

703-306-5995

# RECORDATION FORM COVER SHEET TRADEMARKS ONLY

U.S. DEPARTMENT OF COMMERCE  
U.S. Patent and Trademark Office

Form PTO-1594  
(Rev. 03/01)  
OMB No. 0651-0027 (exp. 5/31/2002)

To the Honorable Commissioner of Patents and Trademarks: Please record the attached original documents or copy thereof.

1. Name of conveying party(ies):

**Toon Boom Animation Inc.**  
**7 Laurier Street East**  
**Montréal H2T 1E4 Quebec CANADA**

- Individual(s)
- General Partnership
- Association
- Limited Partnership

- Corporation-State Canada
- Other: \_\_\_\_\_

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

2. Name and address of receiving party(ies)

Name: **Nelyana Limited**

Internal Address: \_\_\_\_\_

Street Address: **42 Pardee Avenue**

City: **Toronto, Ontario** State: **Canada** Zip: **M6K 1X8**

- Individual(s) citizenship \_\_\_\_\_
- Association \_\_\_\_\_
- General Partnership \_\_\_\_\_
- Limited Partnership \_\_\_\_\_
- Corporation-State: **Ontario**
- Other \_\_\_\_\_

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

3. Nature of conveyance:

- Assignment
- Security Agreement
- Merger
- Change of Name

Other: \_\_\_\_\_  
Execution Date: **October 19, 2004**

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

A. Trademark Application No.(s)  
**76/205620 TOON BOOM STUDIO**

B. Trademark Registration No.(s)  
**2,064,189 USANIMATION**

Additional number(s) attached  Yes  No

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

Name: **Michael Bevilacqua, Esquire**  
Internal Address: **Wilmer Cutler Pickering Hale and Dorr LLP**  
Street Address: **60 State Street**  
City: **Boston** State: **Massachusetts** Zip: **02109**

6. Total number of applications and registrations involved: ..... **TWO (2)**

7. Total fee (37 CFR 3.41).....\$ **65.00**  
 Enclosed  
 Authorized to be charged to deposit account

8. Deposit account number: **08-0219**

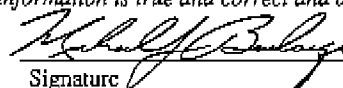
(Attach duplicate copy of this page if paying by deposit account)

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.*

**Michael Bevilacqua, Esquire**  
Name of Person Signing

  
Signature

**March 15, 2005**  
Date

Wilmer Cutler Pickering Hale and Dorr LLP Attorney Reference Number: **290.730.120**

Total number of pages including cover sheet, attachments, and document: **16**

Mail documents to be recorded with required cover sheet information to: Commissioner of Patent & Trademarks, Box Assignments, Washington, D.C. 20231

Please return via FACSIMILE to:

**Michael J. Bevilacqua, Esquire @ 617-526-5000**  
US1DOCS 2322814v1

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**TRADEMARK**  
**REEL: 003066 FRAME: 0618**

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**DEED OF HYPOTHEC** (this "**Deed**") made in the City of Montréal, Province of Québec, as of the 19<sup>th</sup> day of October, 2004.

**BY AND BETWEEN:**

**TOON BOOM ANIMATION INC.**, a corporation duly constituted in virtue of the *Canada Business Corporations Act*, having its registered office at 7 Laurier Street East, Montréal, Québec, H2T 1E4

(hereinafter referred to as the "**Debtor**")

**AND:**

**NELVANA LIMITED**, a corporation duly constituted in virtue of the laws of Ontario;

(hereinafter referred to as the "**Creditor**")

**WHEREAS** on March 12, 2004 (the "**Effective Date**"), the Creditor made a loan to the Debtor in the principal amount of Two Million Three Hundred Thousand Dollars (\$2,300,000) (the "**Loan**");

**WHEREAS** on the date hereof, the Creditor and the Debtor have entered into a loan agreement effective as of and from the Effective Date, which sets forth the terms and conditions governing the Loan (the said loan agreement, all amendments thereto and all extensions, renewals or restatements thereof being hereinafter collectively referred to as the "**Loan Agreement**");

**WHEREAS** pursuant to the Loan Agreement, the Debtor has agreed to hypothecate the property hereinafter described in favour of the Creditor as continuing and collateral security for the fulfilment by the Debtor of certain of its obligations pursuant to the Loan Agreement as hereinafter mentioned.

