# NÚMERO DE CONTRATO: 2012-000013

CORPORACION DE CINE
2011 SEP -6 PM 4: 45

## LOAN AGREEMENT

**DATED: August 31, 2011**

**PUERTO RICO FILM CORPORATION**

**and**

**PASADENA FILMS, INC.**

related to the project provisionally entitled

"HUGO, PACO , LUIS Y TRES CHICAS DE ROSA"

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| Contract Number<br>**Número de Contrato** | **2012-000013** | |
| Execution Date<br>**Fecha de Otorgamiento** | **August 31, 2011** | |
| Effectiveness Period<br>**Período de Efectividad** | **August 31, 2011 to August 31, 2016.** | |
| Name of Parties and Representatives<br>**Nombres de la partes y representantes** | **NOMBRE** | NÚM. PATRONAL |
| | CORPORATION FOR THE DEVELOPMENT OF THE ARTS, SCIENCES AND CINEMATOGRAPHIC INDUSTRY OF PUERTO RICO, represented by Mariella Pérez Serrano | 690-66-0132 |
| | **PASADENA FILMS, INC.**<br>represented by Gilberto Rodríguez | 660-55-5942 |
| Account Number<br>**Número de Cuenta** | E1290-248-234-081-2002 | |
| Amount<br>**Cantidad** | $537,137.00 | |

**LOAN AGREEMENT**

AS PARTY OF THE FIRST PART: **CORPORATION FOR THE DEVELOPMENT OF THE ARTS, SCIENCES AND CINEMATOGRAPHIC INDUSTRY OF PUERTO RICO** (hereinafter referred to as the "**PUERTO RICO FILM CORPORATION**" or the "**Financier**"), a public corporation of the Commonwealth of Puerto Rico, organized pursuant to the provisions of its enabling act, Law Number 121 of August 17, 2001, as amended, represented herein by its Executive Director, Mariella Pérez Serrano, of legal age, married, executive and a resident of San Juan, Puerto Rico, who is duly authorized to appear herein, which authority she shall provide whenever and wherever required; and

AS PARTY OF THE SECOND PART: **PASADENA FILMS, INC.** (hereinafter referred to as the "**Borrower**"), a corporation organized and existing under the laws of the Commonwealth of Puerto Rico, represented herein by its Vice-President, Gilberto Rodríguez, of legal age, single, executive and a resident of San Juan, Puerto Rico, who is duly authorized to appear herein, which authority he shall provide whenever and wherever required.

The Borrower has applied to the Financier for a loan, the proceeds of which are to be used by the Borrower to pay certain outstanding debts and costs incurred or to be incurred in the production of the Film; as such term is hereinafter defined.

The Financier is willing to provide such loan to the Borrower upon the terms and subject to the conditions hereinafter set forth, and upon the execution and delivery of the Loan Documents, as such term is hereinafter defined. Accordingly, the Borrower and the Financier hereby agree as follows:

1. **DEFINITIONS**: For the purpose hereof, unless the context otherwise requires, the following terms shall have the meanings indicated:

(a) "Approved Budget" shall mean the calculated budget that has been approved by Borrower to cover the costs and expenses to be incurred in regard with the production of the Film, a copy of which Approved Budget, duly initialed by Borrower as well as the director and the producer of the Film (collectively the "Creative Parties") has been delivered to and approved by Financier prior to the execution of this Loan Agreement.

(b) "Business Day" shall mean any day not a Saturday, Sunday or legal holiday in the Commonwealth of Puerto Rico. Should any payment or prepayment of the principal under the Loan Agreement, or on a Note, become due and payable on other than a business day, the maturity thereof shall be extended to the next succeeding business day.

(c) "Closing Date(s)" shall mean the date of the execution of this Agreement.

(d) "Collateral" shall refer to Borrower's interest in and to the Film, including the copyright thereto. Notwithstanding anything to the contrary contained in these Loan Documents, Financier hereby acknowledges and accepts that: (i) the Film shall be a Puerto Rico/Argentina co-production; (ii) the co-producing entities are Borrower and Dida Films, SRL("**Dida**"), an Argentine company duly organized and licensed under the laws and regulations of Argentina; (iii) the security guaranteed by these Loan Documents shall be limited only to Borrower's right, title and interest in and to the Collateral, and to Borrower's adjusted gross receipt (i.e., Financier shall have no claim in regard to or against Dida's rights, title and interest in the Collateral, nor any proceeds realized by Dida in connection with the Film); and (iv) any reference hereunder to "worldwide" exploitation rights, or the media of exploitation, shall be subject to Dida's rights, title and interest in the Collateral.

(e) "Collection Account" shall mean the account set up for the collection of all gross receipts actually received by Borrower (i.e., Borrower's gross receipts) and into which the Distributor(s) will deposit, and/or cause buyers or exhibitors of the Film to deposit, such receipts directly. The Collection Account shall be administered by a collection agent, satisfactory and acceptable to the Financier and to Borrower, with full authority to act as such and pursuant to a collection management agreement signed by the pertinent parties.

(f) "Copyright Mortgage Agreement" means the security interest in the registered copyright of the Film that Borrower will record in the United States copyright office to protect the interests of Financier as set forth in Section 5 of this Agreement.

(g) "Distributor" shall refer to (i) such third party(ies) as is/are engaged by Borrower to act as the distributor(s) of the Film; or (ii) Borrower in the event that it elects, in its sole discretion, to act as the distributor of the Film.

(h) "Draw Request" shall mean a written request by the Borrower to transfer funds from the Financier, on a specific time, from the approved Loan Amount.

(i) "Film" shall mean that certain feature-length theatrical motion picture photoplay entitled "**Hugo, Paco, Luis y Tres Chicas de Rosa**" to be directed by Edmundo Rodríguez.

(j) "Film Fund Regulations" shall mean the "Regulation for the Administration and Function of the Puerto Rico Film Fund" of July 28, 2005, as amended from time to time.

