consulting Group, Inc., 7 Smedley Drive, Newton Square, PA 19073,
shall be the receiving party's representative upon whom notices
or process in proceedings affecting the mark may be served.
Please direct all communications pertaining to this recordation
to:

USDigimation LLC*
c/o Keystone Consulting Group, Inc.
7 Smedley Drive
Newton Square, PA 19073

For: Montreal Trust Company/Compagnie Montreal Trust

Montreal Trust Company/Compagnie Montreal Trust,
as Collateral Agent

By: Rosemarie Labbe G. L'Espérance
Name: ROSE-MARIE LABBÉ G. L'ESPÉRANCE
Title: Trust Officer Manager, Client Servicing

Agreed and Accepted:

USDigimation LLC*

By: Keystone Consulting Group, Inc.
Its: Manager

By: Charles Smith
Name: Charles Smith
Title: President

* as representative of the former shareholders
of USAnimation, Inc.

This SECURITY AGREEMENT is made and entered into as of October 9, 1998, by and between Montreal Trust Company/Compagnie Montreal Trust, a trust company continued and subsisting as such under the provisions of the Trust and Loan Companies Act, Canada, as the Collateral Agent (the "Collateral Agent") for the persons and entities listed on Exhibit 1 hereto (each a "Holder"), and Toon Boom Technologies U.S.A. Inc., a Delaware corporation ("Debtor"), and is made with reference to the following facts:

A. Debtor, Toon Boom Technologies Inc., a Canadian corporation ("Parent"), Keystone Consulting Group, a Delaware corporation ("Keystone"), USDigimation, LLC, a Delaware limited liability company ("USD"), Digital Editions, Inc., a California corporation ("DEI"), Capital Communications CDPQ Inc., a corporation incorporated under the laws of Quebec, Fonds d'investissement de la Culture et des Communications, societe en commandite, a limited partnership duly constituted under the laws of Quebec, Societe Innovatech du Grand Montreal, a legal person duly formed under an Act Respecting the Societe Innovatech du Grand Montreal and Business Development Bank of Canada, a bank duly formed under an Act Respecting the Business Development Bank of Canada have entered into that certain Restructuring Agreement dated as of August 24, 1998 the ("Restructuring Agreement");

B. Pursuant to an Agreement and Plan of Merger and Reorganization (the "Merger Agreement") by and between Parent, Debtor and TBT Acquisition Corporation, a Delaware corporation ("TBT-Sub"), Merger Consideration (as such term is defined in the Merger Agreement), is issuable to each of the Holders. Such Merger Consideration includes cash, stock and an amount in cash evidenced by Promissory Notes. Parent is required to execute and deliver Promissory Notes in the amounts set forth next to each Holder's name listed on Exhibit 1 hereto (each a "Promissory Note", collectively the "Promissory Notes"), dated as of even date herewith, in the aggregate principal amount of US\$900,000.00 as adjusted as set forth in the Restructuring Agreement.

C. In connection with the issuance of the Merger Consideration, a guaranty in favor of the Collateral Agent and the Holders has been issued by Debtor to guaranty the payment and delivery to the Holders by Parent of the Merger Consideration (the "Guaranty").

D. Debtor has entered into security agreements (the "Parent Investors' Security Agreements") with Capital Communications CDPQ Inc., a corporation incorporated under the laws of Quebec, Fonds d'investissement de la Culture et des Communications, societe en commandite, a limited partnership duly constituted under the laws of Quebec, Societe Innovatech du Grand Montreal, a legal person duly formed under an Act Respecting the Societe Innovatech du Grand Montreal and Business Development Bank of Canada, a bank duly formed under an Act Respecting the Business Development of Canada (collectively, the "Parent Investors") on substantially the same terms set forth herein securing the guarantees dated August 27, 1998 in favor of the Parent Investors (the "Parent Investors Guarantees") issued by Debtor to guaranty the payment by Parent of certain debentures issued to the Parent Investors granting the Parent Investors a security interest in the Collateral as herein

described. Such security interest is governed by that certain Intercreditor Agreement (as defined in Section 3.2 below).

E. Debtor will derive substantial direct and indirect benefits from the payment of the Merger Consideration, including, among other benefits, the relief of Debtor of certain obligations owed to the Holders (which benefits are hereby acknowledged by Debtor).

F. As security for the Guaranty and for certain other obligations of Debtor set forth in Section 2 below, and pursuant to the terms and conditions of the Restructuring Agreement, the Merger Agreement and the Intercreditor Agreement, Debtor has agreed to grant the Collateral Agent, for the benefit of the Holders, a security interest in the Collateral hereinafter described.

G. All capitalized terms used herein but not otherwise defined herein shall have the meanings ascribed to them in the Restructuring Agreement.

NOW, THEREFORE, in consideration of the foregoing and the mutual promises and agreements hereinafter contained, the parties hereto hereby agree as follows:

1. Grant of Security Interest. Debtor hereby grants to the Collateral Agent and its successors, endorsees and assignees, for the benefit of the Holders and their respective successors, endorsees, hypothecates and assigns, a continuing security interest and hypothec in all of its right, title and interest in and to the following described property, whether now owned or existing or hereafter arising or acquired and wherever located, together with any and all proceeds, increases, substitutions, replacements, repairs, additions and accessions thereof and thereto, all of the foregoing being hereinafter collectively referred to as the "Collateral." For the purposes of the laws of the Province of Quebec, the amount of the hypothec constituted hereby is US\$900,000 plus interest thereon at the rate of 15% per annum. With respect to each particular item of Collateral, the security interest and hypothec herein granted shall attach immediately upon Debtor's execution hereof or as soon as Debtor acquires rights in and to such item of Collateral, whichever is later:

(a) all accounts, accounts receivable, contract rights, rights to payment, chattel paper, letters of credit, documents, securities, money and instruments, and investment property, whether held directly or through a securities intermediary, and other obligations of any owed to Debtor, however evidenced;

(b) all deposits and deposit accounts with any bank, savings and loan association, credit union or like organization, and all funds and amounts therein, and whether or not held in trust, or in custody or safekeeping, or otherwise restricted or designated for a particular purpose;

(c) all inventory, including, without limitation, all materials, raw materials, parts, components, work in progress, finished goods, merchandise, supplies, and

all other goods which are held for sale, lease or other disposition or furnished under contracts of service or consumed in Debtor's business, including, without limitation, those held for display or demonstration or out on lease or consignment;

(d) all equipment, including, without limitation, all machinery, furniture, furnishings, fixtures, trade fixtures, tools, parts and supplies, automobiles, trucks, tractors and other vehicles, appliances, computer and other electronic data processing software, and all additions, substitutions, replacements, parts, accessories, and accessions to and for the foregoing;

(e) all intangible properties of Debtor or in which Debtor has any interest (including the right to use) including, without limitation; (i) Debtor's name and all trademarks, service marks and trade names including without limitation, those listed on Schedule A; (ii) all statutory common law and registered copyrights and mask work rights, and all applications for the registration thereof including, without limitation, those listed on Schedule B; (iii) all patents and patent applications, including, without limitation, those listed on Schedule C; (iv) all "software" and "firmware", and any part thereof, and all documentation thereof (including, without limitation, all electronic data processing systems and program specifications, source codes, object codes, routines, microcodes, input data and report layouts and formats, record file layouts, outlines, documentation, diagrams, specifications and narrative descriptions and flow charts); (v) all other inventions, discoveries, improvements, processes, formulas (secret or otherwise), algorithms, trade secrets, information, know-how and ideas (including those in the possession of third parties, but that are the property of Debtor), and all goodwill associated with any of the foregoing (collectively, the "Intangible Property");

(f) All books, records and other written, electronic or other documentation in whatever form maintained by or for Debtor in connection with the ownership of its assets or the conduct of its business or evidencing or containing information relating to the collateral;

(g) Rights to sue for past, present and future infringements of any of the Intangible Property;

(h) The reissues, divisions, continuations, renewals, extensions and continuations-in-part of any of the Intangible Property;

(i) All personal and movable property of the Debtor;

(j) Any and all proceeds, profits and products of any of the foregoing (including without limitation, all insurance and the proceeds thereof, money, goods, accounts, general intangibles, deposit accounts, documents, instruments, chattel paper, and any other tangible or intangible property received in respect of the foregoing) to the extent received upon or in connection with the sale or disposition of any of the Collateral

outside the ordinary course of business, and all rights to condemnation proceeds or the proceeds of any other form of taking thereof, now existing or hereafter arising; and

(k) All rights, remedies, powers and/or privileges of Debtor with respect to any of the foregoing throughout the world.

Notwithstanding the foregoing provisions of this Section 1, the grant of a security interest as provided herein shall not extend to, and the term "Collateral" shall not include, any general intangibles of Debtor (whether owned or held as licensee or lessee, or otherwise), to the extent that (i) such general intangibles are not assignable or capable of being encumbered as a matter of law (but solely to the extent that any such restriction shall be enforceable under applicable law), without the consent of the licensor or lessor thereof or other applicable party thereto and (ii) such consent has not been obtained; provided, however, that the foregoing grant of security interest shall extend to, and the term "Collateral" shall include, (A) any general intangible which is an account receivable or a proceed of, or otherwise related to the enforcement or collection of, any account receivable, or goods which are the subject of any account receivable, (B) any and all proceeds of any general intangibles which are otherwise excluded to the extent that the assignment or encumbrance of such proceeds is not so restricted, and (C) upon obtaining the consent of any such licensor, lessor or other applicable party's consent with respect to any such otherwise excluded general intangibles, such general intangibles as well as any and all proceeds thereof that might have theretofore have been excluded from such grant of a security interest and the term "Collateral."

Anything contained in this Agreement to the contrary notwithstanding, the obligations of the Debtor hereunder shall be limited to a maximum aggregate amount equal to the greatest amount that would not render the Debtor's obligations hereunder subject to avoidance as a fraudulent transfer or conveyance under Section 548 of title 11 of the United States code or any provisions of applicable state law (collectively, the "Fraudulent Transfer Laws"), in each case after giving effect to all other liabilities of the Debtor, contingent or otherwise, that are relevant under the Fraudulent Transfer Laws (specifically excluding, however, any liabilities of the Debtor in respect of intercompany indebtedness to the extent that such indebtedness would be discharged in an amount equal to the amount paid by the Debtor hereunder) and after giving effect as assets to the value (as determined under the applicable provisions of the Fraudulent Transfer Laws) of any rights to subrogation, contribution, reimbursement, indemnity or similar rights of the Debtor pursuant to (x) applicable law or (y) any agreement providing for an equitable allocation by the Debtor of obligation arising under guaranties by the Debtor.

2. Obligations to be Secured. Whether or not recovery upon any of the following secured obligations is now or hereafter becomes barred by any statute of limitations or is now or hereafter becomes otherwise unenforceable, the security interests herein granted shall secure the following (collectively, the "Secured Obligations"):

2.1 Obligations Under the Guaranty and Other Agreements. The prompt and complete payment and performance of each indebtedness, obligation and covenant of (a) the Debtor in favor or for the benefit of the Holders or the Collateral Agent arising under (i) the Guaranty, and any renewals or extensions thereof or amendments thereto, (ii) this Agreement and any renewals or extensions hereof or thereof or amendments hereof; and (iii) any other agreement or instrument now or hereafter evidencing or securing any of the foregoing; and (b) the Parent to pay and deliver the Merger Consideration pursuant to the Merger Agreement and the Restructuring Agreement, including, without limitation, payment of the Promissory Notes to the Holders and to pay and perform its obligations under the General Movable Hypothec executed by the Parent in favor of the Collateral Agent; in each case, whether such indebtedness, obligation or covenant be direct or indirect, joint or several, absolute or contingent, liquidated or unliquidated and whether or not the same be from time to time modified, increased, decreased, or extinguished and later recreated; and including, without limitation, the payment of amounts which would become due but for the operation of the automatic stay under Section 362(a) of the Bankruptcy Code, 11 U.S.C. § 362(a) and interest which, but for the filing of a petition in bankruptcy, would accrue on such obligations;

2.2 Fees and Expenses. The payment and reimbursement of all sums and expenses, including, without limitation, reasonable attorneys' fees, court costs and collection and receivers' expenses, advanced or incurred by the Collateral Agent in connection with the perfection and protection of the security interests herein granted, the preservation or disposition of the Collateral, or any part thereof, or the enforcement by the Collateral Agent of any of the foregoing obligations whether upon default by Debtor or otherwise.

It is the intention of Debtor that the continuing grant of security interests provided for herein shall remain as security for the payment and performance of the Secured Obligations, whether now existing or hereinafter incurred by future advances or otherwise, and whether or not contemplated by the parties at the date hereof. No notice of the continuing grant of such security interests shall be required to be stated on the face of any document representing any Secured Obligation, nor shall it otherwise be necessary to identify any Secured Obligation as being secured hereby. Any Secured Obligation shall be deemed to have been made pursuant to Section 9204 of the Uniform Commercial Code of the State of California.

3. Representations and Warranties of Debtor. Debtor hereby represents and warrants to the Collateral Agent that:

3.1 Title to Collateral. Except for the security interests granted to the Collateral Agent hereby, to the Parent Investors under the Parent Investors Security Agreements, and to Royal Bank of Canada as contemplated by the Intercreditor Agreement (as defined below in Section 3.2) Debtor has, and will at all times during the term hereof have, good and marketable title to all and every part of the Collateral, free and clear of any

mortgage, pledge, lien, security interest, encumbrance, conditional sale contract, lease or other title retention agreement, or any other adverse claim of any nature whatsoever, except as otherwise permitted in Section 5.1 hereof. No effective financing statement or other instrument similar in effect covering all or any part of the Collateral is on file in any recording office, except such as may have been filed in favor of the Collateral Agent, relating to this Security Agreement and in favor of the Parent Investors under the Parent Investors Security Agreements;

3.2 Priority. Upon the execution and delivery of this Agreement by Debtor and the filing or recording of appropriate financing statements or other notice documents with the appropriate governmental agencies or, as applicable, upon the taking possession of the Collateral by the Collateral Agent or an agent duly appointed for such purpose on behalf of the Collateral Agent, the Holders and the Parent Investors (such agent being the "Intercreditor Collateral Agent; and any agreement or agreements (such agreements individually and collectively, including the Intercreditor Agreement dated as of October 9, 1998 by and among Royal Bank of Canada, the Parent Investors and the Collateral Agent, being the "Intercreditor Agreement") among the Collateral Agent, the Holders, the Parent Investors and any other entities that have or may have an interest in the Collateral providing for such appointment and/or any other respective rights, remedies, and privileges of such parties) the Collateral Agent will have a perfected security interest in and to the Collateral having first priority (except to the extent that any Permitted Lien (as defined in Section 5.1) is entitled to and has senior priority, pursuant to any Intercreditor Agreement to which the Collateral Agent or the Holders are parties or by operation of law) for the full amount of all of the Secured Obligations.

