

PATENT ASSIGNMENT

Electronic Version v1.1
 Stylesheet Version v1.1

SUBMISSION TYPE:	NEW ASSIGNMENT
NATURE OF CONVEYANCE:	SECURITY AGREEMENT
CONVEYING PARTY DATA	
Name	Execution Date
Magnetic Energy, Ltd.	05/23/2006
RECEIVING PARTY DATA	
Name:	Colmac Holdings Limited
Street Address:	45 St. Clair Avenue West, Suite 902
City:	Toronto, Ontario
State/Country:	CANADA
Postal Code:	M4V 1K9
PROPERTY NUMBERS Total: 1	
Property Type	Number
Patent Number:	6362718
CORRESPONDENCE DATA	
Fax Number:	(212)506-5151
<i>Correspondence will be sent via US Mail when the fax attempt is unsuccessful.</i>	
Phone:	212-506-5150
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Address Line 4:	New York, NEW YORK 10103-0001
ATTORNEY DOCKET NUMBER:	17735.2
NAME OF SUBMITTER:	Bradford S. Breen
Total Attachments: 7	
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SECURITY AGREEMENT

SECURITY AGREEMENT (this "Agreement"), dated as of May 23, 2006, made by and between Magnetic Energy Limited, a Nevada limited liability company ("Grantor"), and Colmac Holdings Limited (the "Secured Party").

WITNESSETH:

WHEREAS, as of the date hereof, the Secured Party purchased shares of common stock, par value \$.01 per share (the "Shares"), in MEG Products, Inc., a Delaware corporation and an affiliate of Grantor ("MPT"), pursuant to a letter agreement, dated as of the date hereof, by and between, among others, the Secured Party and MPI (the "Letter Agreement");

WHEREAS, in order to induce the Secured Party to purchase the Shares, Grantor agreed to guaranty the obligations of MPI provided in the Letter Agreement pursuant to a Guaranty, dated as of the date hereof, executed by the Grantor in favor of the Secured Party (the "Guaranty");

WHEREAS, it is a condition precedent to purchase of the Shares by the Secured Party that the Grantor shall have granted the Secured Party a security interest in the Collateral (as hereinafter defined) as contemplated by this Agreement; and

WHEREAS, the Grantor expects to realize direct and indirect benefits as a result of the sale of the Shares by MPI to the Secured Party and desires to grant the Secured Party a security interest in the Collateral as contemplated by this Agreement.

NOW, THEREFORE, for good and valuable consideration, the receipt and adequacy of which hereby is acknowledged, the parties agree as follows:

ARTICLE I – DEFINITIONS

1.1 This Agreement is the Security Agreement referred to in the Guaranty. As used in this Agreement, the following terms shall have the meanings respectively set forth below:

"Agreement" means this Security Agreement, and any extensions, modifications, renewals, restatements, supplements or amendments hereof.

"Collateral" means has the meaning provided in Section 2.1 hereof.

"Patent" shall U.S. Patent No. 6,362,718.

"Secured Obligations" means any and all present and future obligations of the Grantor arising under or relating to the Guaranty or this Agreement, whether due or to become due, matured or unmatured, or liquidated or unliquidated.

ARTICLE II – SECURITY INTEREST

2.1 Grant of Security Interest in the Patent. To secure the complete and timely payment, performance and satisfaction of all of the Secured Obligations, the Grantor hereby grants to the Secured Party a security interest as and by way of a first mortgage and security interest having priority over all of other security interests, including with power of sale to the fullest extent permitted by applicable law, in all of the Grantor's right, title and interest in the Patent, and all know-how, data, confidential information and copyright works relating to the subject matter disclosed in the Patent, and all renewals thereof, all income, royalties, damages and payments now and hereafter due and/or payable under and with respect to thereto, including, without limitation, payments under all licenses entered into in connection therewith and damages and payments for past or future infringements or dilutions thereof, the right to sue for past, present and future infringements and dilutions thereof, the goodwill of the Grantor's business symbolized by the foregoing and connected therewith and all of the Grantor's rights corresponding thereto throughout the world (all of the foregoing items described in the this Section 2.1, are hereinafter individually and/or collectively referred to as the "Collateral").

