EXHIBIT "E"

This is **Exhibit "E"** referred to in the
Affidavit of Russell York
sworn the 10th day of March, 2009

A COMMISSIONER, ETC.

CREDIT AGREEMENT

among

TERRACE BAY PULP INC.
as Borrower

and

NEXCAP FINANCE CORPORATION
as the Agent

and

THE LENDERS FROM TIME TO TIME PARTIES HERETO

Dated as of

July 26, 2007

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TERRACE BAY PULP INC.
(the "Borrower")

CREDIT AGREEMENT

This **CREDIT AGREEMENT** (this "**Agreement**"), dated as of July 26, 2007, is entered into by and among **TERRACE BAY PULP INC.** (the "**Borrower**"), **NEXCAP FINANCE CORPORATION** (as administrative agent for the Lenders, the "**Agent**"), the Lenders from time to time party hereto.

WHEREAS, pursuant to a Summary Term Sheet (the "**Term Sheet**") dated June 21, 2007, the Borrower has requested the Agent to arrange to make available to the Borrower the loan as outlined in this Agreement and the Lender party hereto has agreed, on the terms, in accordance with and subject to, this Agreement, to make such credit facility available to the Borrower;

NOW, THEREFORE, in consideration of the foregoing, and for other good and valuable consideration, the receipt, sufficiency and adequacy of which hereby are acknowledged, the parties hereto hereby agree as follows:

1. DEFINITIONS

For purposes of the Loan Documents and all schedules, exhibits, annexes and attachments thereto, in addition to the definitions elsewhere in this Agreement and the other Loan Documents, the terms listed in Appendix B hereto shall have the respective meanings assigned to such terms in Appendix B hereto, which is incorporated herein and made a part hereof. All capitalized terms used which are not specifically defined herein shall have the respective meanings assigned to them in the PPSA to the extent the same are used or defined therein. Unless otherwise specified in any Loan Document, this Agreement, any other Loan Document and any agreement or contract referred to herein or in Appendix B hereto shall mean such agreement or contract, as modified, amended, supplemented or restated and in effect from time to time, subject to any applicable restrictions set forth in such Loan Document. Unless otherwise specified, as used in the Loan Documents or in any certificate, report, instrument or other document made or delivered pursuant to any of the Loan Documents, all accounting terms not defined in Appendix B hereto, or elsewhere in this Agreement or any other Loan Document, shall have the meanings assigned to such terms in and shall be interpreted in accordance with GAAP. If any change in GAAP results in a change in the calculation of the financial covenants or interpretation of related provisions of this Agreement or any other Loan Document, then the Borrower, Agent and Lenders agree to amend such provisions of this Agreement so as to equitably reflect such changes in GAAP but also to amend such provisions such that the criteria for evaluating the Borrower's financial condition shall be the same after such change in GAAP as if such change had not been made, provided that, notwithstanding any other provision of this Agreement, the Requisite Lenders' agreement to any amendment of such provisions shall be sufficient to bind all Lenders; and, provided further, until such time as the financial covenants and the related provisions of this

Agreement have been amended in accordance with the terms of this paragraph, the calculations of financial covenants and the interpretation of any related provisions shall be calculated and interpreted in accordance with GAAP as in effect immediately prior to such change in GAAP.

2. CREDIT

2.1 Loan

(a) **Term Operating Facility.** Subject to the terms and conditions set forth in this Agreement, each Lender agrees to make available to the Borrower on the Closing its Pro Rata Share of the Loan of up to Twenty-Five Million Dollars ($25,000,000). The amount of the Loan advanced on Closing and the amount of the Loan outstanding at any time thereafter shall not exceed the Borrowing Base. Subject to the proviso in the preceding sentence, the Loan will be fully advanced on the Closing Date. The Agent shall have the right to establish and readjust from time to time, in its Permitted Discretion, Reserves under the Loan, which Reserves shall have the effect of reducing the Borrowing Base. The principal amount of the Loan and all other Obligations under or in respect of the Loan shall be due and payable in full, if not earlier in accordance with this Agreement, on the Maturity Date. The obligations of the Lenders under the Loan shall be several, and not joint or joint and several.

(b) The Borrower shall give the Agent at least two (2) Business Days notice of a request for an Advance under the Loan (which notice shall be irrevocable), indicating the amount and date of the proposed Advance, and the Borrower shall be obligated to borrow the amount stated in the notice. If the Advance is less than Twenty-Five Million Dollars ($25,000,000), the difference shall be cancelled.