3.3 Authorization. Debtor is a corporation duly organized, validly existing and in good standing under the law of the jurisdiction of its incorporation and has all requisite power and authority to execute, deliver and perform its obligations under this Agreement. The execution, delivery and performance by Debtor of this Agreement have been duly authorized by all necessary corporate action of Debtor, and this Agreement constitutes legal, valid and binding obligation of Debtor, enforceable against Debtor in accordance with its terms.

3.4 Offices. Debtor's chief executive office and principal place of business is located at the address set forth in Schedule D; all other locations where Debtor conducts business or Collateral is kept are set forth in Schedule D and all trade names and fictitious names under which Debtor at any time in the past has conducted or presently conducts its business operations are set forth in Schedule E.

3.5 Solvency. As the date hereof, having received the funding by the Parent Investors contemplated by the Restructuring Agreement, dated August 24, 1998, by and among the Debtor and the other parties thereto, (a) the Debtor is solvent; (b) the Debtor is and will be able to pay its debts as they mature and (c) the liquidation value of the

Debtor's assets is sufficient to satisfy all liabilities and obligations of the Debtor. The statements made in the Solvency Certificate attached hereto as Exhibit F and incorporated herein by this reference are true and correct as of the date hereof.

3.6 Consents. The Debtor has obtained all consents necessary or appropriate for the consummation of the transactions contemplated hereby, including, without limitation, the grant of the Security Interest.

4. Affirmative Covenants.

Debtor covenants that until such time as all of the Secured Obligations are indefeasibly paid or satisfied in full, unless the Collateral Agent shall otherwise consent in writing:

4.1 Financing Statements; Further Documents. Debtor shall concurrently herewith and from time to time at the request of the Collateral Agent, whether before or after the occurrence of an Event of Default, execute and deliver to the Collateral Agent such UCC-1 financing statements, general hypothecs, or similar filings, amendments thereto, continuation statements, fixture filings and other documents in form and substance satisfactory to the Collateral Agent showing Debtor, as debtor, and the Collateral Agent as secured party, and shall do such other acts and things as the Collateral Agent may reasonably request, to create, perfect and continue the Collateral Agent's security interests for the benefit of the Holders in the Collateral (the "Security Interest") and to maintain the priority thereof in accordance with the terms of the Intercreditor Agreement. Without limiting the generality of the foregoing, to the extent any of the Collateral or any proceeds thereof hereafter consists of rights, interests or assets of such a nature that the Collateral Agent, in its reasonable discretion, deems it necessary or advisable that additional security agreements containing more appropriate substantive provisions be entered into by Debtor, Debtor shall promptly execute and deliver to the Collateral Agent any such additional security agreements and related UCC-1 financing statements, general hypothecs, or similar filings and/or amendments as may reasonably be required by the Collateral Agent. Debtor hereby authorizes the Collateral Agent at any time and from time to time to execute as attorney-in-fact on behalf of Debtor, file and/or record any or all such financing statements or similar filings, amendments thereto, continuation statements, fixture filings, instruments and documents and to take all such other actions as the Collateral Agent may deem appropriate to perfect and to maintain perfected the security interests granted herein, without the signature of Debtor (where permitted by law).

4.2 Records. Debtor shall make appropriate notations and entries in its ledgers, books of account and financial statements disclosing the Security Interest.

4.3 Protection of Security and Legal Proceedings. Except to the extent that both (a) any Permitted Lien is entitled to and has senior priority to the Security Interest pursuant to any Intercreditor Agreement to which the Collateral Agent or the Holders

are parties or by operation of law and (b) any of the following actions would conflict with or impair such priority: (i) Debtor shall, at its own expense, take any and all actions necessary to preserve, protect and defend the Security Interest and the perfection and priority thereof against any and all adverse claims, including appearing in and defending all actions and proceedings which purport to affect any of the foregoing; and (ii) Debtor shall promptly reimburse the Collateral Agent for any and all sums, including costs, expenses and reasonable attorneys' fees, which the Collateral Agent may pay or incur in defending, protecting or enforcing its Security Interest or the perfection or priority thereof, or in discharging any prior or subsequent lien or adverse claim against the Collateral or any part thereof, or by reason of becoming or being made a party to or intervening in any action or proceeding affecting the Collateral or the rights of the Collateral Agent therein, all of which actions Debtor hereby agrees that the Collateral Agent shall have the right to take in its reasonable discretion.

4.4 Payment of Taxes. Debtor shall pay or cause to be paid all taxes and other levies with respect to the Collateral when the same become due and payable except such as are being contested in good faith by appropriate proceedings, where the effect of such proceedings is to stay any enforcement in respect of such unpaid taxes, and provided that, in any such case, Debtor shall set aside on its books reserves reasonably deemed by the Collateral Agent to be adequate to protect against liability for such taxes.

4.5 Use and Maintenance of Collateral. Debtor shall comply with all laws, statutes and regulations pertaining to its use and ownership of the Collateral and its conduct of its business; properly care for and maintain all of the Collateral in good condition, free of misuse, abuse, waste and deterioration, reasonable wear and tear of intended use excepted; promptly notify Collateral Agent of any loss or damage to the Collateral, or any material portion thereof (whether or not covered by insurance); keep accurate and complete books and records pertaining to the Collateral.

4.6 Inspection. Debtor shall give the Collateral Agent such information as may be requested concerning the Collateral and permit the Collateral Agent and its agents and representatives to enter upon any premises upon which the Collateral is located for the purpose of inspecting the Collateral and Debtor's records with respect thereto in accordance with Section 5 hereof.

4.7 Trademarks. With respect to all trademarks comprising the Collateral (the "Trademarks"), neither Debtor nor any of its licensees shall, unless Debtor shall reasonably and in good faith determine (and notice of such determination shall have been delivered to the Collateral Agent) that any of the Trademarks is of negligible economic value to Debtor, (i) fail to continue to use any of the Trademarks in order to maintain the same in full force free from any claim of abandonment for non-use, (ii) fail to maintain as in the past the quality of products and services offered under all of the Trademarks, (iii) fail to employ all of the Trademarks with the appropriate notice of application or registration, (iv) adopt or use any other trademark or trade name which is confusingly similar to a colorable

imitation of any of the Trademarks, (v) use any of the Trademarks except for the uses for which registration or application for registration of all of the Trademarks has been made, or (vi) do or permit any act or knowingly omit to do any act whereby any of the Trademarks may become invalidated. Debtor shall notify the Collateral Agent immediately if it knows, or has reason to know, that any application or registration relating to any item of the Trademarks may become abandoned or dedicated. Debtor shall take all necessary steps, including in any proceeding before the United States Patent and Trademark Office or any similar office or agency in any other country or any political subdivision thereof, to maintain and pursue each application (and to obtain the relevant registration) and to maintain each registration of the Trademarks, including the filing of applications for renewal, affidavits of use, affidavits of incontestability and opposition, interference and cancellation proceedings (except to the extent that dedication, abandonment, or invalidation is permitted above).

4.8 Patents. With respect to all patents and patent applications comprising the Collateral (the "Patents"), Debtor shall, in its reasonable judgment (i) prosecute diligently any patent application pending as of the date hereof, (ii) file and prosecute opposition and cancellation proceedings, and (iii) preserve and maintain all rights in patent applications and Patents.

4.9 Intangible Property Generally. With respect to all Intangible Property, Debtor shall promptly notify the Collateral Agent in writing of the institution of, and any adverse determination in, any proceeding in the United States Patent and Trademark Office, United States Copyright Office or any other foreign or domestic governmental agency, court or body, regarding Debtor's claim of ownership in any of the Intangible Property.

4.10 New Intangible Property. If, before all Secured Obligations have been satisfied in full, Debtor obtains rights to any new Intangible Property, including any new inventions, whether or not patentable, or becomes entitled to the benefit of any patent application, patent for any reissue, or of any patent improvement, or if Debtor develops any new trademark, service mark or copyright, Debtor shall give the Collateral Agent prompt written notice of all such patents, trademarks, service marks, copyrights and the provisions of this Agreement shall automatically apply thereto.

4.11 Authorized Sale. So long as there is no Event of Default (as hereinafter defined) hereunder, Debtor shall be entitled to use the proceeds of any collection, sale or disposition of any Collateral in the ordinary course of Debtor's business.

4.12 Conduct of Business and Maintenance of Existence Licenses. Debtor shall do or cause to be done all things necessary to preserve in full force and effect its existence, its corporate powers and authority, its qualifications to carry on business in all applicable jurisdictions, and all rights, interests and assets necessary to the conduct of its business.

4.13 Notification. Debtor shall notify the Collateral Agent in writing within five (5) business days of the occurrence of (a) an Event of Default or of the occurrence of an event which, with notice or lapse of time, or both, would constitute an Event of Default and (b) any event which affects the value of the Collateral, the ability of Debtor or the Collateral Agent to dispose of the Collateral or the rights and remedies of the Collateral Agent in relation thereto, including, but not limited to, the levy of any legal process against the Collateral or the adoption of any order, arrangement or procedure affecting the Collateral, whether governmental or otherwise.

4.14 Other Documents. Debtor shall promptly deliver to the Collateral Agent such documents and information pertaining to the status and condition of the Collateral or the Collateral Agent's security interests therein as the Collateral Agent may reasonably request from time to time.

5. Negative Covenants. Debtor covenants that until such time as all of the Secured Obligations are indefeasibly paid or satisfied in full without the prior written consent of the Collateral Agent:

5.1 Sale or Hypothecation of Collateral. Debtor shall not directly or indirectly, except for licenses to customers in the ordinary course of Debtor's business (a) sell, license, assign, transfer, exchange, lease, lend or dispose of any of the Collateral, or any of Debtor's rights therein, (b) enter into any license, sublicense or other agreement relating to the use of any of the Intangible Property, nor (c) cause, suffer or permit any of the Collateral, or any of Debtor's rights therein, to be affected by any lien, security interest or other similar encumbrance (any of the forgoing being a "Lien"), except for the following (each a "Permitted Lien"):

(a) the Security Interest;

(b) the Liens in favor of the Parent Investors and/or the Intercreditor Collateral Agent, and Royal Bank of Canada as contemplated by the Intercreditor Agreement;

(c) Liens for taxes, fees, assessments or other governmental charges which are not delinquent or remain payable without penalty;

(d) carriers', warehousemen's, mechanics', landlords', materialmen's, repairmen's or similar Liens arising in the ordinary course of business which are not delinquent or remain payable without penalty;

(e) Liens consisting of pledges or deposits required in the ordinary course of business in connection with workers' compensation, unemployment insurance and other social security legislation;

(f) Liens securing (i) the non-delinquent performance of bids, trade contracts (other than for borrowed money), leases, statutory obligations, (ii) contingent obligations on surety and appeal bonds, and (iii) other non-delinquent obligations of a like nature; in each case, incurred in the ordinary course of business;

(g) purchase money security interests on any property acquired or held by the Debtor in the ordinary course of business, securing indebtedness incurred or assumed for the purpose of financing all or any part of the cost of acquiring such property; provided that (i) any such Lien attaches to such property concurrently with or within 20 days after the acquisition thereof, (ii) such Lien attaches solely to the property so acquired in such transaction, and (iii) the principal amount of the debt secured thereby does not exceed 100% of the cost of such property;

(h) Liens securing obligations in respect of capital leases on assets subject to such leases; and

(i) Liens arising solely by virtue of any statutory or common law provision relating to banker's liens, rights of set-off or similar rights and remedies as to deposit accounts or other funds maintained with a creditor depository institution.

Without limiting the generality of the foregoing, Debtor shall not sell, assign, transfer, hypothecate, license or otherwise distribute any Collateral to Parent, or sell, assign, transfer, hypothecate, or otherwise dispose of all or any part of the Collateral to any third party outside the ordinary course of business, other than pursuant to the Parent Investors Security Agreements or the Intercreditor Agreement, without the prior written consent of the Collateral Agent, which consent may be granted or withheld in the sole discretion of the Collateral Agent.

The inclusion of "proceeds" as a component of the Collateral shall not be deemed a consent by the Collateral Agent to any sale, license or other disposition outside of the ordinary course of business of all or any part of the Collateral.

5.2 Location of Collateral; Changes of Name. Debtor shall not move its principal place of business or the location of the Collateral; nor change its name, its trade or fictitious business name(s) or its form of doing business; in each case without giving the Collateral Agent thirty (30) days' prior written notice thereof.

6. Rights of Collateral Agent with Respect to Collateral.

6.1 Inspection and Performance of Obligations. At any time (whether or not an Event of Default has occurred), without notice or demand, the Collateral Agent may, to the extent it may reasonably be necessary or desirable to protect the security hereunder, but the Collateral Agent shall not be obligated to: (a) at the expense of the Collateral Agent enter upon any premises on which Collateral is situated and examine the

same or (b) at the expense of Debtor, perform any obligation of Debtor under this Agreement or the Notes.