**NOW, THEREFORE, THE PARTIES HERETO HAVE AGREED AS FOLLOWS:**

1 **PREAMBLE**

1.1 The preamble shall form an integral part hereof as if herein recited at length.

2 **HYPOTHEC**

2.1 As continuing and collateral security for the due and punctual payment and repayment of (i) any and all amounts, in principal, interest, interest on interest and accessories, now or hereafter owing by the Debtor to the Creditor on account of or arising from or in connection with the Outstanding Cash Portion and the Accrued Interest (as such terms are defined in the Loan Agreement) and (ii) to the fullest extent permitted by law, legal fees, costs of realization, expenses incurred by the Creditor in connection with the

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preservation, maintenance and/or enforcement of the hypothec hereby created and the preservation or maintenance of the Hypothecated Properties (all of the said amounts, in principal, interest and accessories, and the said other obligations, covenants and agreements being hereinafter collectively referred to as the "**Secured Obligations**"), the Debtor hereby hypothecates in favour of the Creditor, for the sum of four hundred and fifty thousand dollars (\$450,000) and interest thereon at the rate of twenty-five percent (25%) per annum, calculated semi-annually, not in advance, all of the right, title and interest of the Debtor in and to the universality consisting of all moveable property or assets of every nature whatsoever, both present and future, corporeal and incorporeal, of the Debtor in connection with or pertaining or relating to any business, enterprise, activity or undertaking carried on or conducted by the Debtor (all such property, being hereinafter collectively referred to as the "**Hypothecated Properties**"), including specifically but without in any manner limiting the generality of the foregoing:

#### 2.1.1 Inventory

All moveable property now or hereafter owned or acquired by or on behalf of the Debtor or of which the Debtor is entitled to become owner or in which the Debtor has an interest and which is kept for sale, lease or processing in the manufacture or transformation of property intended for sale, for lease or for use in providing a service, including, without limitation, all raw materials, work in progress and finished products, and all right, title and interest in any of the foregoing which the Debtor now or at any time in the future has or may have (hereinafter collectively referred to as the "**Inventory**");

#### 2.1.2 Machinery and Equipment

All equipment, machinery, tools, fixtures, furniture and vehicles and all additions and accessions thereto now or hereafter owned, held, or acquired by or on behalf of the Debtor, and all right, title and interest in any of the foregoing which the Debtor now or at any time in the future has or may have (hereinafter collectively referred to as the "**Machinery and Equipment**");

#### 2.1.3 Warehouse receipts and Bills of Lading

All moveable property represented by warehouse receipts or bills of lading now or hereafter owned, held or acquired by or on behalf of the Debtor, and all right, title and interest in any of the foregoing which the Debtor now or at any time in the future has or may have (hereinafter collectively referred to as the "**Bills of Lading**");

#### 2.1.4 Securities

All shares, stocks, warrants, bonds, debentures, debenture stock, stock options and other securities now or hereafter owned or acquired by or on behalf of the Debtor, together with all renewals thereof, substitutions therefor, accretions thereto and all rights, claims and proceeds in respect thereof and including, without limitation, any such securities of the Debtor which are now or hereafter held by or delivered to the Creditor,

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and all right, title and interest in any of the foregoing which the Debtor now or at any time in the future has or may have (hereinafter collectively referred to as the "**Securities**");