2.2 Evidence of Loan

(a) Each Lender shall maintain, in accordance with its usual practice, electronic or written records evidencing the Obligations to such Lender resulting from each Loan made by such Lender from time to time. The Agent shall maintain electronic or written records (the "**Register**") recording (A) the amount of the Advances made hereunder and all applicable interest rate periods, (B) the amount of any principal and/or interest due and payable and/or to become due and payable from the Borrower to each Lender hereunder and (C) all amounts received by the Agent hereunder from the Borrower and each Lender's share thereof. The Register shall be prima facie evidence of the existence and amounts of the obligations and indebtedness therein recorded; provided, however, that the failure of the Agent to maintain such records or any error therein shall not in any manner affect the Obligations in accordance with their terms.

(b) At the request of the Agent, the Loan shall be evidenced by a promissory note in a form reasonably acceptable to the Agent.

(c) The Agent will account to the Borrower monthly with a statement of Advances and repayments under the Loans and any charges and payments made pursuant to this Agreement, and in the absence of demonstrable error, such accounting rendered by the Agent shall be deemed final, binding and conclusive unless the Agent is notified by the Borrower in writing to the contrary within fifteen (15) calendar days of Receipt of such accounting, which notice shall be deemed an objection only to items specifically objected to therein.

2.3 Currency

The Loan shall be denominated in Canadian Dollars and all interest shall accrue and be payable, by the Borrower in the same currency. Unless otherwise expressly stated, all monetary amounts set out in the Loan Documents refer to the lawful money of Canada.

2.4 Interest

(a) The Loan shall bear interest on the outstanding principal amount thereof from the date advanced at a rate per annum equal to 7.6%.

(b) Accrued interest on the Loan shall be due and payable to the Agent in cash in arrears on each Interest Payment Date.

(c) Interest on all Obligations shall accrue from day to day, both before and after default, demand, maturity and judgment, shall be calculated monthly on the basis of the actual number of days elapsed and on the basis of a year of 365 days and shall be calculated and payable on overdue interest in the same manner and at the same rate as interest on the principal amount of the Loan then outstanding is calculated and payable. In the case of any Obligation in respect of which the rate of interest applicable thereto is not specified, the Obligation shall bear interest at the annual rate of interest specified in clause (a) above.

2.5 Voluntary Prepayments

The Borrower may not prepay the Loan in whole or in part at any time.

2.6 Mandatory Payments; Reinvestment

(a) If and while the Loan outstanding at any time exceeds the Borrowing Base, the Borrower shall immediately post security in favour of the Agent, consisting of Cash Equivalents or a letter of credit satisfactory to the Agent, which shall be released together with any earned interest thereon by the Agent to the Borrower upon the outstanding Loan being in compliance with the Borrowing Base when calculated without reference to the aforesaid security and any earned interest thereon.

(b) The Loan, accrued and unpaid interest thereon, and all other Obligations, shall be repaid and satisfied in full on the Maturity Date.

(c) If the Borrower or any Subsidiary of the Borrower, whether in a single transaction or a series of transactions:

(i) sells or transfers any Property, other than (x) inventory sold in the ordinary course of business, (y) other dispositions of property in the ordinary course of business which do not carry any material entitlements or rights and all such dispositions do not on a cumulative basis have a Material Adverse Effect and (z) any other individual assets having a fair value of less than Two Hundred and Fifty Thousand Dollars ($250,000); or

(ii) receives any property damage insurance award or any other insurance proceeds of any kind including, without limitation, proceeds from any business interruption insurance;

then the Borrower shall within twelve months apply, or cause to be applied, one hundred percent (100%) of the Net Proceeds thereof received by the Borrower to acquire replacement property or, in the case of clause (ii), repair damaged property (where appropriate) or otherwise re-invest the same in its Business

2.7 Promise to Pay; Manner of Payment

The Borrower absolutely and unconditionally promises to pay, when due and payable pursuant hereto, principal, interest and all other amounts and Obligations payable hereunder and under any other Loan Document, and each other Credit Party absolutely and unconditionally promises to pay, when due and payable pursuant hereto, all amounts and other Obligations payable hereunder and under any other Loan Document by them, in each case without any right of rescission and without any deduction whatsoever, including any deduction for set-off, recoupment or counterclaim, notwithstanding any damage to, defects in or destruction of the Collateral or any other event, including obsolescence of any property or improvements. Any payments made by the Borrower shall be made by wire transfer or direct debit on the date when due, without offset, deduction or counterclaim, in the applicable currency, in immediately available funds to such account as may be indicated in writing by the Agent to the

Borrower from time to time. Any such payment received after 2:00 p.m. (Toronto time) on any date shall be deemed received on the next succeeding Business Day, and any applicable interest or fees shall continue to accrue in respect thereof. Whenever any payment under any Loan Document shall be stated to be due or shall become due and payable on a day other than a Business Day, the due date thereof shall be extended to, and such payment shall be made on, the next succeeding Business Day, and such extension of time in such case shall be included in the computation of payment of any interest (at the interest rate in effect during such extension) and/or fees, as the case may be.