6.2 Rights to Audit. The Collateral Agent shall at all reasonable times on reasonable notice have full access to and the right to audit any and all of Debtor's books and records pertaining to the Collateral, to confirm and verify compliance by Debtor with the terms and conditions of this Agreement and to do whatever else the Collateral Agent reasonably may deem necessary or desirable to protect the interests of the Collateral Agent; provided, however, that any such action which involves communicating with customers of Debtor shall be carried out by the Collateral Agent through Debtor's independent auditors.

6.3 Possession of Collateral. The Collateral Agent may at any time and from time to time, but only after the occurrence of an Event of Default, with or without judicial process or the aid or assistance of others: enter upon any premises in which Collateral may be located and, without resistance or interference by Debtor, take physical possession of any items of Collateral and maintain such possession on the Debtor's premises or move the same or any part thereof to such other places as the Collateral Agent shall choose without being liable to Debtor or to any holder of a subordinate lien on the Collateral on account of any losses, damage or depreciation that may occur as a result thereof so long as the Collateral Agent shall act reasonably and in good faith and without gross negligence; dispose of all or any part of the Collateral on any premises of Debtor; require the Debtor to assemble and make available to Collateral Agent at the expense of Debtor all or any part of the Collateral at any place and time designated by the Collateral Agent; or remove all or any part of the Collateral from any premises in which any part may be located for the purpose of effecting sale or other disposition thereof.

6.4 Protection and Preservation of Collateral. In case of any failure of Debtor to keep the Collateral free from liens or adverse claims other than Permitted Liens, or to pay taxes on or in respect thereof, or to fully and punctually keep and perform any other covenant hereof, then the Collateral Agent may (but shall have no duty or obligation to do so) pay, contest or settle such taxes, liens or adverse claims, or any judgments based thereon, take any reasonable action to preserve any rights of or against any prior or other parties in connection with the Collateral, make or give any reasonable presentments, demands for performance, notices of non-performance, protests, notices of protests, notices of dishonor or notices of any other nature whatsoever in connection with the Collateral or the Secured Obligations, or otherwise make good any other aforesaid failure of Debtor. Debtor shall promptly reimburse the Collateral Agent for any sums which may be paid or advanced by a Holder or the Collateral Agent for any such purpose, together with interest at the maximum rate permitted by law from the date of any such advance to the date of reimbursement.

6.5 Attorney-In-Fact. Debtor hereby appoints the Collateral Agent its attorney-in-fact, with full power of substitution, to do any act which Debtor is obligated by this Agreement to do and to take any action and execute any instrument which the Collateral

Agent may reasonably deem necessary or advisable to accomplish the purposes hereof, whether before or after the occurrence of any Event of Default, which appointment is irrevocable and coupled with an interest. Without limiting the generality of the foregoing, the Collateral Agent shall have the right and power (a) to give any necessary receipts or acquittances for amounts collected or received hereunder; (b) to make all necessary transfers of all or any part of the Collateral in connection with any sale, lease or other disposition thereof; (c) to execute and deliver for value all necessary or appropriate bills of sale, assignments or other instruments in connection with any such sale, lease or other disposition; (d) to ask for, demand, sue for, collect, receive, receipt and give acquittance for any and all moneys due or to become due upon or by virtue of any thereof; (e) to receive, take, endorse, assign and deliver all checks, notes, drafts, orders and other negotiable and non-negotiable instruments for the payment of money and chattel paper taken or received by it in connection therewith; (f) to settle, compromise, compound, prosecute or defend any action, claim or proceeding with respect thereto; (g) to sell, transfer, assign, pledge, endorse or otherwise deal in or with the same or the proceeds thereof; and (h) to extend the time of payment of any or all thereof and to make any allowance or other adjustment with reference thereto; Debtor hereby ratifying and confirming all that its said attorney (or any substitute) shall lawfully do hereunder.

Nevertheless, if so requested by the Collateral Agent or a purchaser or lessor, Debtor shall ratify and confirm any sale, lease or other disposition or other action by executing and delivering to the Collateral Agent or such purchaser or lessor all proper bills of sale, assignments, releases, leases and other instruments which may reasonably be designated in any such request. The Collateral Agent shall not have any obligation whatsoever to exercise any of the powers herein conferred upon it or to make any demand or any inquiry as to the nature or sufficiency of any payment received by it, or to present or file any claim or notice or take any other action whatsoever with respect to any of the Collateral or moneys due or to become due in respect thereof. To the fullest extent permitted by law, no action taken by the Collateral Agent or omitted to be taken by it pursuant to this section shall give rise to any defense, counterclaim or offset in favor of Debtor or affect any of the Secured Obligations. The Collateral Agent shall not be bound to take any steps necessary to preserve rights in any promissory note, other instrument or chattel paper against prior parties.

6.6 Intercreditor Rights. Without limiting Section 16.6 hereof, the terms of this Section 6 and the rights, remedies and privileges of the Collateral Agent and the Holders provided for hereunder shall be subject to the terms of any Intercreditor Agreement to which the Holders or the Collateral Agent are parties and the rights, remedies and privileges of the parties thereunder.

7. Events of Default. The occurrence of any of the following shall constitute an event of default ("Event of Default") hereunder:

7.1 Default Under the Documents. The default in any payment or performance of any material term, condition or covenant in favor of the Collateral Agent or

the Holders contained in any of the Guaranty, and any renewals or extensions thereof or amendments thereto, this Agreement and any renewals or extensions hereof or amendments hereto (collectively, the "Documents"), or in any other instrument delivered pursuant thereto or hereto; the default in the prompt and complete payment and performance of any other Secured Obligation; or the occurrence of any other event of default specified in any of the foregoing;

7.2 Liens on Collateral. The initiation of steps by any third party to obtain a lien, levy or writ of attachment or garnishment upon any or all of the Collateral or to affect any of the Collateral or any such other property by other legal process, unless the same is dismissed within thirty (30) days after the initiation thereof;

7.3 Bankruptcy. The insolvency, failure in business or appointment of a receiver to take charge of the business or property of Debtor or the Parent, or the commission of an act of bankruptcy, the making of a general assignment for the benefit of creditors or the filing of any petition in bankruptcy by or against any such party or for relief under the Federal Bankruptcy Code, as amended, or under any other laws, whether federal or state, for the relief of debtors, now or hereafter existing, unless the same is dismissed within thirty (30) days after the filing thereof;

7.4 Inability to Pay Debts. The admission by Debtor or Parent of its inability to pay its debts as they mature;

7.5 Certain Transfers. The transfer of property by Debtor or the Parent under circumstances which would entitle a trustee in bankruptcy or similar fiduciary to avoid such transfer under the Federal Bankruptcy Code, as amended, or under any other laws, whether state or federal, for the relief of debtors, now or hereafter existing;

7.6 Appointment of Receiver. The appointment of a receiver, trustee or custodian for Debtor or the Parent or for any substantial part of the assets of Debtor or the Parent, or the institution of proceedings for the dissolution or the full or partial liquidation of Debtor or the Parent, unless such receiver or trustee is discharged within thirty (30) days of his or its appointment or such proceedings are discharged within thirty (30) days of their commencement;

7.7 Deterioration of Collateral. The occurrence of any deterioration, depreciation, destruction or impairment of the condition or value of the Collateral, or any part thereof, which causes the Collateral to become unsatisfactory to Collateral Agent as to character or value;

7.8 Dissolution of Debtor or Parent, etc. The cessation of Debtor or Parent as a going concern, or the liquidation or dissolution of Debtor or Parent (or notice of intention to liquidate or dissolve); or

7.9 Misrepresentation. Should any representation of a material fact made by Debtor or the Parent to the Collateral Agent or any Holder concerning the financial condition or credit standing of Debtor or the Parent prove to be false or misleading or should any representation or warranty of Debtor or the Parent or any such guarantor contained in the Restructuring Agreement, the Guaranty or this Agreement or any document, certificate or instrument delivered pursuant thereto or hereto prove to be false or misleading.

The Collateral Agent's good faith determination that any of the foregoing events has occurred shall be binding and conclusive upon Debtor.

8. Remedies of Collateral Agent. Upon the occurrence of any Event of Default hereunder, then in addition to all other rights and remedies of the Collateral Agent for the benefit of the Holders hereunder or at law or in equity, upon the occurrence of such Event of Default or any time thereafter, the Collateral Agent may exercise any and all of the following rights and remedies, all of which shall be cumulative and not mutually exclusive on behalf of the Holders:

8.1 Acceleration of Indebtedness. The Collateral Agent may declare any or all Secured Obligations, or any part thereof, to be immediately due and payable without demand or notice (and upon the occurrence of any Event of Default specified in Sections 7.2 through 7.6 all Secured Obligations shall without further action by the Collateral Agent become immediately due and payable), and the Collateral Agent may proceed to collect the same.

8.2 Compromise of Claims. The Collateral Agent may grant extensions, compromise claims and settle Collateral for less than face value, all without prior notice to Debtor.

8.3 Retention of Collateral. The Collateral Agent may choose to accept the Collateral after giving notice of such proposal to Debtor and to any other person with a security interest in such Collateral, and such acceptance shall discharge the Secured Obligations, provided neither Debtor nor any other person with a security interest in such Collateral objects in writing to such proposal within twenty-one (21) days from receipt of such notice.

8.4 Use of Trade Names, etc. The Collateral Agent may use in connection with any assembly or disposition of the Collateral, any trademark, trade name, trade style, copyright, patent right, technical process or other proprietary right used or utilized by Debtor.

8.5 Other Rights and Remedies. The Collateral Agent may pursue and enforce all of the rights and remedies provided in this Agreement or provided to secured parties at law or in equity, including, without limitation, those afforded secured parties by the provisions of the Uniform Commercial Code of the State of California, as amended.

Without limiting the generality of the foregoing, the Collateral Agent may require Debtor to assemble and deliver all of the Collateral to Collateral Agent at a reasonably convenient place designated by the Collateral Agent, render the Collateral unusable without removing it from Debtor's premises, enter upon Debtor's premises or such other place where the Collateral is located and carry away the Collateral, with or without legal process, to the Collateral Agent's place of storage, dispose of the Collateral or retain it in satisfaction of the Secured Obligations, and the Collateral Agent may obtain specific performance of any obligation of Debtor contained herein without the necessity of posting bond or proving that money damages are an inadequate remedy.

9. Demands, Notices etc.; Commercially Reasonable Sale. All demands of performance, advertisements, notices of sale or retention, manner of sale, as well as the presence of the Collateral at any sale and the constructive possession of the Collateral by the person conducting any sale, except only as provided by Section 9504(3) of the Uniform Commercial Code of the State of California, are hereby specifically waived by Debtor. Furthermore, the parties hereto deem the following to be commercially reasonable in compliance with said Section 9504(3): Following any Event of Default, the Collateral Agent may apply, set off, collect or sell in one or more sales the whole or any part of the Collateral in such order as the Collateral Agent elects; any such sale may be public or private and conducted at the Collateral Agent's place of business or at any other place deemed in good faith by the Collateral Agent to be commercially reasonable; any such sale may be either for cash, notes or property or upon credit for future delivery, and at such price or prices as the Collateral Agent in good faith considers fair; any such sale may be conducted by an officer or agent of the Collateral Agent who may deliver possession of the Collateral so sold to the purchaser or purchasers thereof; the Collateral Agent in its own right and free from any claim of Debtor and from any right of redemption may purchase and hold any of the Collateral at any such sale on behalf of the Holders; and the Collateral Agent shall be authorized at any such sale, should the Collateral Agent deem it advisable to do so, to restrict the prospective bidders or purchasers to persons who shall have obtained all necessary authorizations and approvals of any applicable federal, state or local regulatory agency, authority or instrumentality necessary to purchase the Collateral or any part thereof or to conduct the business activities for which the Collateral is intended, as the successor in interest of Debtor, or, alternatively, to condition the closing of the sale to the successful bidder or prospective purchaser upon the subsequent obtaining of all such authorizations and approvals. The Collateral Agent shall not be obligated to make any sale of the Collateral if it shall determine not to do so, regardless that a notice of sale of the Collateral may have been given. The Collateral Agent may adjourn any public or private sale or cause the same to be adjourned from time to time by announcement at the time and place fixed for sale, and such sale may, without further notice, be made at the time and place to which the same was so adjourned. Upon completion of any sale or sales under and by virtue of this Agreement, the Collateral Agent shall cause the Collateral to be assigned to the purchaser or purchasers thereof. Debtor, at the request of the Collateral Agent, shall ratify and confirm any such sale or sales by executing and delivering to the purchaser or purchasers all such further assignments and other documents as may be deemed necessary by the Collateral Agent for

the purpose of further confirming as may be required by the Collateral Agent the sale and assignment of such portion of the Collateral as shall have been sold thereby. Upon the completion of each such sale or sales under or by virtue of this Agreement, each such sale or sales shall operate to transfer to the purchaser or purchasers thereat all rights of Debtor in and to the Collateral sold and, to the extent permitted by law, shall be a perpetual bar both at law and in equity against Debtor and all persons claiming, or who may claim, by, through or under Debtor, any right or interest in and to such portion of the Collateral. If a sale of any of the Collateral is made on credit or for future delivery, the Collateral sold may be retained by the Collateral Agent until the selling price is paid in full by the purchaser thereof, but the Collateral Agent shall have no liability in the event the purchaser thereof fails to take up and pay for the Collateral so sold. In case of any such failure, such Collateral may be resold in such manner as the Collateral Agent deems appropriate. Debtor hereby waives to the extent permitted by applicable law any claims against Collateral Agent and the Holders arising by reason of the fact that the price at which the Collateral may be sold at such a private sale is less than the price which might be obtained at a public sale or less than the aggregate amount of the indebtedness and obligations secured hereby even if the Collateral Agent accepts the first offer received and does not offer such Collateral to more than one offeree.

10. Intercreditor Rights. Without limiting Section 16.6 hereof, the terms of Sections 7, 8 and 9 and the rights, remedies and privileges of the Collateral Agent and the Holders provided for hereunder shall be subject to any Intercreditor Agreement to which the Collateral Agent or the Holders are parties and the rights, remedies and privileges of the parties thereto.