#### 2.1.5 Claims

All accounts receivable, book accounts, book debts, debts, claims, customer accounts, bank accounts, rentals, revenues, income, loans receivable, choses in action, judgments, contract rights, proceeds of sale, indemnities payable under any contract of insurance (whether or not such insurance is on property forming part of the Hypothecated Properties), rebates, refunds, amounts owing by or claimable from the Crown, state or government (or any departments, agents or agencies thereof) and any other amounts or demands of every nature and kind howsoever arising, whether or not secured, which are now or become hereafter due or owing to the Debtor as well as all security interests, hypothecs, assignments, guarantees, bills of exchange, notes, negotiable instruments, and judgments in respect of all of the foregoing claims and together with all contracts, invoices, records, books of account, disks, programs, letters of credit or guarantee and/or other documents, papers and materials in any way evidencing or relating to all or any of the foregoing, now or hereafter held, owned or acquired by or on behalf of the Debtor, and all right, title and interest in any of the foregoing which the Debtor now or at any time in the future has or may have (hereinafter collectively referred to as the "**Claims**");

#### 2.1.6 Intellectual Property

All patents and patents pending, registered and unregistered trademarks, trade or brand names, service marks, copyrights, software, industrial designs, formulae, processes, trade secrets, goodwill, inventions, contractual rights, licenses and permits now or hereafter owned or acquired by the Debtor or on behalf of the Debtor, and all right, title and interest in any of the foregoing which the Debtor now or any time in the future has or may have, including without limitation the intellectual property described in Schedule "A" hereto (hereinafter collectively referred to as the "**Intellectual Property**").

#### 2.1.7 Proceeds

All insurance proceeds or indemnities paid under insurance contracts covering all or any part of the Hypothecated Properties that is received by or on behalf of the Debtor as indemnification or compensation for all or any part of the Hypothecated Properties that is lost, destroyed or damaged, and all right, title and interest in any of the foregoing which the Debtor now or at any time in the future has or may have (hereinafter collectively referred to as the "**Proceeds**");

2.1.8 Leases and Licenses

All right, title and interest now or hereafter held by or on behalf of the Debtor with respect to any lease, offer to lease or other agreement in respect of the leasing of immoveable property or any licence to occupy any premises or to operate any business thereon (hereinafter collectively referred to as the "Leases"); and

2.1.9 Monies

All monies, cash, foreign currencies and credits which now are or which may at any time in the future be owned by the Debtor, and all of the right, title and interest in any of the foregoing which the Debtor now or at any time in the future has or may have (hereinafter collectively referred to as the "Monies"),

said Inventory, Machinery and Equipment, Bills of Lading, Securities, Claims, Intellectual Property, Proceeds, Leases and Monies forming part of the Hypothecated Properties without being a limitative and exhaustive description thereof.

2.2 The hypothec herein created in favour of the Creditor shall not constitute nor be construed as a floating hypothec under the provisions of Article 2715 of the Civil Code of Québec (hereinafter referred to as the "C.C.Q.") and is created without delivery.

2.3 The full amount of the hypothec herein created shall be and remain continuing collateral security in favour of the Creditor, for the full repayment, fulfilment or performance of the Secured Obligations and such hypothec shall be and remain in full force and effect notwithstanding the fact that all or any Secured Obligations arise prior to, at the time of or subsequent to the execution hereof, the repayment or reduction or fulfilment at any time and from time to time of the Secured Obligations or any part thereof, the whole until all Secured Obligations at any time and from time to time existing shall have been entirely repaid, fulfilled and released to the satisfaction of the Creditor.

2.4 Notwithstanding anything to the contrary contained in the Loan Agreement or this Deed, the Secured Obligations shall not include bonds or other titles of indebtedness (as referred to in Article of 2692 of the C.C.Q.).

2.5 The present Deed is a continuous security which shall subsist notwithstanding any fluctuation of the amounts hereby secured. The Debtor shall be deemed to oblige itself again as provided in Article 2797 of the C.C.Q. with respect to any future Secured Obligations.

