

Purchase Money Inventory Security Agreement (Alberta)

1. Parties to this Security Agreement

Between: LANGARA ENTERTAINMENT, INC. AND
eANGELS CANADA, INC.

Legal Name of Borrower (the "Debtor"): LANGARA ENTERTAINMENT, INC.

Address of Debtor: 5919 - 3RD Street S.E.
Calgary, Alberta T2H 1K3

Name of Lender (the "Secured Party"): eANGELS CANADA, INC.

Address of Secured Party: 5919 - 3rd Street S.E.
Calgary, Alberta T2H 1K3

Location of Collateral: Debtor's address and at address of any branches of Debtor
or Debtor's Subsidiary Corporations

2. Creation of Security Interest

- (1) For value received and as a general and continuing security for the payment of Indebtedness as defined below, including any ultimate unpaid balance thereof, owed to the Secured Party and to secure the performance of the obligations under this security agreement or any Related Documents, the Debtor hereby grants to the Secured Party a purchase money security interest in:
- (a) the inventory of the Debtor described in Schedule "A" hereto and all inventory of the same class or classes hereafter owned or acquired directly or indirectly by the Debtor, including, but not limited to goods supplied or financed by the Secured Party now or in the future;
 - (b) all documents of title, chattel paper, securities, instruments and other documents relating to, being records of, or securing or evidencing inventory or proceeds and all rights and claims with respect thereto; and
 - (c) all contractual rights, insurance claims, patents, trade marks, copyrights and other industrial property relating to inventory
- all of the foregoing being hereinafter collectively called "Collateral" and the Debtor agrees that title to inventory supplied or financed by the Secured Party is reserved by the Secured Party and remains in the Secured Party until paid in full.
- (2) As additional separate security for the Indebtedness, the Debtor grants the Secured Party security interest in all present and after acquired property of the Debtor.

- (3) Any reference to "Collateral" shall, unless the context requires otherwise, be deemed a reference to "Collateral or any part thereof".
- (4) This security interest shall not apply to, and Collateral shall not include, the last day of the term of any lease or agreement therefor but upon the enforcement of the security interest the Debtor shall stand possessed of such last day in trust to assign the same to any person acquiring such term.

3. Definitions

- (1) All phrases which are defined in the *Personal Property Security Act* RSA 2000 cP-7 (the "PPSA"), and not otherwise defined in this security agreement shall have the meaning ascribed by the PPSA.
- (2) "Indebtedness" shall mean all liabilities of every kind and description of the Debtor to the Secured Party, whether now or hereafter owed or any future advance, whether direct, indirect, contingent, and whether the Debtor be bound alone or with others and whether as principal or surety.
- (3) "Related Documents" shall mean the promissory notes, loan agreements, account agreements, guarantees, trust deeds, mortgages, other security agreements, or any other documents executed in connection with this security agreement or indebtedness or related to its operation or administration, whether already existing or executed now or later.

4. Rights and Obligations of Debtor

- 4.1 **Title**
The Debtor warrants and covenants that it holds title or has rights in the Collateral sufficient for a security interest to attach to the Collateral and that there are no existing encumbrances on this Collateral, with the exception of those security interests for which the Debtor must provide information under paragraph 4.3.
- 4.2 The Debtor warrants and covenants that it will hold title or acquire rights in the collateral sufficient for a security interest to attach to the collateral to the extent that value was given by the Secured Party to the Debtor for the purpose of enabling the Debtor to acquire title, or such interest in the collateral.
- 4.3 **Provision of information**
The Debtor will provide to the Secured Party a complete listing of every other secured party who has registered a financing statement containing a description that includes the same item or kind of collateral.
- 4.4 **Possession and use of Collateral**
Subject to paragraph 6.2, until default or unless otherwise agreed with the Secured Party, the Debtor may deal with Collateral in the ordinary course of the Debtor's business in any manner consistent with the provisions of this security agreement. The Debtor shall not encumber or permit the Collateral to be encumbered without the prior written consent of the Secured Party, other than by this security agreement.

4.5 Removal of Collateral

The Collateral (or to the extent the Collateral consists of intangible property such as accounts, the records concerning the Collateral) is located at the address shown above. Except in the ordinary course of the Debtor's business, the Debtor shall not remove the Collateral from its location without the prior written consent of the Secured Party, which shall not be unreasonably withheld.

4.6 Preservation of rights and Collateral

The Debtor shall defend its own and the Secured Party's rights in the Collateral against the claims and demands of all persons. The Debtor shall maintain the Collateral in a condition and state of repair that preserves the value of the Collateral, reasonable wear and tear excluded. The Debtor will not commit or permit damage to or destruction of the Collateral and will effect repair if it occurs. The Debtor shall procure and maintain policies of fire and other casualty insurance covering the Collateral on the basis and in at least the amount described above on terms satisfactory to the Secured Party and with loss payable to the Secured Party and Debtor jointly.