11. Receipts of Sale. The receipt of any person conducting a sale of any of the Collateral pursuant to this Agreement for the purchase money paid at such sale shall be a sufficient discharge therefor to any purchaser of the Collateral or any part thereof, and no such purchaser, after paying such purchase money and receiving such receipt, shall be bound to see to the application of such purchase money for any purpose of this Agreement or shall be bound to inquire as to the authorization, necessity, expediency or regularity of such sale.

12. Application of Proceeds. All sums received or collected by the Collateral Agent, whether before or after default, on or on account of the Collateral, including without limitation the proceeds of any lease, sale or disposition thereof authorized by the Collateral Agent, shall be applied to the obligations under the Guaranty, to the payment of any advances, charges, costs and expenses incurred or paid by the Collateral Agent and secured hereby, and to the payment of any and all other Secured Obligations, all in such order and manner as the Collateral Agent in its sole discretion determines. The Collateral Agent shall pay any balance to Debtor or to the person or persons entitled thereto upon proper demand being made therefor, and in like manner Debtor shall pay to the Collateral Agent, without demand, whatever amount of the Secured Obligations remains unpaid after the Collateral has been sold and the proceeds applied as aforesaid, together with interest thereon from the date of demand at the highest rate specified in the Guaranty, which interest shall also constitute a part of the Secured Obligations.

13. Cumulative Rights, No Waiver. The several rights and remedies of the Collateral Agent hereunder or referred to herein shall, to the full extent permitted by law, be construed as cumulative, and no one of them shall be exclusive of the others. No delay or omission of the Collateral Agent in exercising any right or remedy provided in this Agreement or arising from any default of any Secured Obligation shall be construed as an acquiescence therein, a waiver of such default or a waiver of or limitation upon the right of the Collateral Agent to exercise, at any time and from time to time thereafter, any right or remedy on behalf of the Collateral Agent under this Agreement. No waiver of any breach of any of the covenants or conditions of this Agreement shall be construed to be a waiver of or acquiescence in any preceding or subsequent breach of the same or any other condition or covenant. If the performance of any Secured Obligation is at any time secured by any other instrument or instruments, the exercise by the Collateral Agent of any right or remedy under any such other instrument shall not be construed as or deemed to be a waiver of any limitation upon the right of the Collateral Agent to exercise, at any time and from time to time thereafter, any right or remedy under this Agreement or under any such other instrument. Upon the occurrence of any Event of Default hereunder, the Collateral Agent may maintain an action hereon and may maintain successive actions for each other default. The rights of a the Collateral Agent hereunder shall not be exhausted by its exercise of any of its rights and remedies or by any such action or by any number of successive actions until and unless all indebtedness secured hereby has been paid in full.

14. Indemnification. The Collateral Agent and the Holders shall incur no liability if any action taken by the Collateral Agent on the Collateral Agent's or the Holders' behalf in good faith pursuant to any provision of this Agreement shall prove to be in whole or in part inadequate or invalid, and Debtor agrees to indemnify and hold each Holder and the Collateral Agent and its officers, directors, shareholders, partners, employees, agents and attorneys free and harmless from and against any loss, liability, claim or damage, including without limitation, all reasonable attorneys' fees and court costs actually incurred (a) in connection with any such action or actions and (b) in respect of any claims or allegations of third parties arising out of Debtor's use and ownership of the Collateral or the Collateral Agent's possession of the Collateral.

15. Covenants and Waivers. The Collateral Agent may, at any time and from time to time, in the Collateral Agent's reasonable discretion, without notice or demand and without affecting the enforceability or continuing effectiveness of this Agreement: (a) supplement, modify, amend, extend, renew, accelerate, waive or otherwise change the time for payment or the terms of any Secured Obligation or any additional security or guaranties now or hereafter held therefor (provided that the foregoing shall not be deemed to permit the Collateral Agent to change any agreement with Debtor unilaterally); (b) enter into or give any agreement, approval or consent with respect to any Secured Obligation or any additional security or guaranties now or hereafter held therefor; (c) accept new or additional instruments, documents or agreements in exchange for or relative to any Secured Obligation; (d) accept partial payments on any Secured Obligation; (e) receive and hold additional security or guaranties for the Secured Obligation; (f) settle, release, liquidate and/or fail to

enforce any Secured Obligation; (g) release, reconvey, terminate, waive, abandon, fail to perfect, subordinate, transfer and/or fail to enforce any other security or guaranties now or hereafter held for any Secured Obligation; (h) substitute, exchange, amend or alter any other security or guaranty now or hereafter held for any Secured Obligation, whether or not the security or guaranty received upon the exercise of such power is of the same character or value as the security or guaranty so affected; (i) release any person from any personal liability with respect to any Secured Obligation; (j) consent to the transfer of any such other security and bid and purchase the same at any sale thereof; and/or (k) consent to any merger, change or other restructuring or termination of the corporate existence of Debtor or any other person and correspondingly restructure any Secured Obligation.

To the fullest extent permitted by law Debtor hereby waives:

(a) Any right to require a Holder or the Collateral Agent to proceed against any other person or to proceed against or exhaust any other security held by the Holders or the Collateral Agent at any time or to pursue any other remedy in a Holder's or the Collateral Agent's power before exercising any right or remedy under this Agreement;

(b) Any defense that may arise by reason of: (i) the Collateral Agent's failure to proceed against Debtor, or any of Debtor's property or any other party against whom the Collateral Agent or a Holder might assert a claim, before proceeding against Debtor under this Agreement; (ii) the release, suspension, discharge or impairment of any of a Holder's or the Collateral Agent's rights against Debtor or any other party against whom a Holder or the Collateral Agent might assert a claim, whether such release, suspension, discharge or impairment is explicit, tacit or inadvertent; (iii) a Holder's or Collateral Agent's failure to pursue any other remedies available to such Holder or the Collateral Agent that would reduce the burden of the indebtedness secured hereby on Debtor's interests in the Collateral; (iv) any lack of authority, death, disability or other incapacity of Debtor, any guarantor or any other person with respect to any Secured Obligation; (v) the unenforceability or invalidity of any security or other guaranty for any Secured Obligation or the lack of perfection or continuing perfection or failure of priority of any security for any Secured Obligation; (vi) any failure of the Collateral Agent to give notice of sale or disposition of the Collateral to any other person or any defect in any notice that may be given in connection with any sale or disposition of collateral; (vii) any failure of the Collateral Agent to comply with applicable laws in connection with the sale or other disposition of any other collateral for any Secured Obligation, including, without limitation, any failure of the Collateral Agent to conduct a commercially reasonable sale or other disposition of any other collateral for any Secured Obligation; (viii) any act or omission of the Collateral Agent or others that directly, indirectly, by operation of law or otherwise results in or aids the discharge or release of Debtor, any guarantor or any other security or guaranty now or hereafter held for any Secured Obligation; (ix) any failure of the Collateral Agent to file or enforce a claim in any bankruptcy or other proceeding with respect to any person; (x) the election by the Collateral Agent, in any bankruptcy proceeding of any person, of the application or non-application of Section 1111(b)(2) of the United States Bankruptcy

Code; (xi) any extension of credit or the grant of any lien under Section 364 of the United States Bankruptcy Code; (xii) any use of cash collateral under Section 363 of the United States Bankruptcy Code; (xiii) any agreement or stipulation with respect to the provision of adequate protection in any bankruptcy proceeding of any person; (xiv) the avoidance of any lien in favor of the Holders or the Collateral Agent for any reason; (xv) any bankruptcy, insolvency, reorganization, arrangement, readjustment of debt, liquidation or dissolution proceeding commenced by or against any person, including any discharge of, or bar or stay against collecting all or any of the Secured Obligations in or as a result of any such proceeding; or (xvi) any defense based upon an election of remedies by the Collateral Agent on behalf of the Holders including without limitation an election to proceed by non-judicial rather than judicial foreclosure; and

(c) Demand, protest and notice of any kind, including without limitation the following notices: (i) notice of the evidence, creation or incurring of any new or additional indebtedness or obligation (provided that such indebtedness or obligation is not secured by this Agreement); (ii) notice of any action or non-action on the part of the Collateral Agent on behalf of the Holders in connection with any obligation or evidence of indebtedness held by the Collateral Agent or the Holders as Collateral; and (iii) notice of payment or non-payment by the Parent of the indebtedness secured by this Security Agreement.

(d) Any defense that may arise by reason of any law which provides that the obligation of an accommodating party must neither larger in amount nor in other respects more burdensome than that of the principal or which reduces a surety's or pledgor's obligation in proportion to the principal obligation;

(e) Any duty on the part of the Collateral Agent or the Holders to disclose to Debtor any facts they may now know or may hereafter know about the Parent or the Parent's successors in interest (if any) regardless of whether the Collateral Agent or the Holders (i) have reason to believe that any such facts materially increase the risk beyond the risk which Debtor intends to assume by executing this Security Agreement, (ii) have reason to believe that these facts are unknown to Debtor or (iii) have a reasonable opportunity to communicate such facts to Debtor, it being understood and agreed that Debtor is fully responsible for being and keeping informed of the financial condition of the Parent or any successor in interest of the Parent and all of circumstances bearing on the risk of non-payment of any indebtedness of the Parent to the Collateral Agent or the Holders that is secured hereby.

Debtor acknowledges that each of the waivers set forth herein is made after consultation with legal counsel and with full knowledge of its significance and consequences, with the understanding that events giving rise to any defense or right waived may diminish, destroy or otherwise adversely affect rights which Debtor otherwise may have against the Collateral Agent or the Holders any guarantor of any Secured Obligation or others, or against collateral, and that, under the circumstances, the waivers herein given are reasonable

and not contrary to public policy or law. If any of such waiver is determined to be contrary to any applicable law or public policy, such waiver shall be effective to the maximum extent permitted by law.

16. Miscellaneous.

16.1 Attorneys' Fees. In the event of any litigation or legal proceedings (including arbitration) between the parties hereto, the non-prevailing party shall pay the expenses, including reasonable attorneys' fees and court costs, of the prevailing party in connection therewith.

16.2 Notices. All written notices, demands and requests of any kind which either party may be required or may desire to serve upon the other party hereto in connection with this Agreement may be delivered by courier or other means of personal service, by registered or certified mail or by telex or telecopy. Any such notice or demand so delivered by registered or certified mail or courier shall be deposited in the United States mail, or in the case of courier, deposited with the courier, with postage thereon fully prepaid. All notices shall be addressed to the parties to be served as follows:

If to the Collateral Agent:

Montreal Trust Company/Compagnie Montreal Trust
1800 McGill College Avenue, 5th Floor
Montreal, Quebec
Canada H3A 3K9
Attention: Rosemary L'Abbe, Corporate Trust Dept.
Telecopy: (514)982-7677

With a copy to:

Loeb & Loeb LLP
1000 Wilshire Boulevard
Suite 1800
Los Angeles, California 90017
Attention: Phillip E. Adler, Esq.
Telecopy: (213) 688-3460

If to Debtor:

Toon Boom Technologies U.S.A. Inc.
3601 W. Alameda Avenue, #201
Burbank, California 91505
Attention: Jacques Bilodeau
Telecopy: (818) 954-5666

With a copy to:

Boivin, O'Neil
2000 Mansfield, Suite 1300
Montreal, Quebec

Canada H3A 3A1
Attention: Anne O'Neil, Esq.
Telecopy: (514) 844-5836

Brobeck, Phleger & Harrison LLP
One Market, Spear Street Tower
San Francisco, California 94105
Attention: Michael Kennedy, Esq.
Telecopy: (415) 442-1010

Service of any such notice or demand so made shall be deemed complete on the day of actual delivery thereof as shown by the addressee's registry, certification receipt or other evidence of receipt. Either party hereto may from time to time by notice in writing served upon the other as aforesaid designate a different mailing address or a different or additional person to which all such notices or demands thereafter are to be addressed.

16.3 Time of Essence. Time is hereby declared to be of the essence of this Agreement and of every part hereof.

16.4 Statute of Limitations. Debtor hereby waives all rights to plead or assert at any time any statute of limitations as a defense or bar to any action or proceeding brought to enforce this Agreement or any Secured Obligation.

16.5 Reinstatement of Rights. The rights of the Holders and the Collateral Agent hereunder shall be reinstated and revived, and the enforceability of this Agreement shall continue, with respect to any amount at any time paid on account of the Secured Obligations which thereafter shall be required to be restored or returned by the Holders or the Collateral Agent upon the bankruptcy, insolvency or reorganization of Debtor, or any other person, all as though such amount had not been paid.

16.6 Entire Agreement. This Agreement, the Restructuring Agreement, the Merger Agreement, the Promissory Notes and the Guaranty and all instruments or documents delivered pursuant thereto or hereto contain the entire understanding and agreement of the parties hereto with respect to the subject matter hereof and may not be altered or amended except by the written agreement of the parties hereto. No provision of this Agreement or right of the Collateral Agent or the Holders hereunder can be waived nor can Debtor be released from its obligations hereunder except by a writing duly executed by the Collateral Agent.

16.7 Binding on Successors. This Agreement shall remain in full force and effect until each of the Secured Obligations has been fully paid or performed, and each of the provisions hereof shall inure to the benefit of and bind, as the case may be, the parties hereto and their respective heirs, executors, administrators, successors and assigns.

16.8 Severability. Should any one or more provisions of this Agreement be determined to be illegal or unenforceable, all other provisions of this Agreement nevertheless shall be effective.

16.9 Terminology. All terms used herein shall have the same meaning as in the provisions of the California Uniform Commercial Code, as amended.

16.10 Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

16.11 Headings. The headings of the several paragraphs hereof are included only for the convenience of reference and are not intended to govern, construe or modify any provisions of the several paragraphs hereof.