2.8 Payments by Agent

Should any Obligation required to be paid under any Loan Document remain unpaid beyond any applicable cure period, such Obligation may be paid by the Agent, on behalf of the Lenders, at the direction of the Requisite Lenders, which non payment shall be deemed an automatic request for an Advance under the Loan as of the date such payment is or was due, and the Borrower hereby irrevocably authorizes disbursement of any such funds to the Agent, for the benefit of the Lenders, by way of direct payment of the relevant amount, interest or other Obligation without necessity of any demand. Any sums expended or amounts paid by the Agent and/or the Lenders as a result of the Borrower's failure to pay, perform or comply with any Loan Document or any of the Obligations may be charged to the Borrower's account as an Advance under the Loan and added to the Obligations. The Agent shall notify the Borrower promptly of any such Advance.

2.9 Computation of Interest and Fees; Lawful Limits

(a) Except as otherwise specifically provided herein, where in any Loan Document a rate of interest is calculated on the basis of a year (the "deemed year") which contains fewer days than the actual number of days in the calendar year of calculation, such rate of interest shall be expressed as a yearly rate for purposes of the Interest Act (Canada) by multiplying such rate of interest by the actual number of days in the calendar year of calculation, whether 365 or 366, as the case may be, and dividing it by the number of days in the deemed year.

(b) In no contingency or event whatsoever, whether by reason of acceleration or otherwise, shall the interest and other charges paid or agreed to be paid to the Agent, for the benefit of the Lenders, or the Lenders for the use, forbearance or detention of money hereunder exceed the maximum rate permissible under Applicable Law which a court of competent jurisdiction shall, in a final determination, deem applicable hereto. If, due to any circumstance whatsoever, fulfillment of any provision hereof, at the time performance of such provision shall be due, shall exceed any such limit, then, the obligation to be so fulfilled shall be reduced to such lawful limit, and, if the Agent or the Lenders shall have received interest or any other charges of any kind which might be deemed to be interest under Applicable Law in excess of the maximum lawful rate, then such excess shall be applied first to any unpaid fees and charges hereunder, then to the unpaid principal balance owed by the Borrower hereunder, and if the then remaining excess interest is greater than the previously unpaid principal balance, the Agent and the Lenders shall promptly refund such excess amount to the Borrower and the provisions hereof shall be deemed amended to provide for such permissible rate. The terms and provisions of this Section shall control to the extent any other provision of any Loan Document is inconsistent herewith.

3. FEES

3.1 Commitment Fee

The Borrower shall pay to the Agent a commitment fee in the amount of One Hundred and Twenty-Five Thousand Dollars ($125,000.00), which fee is earned upon the execution hereof and shall be paid on the Closing Date.

3.2 Administration Fee

The Borrower shall pay to the Agent an annual administration fee of Twenty-Five Thousand Dollars ($25,000), payable in advance on the Closing Date and on each anniversary thereof.

3.3 Work Fee

The Borrower shall pay to the Agent a work fee of One Hundred Thousand Dollars ($100,000) which fee was earned upon the execution of the Term Sheet, as follows:

(a) the Agent acknowledges the receipt of two-thirds;

(b) the balance shall be paid on the Closing Date.

4. CONDITIONS PRECEDENT

The obligations of the Agent and the Lenders to consummate the transactions contemplated herein are subject to the delivery of all documents listed on, the taking of all actions set forth on and the satisfaction of each of the conditions precedent listed on Exhibit D hereto, all in a manner, form and substance satisfactory to the Agent.