(k) "Final Budget" shall mean the estimated cost of producing the Film, as approved by the Financier and the Borrower, a copy of which, duly initialed by all parties, has been delivered to the Financier prior to the date hereof.

(l) "Final Shooting Script" shall mean the script from which the Film is to be made, as approved by the Financier and the Borrower, a copy of which, duly initialed by all parties, has been delivered to and approved by the Financier prior to the date hereof. The parties hereby acknowledge the delivery and approval of the Final Shooting Script by Financier.

(m) "Laboratory" shall mean such film and/or sound laboratory or laboratories to which the Borrower shall deliver or cause the Distributor to deliver all negative film and sound track recordings exposed and recorded in connection with the shooting of the Film.

(n) "Literary Property" shall mean all common law and/or statutory, literary and other properties which form the basis of the Film or from which it is adapted.

(o) "Loan Documents" shall mean this Loan Agreement, the Note, Copyright Mortgage Agreement, Security Agreement and all other documents executed or to be executed or produced

in connection with this Agreement or the financing transactions contemplated herein.

(p) "Note" shall mean the negotiable promissory note duly executed and delivered by the Borrower to the Financier evidencing the borrowing made by the Borrower pursuant to this Loan Agreement, payable to the Financier, dated the date of the loan and in the principal amount of same.

(q) "Person" shall mean natural or statutory persons, including, without limitation, corporations, associations, companies and partnerships.

(r) "Production Bank Account" means a bank account at a Puerto Rico bank into which all funds to be used by Borrower in the production of the Film in Puerto Rico are to be deposited.

(s) "Security Agreement" shall mean the Security Agreement of even date herewith by and between the Borrower and the Financier, as amended or supplemented from time to time.

(t) "Shooting Schedule" shall mean the schedule showing the scenes to be filmed each day during the principal photography of the Film as approved by the Financier and the Borrower, a copy of which, duly initialed by all parties, has been delivered to the Financier prior to the date hereof. The parties hereby acknowledge the delivery and approval of such Shooting Schedule by Financier.

2. **LOAN TERMS**: Subject to all the terms and conditions contained in this Loan Agreement, the Financier agrees, to make available to the Borrower a loan in the total aggregate amount of **$537,137.00** (the "Loan"). The Loan will be disbursed from time to time in advances that shall not exceed the total aggregate amount of **$537,137.00.** These funds are allocated from the special funds created pursuant to Chapter VII of Puerto Rico Law Number 121 of August 17, 2001 in the books of the Department of Treasury of Puerto Rico under the name "Funds of the Corporation for the Development of the Sciences, Arts and Cinematographic Industry of Puerto Rico". Notwithstanding the foregoing, the parties agree to an initial disbursement of 50% of the Loan upon signature and delivery of this Agreement to Financier, with ensuing disbursements being "drawn" pursuant to a Draw Request, as set forth herein.

(a) AMOUNT: Subject to the terms and conditions hereof, and relying on the representations, covenants, and warranties of the Borrower contained herein, the Financier agrees to loan or advance to the Borrower monies under the Loan from time to time in advances that shall never exceed the total aggregate amount of **$537,137.00.** Borrower shall use the funds provided under the Loan to pay certain outstanding debts and costs incurred or to be incurred in the production of the Film.

(b) NOTE; INTEREST; MATURITY DATE: The borrowings made by the Borrower under the Loan shall be evidenced by the Note, payable to the Financier, duly executed by the Borrower, and the disbursement checks. Borrower will pay interest on the outstanding principal balance of the Loan commencing the date that is one year after the initial theatrical release of the Film ("Release Date"), until payment in full, at a floating annual rate equal to the base or prime rate that Citibank, N.A., or its successor in interest, announces from time to time as its base or prime rate at its principal offices in New York, New York (the "Prime Rate"). Each change in such floating interest rate shall take effect simultaneously with the corresponding change in the Prime Rate. The maturity date of the entire Loan shall be 60 months from the date of the disbursement of the last draw request on the Loan.

(c) REPAYMENT AND COLLATERAL: Borrower shall repay the Loan to Financier from time to time exclusively from one hundred percent of the Borrower's share of the proceeds from the exploitation of the Film, in all formats, and of its soundtrack album throughout the world and in substantial compliance with the Recoupment Schedule which the Borrower shall deliver to Financier on or prior to the first date of principal photography; provided, however, that Borrower represents and warrants to Financier that Financier shall be paid in full the Loan granted hereunder before Borrower participates in any recoupment from the proceeds of the Film. Interest computed as set forth hereinabove shall be payable in arrears on the same day the payment of an installment of principal is paid. Any payments shall be applied first to interest owed and outstanding and then to

principal owed and outstanding. There shall be no monthly minimum payment amount, but Borrower recognizes that all Borrower's gross revenue or income of the Film actually received from the aforesaid sources shall be destined to the payment of the Loan plus interest thereon until it is paid in full and will cause all distributors, exhibitors, licensees, sub-licensees or programmers to deposit Borrower's share of any said proceeds directly into the Collection Account. In addition to any and all other collateral created herein or in the Loan Documents, Borrower shall secure the repayment of the Loan with the Security Agreement, and the Copyright Mortgage Agreement, executed by the parties hereto.

(d) OPTIONAL PREPAYMENT OF LOAN: Upon at least five (5) days' prior written notice to the Financier, the Borrower may at its option repay the Loan hereunder, in whole or in part, from time to time.

(e) MANDATORY PREPAYMENT OF LOAN; DIRECTIONS TO PAY: Borrower hereby irrevocably binds itself to authorize and direct the Distributor and/or pertinent Person to direct the exhibitors, programmers, licensees, sub-licensees or any other Person acquiring any right or title over the Film and/or its distribution and/or exhibition in any format or mode, to make the payments indicated herein directly to the Collection Account set up by the Financier.

(i) The Borrower further agrees to cause the Distributor and/or pertinent Person to send to the Financier copies of all accounting statements and reports to be furnished to the Borrower under any Distribution Agreement and agrees to cause the Distributor to provide to the Financier the same rights of audit of the Distributor and/or pertinent Person's books and records relating to the Film as are granted the Borrower by the Distributor and/or pertinent Person.