16.12 Governing Law and Venue. This Agreement is to be governed by and construed in accordance with the laws of the State of California applicable to contracts made and to be performed wholly within such State, and without regard to the conflicts of laws principles thereof. Any suit brought hereon, whether in contract, tort, equity or otherwise, shall be brought in the state or federal courts setting in Los Angeles, California, the parties hereto hereby waiving any claim or defense that such forum is not convenient or proper. Each party hereby agrees that any such court shall have in personam jurisdiction over it, consents to service of process in any manner prescribed in Section 16.2 or in any other manner authorized by California law, and agrees that a final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner specified by law.

16.13 Interpretation. Each of the parties hereto hereby acknowledges that it has been represented by independent counsel of its own choice throughout all negotiations which have preceded the execution of this Agreement and that it has executed same with the consent and upon the advice of said independent counsel. Each party and their counsel have cooperated in the drafting and preparation of this Agreement; it shall be deemed their joint work product and may not be construed against any party by reason of its preparation. Each of the parties hereto acknowledges that no other party, or agent or attorney of any other party, has made any promise, representation, or warranty whatsoever, express or implied, not contained herein concerning the subject matter hereof, to induce the other party to execute this instrument, and each party hereto acknowledges that it has not executed this instrument in reliance upon any such promise, representation, or warranty not contained herein.

16.14 TRIAL BY JURY. DEBTOR HEREBY WAIVES, AND COVENANTS THAT IT WILL NOT ASSERT (WHETHER AS PLAINTIFF, DEFENDANT OR OTHERWISE), ANY RIGHT TO TRIAL BY JURY IN ANY FORUM IN RESPECT OF ANY ISSUE, CLAIM, DEMAND, ACTION OR CAUSE OF ACTION

ARISING OUT OF OR BASED UPON THIS AGREEMENT, THE SUBJECT MATTER HEREOF OR ANY DOCUMENT RELATING HERETO OR ANY SECURED OBLIGATION, IN EACH CASE WHETHER NOW EXISTING OR HEREAFTER ARISING OR WHETHER IN CONTRACT OR IN TORT OR OTHERWISE.


16.15 Payment. All Secured Obligations are and shall be payable in United States dollars, and all amounts payable pursuant to this Agreement shall be paid in United States dollars.

16.16 Intercreditor Matters. Notwithstanding anything to the contrary contained herein, neither the Debtor's entry into, grant of any Lien under or performance of any term of nor any party's exercise of any right, remedy or privilege under, any Intercreditor Agreement to which the Collateral Agent or the Holders are parties or any agreement or instrument entered into or delivered in connection therewith shall constitute a breach hereof, or be limited to any extent by, this Agreement or any other Documents.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement the day and year first above written.

"DEBTOR"

Toon Boom Technologies U.S.A. Inc., a
Delaware corporation

By: 

Jacques Bilodeau
Its: President

"COLLATERAL AGENT"

By: _____

ACKNOWLEDGMENT

State of California)
)
County of Los Angeles)

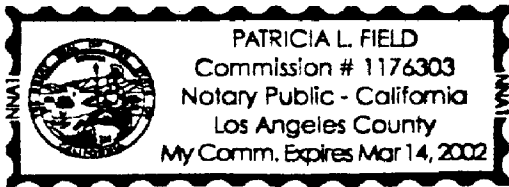
On October 6, 1998 before me, Patricia L. Field, Notary Public,
personally appeared

Bilodeau Jacques,

personally known to me or proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

WITNESS my hand and official seal.

Patricia L. Field



IN WITNESS WHEREOF, the parties hereto have executed this Agreement the day and year first above written.

"DEBTOR"

Toon Boom Technologies U.S.A. Inc., a Delaware corporation

By: Jacques Bilodeau
Jacques Bilodeau
Its: President

"COLLATERAL AGENT"

By: Rosemarie Labbé
Rose-Marie Labbé
Trust officer

Guy L'Esperance
GUY L'ESPERANCE
MANAGER, CLIENT SERVICING.

ACKNOWLEDGMENT

Canada, Province of Quebec, district of Montreal.

On October 9, 1998 before me, Raymond Grenier, Notary, personally appeared

ROSE-MARIE LABBÉ and

GUY L'ESPÉRANCE

proved to me on the basis of satisfactory evidence to be the persons whose names are subscribed to the within instrument and acknowledged to me that they executed the same in their authorized capacities, and that by their signatures on the instrument the persons, or the entity upon behalf of which the persons acted, executed the instrument.

WITNESS my hand and official seal.


RAYMOND GRENIER, Notary

EXHIBIT 1

LIST CONTEMPLATING THE TRANSACTIONS RELATED TO THE PREFERRED SHARES OF TBT USA INC.

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Shareholders	Addresses of the Shareholders	# Preferred TBT Usa Inc.	Pmt US\$250k Cash	Pmt US\$900k Notes	# Class A TBT Inc.
Adler, David	4150 Arch Drive, Apt. 408, Studio City, CA 91604	5,183.11	182.16 \$	655.79 \$	4,055
Auh, Insook	3400 South LaBrea Avenue, Los Angeles, CA 90016	16,801.84	590.51 \$	2,125.84 \$	13,144
Auh, Insook, Trustee of the Kilpying Auh, D.D.S., A Professional Corporation, Retirement Trust	3400 South LaBrea Avenue, Los Angeles, CA 90016	39,204.29	1,377.86 \$	4,960.29 \$	30,669
Beek, Dale	3172 Ellington Drive, Los Angeles, CA 90068	5,183.11	182.16 \$	655.79 \$	4,055
Bharal, K.D.Bhall	1454 Roberta Avenue, Fullerton, CA 92833	19,185.65	674.29 \$	2,427.45 \$	15,009
Caldwell, Barbara J.	4521 Dorchester Road, Corona Del Mar, CA 92625	18,674.35	656.32 \$	2,362.76 \$	14,609
California Central Trust Bank cusl FBO C. Anthony Stellar A/C #1060443099	2nd Floor, 3080 South Bristol Street, Costa Mesa, CA 92626	72,925.34	2,563.00 \$	9,226.81 \$	57,049
Chen, Alberio Jorge Ho	19142 Homestead Lane, Huntington Beach, CA 92646-2220	16,052.19	564.16 \$	2,030.89 \$	12,558
Chen, Vivien Wai-Wai	c/o Angela Sabella, 853 East Valley Boulevard, Suite 200, San Gabriel, CA 91776	33,603.68	1,181.02 \$	4,251.68 \$	26,288
Chou, John	1108 Ranchwood Place, Diamond Bar, CA 91765-4370	47,964.13	1,685.73 \$	6,068.62 \$	37,522
Colburt, Norman, Trustee of the Normand Colburt Trust	8033 Sunsel Boulevard, Los Angeles, CA 90046	9,592.83	337.15 \$	1,213.72 \$	7,504
Collins, Robert	1308 Corvidae Street, Carlsbad, CA 92009	44,673.44	1,570.07 \$	5,652.27 \$	34,948
Crone, Charles F., M.D.	c/o Thomas F. Crone, 675 S. Oakland Avenue, Pasadena, CA 91106	19,185.65	674.29 \$	2,427.45 \$	15,009

Crone, Charles F., M.D., A Medical Corporation, A Money Purchase Pension Plan and Trust	c/o Thomas F. Crone, 675 S. Oakland Avenue, Pasadena, CA 91106	4,535.86	159.42 \$	573.90 \$	3,548
Danzi, Michael R.	15255 Laguna Canyon Road, Irvine, CA 92618	20,848.60	732.74 \$	2,637.85 \$	16,310
Danzi, Michael R., Trustee of the Danzi Family Living Trust, dated July 30, 1993	15255 Laguna Canyon Road, Irvine, CA 92618	201,212.71	7,071.74 \$	25,458.26 \$	157,408
Davies, Paul M. and/or Catherine E., Trustees of the Davies Family Revocable Trust U/D/T/ 10/1/87	2415 Windward Lane, Newport Beach, CA 92660	89,609.81	3,149.39 \$	11,337.80 \$	70,102
Deibel, Charles J.	1876 Wyandole Road, Columbus, OH 43212	19,185.65	674.29 \$	2,427.45 \$	15,009
Digital Editions, Inc.	c/o John Whilney, 1900 Sunset Plaza Drive, Los Angeles, CA 90069	1,247,782.75	43,854.06 \$	157,874.62 \$	976,138
DLJSC, Custodian F/B/O Frank Thu-Ching Shu Individual Retirement Account	One Pershing Plaza - 7th Floor, Jersey City, NJ 07399 Attn: Reorganization Department and charge A/C# 178014137	18,706.05	657.44 \$	2,366.77 \$	14,694
Donaldson, LuKin & Jenette Securities Corporation (TIN 13-2741729)	One Pershing Plaza - 7th Floor, Jersey City, NJ 07399 Attn: Reorganization Department and charge A/C# 178014137	38,371.31	1,348.58 \$	4,854.90 \$	30,018
Custodian F/B/O Michael R. Anderson, Accl. #3LY 050322-1	One Pershing Plaza - 7th Floor, Jersey City, NJ 07399 Attn: Reorganization Department and charge A/C# 178014137 SEND CORRESPONDENCE TO: James L. Overman, 2209 Green Timber Trail	38,371.31	1,348.58 \$	4,854.90 \$	30,018
Donaldson, LuKin & Jenette Securities Corporation (TIN 13-2741729)	One Pershing Plaza - 7th Floor, Jersey City, NJ 07399 Attn: Reorganization Department and charge A/C# 178014137 SEND CORRESPONDENCE TO: James L. Overman, 2209 Green Timber Trail	38,371.31	1,348.58 \$	4,854.90 \$	30,018
Custodian F/B/O James L. Overman, Account #3LY 902167-1	One Pershing Plaza - 7th Floor, Jersey City, NJ 07399 Attn: Reorganization Department and charge A/C# 178014137	38,371.31	1,348.58 \$	4,854.90 \$	30,018
Erinlay, William J. & Gloria J.K.	42 Country Club Road, Danan, CT 06820	47,964.13	1,685.73 \$	6,068.62 \$	37,522
Friedman, Layne	345 South Doheny Dr., #101, Beverly Hills, CA 90211	2,900.17	101.93 \$	366.94 \$	2,269

Froehlich, Richard T., M.D., Custodian for Benjamin Rothman Froehlich UGITMA	35511 Camino Capistrano, Capistrano Beach, CA 92624	14,389.24	505.72 \$	1,820.59 \$	11,257
Froehlich, Richard T. IRA	35511 Camino Capistrano, Capistrano Beach, CA 92624	64,361.54	2,262.02 \$	8,143.29 \$	50,350
Froehlich, Richard T., M.D., Trustee of the Froehlich Family Trust	35511 Camino Capistrano, Capistrano Beach, CA 92624	247,176.23	8,687.15 \$	31,273.76 \$	193,366
Gaw, Harold	2564 Woodruff Lane, Arcadia, CA 91002	3,949.03	138.79 \$	499.65 \$	3,089
Gilbert, Elizabeth H.	9520 Oakmore Road, Los Angeles, CA 90035	18,706.05	657.44 \$	2,366.77 \$	14,634
Goldberg, Bennet R.	145 Mount Hamilton Avenue, Los Allos, CA 94022	64,566.69	2,269.23 \$	8,169.24 \$	50,510
Goldberg, Lawrence M.	13029 Jerome Jay Drive, Hunt Valley, MD 21030-1523	306,132.16	10,759.20 \$	38,733.10 \$	239,487
Greenbaum, David	335 N. Adams, #223, Glendale, CA 91206	19,185.65	674.29 \$	2,427.45 \$	15,009
Gregoire, Ronald W.	18900 Studebaker Road, Cerritos, CA 90701	22,402.45	787.35 \$	2,834.45 \$	17,525
Gubener, George J.	P.O. Box 25400, Honolulu, HI 96825	33,574.89	1,180.01 \$	4,248.03 \$	26,266
Haeringer, Gerald C., Trustee of the Gerard C. Haeringer Revocable Trust Dated March 5, 1993	3753 Diamond Head Road, Honolulu, HI 96816	47,964.13	1,685.73 \$	6,066.62 \$	37,522
Haeringer, Lisa K., Trustee of the Lisa K. Haeringer Revocable Trust Dated March 5, 1993	3753 Diamond Head Road, Honolulu, HI 96816	47,964.13	1,685.73 \$	6,066.62 \$	37,522
Harvey, Charles T.	P.O. Box 1525, Blythe, CA 92226	33,574.89	1,180.01 \$	4,248.03 \$	26,266
Huske, Ronald D. Sr.	Rural Route 1, Harveyville, KS 66431	38,371.31	1,348.58 \$	4,854.90 \$	30,018
Ingram, Philip F.	2121 Alisos Drive, Santa Barbara, CA 93108	159,944.58	5,621.35 \$	20,236.85 \$	125,124
Joliff, Andrew	18840 Ballinger Street, Northridge, CA 91324	2,221.33	78.07 \$	281.05 \$	1,738

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 LIST CONTEMPLATING THE TRANSACTIONS RELATED TO THE PREFERRED SHARES OF TBT USA INC.