5. REPRESENTATIONS AND WARRANTIES

The Borrower represents and warrants to the Lender Parties as follows:

5.1 Organization and Authority

The Borrower is a corporation duly organized or formed, validly existing and in good standing under the laws of its jurisdiction of organization or formation. The Borrower (a) has all requisite corporate power and authority to own its Properties and carry on its business as now being conducted and as contemplated in the Loan Documents, (b) is duly qualified and licensed to do business in and in good standing in each jurisdiction where the failure so to qualify or be licensed or qualified reasonably could be expected to result in a Material Adverse Effect, and (c) has all requisite corporate, partnership or limited liability company power and authority (i) to execute, deliver and perform the Loan Documents to which it is a party, (ii) with respect to the Borrower, to borrow hereunder, (iii) to consummate the transactions contemplated by the Loan Documents and (iv) to grant the Liens pursuant to the Security Documents to which it is a party.

5.2 Loan Documents

The execution, delivery and performance by the Borrower of the Loan Documents to which it is a party, and the consummation by the Borrower of the transactions contemplated thereby, (a) have been duly authorized by all requisite corporate, partnership or limited liability company action of the Borrower, and such Loan Documents have been duly executed and delivered by or on behalf of the Borrower; (b) do not violate any provisions of (i) any Applicable Law, (ii) any order, injunction, writ or decree of any Governmental Authority binding on the Borrower or any of their respective Properties, or (iii) the Organizational Documents of the Borrower, or any agreement between the Borrower and its shareholders, members, partners or equity owners or among any such shareholders, members, partners or equity owners; (c) are not in conflict with, and do not result in a breach or default of or constitute an event of default, or an event, fact, condition or circumstance which, with notice or passage of time, or both, would constitute or result in a conflict, breach, default or event of default under, any indenture, agreement or other instrument to which the Borrower is a party, or by which the Properties of the Borrower are bound, the effect of which reasonably could be expected to result in, either individually or in the aggregate, a Material Adverse Effect; (d) except as contemplated by the Security Documents, will not result in or require the creation or imposition of any Lien of any nature upon any of the Properties of the Borrower except Permitted Liens; and (e) except for filings in connection with the perfection of the Liens created by the Security Documents, do not require the consent, approval or authorization of, or filing, registration or qualification with, any Governmental Authority. Each of the Loan Documents to which the Borrower is a party constitutes the legal, valid and binding obligation of the Borrower, enforceable against the Borrower in accordance with its terms, subject to the effect of any applicable bankruptcy, moratorium, insolvency, reorganization or other similar law affecting the enforceability of creditors' rights generally and to the effect of general principles of equity which may limit the availability of equitable remedies (whether in a proceeding at law or in equity).

5.3 Subsidiaries, Capitalization and Ownership Interests

The Borrower does not have any Subsidiaries other than those Persons listed as Subsidiaries on Schedule 5.3. Schedule 5.3 states the authorized and issued capitalization of the Borrower, the number and class of equity securities and/or ownership, voting or partnership interests issued and outstanding of the Borrower and the beneficial and record owners thereof (including options, warrants, convertible notes and other rights to acquire, or exchangeable or exercisable for, any of the foregoing) as of the Closing Date. The outstanding equity securities and/or ownership, voting or partnership interests of the Borrower have been duly authorized and validly issued and are fully paid and non-assessable and each Person listed on Schedule 5.3 as of the Closing Date owns beneficially and of record all of the equity securities it is listed as owning free and clear of any Liens other than Liens created by the Security Documents and Permitted Liens. Schedule 5.3 lists the directors and officers of the Borrower as of the Closing Date. The Borrower does not own any interest or participate or engage in any joint venture, partnership or similar arrangements with any Person, neither the Borrower nor any of its Subsidiaries is a party to or has knowledge of any agreements (other than the Loan Documents) restricting the transfer of its equity securities, and neither the Borrower nor any of its Subsidiaries has issued any rights which can be convertible into or exchangeable or exercisable for any of its equity securities, or any rights to subscribe for or to purchase, or any options for the purchase of, or any agreements providing for the issuance (contingent or otherwise) of, or any calls, commitments or claims of any character relating to, any of its equity securities or any securities convertible into or exchangeable or exercisable for any of its equity securities except those required to carry out the restructuring described in the recitals. The Borrower does not have any stock appreciation rights, phantom stock plan or similar rights or obligations outstanding which would effect their ownership of Capital Stock of the Borrower.

5.4 Properties; Locations

(a) The Borrower is the sole owner and has good, valid and marketable title to, or a valid leasehold interest in, license of, or right to use, all of its Properties (including the Real Property), whether personal or real, in each instance, necessary or used in the Ordinary Course of Business, each is free and clear of all Liens other than Permitted Liens. The Real Property and tangible personal property which is pledged to the Agent is (normal wear and tear excepted) generally in good repair and condition and, in the case of the tangible personal property, in working order and is suitable and adequate in all material respects for the uses for which it is being used or are intended.