3 COVENANTS OF DEBTOR

3.1 The Debtor hereby binds and obliges itself, until all of the Secured Obligations have been duly repaid, performed or satisfied in full and to the satisfaction of the Creditor:

3.1.1 to pay the Secured Obligations when the same are due and payable, by acceleration or otherwise, and to comply with all other terms, conditions, warranties, covenants and declarations of this Deed, and of the Loan

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Agreement and all other agreements pertaining to any part of the Secured Obligations;

- 3.1.2 to pay all fees and expenses, and costs of publication in respect of this Deed and in respect of all renewal titles, renewals of publication, notices of address and discharges in connection therewith;
- 3.1.3 to pay to the Creditor from time to time, on demand, all sums which the Creditor may pay, or for the payment of which it may become liable, whether for costs in legal proceedings or for fees, charges, commissions or other expenses, in seeking to obtain the fulfilment of any obligations hereunder, or to enforce or preserve the security hereunder or otherwise in connection with or by reason of this Deed;
- 3.1.4 unless otherwise provided for in the Loan Agreement, to fully and effectually maintain and keep maintained the security hereby created as a valid and effective first ranking hypothec to be at all times;
- 3.1.5 not, without the consent of the Creditor, to move the Hypothecated Properties or any part thereof (other than inventory but subject to Section 4.1.6 hereof) outside the Province of Québec; and
- 3.1.6 not to sell, alienate or dispose of any of the Hypothecated Properties unless such sale, alienation or disposition is conducted in the ordinary course of business.

#### 4 EVENTS OF DEFAULT

- 4.1 In case of the happening of an Event of Default (as defined in the Loan Agreement), the Creditor shall, in addition to any of its other rights, forthwith be entitled to exercise any and all of the rights provided for in Chapter V of Title III of Book VI of the C.C.Q. and in the *Code of Civil Procedure of Québec*. In exercising any of the rights and recourses available hereunder or at law, the Creditor may, at its option, in respect of all or any part of the Hypothecated Properties, exercise such rights and recourses as are available hereunder or at law, without prejudice to any other rights and recourses of the Creditor available in respect of the Hypothecated Properties or any part thereof. It is understood and agreed that to the extent permitted by law, the Creditor may exercise any of its rights and recourses in respect of the Hypothecated Properties or any part thereof simultaneously or successively and shall be entitled to acquire all or any part of the Hypothecated Properties.
- 4.2 Any action taken by or on behalf of the Creditor to remedy any Event of Default shall not constitute a waiver of such default, nor be deemed to have relieved the Debtor therefrom. Failure of the Creditor to insist upon strict performance of any covenants of this Deed or to exercise any right or option hereunder shall not be construed as a waiver or relinquishment for the future of any such covenant, right or option.
- 4.3 The acceptance by the Creditor following any default of any sum owing to it by the Debtor or the exercise by the Creditor of any right or recourse hereunder or under any other agreement between the Debtor and the Creditor shall not preclude the Creditor

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from exercising any other right or recourse, all rights and recourses of the Creditor being cumulative and not alternative.

- 4.4 If the Creditor gives the Debtor a prior notice of its intention to exercise a hypothecary right the Debtor shall, and shall cause any other person in possession of Hypothecated Properties to, immediately voluntarily surrender same to the Creditor.
- 4.5 No act or omission of the Creditor shall be construed as constituting or implying a waiver by it of any default hereunder or a surrender of any rights resulting from such default.
- 4.6 The Creditor agrees that, prior to exercising any of its rights and recourses hereunder or under applicable law, it shall provide each of Société Innovatech du Grand Montréal and Fonds d'Investissement de la Culture et des Communications, Société en Commandite (collectively, the "Beneficiaries") with a two (2) business day prior written notice advising of the Creditor's intention to exercise such rights and recourses. Notwithstanding the foregoing, in the case of the happening of an Event of Default referred to in Sections 4.1.5, 4.1.6, 4.1.7 or 4.1.8. of the Loan Agreement, the Creditor may immediately exercise any of its rights and recourses hereunder or under applicable law, provided that it shall, concurrently with such exercise, give notice thereof to the Beneficiaries.

## 5 REMEDIES - CUMULATIVE

- 5.1 No right conferred upon or reserved to the Creditor hereby or in any other agreement between the Debtor and the Creditor is intended to be exclusive of any other right but each such right shall be cumulative and shall be in addition to every other right hereunder and thereunder and to every other right which may now or hereafter exist by law or by statute or under any other security in respect of the Secured Obligations which the Creditor may have heretofore obtained or may hereafter obtain from the Debtor or from any other person.