Keith, Robert H. & Elisa S. Co-Trustees of the Revocable living trust (09 December 93) of Robert H. and Elisa S. Keith	3005 La Pietra Circle, Honolulu, HI 96815	47,964.13	1,685.73 \$	6,068.62 \$	37,522
Keystone Consulting Group, Inc.	7 Smedley Drive, Newton Square, PA 19073	1,121,476.26	39,414.95 \$	141,893.80 \$	877,329
Kouyoumjian, Raymond H.	9852 Big Sur Drive, Huntington Beach, CA 92646	47,964.13	1,685.73 \$	6,068.62 \$	37,522
La Have, Charles Jr. & Charles JTWROS	526 West 18th Street, Houston, TX 77008	15,940.18	560.23 \$	2,016.82 \$	12,470
Latson, Lawrence H. & Janice L., JTWS	733 East Virginia Road, Fullerton, CA 92631	167,874.46	5,900.05 \$	21,240.17 \$	131,328
Lee, Barbara C.C.	10043 Wyclone Avenue, Northridge, CA 91324	9,592.83	337.15 \$	1,213.72 \$	7,504
Lee, Johnson Y.	3004 Charlinda Street, West Covina, CA 91791	20,033.03	704.07 \$	2,534.66 \$	15,672
Leung, Dominic P.	12713 Cheshire Street, Norwalk, CA 90050	11,201.23	393.67 \$	1,417.23 \$	8,763
Leung, Nelson	6650 Montaire Place, La Palma, CA 90623	33,603.68	1,181.02 \$	4,251.68 \$	26,288
Lin, Chang T., Trustee of the Chang T. Lin, M.D., Sole Proprietor, Delined Benefit Pension Plan Trust	360 East 7th Street, Suite H, Upland, CA 91786	47,964.13	1,685.73 \$	6,068.62 \$	37,522
Little, Douglas	6643 Haskell, #104, Van Nuys, CA 91406	2,221.33	78.07 \$	281.05 \$	1,738
Lwin, Nyunt, Trustee of the Nyunt Lwin, M.D. Retirement Trust	2646 Wagon Train Lane, Diamond Bar, CA 91765	16,801.84	590.51 \$	2,125.84 \$	13,144
Marcol, Paul	6768 Bison Street, Springfield, VA 22150	37,022.18	1,301.17 \$	4,684.20 \$	28,962
Masters, Robert K., M.D., Separate Individual Retirement Account	24411 Health Center Drive, Suite 350, Laguna Hills, CA 92653	38,667.11	1,358.98 \$	4,892.32 \$	30,249
Masters, Joan M.	357 Abingdon Road, Escondido, CA 92024	47,964.13	1,685.73 \$	6,068.62 \$	37,522
May, Tom F.	832 South Clarkson, Denver, CO 80209	158,944.58	5,621.35 \$	20,236.85 \$	125,124

Meinl Lynch Custodian F/B/O F. Scott Jackson, Account 207-866106	4695 MacArthur Court, #1600, Newport Beach, CA 92660	36,528.56	1,283.82 \$	4,621.74 \$	28,576
Mayer, Michael	11270 Huston Street, #101, North Hollywood, CA 91601	5,183.11	182.16 \$	655.79 \$	4,055
Miller, Mark	1211 West La Palma, Anaheim, CA 92801	42,907.56	1,508.01 \$	5,428.84 \$	33,567
Meleen, Stephen R.	16701 Edgewater Lane, Huntington Harbor, CA 92649	23,694.20	832.75 \$	2,997.89 \$	18,536
Miller, Richard A., Trustee of the Miller Revocable Intervivos Trust U/D/T 11/29/90	2922 Ellermere, Costa Mesa, CA 92626	95,928.26	3,371.46 \$	12,137.24 \$	75,045
Miles, Shelley	1425 Rutherford Drive, Pasadena, CA 91103	148,088.74	5,204.67 \$	18,736.80 \$	115,850
Minaya, Gloria	4853 Cahuenga #131, North Hollywood, CA 91601	2,221.33	78.07 \$	281.05 \$	1,738
Ming, Richard L. & James L., Jr.	2028 Mt. Olympus, Los Angeles, CA 90046	19,185.65	674.29 \$	2,427.45 \$	15,009
Pastorino, Charles L.	8202 Triple Crown, Fair Oaks Ranch, TX 78015-4615	95,928.26	3,371.46 \$	12,137.24 \$	75,045
Peidigao, G. Michael and George V.	7320 Balboa Boulevard, #123, Van Nuys, CA 91406-2757	22,402.45	787.35 \$	2,834.45 \$	17,525
Petersen, Audrey L.	HCRI Box 1089, Branson, MO 65616	22,431.13	788.36 \$	2,838.08 \$	17,548
Petersen, Denise	813 Jennifer Lane, #C, Costa Mesa, CA 92626	9,592.83	337.15 \$	1,213.72 \$	7,504
Quezada, Raul, Jr.	9551 Oiney Street, Rosemead, CA 91770	2,053.50	72.17 \$	259.82 \$	1,606
Roach, Kate	65 Washington Street, Natick, MA 01760	1,263.69	44.41 \$	159.89 \$	989
Romero, Andiea	129 South Norton Avenue, Los Angeles, CA 90004	9,625.77	338.30 \$	1,217.89 \$	7,530
Say Partners	632 Irvington Avenue, Hillside, NJ 07208	96,542.50	3,393.04 \$	12,214.96 \$	75,525
Smead, John D.	16 Lexington Way, Colo de Gaza, CA 92679	32,205.45	1,131.88 \$	4,074.77 \$	25,194

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Smead, Robert J.	14401 Nutwood Lane, Saratoga, CA 95070	21,444.10	753.67 \$	2,713.20 \$	16,778
Smead, Yvonne	472 Monitori Court, Pleasanton, CA 94566	32,165.96	1,130.49 \$	4,069.77 \$	25,163
Smith, Charles Dana	7 Smedley Drive, Newton Square, PA 19073	6,318.45	222.07 \$	799.44 \$	4,943
Smith, Pamela Hope	3515 "W" Place, N.W., Washington D.C. 20007	6,318.45	222.07 \$	799.44 \$	4,943
Smith, Zachary Mark	2051 Kinridge Street, Marietta, GA, 30062	6,318.45	222.07 \$	799.44 \$	4,943
Spielvogel, Don	12315 Debby Street, North Hollywood, CA 91606	37,022.18	1,301.17 \$	4,684.20 \$	28,962
Stellar, Thomas	98 Emerald Bay, Laguna Beach, CA 92651	740.05	26.01 \$	93.63 \$	579
Tham, Patrick	19732 Balan Road, Rolling Heights, CA 91749	23,982.07	842.86 \$	3,034.31 \$	18,761
USDigitalation, LLC	c/o Charles Smith, Keystone Consulting Group, Inc., 7 Smedley Drive, Newton Square, PA 19073	152,448.83	5,357.90 \$	19,288.46 \$	119,260
W.A.H. Consulting, Inc.	c/o Executive Business Management, P.O. Box 1876, 73780 Shadow Lake Drive, Palm Desert, CA 92261-1876	984,213.85	34,590.78 \$	124,526.80 \$	769,949
Whitney, John	Digital Editions, Inc., 1900 Sunset Plaza Drive, Los Angeles, CA 90069	29,617.75	1,040.93 \$	3,747.36 \$	23,170
Wilcox, Bruce G.	c/o Cumberland Associates, 1114 Avenue of Americas, New York, NY 10036	15,124.50	531.56 \$	1,913.61 \$	11,832
Will, Donald S., Trustee of the Donald S. Will Profit Sharing Trust dated 1/1/89	18711 Portolino Drive, Irvine, CA 92612	38,371.31	1,348.58 \$	4,854.90 \$	30,018
Wolgasl, Paul	17240 Van Gough Street, Granada Hills, CA 91342	2,221.33	78.07 \$	281.05 \$	1,738
Yocca, Nick E., Trustee of the Nick E. Yocca Profit Sharing Trust	660 Newport Center Drive, Suite 1600, Newport Beach, CA 92660	19,185.65	674.29 \$	2,427.45 \$	15,009

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 LIST CONTEMPLATING THE TRANSACTIONS RELATED TO THE PREFERRED SHARES OF TBT USA INC.

Yoshida, Carolyn	2030 Federal Avenue, Los Angeles, CA 90025-5325	5,183.11	182.16 \$	655.79 \$	4,055
Zacharias, Curt G.	6725 East Miami Street, Tucson, AZ 85715	38,371.31	1,348.58 \$	4,854.90 \$	30,018
TOTAL		7,113,267.83	250,000.00 \$	900,000.00 \$	5,564,698

SCHEDULE A

PENDING TRADEMARKS

Mark	Country	Application Number	Filing Date
USANIMATION	United States (USPTO Principal Register)	74/695713	June 28, 1995
USANIMATION	Canada	794,925	October 16, 1995
USANIMATION	Japan	105170/75	October 13, 1995
USANIMATION	Korea	40780/1995	October 25, 1995
USANIMATION	China	950161755	December 22, 1995
USANIMATION	Germany	395 52 604.3	December 27, 1995
USANIMATION	India	693484	January 4, 1996
USANIMATION	Indonesia	D95 24483	December 27, 1995
USANIMATION	Malaysia	95/13718	December 22, 1995
USANIMATION	Philippines	104815	December 26, 1995
USANIMATION	France	95601448	December 15, 1995

These Trademarks are the property of Toon Boom Technologies U.S.A. Inc.

These Trade names exclude the third party development tools used by Toon Boom Technologies U.S.A. Inc. used for the development and subsequently by the clients.

Trade name:

Toon Boom Technologies U.S.A. Inc.

USANIMATION.

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TRADEMARK
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SCHEDULE B

Tracking numbers assigned to the various copyright applications filed with the United States Copyright Office for the USAimation System versions 1.0 (2 filings), 1.1,2.0, 3.0 and 4.0 .

Processing Nos

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SCHEDULE C

PENDING PATENTS

<u>Title</u> <u>Date</u>	<u>Country</u>	<u>Serial No.</u>	<u>Filing</u>
Drawing Pixmap to Vector Conversion	U.S.	08/520,914	8/30/95

Petition to revive the abandoned Patent Application Serial 08/520,914 has been submitted on Sept. 15, 1998 by: John Land, of Fish & Richardson P.C. La Jolla, C.A.

NB This Patent is recorded under the name of:

USANIMATION Inc., now: Toon Boom Technologies U.S.A. Inc.

SCHEDULE D

Toon Boom Technologies U.S.A. Inc.

Chief executive office and principal place of business is located at :

7, Laurier Street East
Montreal, Quebec, Canada
H2T 1E4

Other locations where Toon Boom Technologies U.S.A. Inc. is conducting business :

Toon Boom Technologies U.S.A. Inc.

360 W. Alameda Ave, Suite 201
Burbank, California, 91505

Software back-up documents are archived and stored at:

ARCHIVEX Ltd.
4005, Richelieu
Montreal, Quebec
H4C 1A1

SCHEDULE E

Trade names and fictitious names under which Toon Boom Technologies U.S.A. Inc. at any time in the past has conducted or presently conducts business operations:

Toon Boom Technology Inc.

Toon Boom Technology

Toon Boom Technologies Inc.

Toon Boom Technologies U.S.A. Inc.

The Trade name: "TIC TAC TOON" Used by Toon Boom Technologies U.S.A. Inc.

The Trade name "USANIMATION" owned by Toon Boom Technologies U.S.A. Inc.

SCHEDULE F

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TRADEMARK
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SOLVENCY CERTIFICATE**TOON BOOM TECHNOLOGIES U.S.A. INC.**

This solvency certificate (the "Certificate") is delivered to Keystone Consulting Group, Inc., a Delaware corporation ("Keystone"), USDigimation, LLC, a Delaware limited liability company ("USDigimation") and Digital Editions, Inc., a California corporation ("DEI") pursuant to Section 5.3(i) of the Restructuring Agreement, dated as of August 24, 1998 (together with all amendments and other modifications, if any, from time to time hereafter made thereto, the "Restructuring Agreement"), among Toon Boom Technologies Inc., a Canadian corporation, Toon Boom Technologies U.S.A. Inc., a Delaware corporation, Keystone, USDigimation, DEI, Capital Communications CDPQ Inc., a corporation organized under the laws of Quebec, Fonds d'investissement de la Culture et des Communications, société en commandite, a limited partnership organized under the laws of Quebec, Société Innovatech du Grand Montréal, a legal entity constituted according to the Loi sur la Société Innovatech du Grand Montréal, and Business Development Bank of Canada, Venture Capital Division, a legal entity constituted under the Bank Act, Canada. Unless otherwise defined herein, terms used herein have the meanings provided in the Restructuring Agreement.

The undersigned (the "Company") hereby certifies that:

(a) The officers executing this Certificate on behalf of the Company have, through the date hereof, monitored the operations and the financial condition of the Company and have knowledge of, and/or have actively participated in, the development and negotiation of the transactions contemplated by the Restructuring Agreement and those documents and instruments in connection therewith, including, without limitation, the financing by the Parent Investors, the Merger Agreement, the Shareholder Notes, the Security Agreement and the General Movable Hypothec and the Guaranty by Toon Boom Technologies U.S.A. Inc. (collectively, the "Restructuring Transactions").

(b) The Company has developed (i) the detailed balance sheet of the Company as of the Final Settlement Date, which sets forth the value of the Company's assets and the total amount of the Company's liabilities, including, without limitation, contingent liabilities which are reasonably probable of maturing and (ii) the Company's cash flow projections for the period from the Final Settlement Date to the third anniversary of the Final Settlement Date, in each case after giving effect to the Restructuring Transactions and the payment and accrual of all fees arising in connection therewith (collectively, the "Pro Forma Financial Statements"). Copies of the Pro Forma Financial Statements are attached hereto as Schedule 1, and

included in the notes accompanying the Pro Forma Financial Statements is a description of the methodology used by the Company to determine the value of each particular class of assets of the Company.

(c) The Pro Forma Financial Statements are based on (i) the historical financial statements and records of the Company; (ii) the Company's appraisals of certain of the Company's assets and the Company's valuation of the Company's business as a going enterprise; (iii) an extensive analysis of the Company's projected operations, prospects and performance after giving effect to the Restructuring Transactions and the payment and accrual of all fees arising in connection therewith, including, without limitation, an analysis of the current and anticipated future capital requirements of the Company for the current and anticipated future conduct of the business of the Company; and (iv) the assumptions specified in the notes accompanying the Pro Forma Financial Statements. In light of the historical performance of the Company, the assumptions referred to in (iv) above are reasonable.

(d) Keystone, USDigimation and DEI may rely on the Pro Forma Financial Statements:

(i) as a fair and accurate presentation of the pro forma financial condition of the Company, as of the Final Settlement Date, on a going-concern basis and prepared in accordance with the principles specified at (b) above; and

(ii) as being a reasonable projection of the financial position, results of operations and cash flows of the Company for the periods indicated, in each case after giving effect to the Restructuring Transactions and the payment and accrual of all fees arising in connection therewith.