(b) Schedule 5.4 lists as of the Closing Date (i) the locations of the chief executive office of the Borrower, the locations of all Collateral (except for inventory in transit) and all books and records in connection therewith or in any way relating thereto or evidencing the Collateral, (ii) lists its occupied locations and indicates whether such location is owned or leased by the Borrower or whether the Borrower is entitled to occupy or use such location by virtue of a license or easement, (iii) if such location is leased, describes the parties to and date of such lease and the name and current address of the landlord under the lease, (iv) if such location is owned, sets forth a complete and accurate legal description for such location and (v) if the Borrower occupies or uses such location by virtue of a license or easement agreement, describes such license or easement agreement with reasonable specificity.

5.5 Other Agreements

The Borrower is not (a) a party to any judgment, order or decree or any agreement, document or instrument, or subject to any restriction, which adversely affects its ability to execute and deliver, or perform under, any Loan Document or to pay the Obligations, (b) in default in the performance, observance or fulfillment of any obligation, covenant or condition contained in any other agreement, document or instrument to which it is a party or to which any of its Properties are subject, which default, if not remedied within any applicable grace or cure period, could reasonably be expected to result in a Material Adverse Effect, nor is there any event, fact, condition or circumstance which, with notice or passage of time or both, would constitute or result in a default or event of default under, any of the foregoing which, if not remedied within any applicable grace or cure period, could reasonably be expected to result in a Material Adverse Effect, or (c) at the date hereof a party or subject to any agreement, document or instrument with respect to, or obligation to pay any management fee with respect to, the ownership, operation, leasing or performance of any of its Business other than any such agreements entered into in the Ordinary Course of Business.

5.6 Litigation

There are no actions, suits, proceedings or investigations pending or, to the knowledge of the Borrower, threatened against the Borrower that (a) questions or reasonably could be expected to adversely affect the validity of any of the Loan Documents or the right of the Borrower to enter into any Loan Document or to consummate the transactions contemplated thereby, or (b) reasonably could be expected to result in, either individually or in the aggregate, a Material Adverse Effect. The Borrower is not is a party or subject to any order, writ, injunction, judgment or decree of any Governmental Authority.

5.7 Environmental Matters

Except as set out in Schedule 5.7, the Borrower is, and the operations of the Borrower are, in compliance with all applicable Environmental Laws in all material respects. The Borrower has not been notified of any action, suit, proceeding or investigation by any Governmental Authority having jurisdiction over the Borrower (a) relating in any way to compliance by or liability of the Borrower under any Environmental Laws, (b) which otherwise deals with any Hazardous Substance or any

Environmental Law, or (c) which seeks to suspend, revoke or terminate any license, permit or approval necessary for the generation, handling, storage, treatment or disposal of any Hazardous Substance. The Borrower does not have any liability (contingent or otherwise), under any Environmental Law or Permit arising from the release, spill or discharge, threatened or actual, of any Hazardous Substances or the generation, use, storage, treatment, transportation, handling, or disposal of any Hazardous Substances. To the best of the Borrower's knowledge, there have been no developments which would adversely affect the Environmental Report, including any reports or information upon which that report relied

5.8 Tax Returns; Governmental Reports

The Borrower (a) has filed all federal, provincial, state, foreign and local tax returns and other material reports which are required by law to be filed by the Borrower, and (b) has paid all taxes, assessments, fees and other governmental charges imposed on it or any of its Property, including, without limitation, payroll and other employment related taxes, in each case that are due and payable, except for items that the Borrower currently is contesting in good faith by appropriate proceedings and for which adequate reserves have been established in accordance with GAAP and no notice of Lien has been filed or recorded. As of the Closing Date, no tax lien has been filed and no Claim is being assessed with respect to any such tax, fee or other charge against the Borrower, to the knowledge of the Borrower.