## 6 ADDITIONAL RIGHTS OF THE CREDITOR

- 6.1 Upon the occurrence of an Event of Default, if the Hypothecated Properties include securities, the Creditor may, but shall not be obliged to, cause the Creditor, or its nominees, to be registered as holder of such securities and exercise all rights in respect of such securities, including any right to vote, any right of conversion or any right of redemption.
- 6.2 Effective after the occurrence of an Event of Default, the Debtor hereby irrevocably constitutes the Creditor or any manager or other officer of the Creditor, its agent, with full power of substitution, in order to perform any act and sign any document, including any transfer or endorsement of securities, necessary or useful to the exercise of the rights conferred on the Creditor pursuant to this Deed.
- 6.3 To the extent that the Debtor has surrendered or will surrender the Hypothecated Properties or any part thereof to the Creditor or its agents or if the Creditor or its agents have possession of the Hypothecated Properties or any part thereof, neither the Creditor nor its agents shall have any obligation to continue the use, operation or exploitation of the Hypothecated Properties or any part thereof or to continue the use

for which it is ordinarily destined or to exercise the rights pertaining to the Hypothecated Properties or any part thereof or to make them productive; and the Debtor agrees that the Creditor or its agents may do such acts and things, or refrain from doing such acts and things, as the Creditor or its agents, in their sole discretion, deem appropriate for the exercise of the Creditor's rights and the realization and enforcement of its hypothec.

6.4 In order to enforce and realize its hypothec herein created, the Creditor may use, at the Debtor's expense, the premises where the Hypothecated Properties are located. If the Hypothecated Properties include inventory, the Creditor may complete the manufacture of such inventory and do any other thing necessary or useful to bring it to sale.

6.5 The Debtor agrees that with respect to any sale by the Creditor of any of the Hypothecated Properties in the exercise of the Creditor's rights, it will be commercially reasonable to sell such Hypothecated Properties:

6.5.1 together or separately;

6.5.2 by auction or by call for tenders by advertising such sale or call for tenders once in a local daily newspaper at least seven (7) days prior to such sale or close of call for tenders;

6.5.3 by sale by agreement after receipt by the Creditor of at least two (2) offers from prospective purchasers, who may include persons related to or affiliated with the Debtor or other debtors of the Creditor, and

6.5.4 by any combination of the foregoing,

and any such sale may be on such terms as to credit or otherwise and as to upset price or reserve bid or price as the Creditor in its sole discretion may deem advantageous, and the Debtor agrees that the price received at any such sale shall constitute a commercially reasonable price.

6.6 The foregoing shall not preclude the Creditor from agreeing to or making any sale in any other manner not prohibited by law nor shall it be interpreted to mean that only a sale made in conformity with the foregoing is commercially reasonable or that only the price received at a sale made in conformity with the foregoing shall constitute a commercially reasonable price.

6.7 All sums received by the Creditor in the exercise of its rights arising under or pursuant to this Deed or by law may be held by the Creditor as Hypothecated Properties, or may be applied by the Creditor to the payment of the Secured Obligations, whether or not then exigible. The Creditor may impute and apply such sums towards payment of any part or parts of the Secured Obligations as the Creditor in its sole discretion shall decide, and may change any imputation or application as it sees fit.

6.8 The Creditor may exercise the rights arising from this Deed without having exercised its rights against any other person liable for the payment of the Secured Obligations or any of them, and without having realized any other security securing the Secured Obligations.



- 6.9 The Creditor is only required to exercise reasonable prudence and diligence in the exercise of its rights or the fulfilment of its obligations and, in any event, the Creditor is only responsible for its intentional or gross fault. The Debtor shall indemnify the Creditor for any losses or expenses incurred by the Creditor, or damages claimed against the Creditor, for which the Creditor is not so responsible.
- 6.10 The Creditor may delegate to any other person, or be represented by any other person in, the exercise of its rights or the fulfilment of its obligations resulting from this Deed; the Creditor may furnish to such person any information which the Creditor may have concerning the Debtor or the Hypothecated Properties.
- 6.11 Notwithstanding anything to the contrary provided in this Deed, the Creditor agrees and undertakes to act reasonably and in good faith in the exercise of any discretionary right hereunder and in the performance of any and all its rights and recourses provided hereunder (including, without limitation, the rights set forth in sections 4, 5, 6 and 7 hereof) or under applicable law.