(ii) All sums collected by the Financier shall be applied by the Financier to reduce the outstanding principal balance of the Loan. Any payments or deposits, as applicable, exceeding the Loan amount shall be payable by Financier to the Borrower according to the terms of this

Agreement and the terms of the Collection Account. Upon complete recoupment of the Loan amount (plus interest thereon) by Financier, all future proceeds actually received by Borrower, shall be payable directly to Borrower.

(f) DISPOSITION OF COLLATERAL: Until such time as the Loan amount has been recouped by Financier, there shall be no sale or other disposition of Collateral except with the prior written consent of the Financier, which consent will not be unreasonably withheld.

(g) FINANCIER'S STATEMENTS: Until the Loan is fully paid and discharged hereunder, the Financier shall render to the Borrower, upon its request, a statement of the Borrower's account, prepared from the Financier's records, showing in reasonable detail for the subject month and cumulatively to date, the amount of the Loan, charges and amounts collected from all sources.

(h) AUDITS:

(i) Borrower shall engage an accountant, acceptable and consented to, in writing, by Financier, to maintain accurate books of accounts and records of all its business transactions under this Agreement including, but not limited to, a record of all payments received, or credits granted. Furthermore, Borrower shall engage a payroll company, to keep all payroll accounts, process, prepare and deliver payroll payments, in compliance with Puerto Rico law. These books and records shall be kept in Borrower's place of business and, at all times during normal business hours and upon reasonable advance notice, the Financier or its duly authorized agents or auditors shall have access to such books and records and may copy or may cause to be copied such extracts as may be deemed necessary by Financier.

(ii) The Film's production and all its business transactions under this Agreement may be audited, in an external audit, by a firm of accountants provided by Financier at its own expense. Borrower consents that all books and all records, whether financial or other, related to this

Agreement and the production of the Film will be readily available, subject to reasonable prior notice, for evaluation during any such audit(s), which audit(s) shall be conducted during Borrower's normal business hours. No single audit conducted hereunder shall last more than 15 days.

(iii) Borrower hereby binds itself to preserve, in readily accessible form, all work papers, reports, attendance sheets and all other documents related to the Film so they can be evaluated by Financier, its officers, employees, agents and representatives, or through the aforesaid external auditor, or the Office of the Comptroller of Puerto Rico. Said documents shall be preserved for a period no less than six (6) years from the certification of the last Draw Request.

3. **RELIEF FROM PAYMENT**:

(i) After the lapse of a period of 60 consecutive, calendar months, as of the date of the disbursement of the last draw request hereunder, if Borrower has not paid in full the amount of the Loan plus applicable interest, Financier may (independently of the balance amount owed and after considering whether to extend the maturity of the Loan if the circumstances justify such extension), upon its sole discretion, relieve Borrower of its debt by seizing rights, title and interest of Borrower over the Film, acknowledging any third party rights over the Film, if and when applicable, in lieu of the foreclosure of the collateral constituted pursuant to the Security Agreement and the Copyright Mortgage Agreement.

(ii) If Financier proceeds to take possession of Borrower's rights, title and interest over the Film as stated in clause 3.(i) above, Borrower shall be bound to execute any and all documents or instruments, Financier deems pertinent to assign and transfer Borrower's right title and interest to the copyright, trademark and all other rights, title and interest of whatsoever nature of Borrower, in the entire universe, whether vested or

contingent (including without limitation all exploitation rights in any and all media and by any and all means now known or hereafter invented including, theatrical and non-theatrical rights, all kinds of television, broadcast and cable program rights, (whether by means of digital or analogue transmission), all kinds of video rights, video on demand rights, digital versatile disc rights and all allied and ancillary rights, including without limitation, remake rights, prequel, sequel and format and changed format rights, music publishing and soundtrack record rights, all kinds of internet, on-line, website and interactive rights, screenplay publication rights, merchandising rights and commercial tie-up rights, (including the right of communication to the public by satellite and cable retransmission rights) in and to the screenplay and all and any other material on which the screenplay is based, and in and to the Film and all allied and ancillary rights therein, the title, characters, names, themes, plots, sequences and situations thereof and therein, all 17USC§106 rights, absolutely, in any and all languages, for the full period of copyright and all renewals, revivals and extensions thereof (whether the right to such renewals, revivals, or extensions now exists or is hereafter created by laws) and thereafter in perpetuity to the extent permitted by law. Financier will pay no money to Borrower as compensation for the transfer of all or any of the aforementioned rights, title and interest; and all other rights expressed in the Security Agreement and/or the Copyright Mortgage Agreement not mentioned herein.

4. **DRAW PROCEDURES**: The funds constituting the Loan contemplated hereunder shall be advanced by the Financier upon the Draw Request by the Borrower.

(i) A first advance related to this Loan shall be in an amount equal to 50% of the total Loan amount, and will be made by Financier in favor of Borrower upon signature and delivery of this Loan Agreement to Financier. Further advances shall be disbursed according to Schedule (4)(i) hereto.

(ii) Subject to sub-paragraph (i) above, advances related to this Loan by Financier shall be made in a period no greater than seven (7) working days, as of the day the Financier determines, in its sole discretion, that all conditions precedent for the disbursement of such Draw Request have been met. The Financier may, at its sole option, choose to advance funds hereunder through a direct deposit mechanism into the Production Bank Account.

(iii) The parties hereto acknowledge that the Financier may not make disbursements under this contract unless and until this contract is filed for recording with the Puerto Rico Comptroller's Office pursuant to Law No. 18, dated October 30, 1975, as amended from time to time. The Financier shall make its best efforts to file this contract, in accordance with the aforesaid law, promptly after its execution.