(e) Immediately following the Restructuring Transactions and the payment and accrual of all fees arising in connection therewith:

(i) the Company's assets and the total amount of the Company's liabilities, including, without limitation, contingent liabilities which are reasonably probable of maturing (and without regard to any insolvency law limitation of liability contained therein), will be as set forth in the Pro Forma Financial Statements;

(ii) the value of the Company's assets will be in excess of the total amount of the Company's liabilities, including,

without limitation, contingent liabilities which are reasonably probable of maturing;

(iii) the Company will be able to pay its Debts (as defined below) as they mature; and

(iv) the Company will not have unreasonably small capital to carry on its business as the same is now conducted and is proposed to be conducted.

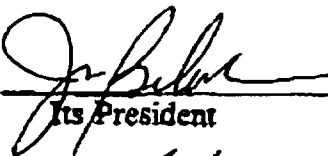
(f) In connection with the Restructuring Transactions the Company is not incurring any Debts or encumbering any of its assets with any actual intent to hinder, delay or defraud either present or future creditors of the Company. Further, the Company does not intend to incur Debts beyond its ability to pay as they mature nor does it intend to engage in any transactions or business for which it will have unreasonably small capital.

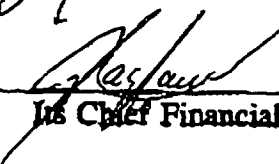
(g) The Company hereby acknowledges that the Keystone, USDigimation and DEI are relying upon the statements contained herein and consents to such reliance.

For purposes of this Certificate, the term "Debts" means all liabilities, obligations, commitments and indebtedness of any and every kind and nature (including, without limitation, all obligations to trade creditors and under guaranties of the indebtedness of other persons), whether heretofore, now, or hereafter owing, arising, due, or payable by the Company to any person, howsoever evidenced, created or incurred, and whether primary, secondary, direct, contingent, fixed or otherwise.

on this 9th IN WITNESS WHEREOF, the Company has executed this Certificate
day of October, 1998

TOON BOOM TECHNOLOGIES U.S.A.
INC.

By: 
Its President

By: 
Its Chief Financial Officer

ent. by: LOEB

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SCHEDULE 1

PRO FORMA FINANCIAL STATEMENTS

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**TOON BOOM TECHNOLOGIES INC.
PROJECTIONS P&L AS AT JUNE 30th, 1999-2002**

	Year to date				
	98-10-09	F99	F00	F01	F02
SALES					
SOFTWARE	927,557	4,100,000	4,500,000	4,900,000	5,500,000
TECHNICAL SUPPORT 98	117,521	500,000	500,000	600,000	600,000
RENEWAL	120,178	678,000	850,000	1,200,000	1,300,000
TECHNICAL SUPPORT 97	215,336	552,826	635,000	625,000	763,000
SUB-TOTAL SALES	1,380,592	5,828,826	6,485,000	7,325,000	8,163,000
HARDWARE					
	-	920,000	500,000	550,000	610,000
SUB-TOTAL SALES	1,380,592	6,748,826	6,985,000	7,875,000	8,773,000
LESS: AMORT. TECH. SUPPORT					
	(166,905)	(559,000)	(680,000)	(900,000)	(885,000)
TOTAL SALES	1,213,687	6,189,826	6,305,000	6,975,000	7,888,000
COST OF GOOD SOLD					
	-	846,400	480,000	506,000	561,200
GROSS MARGIN	1,213,687	5,343,426	5,845,000	6,469,000	7,326,800
SALARIES AND WAGES					
MANAGEMENT AND ADMIN.	194,086	753,853	754,808	796,624	832,774
TECHNICAL SUPPORT	155,327	643,874	636,180	663,966	655,886
RESEARCH AND DEVELOPMENT	77,265	263,727	228,985	269,148	288,951
SALES	98,868	434,931	458,845	455,876	461,687
COMMISSIONS	16,392	138,000	150,000	185,000	183,000
TOTAL SALARIES AND WAGES	542,748	2,233,985	2,226,839	2,350,934	2,422,317
MARKETING EXPENSES					
MARKETING SALARIES	38,526	70,321	84,640	91,922	104,205
SHOWS	152,627	229,500	230,000	230,000	230,000
PROMOTION	27,343	38,900	40,000	42,000	45,000
PUBLICITY	20,564	73,800	72,000	80,000	80,000
TOTAL MARKETING	239,049	410,521	426,640	443,922	469,205
SELLING EXPENSES					
DISTRIBUTORS	226,719	922,500	1,012,500	1,102,500	1,237,500
REPRESENTATION COSTS	74,927	300,000	300,000	330,000	350,000
TOTAL SELLING EXPENSES	301,646	1,222,500	1,312,500	1,432,500	1,587,500

The attached unaudited financial statements have been prepared internally by Toon Boom Technologies Inc., a Canadian corporation ("TBT-Canada") and Toon Boom U.S.A. Inc., a Delaware corporation ("TBT-U.S.A.") and have not been prepared with a view to public disclosure. The financial statements have been prepared solely for internal use by TBT-Canada and TBT-U.S.A. and are susceptible to various interpretations and periodic revision. Neither TBT-Canada nor TBT-U.S.A. assume any responsibility for the accuracy of such unaudited financial statements.

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**TOON BOOM TECHNOLOGIES INC.
PROJECTIONS P&L AS AT JUNE 30th, 1999-2002**

	Year to date				
	98-10-09	F99	F00	F01	F02
ADMINISTRATION EXPENSES					
RENT	35,838	132,192	157,192	192,192	192,192
OFFICE EXPENSES	48,304	132,000	144,000	148,000	160,000
LIGHT, HEAT AND POWER	-	24,000	24,000	24,000	24,000
TELEPHONE	41,083	114,000	120,000	120,000	125,000
COURRIER	13,527	48,000	50,000	50,000	60,000
TAXES AND PERMITS	31,041	90,000	90,000	90,000	90,000
PROFESSIONAL FEES	33,868	100,000	100,000	100,000	100,000
INSURANCE	24,105	90,000	90,000	90,000	90,000
TOTAL ADMINISTRATION	225,554	730,192	775,192	814,192	841,192
OTHER EXPENSES					
EXTRAORDINARY EXPENSE	120,000	360,000	-	-	-
BANK CHARGES	8,290	24,000	24,000	24,000	24,000
COLLECTION FEES	-	11,868	12,970	14,860	18,328
FINANCIAL FEES	122,590	270,824	251,800	251,700	199,000
BAD DEBTS	-	29,144	32,425	38,625	40,815
TOTAL OTHER FEES	250,880	685,628	321,195	326,975	280,141
TOTAL EXPENSES	1,559,877	5,282,823	5,062,168	5,368,523	5,600,365
PROFIT (LOSS) BEFORE NON MONETARY	(346,190)	60,603	782,834	1,100,477	1,726,445
NON-MONETARY EXPENSES					
DEBENTURE INTEREST	8,000	243,760	315,000	315,000	315,000
CURRENCY EXCHANGE	802,881	-	-	-	-
AMORTIZATION GOODWILL	732,030	2,700,000	1,074,276	-	-
AMORTIZATION SOFTWARE	890,538	1,568,000	-	-	-
DEPRECIATION COMPUTER	78,901	300,000	300,000	180,000	120,000
DEPRECIATION OFFICE	14,977	80,000	80,000	80,000	80,000
TOTAL NON CASH EXPENSES	2,327,326	4,929,760	1,749,276	555,000	495,000
NET PROFIT (LOSS)	(2,673,515)	(4,869,147)	(966,442)	546,477	1,231,445

The attached unaudited financial statements have been prepared internally by Toon Boom Technologies Inc., a Canadian corporation ("TBT-Canada") and Toon Boom U.S.A. Inc., a Delaware corporation ("TBT-U.S.A.") and have not been prepared with a view to public disclosure. The financial statements have been prepared solely for internal use by TBT-Canada and TBT-U.S.A. and are susceptible to various interpretations and periodic revision. Neither TBT-Canada nor TBT-U.S.A. assume any responsibility for the accuracy of such unaudited financial statements.

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**TOON BOOM TECHNOLOGIES INC.
CONSOLIDATED STATEMENT OF CHANGES
PROJECTIONS FOR YEAR END JUNE 30TH, 99-02**

	Oct. 6th, 1998	June 30th, 99	June 30th, 00	June 30th, 01	June 30th, 02
OPERATING ACTIVITIES					
Net loss for the period	(2,873,515)	(4,868,147)	(988,443)	645,478	1,231,447
Items not affecting cash					
Depreciation and Amortization	1,716,444	4,704,001	1,441,898	240,000	180,000
Gain on conversion of Preferred shares	6,184,540	6,194,540	315,000	315,000	315,000
Interest on debentures	8,000	249,750	790,393	1,100,478	1,728,447
	5,245,489	6,273,144	1,100,478	1,100,478	1,728,447
Changes in non-cash working capital items	140,740	(822,959)	(180,608)	51,790	112,728
Cash (used) provided in operating activities	6,396,259	5,780,785	669,785	1,182,268	1,939,178
INVESTING ACTIVITIES					
Additions to fixed assets	-	(150,000)	(250,000)	-	(200,000)
Cash (used) provided in investing activities	-	(150,000)	(250,000)	-	(200,000)
FINANCING ACTIVITIES					
SDI loan	-	(285,210)	60,000	-	-
Reimbursement of long term debt	(283,271)	(179,096)	(713,620)	(495,781)	(645,500)
Issuance of class A shares	3,593,402	3,563,402	-	-	-
Issuance of debentures	3,500,000	3,500,000	-	-	-
Conversion of preferred shares	(12,023,942)	(12,023,942)	-	-	-
Cash (used) provided by financing activities	(5,199,211)	(5,393,248)	(653,620)	(465,781)	(645,500)
Increase (decrease) in cash	182,998	207,539	(233,835)	686,505	993,875
Cash, beginning of the period	57,002	57,002	264,541	30,706	717,211
Cash, end of the period	260,000	264,541	30,706	717,211	1,710,986

The attached unaudited financial statements have been prepared internally by Toon Boom Technologies Inc., a Canadian corporation ("TBT-Canada") and Toon Boom U.S.A. Inc., a Delaware corporation ("TBT-U.S.A.") and have not been prepared with a view to public disclosure. The financial statements have been prepared solely for internal use by TBT-Canada and TBT-U.S.A. and are susceptible to various interpretations and possible revisions. Neither TBT-Canada nor TBT-U.S.A. assumes any responsibility for the accuracy of such unaudited financial statements.

**TOON BOOM TECHNOLOGIES INC.
CONSOLIDATED BALANCE SHEET
1998-2002**

	Oct. 9th, 1998	June 30th 99	June 30th 00	June 30th 01	June 30th 02
ASSETS					
CURRENT ASSETS					
Cash and Term deposits	250,000	264,541	90,708	717,211	1,710,868
Accounts Receivable	1,104,014	787,891	724,156	894,358	918,283
Investment Tax Credits receivable	981,075	607,748	847,607	913,938	945,438
Inventories	18,809	18,809	16,603	16,803	16,803
Prepaid expenses	81,648	81,648	81,648	81,648	81,648
	2,433,538	1,758,588	1,701,120	2,563,856	3,671,058
Fixed assets	589,677	393,558	283,558	43,558	63,558
Software	683,485	-	-	-	-
Goodwill	3,049,806	1,081,836	-	-	-
	6,748,486	3,233,981	1,984,678	2,607,512	3,734,612

LIABILITIES AND CAPITAL IMPAIRMENT

CURRENT LIABILITIES					
Bank loan and overdraft	569,083	315,182	434,486	500,915	549,770
SDI loan on ITC	525,210	240,000	300,000	300,000	300,000
Accounts payable	1,980,113	652,000	754,000	688,000	688,000
Current portion of long term debt	1,304,879	1,192,688	1,084,261	813,500	471,000
	4,379,285	2,599,830	2,572,756	2,300,115	2,018,770
Deferred revenue	527,181	635,588	670,000	600,000	1,085,000
Long-term debt	1,954,776	2,067,183	1,482,000	1,287,000	884,000
Non controlling shareholder interest	-	-	-	-	-

CAPITAL IMPAIRMENT

Capital Stock	17,972,366	17,972,366	17,972,366	17,972,366	17,972,366
Debentures	3,508,000	3,743,750	4,058,750	4,373,750	4,688,750
Contributed Surplus	6,194,540	6,194,540	6,194,540	6,194,540	6,194,540
Deficit	(25,110,147)	(25,110,147)	(29,979,284)	(30,945,738)	(30,400,259)
Net (loss) gain	(2,673,515)	(4,889,147)	(986,442)	545,477	1,231,445
	(108,756)	(2,088,898)	(2,720,080)	(1,859,803)	(318,158)
	6,748,486	3,233,981	1,984,678	2,607,512	3,734,612

The attached unaudited financial statements have been prepared internally by Toon Boom Technologies Inc., a Canadian corporation ("TBT-Canada") and Toon Boom U.S.A. Inc., a Delaware corporation ("TBT-U.S.A.") and have not been prepared with a view to public disclosure. The financial statements have been prepared solely for internal use by TBT-Canada and TBT-U.S.A. and are susceptible to various interpretations and periodic revisions. Neither TBT-Canada nor TBT-U.S.A. assume any responsibility for the accuracy of such unaudited financial statements.

