

# SECURITY AGREEMENT

THIS AGREEMENT made as of the \_\_\_\_ day of \_\_\_\_\_, \_\_\_\_\_.between:

\_\_\_\_\_, In Trust  
(hereinafter called the "Secured Party")

- and -

[NAME OF CORPORATION]  
a corporation incorporated under the laws of the Province of Ontario  
(herein called the "Borrower")

## CONTEXT

- A. The Borrower is or may become indebted to the Shareholders of the Borrower from time to time for shareholder advances, or declared and unpaid dividends, and may incur other obligations to such Shareholders.
- B. The Secured Party has agreed to act as trustee on behalf of all past, present and future Shareholders of the Borrower for and with respect to the taking of a security interest in the assets and undertaking of the Borrower to secure any and all liabilities or obligations of the Borrower to the Shareholders or any one of them of any kind whatsoever, past, present or future.

THEREFORE, IN CONSIDERATION of the covenants and agreements herein contained, and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the Borrower agrees with the Secured Party as follows:

## ARTICLE 1 - INTERPRETATION

1.1 Defined Terms . In this agreement, unless there is something in the context or subject matter inconsistent therewith,

"Accounts" means all debts, amounts, claims and moneys which now are, or which may at any time hereafter be, due or owing to or owed by the Borrower, whether or not earned by performance excluding, to the extent that an assignment in favour of the Secured Party is restricted by law, any such debts, amounts, claims and moneys due from the Government of Canada or any department or agency thereof or any Crown corporation; all securities, mortgages, bills, notes and other documents now held or owned, or which may be hereafter taken, held or owned, by or on behalf of the Borrower, in respect of the said debts, amounts, claims and moneys or any part thereof; and all books, documents and papers recording, evidencing or relating to the said debts, amounts, claims and moneys or any part thereof;

"Banking Day" means any day other than a Saturday or a Sunday on which banks generally are open for business in [City], Ontario;

"Chattel Paper" means all present and future agreements made between the Borrower as secured party and others which evidence both a monetary obligation and a security interest in or a lease of specific goods;

"Collateral" means all undertaking, property and assets of the Borrower, now owned or hereafter acquired and any proceeds from the sale or other disposition thereof, all of which is further described, without limitation, all Accounts, Inventory, Equipment, Intangibles, Documents of Title, Money, Chattel Paper, Instruments, Securities, Documents, Proceeds, and Leaseholds;

"Credit Agreement" means such loan agreements, promissory notes, financing terms or debt instruments between the Borrower, and the Secured Party, as the same may be amended, modified, supplemented or replaced from time to time, and other similar, replacement or additional agreements at any time entered into between the Borrower and the Secured Party;

"Documents" means all documents, including, without limitation, all books, invoices, letters, papers and other records, in any form evidencing or relating to the Collateral, all of which are herein called the "Documents";

"Documents of Title" means any writing now or hereafter owned by the Borrower that purports to be issued by or addressed to a bailee and purports to cover such goods and chattels in the bailee's possession as are identified or fungible portions of an identified mass, whether such goods and chattels are Inventory or Equipment, and which writing is treated in the ordinary course of business as establishing that the person in possession of such writing is entitled to receive, hold and dispose of the said writing and the goods and chattels it covers, and further, whether such writing is negotiable in form or otherwise, including bills of lading and warehouse receipts;

"Equipment" means all equipment now owned or hereafter acquired by the Borrower, including, without limitation, all machinery, fixtures, plant, tools, furniture, chattels, vehicles of any kind or description including, without limitation, motor vehicles, parts, accessories installed in or affixed or attached to any of the foregoing, all drawings, specifications, plans and manuals relating thereto, and any other tangible personal property which is not Inventory and all items described in Schedule "A" hereto;

"Event of Default" shall have the meaning ascribed thereto in Section 5 hereof and in the Credit Agreement;

"Instruments" means all present and future bills, notes and cheques (as such are defined pursuant to the *Bills of Exchange Act* (Canada)) of the Borrower, and all other writings of the Borrower that evidence a right to the payment of money and are of a type that in the ordinary course of business are transferred by delivery without any necessary endorsement or assignment, and all letters of credit and advices of credit of the Borrower provided that such letters of credit and advices of credit state that they must be surrendered upon claiming payment thereunder;

"Inventory" means all goods or chattels now or hereinafter forming the inventory of the Borrower including, without limitation, the goods, merchandise, raw materials, work in process, finished goods, goods held for sale or resale or lease or that have been leased or that are to be, or have been, furnished under a contract of service, and goods used in or procured for packing or packaging;

"Intangibles" means all intangible property now owned or hereafter acquired by the Borrower and which is not Accounts including, without limitation, all contractual rights, goodwill, patents, trademarks, trade names, copyrights and other intellectual property of the Borrower and all other choses in action of the Borrower of every kind, whether due or owing at the present time or hereafter to become due or owing;

"Leaseholds" subject to Section 2.3, all leases, now owned or hereafter acquired by the Borrower as tenant (whether oral or written) or any agreement therefor;

"Money" means all money now or hereafter owned by the Borrower, whether such money is authorized or adopted by the Parliament of Canada as part of its currency or by any foreign government as part of its currency;

"Obligations" means the aggregate of all indebtedness, obligations and liabilities of the Borrower to the Secured Party or to any Shareholders of the Borrower as may exist or may be outstanding from time to time, whether incurred prior to, at the time of, or subsequent to the execution hereof, including extensions and renewals, and including, without limitation: advances to the Borrower; letters of credit and letters of guarantee issued by the Secured Party or a Shareholder on behalf of the Borrower, whether or not drawn upon; bankers' acceptances of the Borrower which have been accepted by the Secured Party or a Shareholder; tender cheques certified by the Secured Party or a Shareholder on behalf of the Borrower, whether or not negotiated; obligations or

liabilities of the Borrower to third parties financed or guaranteed by the Secured Party or a Shareholder; all interest payable by the Borrower to the Secured Party or a Shareholder; obligations or liabilities of the Borrower under any present or future guarantee by the Borrower of the payment or performance or both of the debts, obligations or liabilities of a third party to the Secured Party or a Shareholder; and debts, obligations or liabilities of the Borrower under any agreement with the Secured Party or Shareholder including, without limitation, this agreement, the Credit Agreement and any promissory note, debt obligation or any other agreement whatsoever, whether it or they be in writing;

“PPSA” means the *Personal Property Security Act* (Ontario), as amended from time to time, and any regulations thereto;

“Prime Rate” means the rate of interest per annum charged by the Royal Bank of Canada to its customers in [City], Ontario for loans of Canadian dollars, as the same is adjusted from time to time.

“Proceeds” means all property in any form derived directly or indirectly from any dealing with the Collateral including, without limitation, property that indemnifies or compensates for the expropriation, destruction, or damage of the Collateral or the proceeds therefrom and all proceeds of proceeds;

“Secured Party” means the Trustee named above for and on behalf of all past, present and future Shareholders of the Borrower, and also means all, any one or any combination of all past, present and future Shareholders of the Borrower.

“Securities” means all present and future securities held by the Borrower, including shares, options, rights, warrants, joint venture interests in limited partnerships, trust units, bonds, debentures and all other documents which constitute evidence of a share, participation or other interest of the Borrower in property or in an enterprise or which constitute evidence of an obligation of the issuer; including, without limitation, an uncertificated security within the meaning of Part VI (Investment Securities) of the *Business Corporation Act* (Ontario) and all substitutions therefor and dividends and income derived therefrom;

“Shareholder” or “Shareholders” means all shareholders or former shareholders of the Borrower.