5. **REPRESENTATIONS AND WARRANTIES**: The Borrower represents and warrants to the Financier that:

(a) ORGANIZATION; CORPORATE POWERS, ETC.:

(i) the Borrower is a corporation duly organized, validly existing and in good standing under the laws of the Commonwealth of Puerto Rico, and Dida, SRL is a company duly organized, existing and licensed under the laws of Argentina,

(ii) the Borrower has the corporate power and authority to own its properties and assets and to carry on its business as now being conducted and is qualified to do business in every jurisdiction wherein such qualification is necessary, and

(iii) the Borrower has the corporate power to execute, deliver and perform this Loan Agreement, to borrow hereunder, and execute and deliver the Note, and to execute, deliver and perform the Security Agreement, to grant the security interest affecting the Borrower's property contemplated by the Security Agreement, to execute, deliver and perform the Copyright Mortgage Document and to assume the obligations and give the warranties, representations and undertakings herein contained.

(b) AUTHORIZATION OF BORROWING, ETC.: The execution, delivery and performance of this Loan Agreement by the Borrower, the borrowing hereunder by the Borrower, the execution and delivery of the Note by the Borrower, the execution, delivery and performance of the Copyright Mortgage Document, the execution, delivery and performance of the Security Agreement by the Borrower and the grant of the security interests contemplated by the Security Agreement have been duly authorized by all requisite corporate action and will not violate any provision of law, any order of any court or other agency of government, the Certificate of Incorporation or By-Laws of the Borrower, or the provision of any indenture, agreement or other instrument to which the Borrower is a party, or by which it or any of its properties or assets is bound, or be in conflict with, result in a breach of or constitute (with or without due notice and/or lapse of time) a default under any such indenture, agreement or other instrument, or result in the creation or imposition of any lien, charge or encumbrance of any nature whatsoever upon any of the properties or assets of the Borrower, other than as a result of this Loan Agreement, the Copyright Mortgage Agreement, or the Security Agreement.

(c) LITIGATION: There is no action, suit or proceeding at law or in equity or by or before any governmental instrumentality or other agency or any investigation of the affairs of the Borrower now pending, or, to the knowledge of the Borrower, threatened against or affecting the Borrower or any properties or rights of the Borrower which, if adversely determined, would materially affect (i) the ability of the Borrower to perform its respective obligations hereunder or concerning the completion of the Film as contemplated, (ii) the security interests granted to the Financier under the Security Agreement and/or the Copyright Mortgage Agreement, or (iii) the Collateral under the Security Agreement and/or the Copyright Mortgage Agreement.

(d) SECURITY INTERESTS: The Security Agreement, and the Copyright Mortgage Agreement will create and grant to the Financier a valid and perfected first priority security interest in the "Borrower's Interest" (as

defined below) in the Collateral (other than statutory lab liens to be discharged in the normal course of business). The Borrower represents and warrants that its interest ("Borrower's Interest") in the property serving as Collateral hereof is the following: 70% ownership interest in the Film. Subject to Borrower's Interest, no Person has, and thereafter no Person will have, any right, title or interest in or to the Collateral which is or which shall be, prior, paramount, superior or equal to the right, title and interest of the Financier therein or thereto. The Borrower expressly covenants that no Distributor shall have or be granted any priority right in the Collateral.

(e) OTHER REPRESENTATIONS:

(i) That no employee or official of Financier, including members of its Board of Directors, has any pecuniary interests, directly or indirectly, by himself or through a member of his family or third person, in the execution and performance of this contract pursuant to Law 12 of July 24, 1985, as amended from time to time, also known as "Government Ethics Law";

(ii) [Intentionally Omitted];

(iii) That no officer of the Borrower has been convicted of a crime: (a) against the public trust, and/or treasury function, or (b) that involved state or federal public funds or property. The Borrower expressly recognizes that this is an essential condition of this Agreement and in the event this warranty ceases to be correct, in whole or in part, the Financier can terminate this Agreement and the Borrower shall reimburse to the Financier all monies disbursed under this Agreement;

(iv) The Borrower has filed, for the 5 years immediately preceding the date of this Agreement, income tax returns and it owes no monies in connection therewith to the Commonwealth of Puerto Rico or it is complying with a payment plan for any outstanding income tax owed. In the event Borrower came into existence within the

5-year period prior to the date of this Agreement, then the stockholders and directors of Borrower shall provide the aforesaid certification, in their personal or corporate capacity, for such time period of actual existence, as a supplement to Borrower's certificate. The Borrower expressly recognizes that this is an essential condition of this Agreement and in the event this warranty ceases to be correct, in whole or in part, the Financier can terminate this Agreement and the Borrower shall reimburse to the Financier all monies disbursed under this Agreement. The parties hereto hereby acknowledge the delivery of the required certification;

(v) The Borrower warrants to and shall, as an essential and necessary condition of this Agreement, show and deliver, when requested by the Financier or any authorized representative thereof, the certifications and documents that evidence Borrower's financial and tax situation;

(vi) the Borrower warrants to and shall, as an essential and necessary condition of this contract, show and deliver, when requested by the Financier or any authorized representative thereof, the certifications and documents that evidence Borrower's financial and tax situation; that each person contracted or recruited to work within Puerto Rico in any task or job related to the Film object of this contract shall be eligible to work in Puerto Rico, pursuant to the laws and regulations of the Department of Immigration and Citizenship of the United States of America;

(vii) the Borrower is not a party to and will not be a party to any contract, agreement, verbal or otherwise, with any agency or public corporation, of the Commonwealth of Puerto Rico, that would constitute a conflict of interest with this Agreement and/or the actions, duties and/or responsibilities to be undertaken by Borrower under the Agreement. Moreover, the Borrower does not and shall not represent any private interest in any case or matter that would imply: (i) conflict of interest with the Financier or (ii) a

conflict of interest with the public policy of the Financier;

(viii) the Borrower, if a natural person, does not have nor has reason to believe there should be any debt outstanding regarding child support payments under the government program known as Administración para el Sustento de Menores (ASUME) and shall, as an essential and necessary condition of this contract, show and deliver, when requested by the Financier or any authorized representative thereof evidence thereof;

(ix) the Borrower does not have any action, suit, litigation, arbitration, investigation or other proceeding of or before any court, arbitrator or governmental or regulatory official, body or authority of the Commonwealth of Puerto Rico, and to the best knowledge of the Borrower, threatened against Borrower, nor does Borrower know or have reason to know of any basis for any such action, suit, litigation, arbitration, investigation or proceeding; Borrower is not aware of any claim, event, occurrence or conflicting contracts with any agency of the Commonwealth of Puerto Rico that would require Borrower to give notice to Financier.