5.9 Financial Statements and Reports

All financial statements relating to the Borrower that have been and hereafter may be delivered to the Agent or any Lender by the Borrower (a) are consistent with the books of account and records of the Borrower, (b) have been prepared in accordance with GAAP on a consistent basis throughout the indicated periods, subject to, in the case of interim unaudited financial statements, the lack of footnote disclosure and normal year-end adjustments, and (c) present fairly in all material respects the consolidated financial condition, assets and liabilities and results of operations of the Borrower at the dates and for the relevant periods indicated in accordance with GAAP. The Borrower (on a consolidated and unconsolidated basis) has no material obligations or liabilities of any kind (whether accrued, absolute, contingent or otherwise) except as set out in the last such audited financial statements. The Borrower has not incurred any off balance sheet liabilities or commitments (including , guarantees and other contingent liabilities, as well as operating leases but excluding 'take or pay" contracts) which are material or which are outside of the Ordinary Course of Business except those disclosed in writing to the Agent before the date hereof (which exception includes the NKC Contract and rebates under the Northern Pulp and Paper Electricity Transition Program.) Since the date of the most recent financial statements submitted to the Agent and the Lenders, there has not occurred any Material Adverse Effect or, to Borrower's knowledge, any event or condition that reasonably could be expected to result in a Material Adverse Effect or constitute a default under any Permitted Liens.

5.10 Compliance with Law; Credit Party Activities

The Borrower is in compliance in all material respects with and holds all licences, permits and approvals required by all laws, statutes, rules, regulations, ordinances and tariffs of any Governmental Authority applicable to the Borrower (other than Environmental Laws) the Business and/or the Borrower's Properties or operations. The Borrower has not engaged, does not presently engage and will not engage in any business other than the Business.

5.11 Intellectual Property

As of the Closing Date, or as thereafter otherwise disclosed in writing to the Agent from time to time within thirty (30) Business Days of acquiring such Intellectual Property, the Borrower owns directly, or is entitled to use by license or otherwise, all Intellectual Property used in and necessary for or material to the conduct of the Borrower's Business, except as set forth in Schedule 5.11. All items listed on Schedule 5.11 as of the Closing Date are and, at all times after the Closing Date (except to the extent no longer deemed necessary for or material to the conduct of the Business of the Borrower in the good faith business judgment of the Borrower) will be: (a) subsisting and have not been adjudged invalid or unenforceable, in whole or part; and (b) valid, in full force and effect and not in known conflict with the rights of any Person. The Borrower has made all filings and recordations necessary in the exercise of reasonable and prudent business judgment to protect its interest in the Intellectual Property of the Borrower in the Canadian Intellectual Property Office. The Borrower has performed all acts and has paid and will continue to pay all required fees and taxes to maintain each and every item of the Intellectual Property of the Borrower in full force and effect, except such items of Intellectual Property as are no longer deemed necessary for or material to the conduct of the Business of the Borrower in the reasonable business judgment of the Borrower. As of the Closing Date, no litigation is pending or, to the knowledge of the Borrower, threatened which contains allegations respecting the validity, enforceability, infringement or ownership of any of the Intellectual Property of the Borrower, which litigation could have a Material Adverse Effect. The Borrower is not is in breach of or default under the provisions of any of the foregoing, nor is there any event, fact, condition or circumstance, which, with notice or passage of time or both, would constitute or result in a conflict, breach, default or event of default under, any of the foregoing which reasonably could be expected to result in, either individually or in the aggregate, a Material Adverse Effect.

5.12 Permits

The Borrower is in compliance with, and has, all Permits necessary or required by Applicable Law or Governmental Authorities for the operation of its Business as presently conducted, and for the execution, delivery and performance by, and enforcement against, the Borrower of each Loan Document, except where non-compliance, violation or lack thereof reasonably could not be expected to result in, either individually or in the aggregate, a Material Adverse Effect. The Borrower (a) is not in breach of or default under the provisions of any of the foregoing, nor is there any event, fact, condition or circumstance which, with notice or passage of time or both, would constitute or result in a conflict, breach, default or event of default under, any of the foregoing which reasonably could be expected to result in, either individually or in the aggregate, a Material Adverse Effect, and (b) is nor has been involved in any labour dispute, strike, walkout or union organization, which would have a Material Adverse Effect.

5.13 No Default; Solvency

No Default or Event of Default exists. The Borrower is and, after giving effect to the transactions and the Indebtedness contemplated by the Loan Documents and the transactions contemplated by the Loan Documents, will be Solvent.

5.14 Insurance

All insurance policies of the Borrower relating to or covering their Properties as of the Closing Date are listed and described on Schedule 5.14 and are in full force and effect, with all premiums paid up-to-date.

5.15 Broker's or Finder's Commissions

No broker's, finder's or placement fee or commission is or will be payable to any broker, investment banker or agent engaged by the Borrower or any of its officers, directors or agents with respect to the transactions contemplated by this Agreement and the other Loan Documents, except for fees payable to the Agent and the Lenders. The Borrower agrees to indemnify the Agent and the Lenders and hold them harmless from against any claim, demand or liability for broker's or finder's or placement fees or similar commissions, whether or not payable by the Borrower, alleged to have been incurred in connection with such transactions, other than any broker's or finder's fees payable to Persons engaged by the Agent or the Lenders without the knowledge of the Borrower.