4.7 Material changes in information

The Debtor shall notify the Secured Party promptly of:

- (a) any material change in the information contained in this agreement (including the schedules hereto) relating to the Debtor, the Debtor's business or Collateral, including any address change or establishment of an additional place of business;
- (b) the details of any change in name of the Debtor;
- (c) the details of any significant acquisition of Collateral;
- (d) the details of any claims or litigation affecting the Debtor or Collateral;
- (e) any loss of or damage to Collateral;
- (f) any default by any account debtor in its obligations with respect to Collateral.

4.8 Debtor's conduct

The Debtor will conduct its business and affairs in a proper and efficient manner, in accordance with applicable law and keep records in accordance with generally accepted accounting principles. The Debtor shall pay all charges, such as taxes, assessments, claims, liens and encumbrances relating to the Collateral or the Debtor's business and affairs when the same become due. The Debtor will deliver to the Secured Party promptly such information concerning Collateral, the Debtor and the Debtor's business and affairs as the Secured Party may reasonably request.

4.9 Protest

The Debtor waives protest of any instrument constituting Collateral at any time held by the Secured Party on which the Debtor is in any way liable and, subject to the notice requirements of the PPSA, notice of any other action taken by the Secured Party.

4.10 Joint and several liability

If more than one Debtor executes this security agreement the obligations of such Debtors hereunder shall be joint and several.

5. Events of Default

The Debtor shall be in default under this security agreement or Related Documents, documents incorporated by reference or upon occurrence of any of the following:

- (a) Non-payment when due, whether by acceleration or otherwise, of Indebtedness.
- (b) Failure to comply within seven days after written notice from the Secured Party demanding compliance with any provision contained in this security agreement or Related Documents and if compliance is not practically possible, failure to take steps that will produce compliance as soon as is reasonably practical.
- (c) Any warranty, representation or statement made or furnished to the Secured Party by or on behalf of the Debtor proves in any material respect to have been false when made or furnished.
- (d) Bankruptcy or insolvency of the Debtor; the filing against the Debtor of a petition in bankruptcy; the making of an authorized assignment for the benefit of creditors by the Debtor; the appointment of a receiver, trustee, monitor, or liquidator for the Debtor or for any assets of the Debtor; or the institution by or against the Debtor of any type of insolvency proceeding or creditor rearrangement.
- (e) Death or declaration of incompetency of the Debtor (if the Debtor is an individual) or cessation of the Debtor's viability as a going business concern (if the Debtor is not an individual), which includes the cessation or threat by the Debtor to cease to carry on in the normal course of the Debtor's business or any material part thereof.
- (f) On the occurrence of such other events where the Secured Party considers in good faith and on commercially reasonable grounds that the Collateral is in jeopardy or that the Secured Party's position is insecure.

6. Secured Party Rights and Obligations

6.1 General rights

In addition to the rights granted herein, the Secured Party may enforce any other rights and remedies it may have at law or in equity, and specifically shall have all rights and remedies of a Secured Party under the PPSA. All rights and remedies of the Secured Party are cumulative and one or more of these rights may be exercised independently or in combination from time to time including marshalling.

6.2 Collection of debts forming part of Collateral

The Secured Party may direct account debtors of the Debtor to make all payments owing to the Debtor on Collateral subject to the security interest directly to the Secured Party, by notifying such account debtors of the Secured Party's interest, either before or after default. In addition to the interest held by the Secured Party in the Collateral, the Secured Party also has a security interest in the proceeds of the Collateral.

6.3 Inspection of Collateral and right of access

The Secured Party shall have the right at any time to confirm the existence and state of the Collateral in any manner the Secured Party may consider appropriate and the Debtor agrees to furnish all assistance as the Secured Party may reasonably request in connection therewith. The Debtor grants to the Secured Party or its agents access to all places where Collateral may be located and to all premises occupied by the Debtor for the purposes of inspection or obtaining possession.

6.4 Receivers and others

The Secured Party may appoint by instrument or by application to a court of competent jurisdiction a receiver or other person to act on its behalf before or after default or in any insolvency or like proceeding (receiver includes a receiver-manager). The appointee has all the powers of the Secured Party under this security agreement. In addition, on instructions from the Secured Party, the receiver shall be entitled to carry on the business of the Debtor with all the powers that the Debtor would have to operate its business for such time as the receiver determines it advisable and in the best interest of the Secured Party. The Secured Party is not liable for any act or omission by any receiver appointed or selected by a court.

6.5 Acceleration

The Secured Party may declare all or any part of Indebtedness which is not by its terms payable on demand to be immediately due and payable on the occurrence of any default.