(x) Unless the Financier otherwise expressly agrees in writing, which agreement will not be unreasonably withheld, all materials incorporated in the Film will be original in the person(s) notified to the Financier by the Borrower except insofar as such material may be in the public domain;

(xi) That the Borrower shall comply with all the terms of this Agreement.

6. **CONDITIONS OF LENDING**: The obligation of the Financier to lend or advance any and all sums hereunder is subject to the following conditions precedent:

(a) REPRESENTATIONS AND WARRANTIES: At the time of each and every disbursement hereunder, the representations and warranties set forth in Section 5, above, shall be true and correct on and as of such date with the same effect as though such representations and warranties had been made on and as of such date.

(b) NO DEFAULT: At the time of any disbursement hereunder, the Borrower shall be in compliance with all the terms and provisions set forth herein on its part to be observed or performed, and no Event of Default specified in Clause 9, below, nor any event which upon notice or lapse of time or both, would constitute such an Event of Default, shall have occurred.

(c) SECURITY AGREEMENT: On or prior to the execution of this Loan Agreement, the Borrower shall have executed and delivered (i) the Security Agreement (and related financing statements); (ii) the Copyright Mortgage Agreement; and (iii) such other agreements and documents as the Financier may reasonably request in order to carry out the intent of this Agreement and the Security Agreement.

(d) ACQUISITION OF RIGHTS TO THE FILM: The Borrower shall have entered into agreements (and shall have provided original, fully executed counterparts thereof to the Financier) for the acquisition of exclusive motion picture and related exclusive production, distribution and exploitation rights in and to the Literary Property, and deal memos for the employment of the principal performers in the Film, and the director and producer of the Film, all of which agreements shall be valid, binding and continuing in full force and effect.

(e) INSURANCE: The Borrower has caused to be furnished to the Financier insurance certificates which shall remain at all times in full force and effect showing the Financier and the Government of the Commonwealth of Puerto Rico as additional insured and loss payee and showing full and complete coverage including, but not limited to, film producers' indemnity (cast and preproduction cast insurance); all risks negative including faulty camera, stock and processing; use and occupancy (extra expense insurance); props, sets, wardrobe and miscellaneous equipment insurance; third-party property damage (care custody control) liability; Workmen's Compensation and Employer's Liability; comprehensive general auto liability; errors and omissions and all such other normal types of motion picture production insurance as the

Financier may reasonably require. All such policies shall provide that they cannot be terminated or materially altered without giving the Financier at least thirty (30) days' written notice thereof.

(f) INDEMNITY: The Borrower agrees to indemnify and save harmless, the Financier, its licensees, assignees, and affiliated companies or agencies, and the officers, directors, employees and agents of all the foregoing and the government of the Commonwealth of Puerto Rico, against and from all costs, claims, awards, damages (including the Financier's reasonable legal costs) and/or liabilities whatsoever arising directly or indirectly, in the production of the Film or from any breach or non performance of the Borrower's representations, warranties, undertakings, obligations or other provision hereof contained in this Agreement.

(g) CAPITAL INVESTMENT: As an essential condition of this Agreement Borrower has to show evidence of capital investment of at least 20% of the total approved production budget as required by the Film Fund Regulation. Borrower represents, warrants and has evidenced to Financier, a contribution from Borrower, Dida and other sources, in an amount greater than $203,290 to the production costs and expenses of the Film.

(h) PERIOD TO START PHOTOGRAPHY: Borrower will have a period of two (2) months, from the signing of this Agreement to provide Financier with the production schedule of the Film. Principal photography of the Film shall commence on or prior to November 1, 2011.

(i) COPYRIGHT MORTGAGE DOCUMENT: On or prior to the execution of this Loan Agreement, the Borrower shall have executed and delivered the Copyright Mortgage Agreement. This document has to be filed with the Copyright Office of the United States within ten (10) days of filing for copyright registration for the final product of the Film. If final product of the Film is registered with the Intellectual Property Register of Puerto Rico or any counterpart to the Copyright Office of the United States in any other country, the same covenant set forth hereinbefore shall apply.

7. **CREDITS**: Borrower will develop a media and marketing plan that shall include, without limitation, media tour, talent interviews, photo sessions, and press conferences to publicize the Film. Borrower shall acknowledge Financier's participation in all pertinent media. Financier or its designee will have the right to be accorded as the last credit in the end credits of the Film, a company production credit, in substantially the form of *"This Film was financed in part by the Puerto Rico Film Corporation,"* together with its logo. The Financier's logo will also appear in the billing block of all paid advertising (subject to all customary exclusions).

8. **USE OF LOAN FOR PRODUCTION**: The Borrower agrees to photograph and otherwise produce the Film with due diligence and in accordance with the Final Budget, to complete production thereof and deliver the Film to Financier, buyers and distributors not later than July 2012. The Borrower agrees that the Loan proceeds hereunder shall be used by the Borrower only to finance production of the Film as permitted by this Loan Agreement or approved in writing by the Financier.

9. **AFFIRMATIVE COVENANTS**: The Borrower covenants and agrees that from the date hereof and until payment in full of the principal of the Note, unless the Financier otherwise consents in writing, Borrower will:

(a) CORPORATE EXISTENCE; PROPERTIES, ETC: Do or cause to be done all things necessary to preserve and keep in full force and effect its corporate existence, rights and franchises and comply with all laws applicable thereto or its business and operations.

(b) NOTICE OF MATERIAL EVENTS: Promptly give notice in writing to the Financier of any action or event which, in the reasonable judgment of the Borrower, exercised in good faith, might materially and adversely affect the repayment of the Loan or the security interests granted to the Financier under the Security Agreement and/or the Copyright Mortgage Agreement.