**7 PROVISIONS APPLICABLE TO CLAIMS**

- 7.1 If the Hypothecated Properties include claims, whether present or future, then in addition to the other provisions of this Deed, the following provisions shall apply in respect of such claims:
  - 7.1.1 The Creditor hereby authorizes the Debtor to collect when due the capital falling due of, and any revenues of, any claims until the Creditor shall have given the Debtor a notice withdrawing such authorization, whereupon the Creditor shall immediately have the exclusive right to collect all such capital and revenues. This notice of withdrawal may be given at any time after the occurrence of an Event of Default and may be so given in respect of all or any part or parts of the claims.
  - 7.1.2 Upon notice by the Creditor to the Debtor, which may be given at any time after the occurrence of an Event of Default, the Creditor may require the Debtor to immediately remit to the Creditor all or a specified part of capital and revenues of claims received by the Debtor or to deposit the same in one or more designated bank accounts or otherwise to hold, deal with or deliver such capital and revenues, all on such terms and conditions as the Creditor may specify in such notice.
  - 7.1.3 The Creditor shall have no obligation to exercise any rights in respect of any claims nor to enforce or to see to payments of the same, whether by legal action or otherwise. The Creditor may give acquittances for any sums it collects and may, but shall not be obligated to, realize any of the claims, grant extensions, grant releases, accept compositions, renounce and generally deal with the claims, and any guarantees or security therefor, and take any action to preserve, protect or secure such claims, at such times and in such manner as it deems advisable in its sole discretion, without notice to or the consent of the Debtor, and without incurring any liability therefor and without any obligation to render any account in respect thereof or in respect of moneys collected.

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- 7.1.4 Any amounts collected by the Debtor or by the Creditor or deposited in a designated bank account shall form part of the Hypothecated Properties and be subject to the hypothec herein created. The Creditor may apply amounts received by it towards payment of all or part of the Secured Obligations even if not yet exigible, including any fees, costs or other expenses incurred by the Creditor and secured hereunder, and may impute and apply such amounts towards payment of any part or parts of the Secured Obligations as the Creditor in its sole discretion shall decide, and may change any imputation or application as it sees fit.
- 7.1.5 The Debtor waives any obligation the Creditor may have to inform the Debtor of any irregularity in the payment of any sums exigible on any claims or rights.
- 7.1.6 The Debtor shall from time to time on request of the Creditor deliver to the Creditor at the Creditor's expense, or permit the Creditor or its officers or agents access to its premises during normal business hours for the purpose of examining and making copies of, all books and accounts, letters, invoices, papers, agreements, negotiable instruments, documents of title, hypothecs and other documents in any way evidencing or relating to all or any of the claims forming part of the Hypothecated Properties and shall otherwise assist the Creditor and furnish the Creditor with all information which may assist the Creditor in the collection thereof.

## 8 OTHER SECURITY

- 8.1 It is expressly declared and agreed between the parties hereto that the security hereby granted is in addition to and over and above any and all other security now or hereafter held by the Creditor for the Secured Obligations and any part or parts thereof. Without in any way limiting the generality of the foregoing, the present security shall not be diminished or novated or otherwise affected by any other security or any promissory note or other evidence of indebtedness which the Creditor may have heretofore obtained or may hereafter obtain from the Debtor or from any other person, or by any other agreement which the Debtor and the Creditor may have heretofore entered into or may hereafter enter into, nor shall any such security or note or evidence of indebtedness or agreement be diminished or novated or otherwise affected hereby.

## 9 TIME OF ESSENCE

- 9.1 Is it understood and agreed by the Debtor and the Creditor that in addition to any other circumstances where the Debtor is in default by operation of law, time is of the essence in this Deed and that the mere lapse of time shall have the effects contemplated by the present Deed, without the necessity of further notice or delay, in accordance with Article 1594 of the C.C.Q.