5.16 Disclosure

No Loan Document or any other agreement, document, report, certificate or statement furnished to the Agent or any Lender by or on behalf of the Borrower in connection with the transactions contemplated by or pursuant to the Loan Documents, nor any representation or warranty made by the Borrower in any Loan Document, contains any untrue statement of a material fact or omits to state any fact necessary to make the factual statements therein taken as a whole not materially misleading as of the time made or delivered in light of the circumstances under which it was made or furnished. There is no fact known to the Borrower which has not been disclosed to the Agent and the Lenders in writing which reasonably could be expected to result in, either individually or in the aggregate, a Material Adverse Effect.

5.17 Incorporation of Certain Representations and Warranties

As of the Closing Date, and any other date on which representations and warranties are otherwise remade or deemed remade hereunder, (i) each of the representations and warranties contained in the Loan Documents made by the Borrower is true and correct in all material respects (except to the extent already qualified by materiality, in which case each shall be true and correct in all respects) and (ii) to the knowledge of the Borrower, each of the representations and warranties contained in the Loan Documents made by Persons other than a Credit Party are true and correct in all material respects (except to the extent already qualified by materiality, in which case each shall be true and correct in all respects). The Borrower agrees that, by reference, such representations and warranties contained in the Loan Documents delivered by the Borrower, without limiting any of the representations and warranties otherwise contained herein or in any other Loan Document, hereby are incorporated herein, mutatis mutandis, for the benefit of the Agent and the other Lender Parties.

5.18 Survival

The Borrower agrees that the representations and warranties contained in the Loan Documents are made with the knowledge and intention that the Agent and the Lenders are relying and will rely thereon. All such representations and warranties will survive the execution and delivery of this Agreement, the Closing and the making of any and all Advances and/or the funding of the Loan.

5.19 Accounts

Each Account created at any time and described in the Borrowing Certificate (a) is genuine on the date reported and in all material respects what it purports to be and is not evidenced by a judgment, (b) arises out of a completed, bona fide sale and delivery of goods or rendering of services by the Borrower in the Ordinary Course of Business and in accordance with the terms and conditions of all purchase orders, contracts and other documents relating thereto or forming a part of the contract between the Borrower and the Account Debtor, (c) is for a liquidated amount maturing as stated in a claim or invoice covering such sale of goods or rendering of services, a copy of which is available to the Agent, (d) other than the Agent's security interest therein and other Permitted Liens, is not and will not be in the future (by voluntary act or omission by the Borrower), subject to any offset, lien, deduction, defence, dispute, counterclaim or other adverse condition, is absolutely owing to the Borrower and is not contingent in any respect or for any reason (other than pursuant to Permitted Liens that have a lower priority than the Liens of the Agent), (e) is an Account in respect of which there are no facts, events or occurrences which in any way impair the validity or enforceability thereof or tend to reduce the amount payable thereunder from the face amount of the claim or invoice and statements delivered to the Agent with respect thereto, (f) to the best of the Borrower's knowledge, (i) the Account Debtor thereunder had the capacity to contract at the time any contract or other document giving rise thereto was executed and (ii) such Account Debtor is Solvent, (g) to the best of the Borrower's knowledge, there are no proceedings or actions which are threatened or pending against any Account Debtor thereunder which might result in any material adverse change in such Account Debtor's financial condition or the collectibility thereof, (h) has been billed and the invoice therefore forwarded to the Account Debtor for payment in accordance with applicable laws and is in compliance and conformance with any requisite procedures, requirements and regulations governing payment by such

Account Debtor with respect to such Account, and (i) the Borrower has obtained and currently has all Permits necessary to the generation and collection thereof.

5.20 Inventory

The Borrower maintains inventory records in accordance with its cost accounting methods (which are in accordance with GAAP in all material respects), keeping correct and accurate records itemizing or describing the kind, type, age, quality, quantity and location of its Inventory (as such term is defined in the PPSA).

5.21 Material Contracts

Schedule 5.21 sets forth all Material Contracts as of the Closing Date, including all contracts with any material customer. The Borrower has made available true, correct and complete copies of all Material Contracts to the Agent and each Lender on or before the date hereof. The Borrower is not is in material breach of or in default in any material aspect under any such Material Contract and, to the Borrower's knowledge, there is no event, fact, condition, or circumstance which, with notice or the passage of time or both, would constitute or result in a material breach of, default or event of default under, or right to terminate any such Material Contract.