(c) NOTICE OF LITIGATION: Promptly give notice in writing to the Financier of all litigation or other proceedings commenced on and after the date of this Loan Agreement (including, without limitation, any proceedings relating to the assessment or collection of taxes, imposts or duties), affecting the Borrower

or the Collateral, and furnish to the Financier, from time to time, as and when requested by the Financier in writing, all information concerning the status of any such litigation or other proceeding, and furnish to the Financier, from time to time, all information concerning the status of any such controversy, claim, suit or other proceedings.

(d) INSURANCE: Maintain or cause to be maintained, without expense to the Financier, the insurance referred to in Section 6 above, and such other customary insurance, all as the Financier may reasonably require, to be underwritten by insurance companies acceptable to the Financier. The Financier shall be named as a loss payee on all physical damage insurance and an additional insured on all other insurance to the extent provided for in Section 5, above. The Borrower shall furnish the Financier evidence satisfactory to the Financier of such insurance.

(e) COMPLETION OBLIGATION: Perform each and all the material covenants, representations and warranties on its part to be performed hereunder and all other agreements material to the Film.

(f) STATEMENTS; REPORTS, ETC: Borrower is obliged and compeled to submit to Financier the following Statements and Reports until the Loan is paid in full:

(i) Quarterly statement of income and expenses pertaining to distribution of the Film.

(ii) Bimonthly statements of income and expenses for the first four (4) months of the Film's theatrical release in any market and for every market.

(iii) Annual financial statement of the Film, audited by a certified public accountant duly authorized to practice such profession in Puerto Rico.

(g) FURTHER ASSURANCES: Upon the request of the Financier, duly execute and deliver and record or file in any public registry, or cause to be duly executed and delivered and so recorded or filed at the cost and

expense of the Borrower, as the case may be, such further instruments as may be necessary, proper or desirable, in the sole reasonable judgment of the Financier, to carry out the provisions and purposes of this Loan Agreement or the Loan Documents and do all things necessary to preserve the security interests of the Financier under the Loan Documents.

(h) ACCESS: At all times permit the Financier access to the production site(s) to watch production of the Film and/or to review rushes, rough cuts, screeners, and any other materials requested by the Financier relating to the production of the Film. Upon such visits, which visits shall be at Financier's sole expense, the Financier shall be provided copy of the call sheet and production reports. The Borrower shall be bound to make available or cause to be made available immediately to Financier, upon its request, screeners of the Picture, in the shape or form such screener might be available at the time of such request.

(i) NOTIFICATION OF CHANGES: Borrower shall notify Financier of any change in production related to changes in the director, producer, photography director, cast or executive producer, which notice shall be given within 15 days of any such change(s) in production.

(j) QUALITY CONTROL ("QC") PROVISIONS:

a. Once the Film has been completed in post production a Quality Control session must be done both internally – at the professional post production facility where layback, color correction and/or laydown has taken place, and at a reputable lab that makes deliveries for both the domestic and international markets.

b. QC on materials is contingent on deliverables and all masters created for such purpose. It is understood that the process of QC for a film print or negative will be different to that of a digital master.

c. QC on digital materials is also contingent on recording equipment used during the production, and on the pre-determined final format of the project, in

which post production processing of files must be considered.

d. Acceptable formats for finished product:

i. If the Film is shot on celluloid and completed in film, the laydown to a digital master shall be no less that 1080p HD/D5 quality, and color corrected for the medium.

ii. If the Film is shot on celluloid but completed in digital format, the digital master shall be no less than 1080p HD/D5 quality.

iii. If the Film is shot in digital format at 4k, a 4k version must be used when outputting to film for theatrical release and kept as a master file in its own hard drive(s); if there is not going to be an output to film the digital master can be generated from the 2K version of the Film. Acceptable codecs are upgraded on a regular basis and the guidelines for the latest technology should be employed for the best possible quality.

iv. If the Film is shot at 1080p HD/D5 quality, it may be used to output to film for theatrical screening, and the digital master shall be no less than 1080p HD/D5 quality.

v. If a Film is shot at 720p (1080i) the digital master shall be no less than 720p. This digital format should not be used as 1080i, or up converted as it will nullify its quality for delivery purposes. Unless 720p is used for specific purposes (documentary, deterioration of pixels when enlarged as a "look", etc.), it should not be considered a prime candidate for film output. 720p is highly acceptable for broadcast and DVD.

vi. If the Film is shot at less the 720p it will be limited as to potential distribution avenues.

e. Distribution guidelines and deliverables:

The deliverables sample guidelines reflect the current standards for both buyers and distributors. The distributor has the last word as to deliverables. The Company agrees to furnish the PRFC with:

1. Access to the print, IP and negative, and subtitling digital files (if the film will be exhibited/has been finished in film);

2. NTSC HD masters (D5 or HDCAM), according to the post production final output decision and original materials), texted and textless;

3. PAL HD masters (D5 or HDCAM), according to the post production final output decision and original materials), texted and textless, or access to materials from which PAL masters can be generated.

4. Digital subtitling files.

5. EPK and Behind the Scenes materials.

f. Raw Footage, Dailies and Work-in-Progress: The Borrower shall be bound to make available immediately to the Financier, upon its request and at Financier's sole expense, including, without limitation, any material regarding raw footage, dailies, and any work-in-progress at any stage thereof, in any format it may exist at the time of the request.

10. **NEGATIVE COVENANTS**: The Borrower covenants and agrees that from the date hereof and until payment in full of the principal and interest on all sums due hereunder, whether or not represented by a Note, unless the Financier shall otherwise consent in writing, the Borrower will not, either directly or indirectly:

(i) LIMITATION ON SECURITY INTEREST: Create, assume or suffer to exist any security interest, mortgage, pledge, encumbrance, assignment, lien or charge of any kind upon the Collateral equal or superior to the security interests granted to the Financier under the Loan Documents, or which interferes in any way with the Financier's rights hereunder or with respect to the Collateral, other than statutory laboratory liens to be discharged in the normal course of business.