2.2 Title; Other Liens. Except for the security interest granted to the Secured Party pursuant to this Agreement, the Grantor owns the Patent free and clear of any and all liens, claims or security or adverse interests.

ARTICLE III – FURTHER ASSURANCES

3.1 At any time and from time to time at the request of the Secured Party, the Grantor shall execute and deliver to the Secured Party all such financing statements and other instruments and documents in form and substance satisfactory to the Secured Party as shall be necessary or desirable to fully perfect, when filed and/or recorded, the security interest granted to the Secured Party pursuant to Article II of this Agreement. The Grantor hereby authorizes the Secured Party, without notice to the Grantor, to file any financing statement and amendments thereof or continuations thereof, naming the Grantor as debtor and the Secured Party as the creditor. At any time and from time to time, the Secured Party shall be entitled to file and/or record any or all such financing statements, instruments and documents held by it, and any or all such further financing statements, documents and instruments, and to take all such other actions, as the Secured Party may deem appropriate to perfect and to maintain perfected the security interest granted to it in Article II of this Agreement. Before and after the occurrence of any default under the Guaranty, at the Secured Party's request, the Grantor shall execute all such further financing statements, instruments and documents, and shall do all such further acts and things, as may be deemed necessary or desirable by the Secured Party to create and perfect, and to continue and preserve, an indefeasible security interest in the Collateral in favor of the Secured Party or the priority thereof, including causing any such financing statements to be filed and/or recorded in the applicable jurisdiction.

ARTICLE IV – SECURITY AGREEMENT

4.1 This Agreement secures the satisfaction of all of the Secured Obligations of the Grantor now or hereafter existing under the Guaranty and all of the Secured Obligations of the

Grantor now or hereafter existing under this Agreement and provides for the application of proceeds from the Collateral, upon the occurrence of an Event of Default (as defined in Section 5.1 hereof).

ARTICLE V – EVENTS OF DEFAULT

5.1 There shall be an event of default upon a material breach of Grantor's obligations provided hereunder or provided in the Guaranty (an "Event of Default").

ARTICLE VI – RIGHTS UPON EVENT OF DEFAULT

6.1 Upon the occurrence and during the continuance of an Event of Default, the Secured Party shall have, in any jurisdiction where enforcement hereof is sought, in addition to all other rights and remedies that the Secured Party may have under applicable law or in equity or under this Agreement, all rights and remedies of a secured party under the Uniform Commercial Code as enacted in any jurisdiction.

ARTICLE VII – GENERAL REPRESENTATIONS, WARRANTIES AND COVENANTS

7.1 The Grantor represents, warrants and covenants as follows:

(a) except for the security interest granted to the Secured Party, the Grantor is the owner of all the Collateral free from any lien, security interest, encumbrance or other right, title or interest of any person, and the Grantor shall defend the Collateral against all claims and demands of all persons at any time claiming the same or any interest therein adverse to the Secured Party;

(b) except for any financing statement filed for the benefit of the Secured Party, there is no financing statement (or similar statement or instrument of registration under the law of any jurisdiction) now on file or registered in any public office covering any interest of any kind in the Collateral, or intended to cover any such interest that has not been terminated or released by the secured party named therein, and so long as the Guaranty remains outstanding or any of the Secured Obligations of the Grantor remain unsatisfied, the Grantor will not execute and there will not be on file in any public office any financing statement (or similar statement or instrument of registration under the law of any jurisdiction) or statements relating to the Collateral, except financing statements filed or to be filed in respect of and covering the security interest hereby granted to the Secured Party;

(c) at the Grantor's own expense, the Grantor will keep the Collateral free and clear of all liens and encumbrances, except for the liens granted hereby; and without the consent of the Secured Party, the Grantor will not sell, transfer, change the registration, if any, dispose of, attempt to dispose of, substantially modify or abandon the Collateral or any part thereof; and

(d) the chief executive office and chief place of business of Grantor is located at 925 Tascosa Dr., Huntsville, AL 35802 USA. The Grantor will not move its chief executive office and chief place of business until (i) it shall have given to the Secured Party not less than

30 days' prior written notice of its intention to do so, clearly describing such new location and providing such other information in connection therewith as the Secured Party may reasonably request, and (ii) with respect to such new location, it shall have taken such action, satisfactory to the Secured Party, to maintain the security interest of the Secured Party, in favor of the Secured Party, in the Collateral.