## 10 SUCCESSORS AND ASSIGNS

- 10.1 The rights conferred on the Creditor by this Deed shall enure to the benefit of each successor of the Creditor. Subject to any right of first refusal which has been granted to certain shareholders pursuant to the provisions of any unanimous shareholders

agreement relating to the Debtor then in force, the Creditor shall have the right to assign all or any part of the Secured Obligations or any of the security granted by the present Deed to any other person and this Deed shall enure to the benefit of any such assignee in respect of all, or such part, of the Secured Obligations which have been so assigned.

**11 STIPULATION FOR ANOTHER**

11.1 To the extent the provisions of Section 4.6 of this Deed are deemed to be a stipulation for another as understood pursuant to Articles 1444 and following of the C.C.Q., the Creditor hereby acknowledges that the third party beneficiaries thereof have advised the Creditor of their will to accept such stipulations.

**12 SEVERABILITY**

12.1 If any clause of the present Deed, or any part thereof, is null or otherwise unenforceable, without effect, or deemed unwritten, such clause shall be considered separate and severable from this Deed and the remaining provisions hereof shall continue in full force and effect.

**13 WAIVER**

13.1 The Creditor may grant extensions of time and other indulgences and give up security, accept compositions, compromise, settle, grant releases and discharges and otherwise deal with the Debtor or debtors of the Debtor, sureties and others and with the Hypothecated Properties and other security as the Creditor may see fit without prejudice to the liability of the Debtor or the Creditor's rights to hold and realize the security interest created pursuant to the present Deed. Furthermore, the Creditor may demand, collect and sue on Hypothecated Properties in either the Debtor's or the Creditor's names, at Creditor's option, and may, upon the occurrence of an Event of Default, endorse the Debtor's name on any and all cheques, commercial paper and any other instruments pertaining to or constituting Hypothecated Properties.

13.2 No act, delay or omission by the Creditor in exercising any right or remedy hereunder or with respect to any Secured Obligations shall operate or be construed as a waiver thereof or of any other right or remedy and no waiver of any provision hereof shall be effective unless in writing.

**14 AMENDMENTS**

14.1 No modification, variation or amendment of any provision of this Deed shall be made except by written agreement executed by the parties hereto and provided that the Corporation is authorized to enter into such agreement pursuant to the provisions of any unanimous shareholders agreement between the shareholders of the Debtor.

**15 SUBSEQUENT HOLDERS**

15.1 All the terms, clauses, conditions and stipulations herein shall be binding upon subsequent holders of the Hypothecated Properties (other than inventory sold in the ordinary course of business) or any part thereof.

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**16 NOTICES**

- 16.1 Any demand, notice or communication to be made or given hereunder or by law shall be transmitted in accordance with Article 5 of the Loan Agreement.
- 16.2 Should the Creditor be unable to locate the Debtor as aforesaid, any notice or demand required to be given may be served upon the Debtor at the Office of the Special Clerk of the Superior Court of the District of Montréal, at which office the Debtor elects domicile for purposes of this Deed.

**17 GOVERNING LAW**

- 17.1 The present Deed shall be governed by and construed in accordance with the laws of the Province of Québec and the federal laws of Canada applicable therein.

**18 FREELY NEGOTIATED**

- 18.1 The Debtor and the Creditor acknowledge that they have been represented by legal counsel in the discussion, negotiation and execution of the present Deed. The Debtor and the Creditor further acknowledge and covenant that the provisions hereof and of all other agreements executed by and between the Creditor and the Debtor have been freely and fully discussed and negotiated and that the execution of the present Deed constitutes and is deemed to constitute full and final proof of the foregoing. The Debtor and the Creditor acknowledge and agree to have read, examined, understood and approved of all the provisions of the present Deed. The Debtor acknowledges having obtained all information useful or necessary to make an enlightened decision to execute the present Deed.

**19 CONFLICT**

- 19.1 Where there is a conflict between the provisions of this Deed of Hypothec and the Loan Agreement, the terms of the Loan Agreement shall prevail, unless as a result thereof the hypothec created herein or any of the hypothecary remedies of the Creditor hereunder would be in any way diminished or invalidated, in which case the provisions of this Deed of Hypothec shall prevail.