6.6 Possession and disposition of Collateral

The Secured Party may take possession or constructive possession of, collect, demand, sue on, enforce, recover and receive Collateral and give binding receipts and discharges therefor. The Secured Party in possession may use Collateral as it sees fit, subject to the duty of reasonable care contained in the PPSA and providing that any income from Collateral is applied to the Debtor's account. Upon default, the Secured Party may also sell, lease or otherwise dispose of Collateral in any commercially reasonable manner.

6.7 Costs

The Debtor agrees to pay all charges, including solicitors' (on a solicitor and own client scale) auditors', receivers' or like persons' costs and remuneration or other expenses reasonably incurred by the Secured Party or other party appointed by the Secured Party in operating the Debtor's accounts and in preparing or enforcing this security agreement. Such sums shall constitute a future advance increasing the Indebtedness hereunder.

6.8 Deficiencies

The failure of the Secured Party to receive full payment or satisfaction of Indebtedness through its rights and remedies herein provided shall not in any way release the Debtor from the obligation to satisfy any deficiency, including any costs of realization.

6.9 Waivers

(1) No variation, amendment (except for any schedules which may be added hereto pursuant to the provisions of this agreement) or waiver of any provision of this security agreement shall be effective unless made by written agreement executed by the parties to this security agreement.

- (2) No delay or omission by the Secured Party in exercising any right or remedy hereunder or with respect to any Indebtedness shall operate as a waiver of that right or remedy and no single or partial exercise of any right or remedy shall preclude any other exercise of cumulative rights and remedies.
- (3) The Secured Party may remedy any default or perform any duty of the Debtor hereunder or with respect to any Indebtedness in any reasonable manner without waiving the default remedied and without waiving any other prior or subsequent default by the Debtor.

6.10 Notice of intention to realise

- (1) Prior to realisation, there is an obligation on the Secured Party to deliver a notice of intention to realise to the Debtor under s.244 of the *Bankruptcy and Insolvency Act*. Any events which trigger default, including those within paragraph 5(d), shall be deferred as required by that legislation. Valid service of this notice will occur upon sending of the notice to the address herein or as changed by the Debtor through paragraph 4.6.
- (2) Pursuant to the *Personal Property Security Act*, where applicable, the Secured Party shall also give notice in writing in the appropriate time period to (a) the Debtor and any other person who is known by the Secured Party to be an owner of the collateral; (b) each creditor or person with a security interest in the collateral whose security interest is subordinate to that of the secured party and (i) who has registered, before the notice of disposition is given to the Debtor, a financing statement that includes the name of the Debtor or that includes the serial number of the collateral if the collateral is goods of a kind that are prescribed as serial numbered goods, or (ii) whose security interest was perfected by possession when the secured party seized or repossessed the collateral; (c) each judgment creditor whose interest in the collateral is subordinate to that of the Secured Party and who has registered, before the notice of disposition is given to the Debtor, a notice of judgment that includes the name of the debtor or that includes the serial number of the collateral if the collateral is goods of a kind that are prescribed as serial numbered goods; and (d) any other person with an interest in the collateral who has given a written notice to the Secured Party of that person's interest in the collateral before the notice of disposition is given to the Debtor.
- (3) The notice shall include the content stipulated by s. 60(5) of the Alberta *Personal Property Security Act*, R.S.A. 2000, c. P-7.

- 6.11 Any payments received by the Secured Party may be applied by the Secured Party against the indebtedness in such manner as the Secured Party in its discretion considers advisable.

7. Subordination

No action by the Secured Party shall constitute a subordination of its security interest to any other interest in the Collateral unless such subordination is effected by an agreement in writing, titled "Subordination Agreement", signed by the Secured Party.

8. Successor Interests

This security agreement shall enure to the benefit of and be binding on the parties hereto and their respective heirs, executors, administrators, successors and assigns.

9. Applicable Law

This security agreement and Related Documents shall be governed by the laws of the Province of Alberta.

10. Termination of this Agreement

This security agreement shall remain in full force and effect until the Indebtedness has been paid and written notice of discharge by the Secured Party is received by the Debtor.

11. Acknowledgments of Debtor

The Debtor hereby acknowledges receipt of a copy of this security agreement.

IN WITNESS WHEREOF the Debtor has executed this security agreement this 25th day of April, 2003.

LANGARA ENTERTAINMENT, INC.

Per: 

Per: _____

SCHEDULE "A"

DESCRIPTION OF INVENTORY

All music, compact discs, dvd discs, vinyl records, music tapes, blank cassettes, blank tapes, consumer music recordings, tape storage units, compact disc storage units, posters, T-shirts, and music and related products of every kind, label and brand now or hereinafter in the possession of the Debtor.