ARTICLE VIII – COSTS AND EXPENSES

8.1 The Grantor agrees to pay to the Secured Party all costs and expenses (including reasonable attorneys' fees and disbursements) incurred by the Secured Party in the enforcement or attempted enforcement of this Agreement, whether or not an action is filed in connection therewith, and in connection with any waiver or amendment of any term or provision hereof. All advances, charges, costs and expenses, including reasonable attorneys' fees and disbursements, incurred or paid by the Secured Party in exercising any right, privilege, power or remedy conferred by this Agreement or in the enforcement or attempted enforcement thereof, shall be secured hereby and shall become a part of the Secured Obligations and shall be paid to the Secured Party by the Grantor, immediately upon demand.

ARTICLE IX – CONTINUING EFFECT

9.1 This Agreement shall remain in full force and effect and continue to be effective should any petition be filed by or against the Grantor for liquidation or reorganization, should the Grantor become insolvent or make an assignment for the benefit of creditors or should a receiver or trustee be appointed for all or any significant part of the Grantor's assets, and shall continue to be effective or be reinstated, as the case may be, if at any time payment and performance of the Secured Obligations, or any part thereof, is, pursuant to applicable law, rescinded or reduced in amount, or must otherwise be restored or returned by the Secured Party, whether as a "voidable preference," "fraudulent conveyance" or otherwise, all as though such payment or performance had not been made. In the event that any payment or any part thereof is rescinded, reduced, restored or returned, the Secured Obligations shall be reinstated and deemed reduced only by such amount paid and not so rescinded, reduced, restored or returned.

ARTICLE X– TERMINATION; RELEASE OF THE GRANTOR

10.1 This Agreement shall terminate and all Secured Obligations of the Grantor hereunder shall be released upon the earliest of (i) the satisfaction of all Secured Obligations of the Grantor, (ii) the termination of the Guaranty by its terms and (iii) the mutual agreement of Grantor and Secured Party. Upon such termination, the Secured Party shall endorse, execute, deliver, record and file all instruments and documents, and do all other acts and things reasonably required for the return of the Collateral to the Grantor, or to the person or persons legally entitled thereto, and to evidence or document the release of the Secured Party's interests arising under this Agreement, all as reasonably requested by, and at the sole expense of, the Grantor.

ARTICLE XI – GOVERNING LAW

11.1 This Agreement shall be construed and enforced in accordance with and governed by the laws of the state of New York applicable to agreements to be performed wholly within such jurisdiction.

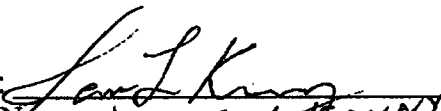
ARTICLE XII – ASSIGNMENT

12.1 This Agreement shall create a continuing security interest in the Collateral and shall be binding upon the Grantor and the Grantor's permitted successors and assigns; inure, together with the rights and remedies of the Secured Party hereunder, in favor of the Secured Party and its successors, transferees and assigns; and be severable in the event that one or more of the provisions herein is determined to be illegal or unenforceable. Notwithstanding the foregoing, the Secured Party may assign or otherwise transfer its rights under this Agreement only with the written consent of the Grantor.

[Signature Page Follows]

IN WITNESS WHEREOF, the undersigned have executed this Security Agreement by their duly authorized officer as of the date first written above.

MAGNETIC ENERGY LIMITED

By: 
Name: JAMES KENNY
Title: MANAGING PARTNER

COLMAC HOLDINGS LIMITED

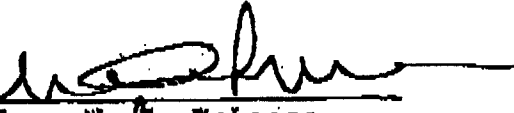
By: _____
Name:
Title:

IN WITNESS WHEREOF, the undersigned have executed this Security Agreement by their duly authorized officer as of the date first written above.

MAGNETIC ENERGY LIMITED

By: _____
Name:
Title:

COLMAC HOLDINGS LIMITED

By: 
Name: R. S. McLeese
Title: *Chair*


Robert S. McLeese
President