**20 CHOICE OF LANGUAGE**

- 20.1 The parties hereto declare that they require that this Deed and any related documents be drawn up and executed in English only; les parties soussignées déclarent qu'elles exigent que cet acte et tous les documents s'y rattachant soient rédigés en anglais seulement.


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IN WITNESS WHEREOF, the parties have executed this Deed at the place and as of the date first above-mentioned.

**TOON BOOM ANIMATION INC.**

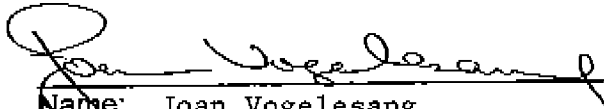
Per: \_\_\_\_\_  
Name:  
Title:

**NELVANA LIMITED**

Per:  \_\_\_\_\_  
Name: Christine Nalborczyk  
Title: Christine Nalborczyk  
Vice President, Finance

IN WITNESS WHEREOF, the parties have executed this Deed at the place and as of the date first above-mentioned.

**TOON BOOM ANIMATION INC.**

Per:   
 Name: Joan Vogelesang  
 Title: President and Chief Executive Officer

**NELVANA LIMITED**

Per: \_\_\_\_\_  
 Name:  
 Title:

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**Schedule "A"**  
**Intellectual Property**

**(i) Patents**

1. "Drawing Pixmap to Vector Conversion", United States Patent No.: US 6,173,075 B1, issued January 9, 2001.
2. "Drawing Pixmap to Vector Conversion", United States Patent No.: US 6,560,361 B1, issued May 6, 2003.

**(ii) Trademarks**

3. "TOONBOOM STUDIO" Trademark in Canada, application filed on February 7, 2001, under Application No.: 1,091,928 (Registration pending)
4. "TOONBOOM STUDIO" Trademark in the United States, application filed on February 6, 2001, under Application No.: 76/205,620 (Registration pending).
5. "TOONBOOM" Trademark in Canada, application filed on February 7, 2001, under Application No.: 1,091,929 (Registration pending)
6. "USANIMATION" Trademark in Canada, Registered on February 16, 1999 under Registration No.: TMA508,094
7. "USANIMATION" Trademark in the United States, Registered on May 20, 1997 under Registration No.: 2,064,189.
8. "USANIMATION" Trademark in Germany, Registered on December 27, 1995 under Registration No.: 395 52 604
9. "USANIMATION" Trademark in France, Registered on December 15, 1995 under Registration No.: 95/601,448
10. "USANIMATION" Trademark in Indonesia, Registered on August 7, 1997 under Registration No.: 378,377
11. "USANIMATION" Trademark in Korea, Registered on December 10, 1997 under Registration No.: 386,010
12. "USANIMATION" Trademark in China, Registered on May 28, 1997 under Registration No.: 1,018,202
13. "USANIMATION" Trademark in Japan, Registered on June 5, 1998 under Registration No.: 4,152,703
14. "USANIMATION" Trademark in India, application filed on January 4, 1996 under Application No.: 693,484 (Registration pending)
15. "USANIMATION" Trademark in the Philippines, application filed on December 26, 1995 under Application No.: 104815 (Registration pending)

**(iii) Copyrights**

16. "USAnimation" system, version 4.0 (computer program), Registered on July 27, 1998 under Registration No.: TX-4-810-059.

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17. "USAnimation source" (machine readable work), Registered on August 19, 1998 under Registration No.: TX-4-922-416.
18. "USAnimation / written by Robert Collins, 1965 - ." system, version 1.0 (computer program), Registered on July 27, 1998 under Registration No.: TXu-865-811.
19. "USAnimation / written by Robert Collins, 1965 - ." system, version 1.1 (computer program), Registered on July 27, 1998 under Registration No.: TXu-865-812.
20. "USAnimation System: version 2.0" (computer program), Registered on August 19, 1998, under Registration No.: TXu-874-811.