(ii) PROHIBITION OF AMENDMENTS OR WAIVERS: Amend, alter or modify, or cause to or suffer any amendment, alteration or modification of any film license agreement, any pay television/syndication exploitation agreement, any production-distribution agreement, or any completion guaranty so as to materially adversely affect the Financier's rights in the collateral

without the Financier's consent, or waive (by agreement, action or inaction) any material rights under any agreements, so as to adversely affect the Financier's rights in the Collateral.

(iii) SALE OF ASSETS; CONSOLIDATION; MERGER, ETC.: The Borrower will not (i) sell, lease, transfer or otherwise dispose of all or a substantial part of its properties and assets, or (ii) change its corporate name or trade name without giving prior written notice of at least sixty (60) days of such event to the Financier.

11. **DEFAULTS**:

(a) EVENTS OF DEFAULT: Any of the following events are herein called "Events of Default":

(i) Borrower's failure to make any payment due and payable hereunder for a period of sixty (60) consecutive calendar days after the lapse of the due date for such payment hereunder;

(ii) Any representation or warranty made herein, in the Loan Documents, or any other agreement or instrument between the parties hereto relating to this transaction proving to be false, incorrect, or misleading in any material respect;

(iii) Any report, certificate, financial statement or other instrument furnished in connection with this Loan Agreement, and the Loan Documents, the borrowings hereunder or the grant of the security interests contemplated by the Security Agreement and/or the Copyright Mortgage Agreement proving to be false or misleading in any material respect;

(iv) Not causing the distributors, exhibitors, licensees, sub licensees or any other person obtaining a right to exploit the Film to deposit the income generated by the exploitation of the picture directly into the Collection account;

(v) Default in the payment of principal on the Loan hereunder, as and when due and payable; default in the due observance or performance of any

material covenant, condition, representation, warranty or agreement on the part of the Borrower to be observed or performed pursuant to the terms of this Loan Agreement, the Security Agreement and/or the Copyright Mortgage Agreement, the Note or any other agreement or instrument between the parties hereto relating to this transaction;

(vi) The Borrower (A) applying for or consenting to the appointment of a receiver, trustee or liquidator (or equivalent under applicable law), of the Borrower, or all or substantially all of its respective properties or assets, (B) admitting in writing its inability to pay its debts as they mature, (C) making a general assignment for the benefit of creditors, (D) being adjudicated a bankrupt or insolvent, or (E) filing a voluntary petition in bankruptcy, or a petition or an answer-seeking reorganization or an arrangement with creditors or taking advantage of any bankruptcy, reorganization, insolvency, readjustments of debt, dissolution or liquidation law or statute, or an answer admitting the material allegations of a petition filed against it in any proceeding under any such law or if corporate action shall be taken by the Borrower for the purpose of affecting any of the foregoing;

(vii) An order, judgment or decree being entered, without the application, approval or consent of the Borrower by any court of competent jurisdiction, approving a petition seeking reorganization of the Borrower or of all or a substantial part of the properties or assets of the Borrower, or appointing a receiver, trustee or liquidator of the Borrower and such order, judgment or decree continuing unstayed and in effect for any period of sixty (60) days;

(viii) A claim being made by any governmental or taxing authority or any private party for the payment of money in excess of $5,000 against the Borrower, pursuant to which said claimant has perfected the right to take possession of the property of the Borrower by attachment, garnishment, execution, lien, levy or any

proceedings of a similar nature, and which proceedings have not been stayed or set aside by the posting of a bond or otherwise for a period of thirty (30) days from the date of perfecting thereof;

(ix) Not filing for copyright registration with the Copyright Office of the United States within 30 days of finishing the Film and/or not filing the Copyright Mortgage Document within the time frame set in Section 6 hereof.

(x) Any other occurrence, act or failure on the part of the Borrower which under applicable law constitutes a material breach of this Loan Agreement, the Loan Documents, or any other agreement or instrument between the parties hereto.

12. **REMEDY ON DEFAULT**: In the case of the happening of an Event of Default which, if curable, remains uncured for a period of fifteen (15) business days (unless a longer period is specifically designated above) from the date on which the Borrower first is on written notice thereof (whether by notice from the Financier or otherwise) then, at any time thereafter during the continuance of any such event, the Financier may, by written notice to the Borrower, declare all of the then outstanding portion of the Loan immediately due and payable and all costs in connection therewith and/or pursue any remedies available herein or under applicable law to the Financier under this Loan Agreement, the Note, the Security Agreement, the Copyright Mortgage Agreement or any other documents executed in connection therewith. Without limiting the generality of the foregoing, the parties hereto acknowledge that Financier may elect to refer and assign the uncollected amount and debt hereunder to a collection agent, selected by Financier, and empower such collection agency to seek the recovery of the amounts owed hereunder.

13. **NOTICES**: Any notice shall be conclusively deemed to have been received by a party hereto and be effective on the third day after which it is deposited with the United States mail, registered or certified, return receipt requested (postage prepaid), or transmitted by facsimile (with proof of receipt and a copy by regular U.S. Mail), addressed to such party at such address or such other address as any of them may later designate by written notice:

(a) If to the Financier, at

Mariella Pérez Serrano, Ph.D.
Executive Director
Puerto Rico Film Corporation
P.O. Box 362350
San Juan, PR 00936-2350.
Fax Number: 787-756-5706
Email: mperez@puertoricofilm.com

(b) If to the Borrower, at

Pasadena Films, Inc.
Calle Presidente Ramirez #210
Urbanizacion Baldrich
San Juan, Puerto Rico 00918
Fax Number: 787-200-0305
Email: gilbertoadrian@gmail.com

14. **CONFLICTS WITH THE SECURITY AGREEMENT**: Any covenant or agreement of the Borrower under the Security Agreement and/or Copyright Mortgage Agreement shall be deemed to be cumulative and not in conflict with the provisions of this Loan Agreement.