SOLVENCY CERTIFICATE**TOON BOOM TECHNOLOGIES INC.**

This solvency certificate (the "Certificate") is delivered to Keystone Consulting Group, Inc., a Delaware corporation ("Keystone"), USDigimation, LLC, a Delaware limited liability company ("USDigimation") and Digital Editions, Inc., a California corporation ("DEI") pursuant to Section 5.3(i) of the Restructuring Agreement, dated as of August 24, 1998 (together with all amendments and other modifications, if any, from time to time hereafter made thereto, the "Restructuring Agreement"), among Toon Boom Technologies Inc., a Canadian corporation, Toon Boom Technologies U.S.A. Inc., a Delaware corporation, Keystone, USDigimation, DEI, Capital Communications CDPQ Inc., a corporation organized under the laws of Quebec, Fonds d'investissement de la Culture et des Communications, société en commandite, a limited partnership organized under the laws of Quebec, Société Innovatech du Grand Montréal, a legal entity constituted according to the Loi sur la Société Innovatech du Grand Montréal, and Business Development Bank of Canada, Venture Capital Division, a legal entity constituted under the Bank Act, Canada. Unless otherwise defined herein, terms used herein have the meanings provided in the Restructuring Agreement.

The undersigned (the "Company") hereby certifies that:

(a) The officers executing this Certificate on behalf of the Company have, through the date hereof, monitored the operations and the financial condition of the Company and have knowledge of, and/or have actively participated in, the development and negotiation of the transactions contemplated by the Restructuring Agreement and those documents and instruments in connection therewith, including, without limitation, the financing by the Parent Investors, the Merger Agreement, the Shareholder Notes, the Security Agreement and the General Movable Hypothec and the Guaranty by Toon Boom Technologies U.S.A. Inc. (collectively, the "Restructuring Transactions").

(b) The Company has developed (i) the detailed balance sheet of the Company as of the Final Settlement Date, which sets forth the value of the Company's assets and the total amount of the Company's liabilities, including, without limitation, contingent liabilities which are reasonably probable of maturing and (ii) the Company's cash flow projections for the period from the Final Settlement Date to the third anniversary of the Final Settlement Date, in each case after giving effect to the Restructuring Transactions and the payment and accrual of all facts arising in connection therewith (collectively, the "Pro Forma Financial Statements"). Copies of the Pro Forma Financial Statements are attached hereto as Schedule 1, and

included in the notes accompanying the Pro Forma Financial Statements is a description of the methodology used by the Company to determine the value of each particular class of assets of the Company.

(c) The Pro Forma Financial Statements are based on (i) the historical financial statements and records of the Company; (ii) the Company's appraisals of certain of the Company's assets and the Company's valuation of the Company's business as a going enterprise; (iii) an extensive analysis of the Company's projected operations, prospects and performance after giving effect to the Restructuring Transactions and the payment and accrual of all fees arising in connection therewith, including, without limitation, an analysis of the current and anticipated future capital requirements of the Company for the current and anticipated future conduct of the business of the Company; and (iv) the assumptions specified in the notes accompanying the Pro Forma Financial Statements. In light of the historical performance of the Company, the assumptions referred to in (iv) above are reasonable.

(d) Keystone, USDigimation and DEI may rely on the Pro Forma Financial Statements:

(i) as a fair and accurate presentation of the pro forma financial condition of the Company, as of the Final Settlement Date, on a going-concern basis and prepared in accordance with the principles specified at (b) above; and

(ii) as being a reasonable projection of the financial position, results of operations and cash flows of the Company for the periods indicated, in each case after giving effect to the Restructuring Transactions and the payment and accrual of all fees arising in connection therewith.

(e) Immediately following the Restructuring Transactions and the payment and accrual of all fees arising in connection therewith:

(i) the Company's assets and the total amount of the Company's liabilities, including, without limitation, contingent liabilities which are reasonably probable of maturing (and without regard to any insolvency law limitation of liability contained therein), will be as set forth in the Pro Forma Financial Statements;

(ii) the value of the Company's assets will be in excess of the total amount of the Company's liabilities, including,

without limitation, contingent liabilities which are reasonably probable of maturing;

(iii) the Company will be able to pay its Debts (as defined below) as they mature; and

(iv) the Company will not have unreasonably small capital to carry on its business as the same is now conducted and is proposed to be conducted.

(f) In connection with the Restructuring Transactions the Company is not incurring any Debts or encumbering any of its assets with any actual intent to hinder, delay or defraud either present or future creditors of the Company. Further, the Company does not intend to incur Debts beyond its ability to pay as they mature nor does it intend to engage in any transactions or business for which it will have unreasonably small capital.

(g) The Company hereby acknowledges that the Keystone, USDigimation and DEI are relying upon the statements contained herein and consents to such reliance.

For purposes of this Certificate, the term "Debts" means all liabilities, obligations, commitments and indebtedness of any and every kind and nature (including, without limitation, all obligations to trade creditors and under guaranties of the indebtedness of other persons), whether heretofore, now, or hereafter owing, arising, due, or payable by the Company to any person, howsoever evidenced, created or incurred, and whether primary, secondary, direct, contingent, fixed or otherwise.

IN WITNESS WHEREOF, the Company has executed this Certificate
on this 9th day of October, 1998

TOON BOOM TECHNOLOGIES INC.

By: _____


Its President

By: _____


Its Chief Financial Officer

ant by: LOEB

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SCHEDULE 1

PRO FORMA FINANCIAL STATEMENTS

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**TOON BOOM TECHNOLOGIES INC.
PROJECTIONS P&L AS AT JUNE 30th,1999-2002**

	Year to date				
	98-10-09	F99	F00	F01	F02
SALES					
SOFTWARE	927,557	4,100,000	4,500,000	4,900,000	5,500,000
TECHNICAL SUPPORT 98	117,521	500,000	500,000	800,000	600,000
RENEWAL	120,178	678,000	850,000	1,200,000	1,300,000
TECHNICAL SUPPORT 97	215,336	552,826	635,000	625,000	763,000
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	-	920,000	500,000	550,000	610,000
SUB-TOTAL SALES	1,380,592	6,748,826	6,985,000	7,875,000	8,773,000
LESS:AMORT.TECH.SUPPORT	(166,905)	(559,000)	(680,000)	(900,000)	(885,000)
TOTAL SALES	1,213,687	6,189,826	6,305,000	6,975,000	7,888,000
COST OF GOOD SOLD					
	-	846,400	460,000	506,000	561,200
GROSS MARGIN	1,213,687	5,343,426	5,845,000	6,469,000	7,326,800
SALARIES AND WAGES					
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RESEARCH AND DEVELOPMENT	77,265	263,727	228,996	269,148	288,951
SALES	99,668	434,931	456,845	455,976	461,697
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TOTAL SALARIES AND WAGES	542,748	2,233,985	2,226,639	2,350,934	2,422,317
MARKETING EXPENSES					
MARKETING SALARIES	38,525	70,321	84,640	91,922	104,205
SHOWS	152,627	229,500	230,000	230,000	230,000
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PUBLICITY	20,554	73,800	72,000	80,000	90,000
TOTAL MARKETING	239,049	410,521	426,640	443,922	469,205
SELLING EXPENSES					
DISTRIBUTORS	226,719	922,500	1,012,500	1,102,500	1,237,500
REPRESENTATION COSTS	74,927	300,000	300,000	330,000	350,000
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TOON BOOM TECHNOLOGIES INC.
PROJECTIONS P&L AS AT JUNE 30th,1999-2002

	Year to date				
	98-10-09	F99	F00	F01	F02
ADMINISTRATION EXPENSES					
RENT	35,838	132,182	157,182	182,182	192,182
OFFICE EXPENSES	46,304	132,000	144,000	148,000	160,000
LIGHT, HEAT AND POWER	-	24,000	24,000	24,000	24,000
TELEPHONE	41,083	114,000	120,000	120,000	125,000
COURRIER	13,527	48,000	50,000	50,000	60,000
TAXES AND PERMITS	31,041	80,000	80,000	80,000	80,000
PROFESSIONAL FEES	33,666	100,000	100,000	100,000	100,000
INSURANCE	24,105	80,000	90,000	90,000	80,000
TOTAL ADMINISTRATION	225,554	730,192	775,192	814,192	841,192
OTHER EXPENSES					
EXTRAORDINARY EXPENSE	120,000	350,000	-	-	-
BANK CHARGES	8,290	24,000	24,000	24,000	24,000
COLLECTION FEES	-	11,668	12,970	14,650	16,326
FINANCIAL FEES	122,590	270,824	251,800	251,700	199,000
BAD DEBTS	-	29,144	32,425	36,625	40,815
TOTAL OTHER FEES	250,880	685,626	321,195	326,975	280,141
TOTAL EXPENSES	1,559,877	5,282,823	5,062,166	5,368,523	5,600,355
PROFIT (LOSS) BEFORE NON MONETARY	(346,190)	60,603	782,834	1,100,477	1,726,445
NON-MONETARY EXPENSES					
DEBENTURE INTEREST	8,000	243,750	315,000	315,000	315,000
CURRENCY EXCHANGE	602,881	-	-	-	-
AMORTIZATION GOODWILL	732,030	2,700,000	1,074,276	-	-
AMORTIZATION SOFTWARE	890,536	1,566,000	-	-	-
DEPRECIATION COMPUTER	78,901	360,000	300,000	180,000	120,000
DEPRECIATION OFFICE	14,977	60,000	60,000	60,000	60,000
TOTAL NON CASH EXPENSES	2,327,325	4,829,750	1,749,276	555,000	495,000
NET PROFIT (LOSS)	(2,673,515)	(4,869,147)	(966,442)	545,477	1,231,445

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**TOON BOOM TECHNOLOGIES INC.
CONSOLIDATED STATEMENT OF CHANGES
PROJECTION FOR YEAR END JUNE 30TH, 98-02**

	Oct. 8th, 1998	June 30 th, 99	June 30th, 00	June 30th, 01	June 30th, 02
OPERATING ACTIVITIES					
Net loss for the period	(2,673,515)	(4,869,147)	(866,443)	545,476	1,231,447
Items not affecting cash					
Depreciation and Amortization	1,716,444	4,704,001	1,441,836	240,000	180,000
Gain on conversion of Preferred shares	6,194,540	6,194,540	315,000	315,000	315,000
Interest on debentures	8,000	243,750	790,393	1,100,476	1,726,447
	5,245,469	6,273,144	1,152,268	1,152,268	1,839,176
Changes in non-cash working capital items	140,740	(522,859)	(120,608)	51,790	112,728
Cash (used) provided in operating activities	6,366,209	6,760,785	669,785	1,152,268	1,839,176
INVESTING ACTIVITIES					
Additions to fixed assets	-	(150,000)	(250,000)	-	(200,000)
Cash (used) provided in investing activities	-	(150,000)	(250,000)	-	(200,000)
FINANCING ACTIVITIES					
SDI loan	-	(285,210)	60,000	-	-
Reimbursement of long term debt	(263,271)	(176,096)	(713,920)	(485,781)	(645,500)
Issuance of class A shares	3,593,402	3,593,402	-	-	-
Issuance of debentures	3,500,000	3,500,000	-	-	-
Conversion of preferred shares	(12,023,342)	(12,023,342)	-	-	-
Cash (used) provided by financing activities	(5,193,211)	(5,393,245)	(653,620)	(465,761)	(645,500)
Increase (decrease) in cash	192,998	207,539	(233,835)	688,505	893,675
Cash, beginning of the period	57,002	57,002	264,541	30,706	717,211
Cash, end of the period	250,000	264,541	30,706	717,211	1,710,886

The attached unaudited financial statements have been prepared internally by Toon Boom Technologies Inc., a Canadian corporation ("TBT-Canada") and Toon Boom U.S.A. Inc., a Delaware corporation ("TBT-U.S.A.") and have not been prepared with a view to public disclosure. The financial statements have been prepared solely for internal use by TBT-Canada and TBT-U.S.A. and are susceptible to various interpretations and periodic revision. Neither TBT-Canada nor TBT-U.S.A. assume any responsibility for the accuracy of such unaudited financial statements.

**TOON BOOM TECHNOLOGIES INC.
CONSOLIDATED BALANCE SHEET
1998-2002**

	Oct. 9th, 1998	June 30th 98	June 30th 00	June 30th 01	June 30th 02
ASSETS					
CURRENT ASSETS					
Cash and Term deposits	250,000	264,541	30,706	717,211	1,710,988
Accounts Receivables	1,104,014	787,831	724,158	894,358	916,283
Investment Tax Credits receivable	981,075	607,748	847,807	919,938	945,438
Inventories	16,803	16,803	16,803	16,803	16,803
Prepaid expenses	81,646	81,646	81,646	81,646	81,646
	2,433,538	1,758,569	1,701,120	2,583,956	3,671,058
Fixed assets	589,677	393,556	288,556	43,556	63,556
Software	693,465	-	-	-	-
Goodwill	3,049,806	1,081,836	-	-	-
	6,746,488	3,233,961	1,984,676	2,607,512	3,734,612

LIABILITIES AND CAPITAL IMPAIRMENT

CURRENT LIABILITIES					
Bank loan and overdraft	569,093	315,132	494,495	500,815	549,770
SDI loan on ITC	525,210	240,000	300,000	300,000	300,000
Accounts payable	1,980,113	852,000	754,000	686,000	698,000
Current portion of long term debt	1,304,879	1,192,698	1,084,281	813,500	471,000
	4,373,285	2,599,830	2,572,756	2,300,115	2,018,770
Deferred revenue	527,161	635,586	670,000	800,000	1,085,000
Long-term debt	1,954,776	2,067,183	1,462,000	1,267,000	864,000
Non controlling shareholder interest	-	-	-	-	-

CAPITAL IMPAIRMENT

Capital Stock	17,972,366	17,972,366	17,972,366	17,972,366	17,972,988
Debentures	3,508,000	3,743,750	4,058,750	4,373,750	4,688,750
Contributed Surplus	6,194,540	6,194,540	6,194,540	6,194,540	6,194,540
Deficit	(25,110,147)	(25,110,147)	(29,979,294)	(30,945,796)	(30,400,259)
	(2,673,515)	(4,869,147)	(866,442)	545,477	1,231,445
Net (loss) gain	(108,756)	(2,068,638)	(2,720,080)	(1,859,609)	(319,158)
	6,746,486	3,233,961	1,984,676	2,607,512	3,734,612

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