15. **SURVIVAL OF COVENANTS, AGREEMENT, REPRESENTATIONS AND WARRANTIES**: All covenants, agreements, representations and warranties made herein and in the Certificates delivered pursuant hereto and in the Loan Documents shall survive the making by the Financier of the Loan and the execution and delivery to the Financier of the Note and shall continue in full force and effect so long as the Loan, or any interest, cost, or other payment obligations set forth herein are outstanding and unpaid.

16. **SUCCESSORS AND ASSIGNS**: Whenever in this Loan Agreement any of the parties hereto are referred to, such reference shall be deemed to include the successors and assigns of such party, and all covenants, promises and agreements by or on behalf of the Borrower which are contained in this Loan Agreement or the Loan Documents shall bind the successors and assigns of the Borrower and shall inure to the benefit of the successors and assigns of the Financier.

17. **GOVERNING LAW**: This Loan, the Security Agreement, the Note, the Copyright Mortgage Agreement and any other agreement

or instrument between the parties hereto relating to this transaction shall be construed in accordance with and governed by and enforced in accordance with the laws of the Commonwealth of Puerto Rico and the Borrower hereby consents to the jurisdiction of all courts (whether State or Federal) in the Commonwealth of Puerto Rico.

18. **WAIVER:** Neither any failure nor any delay on the part of the Financier, in exercising any right, power or privilege hereunder, under the Security Agreement, under the Note or under the Copyright Mortgage Document shall operate as a waiver thereof, nor shall a single or partial exercise thereof preclude any other or further exercise of any right power or privilege.

19. **AMENDMENT:** No modification, amendment, or waiver of any provision of this Loan Agreement, the Security Agreement, the Note, or the Copyright Mortgage Agreement nor consent to any departure by the Borrower therefrom, shall in any event be effective unless the same shall be in writing and signed by the Financier, and then such waiver or consent shall be effective only in the specific instance and for the purpose for which given. No notice to or demand on the Borrower in any case shall entitle the Borrower to any other or further notice or demand in the same, similar or other circumstances.

20. **SEVERABILITY:** In case any one or more of the provisions contained in this Loan Agreement, or in the Note, or in the Security Agreement, or the Copyright Mortgage Document should be invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein and therein shall not in any way be affected or impaired thereby.

21. **COUNTERPART EXECUTION:** This Loan Agreement may be executed in two or more counterparts, each of which shall constitute an original, but when taken together shall constitute but one agreement.

22. **ADDITIONAL DOCUMENTS:** Each of the parties hereto agrees to execute any additional documents which may be required or be desirable to fully effectuate the purposes and intents of this agreement or to carry out the obligations of the parties hereunder, provided that they are not inconsistent with the provisions of this agreement.

Borrower has delivered at the moment of signing this contract to the Financier the following documents on its behalf and on behalf of all owners, partners, directors or shareholders:

1. Certification of filing of Income Tax Return for the past 5 years issued by the Department of Treasury of Puerto Rico.

2. Certification of Debt issued by the Department of Treasury of Puerto Rico.

3. Certification of debt for real property issued by the Center of Collections for Municipal Income (*CRIM* by its acronym in Spanish).

4. Certification of debt for concept of unemployment, temporary incapacity and social security for drivers issued by the Department of Labor and Human Resources of Puerto Rico.

5. Borrower shall also file original of its Certificate of Organization and Certificate of existence issued by the Department of State of Puerto Rico.

6. Certification of debt for concept of municipal patents for industry commerce and services.

IN WITNESS WHEREOF, the parties have executed this agreement on this 31th day of August 2010.

BORROWER:
PASADENA FILMS, INC.

By: Gilberto Rodríguez
Vice-President

LENDER:
PUERTO RICO FILM CORPORATION

By: Mariella Pérez Serrano
Executive Director

Affidavit number 6618

Acknowledged and subscribed to before me by Mariella Pérez Serrano, as Executive Director of Puerto Rico Film Corporation, of legal age, married, executive and resident of San Juan, Puerto Rico and by Gilberto Rodríguez, of legal age, single,

executive and resident of San Juan, Puerto Rico, in his capacity as Vice-President of Pasadena Films, Inc.; both personally known to me, in San Juan, Puerto Rico this 31th day of August, 2011.

NOTARY PUBLIC

Schedule 4(i)

$268,568.50 - Advance.

- Once all deliverable items pertaining the actual production phase have been validated by the PRFC. These include a revised budget, latest script revision and shooting schedule.

- Be advised that additional deliverable items can be asked for at any time after the advance has been disbursed. These include a pre-production weekly calendar highlighting casting, rehearsals, tech scout and final pre-production meeting. When principal photography begins you will be required to hand in daily call sheets and location maps the date prior to the shooting date and production reports the date after the shooting date. These can be distributed by email.
- In the event any disbursement from Financier will be applied to payment of salaries for the producer, executive producers, and/or directors, 10% of the each of the producer's and director's salaries shall be retained and can only be paid from the 4th disbursement monies.

$183,926.25 - 2nd disbursement

- Once 50% of expenses for the advance have been accounted for
- All deliverable items pertaining the actual production phase have been validated by the PRFC. Be advised that additional deliverable items can be asked for at any time after the 2nd disbursement has been disbursed. When principal photography begins you will be required to hand in daily call sheets and location maps the date prior to the shooting date and production reports the date after the shooting date. These can be distributed by email.

$54,642.25 - 3rd disbursement

- Once the remaining 50% of expenses for the advance have been accounted for; and 50% of expenses for the 2nd disbursement have been accounted for
- All deliverable items pertaining the actual production phase have been validated by the PRFC. Be advised that additional deliverable items can be asked for at any time after the 3rd disbursement has been disbursed.

$30,000 - 4th disbursement

- Once the remaining 50% of expenses for the 3rd disbursement have been accounted for
- All deliverable items pertaining the actual production phase have been validated by the PRFC. Be advised that additional deliverable items can be asked for at any time after the 4rd disbursement has been disbursed.

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$537,137.00