5.22 Employment Agreements

The Borrower has no written employment agreements.

5.23 Financial Assistance and Guarantees

Neither the Borrower nor any Subsidiary is subject to any Contingent Obligation~~,~~ other than the manufacturing agreement as set out in Schedule 5.23 and any possible refund of rebate under the Northern Pulp and Paper Electricity Transition Program.

5.24 Non-Arm's Length Agreements

The Borrower has entered into a number of agreements for the supply of goods or services which may be with persons not at arm's length with the Borrower, but all of such agreements contain terms and remuneration which are commercially reasonable and consistent with the marketplace for the supply of like goods and services.

6. AFFIRMATIVE COVENANTS

The Borrower covenants and agrees with and in favour of the Lender Parties that, until the full performance and satisfaction, and indefeasible payment in full, of all the Obligations (other than contingent indemnification Obligations to the extent no claim giving rise thereto has been asserted) and the termination of this Agreement:

6.1 Reporting, Collateral and Other Information

(a) **Reporting.** The Borrower shall maintain a system of accounting established and administered in accordance with sound business practices to permit the preparation of financial statements in conformity with GAAP (provided that interim financial statements shall not be required to have footnote disclosure and may be subject to normal year-end adjustments). The Borrower shall furnish to the Agent, at the times, for the periods and otherwise in accordance with the terms of Exhibit C-1 attached hereto, all statements (financial or otherwise), budgets, projections, reports, listings, calculations, certificates, notices and other materials described on such Exhibit C-1.

(b) **Collateral Deliverables; Related Actions.** The Borrower shall comply with each of the covenants and undertakings set forth in Exhibit C-2, in accordance with the terms thereof.

6.2 Conduct of Business; Maintenance of Existence and Assets

The Borrower shall:

(a) engage solely in the Business and engage therein in accordance with good business practices customary to its industry, and preserve the goodwill and business of the customers, suppliers and other having material business relation with it;

(b) collect its Accounts in the Ordinary Course of Business, ensuring that any credit to which the Account Debtors are entitled are applied to the Account(s) in question on the day the credit arises but the Borrower shall not compromise any Account exceeding One Million Dollars ($1,000,000) without the prior written consent of the Agent,

(c) maintain and preserve all of its Properties used or useful in its Business in good working order and condition (normal wear and tear excepted and except as may be disposed of in accordance with the terms of the Loan Documents) and from time to time make all necessary repairs, renewals and replacements thereof;

(d) maintain and preserve in full force and effect (i) its organizational existence and good standing under the laws of its jurisdiction of incorporation, organization or formation, as applicable and (ii) its qualifications and good standing in all other jurisdictions. Notwithstanding the foregoing and for the avoidance of doubt, the Borrower shall be permitted to continue to another jurisdiction and shall provide the Agent with ten (10) days prior written notice of any such continuance;

(e) maintain and preserve in full force and effect all Permits and qualifications and remain in good standing thereunder except as would not reasonably be expected to result in, either individually or in the aggregate, a Material Adverse Effect; and

(f) maintain, comply with and keep in full force and effect and renew its Intellectual Property the non-preservation, non-compliance or loss of which or failure to maintain reasonably could be expected to result, either individually or in the aggregate, in a Material Adverse Effect.

6.3 Compliance with Legal and Other Obligations

The Borrower shall:

(a) comply with all laws, statutes, rules, regulations, ordinances and tariffs of all Governmental Authorities applicable to it or its Business, Properties or operations, except where the failure to comply would not reasonably be expected to result in, either individually or in the aggregate, a Material Adverse Effect;

(b) pay all (i) taxes, assessments, fees, governmental charges, (ii) claims for labour, supplies, rent and all other obligations, lawful claims or liabilities of any kind or nature, except obligations, liabilities and claims being contested in good faith by appropriate proceedings diligently prosecuted which stay the enforcement of any Lien and against which adequate reserves are being maintained in accordance with GAAP;

(c) subject to any subordination provisions in favour of the Lender Parties and/or other restrictions herein set forth, perform in accordance with its terms each contract, agreement or other arrangement to which it is a party or by which it or any of the Collateral is bound, except where the failure to so perform would not reasonably be expected to result in, either individually or in the aggregate, a Material Adverse Effect; and

(d) properly file all reports required to be filed with any Governmental Authority, except where the failure to file would not reasonably be expected to result in a Material Adverse Effect.

6.4 Insurance

The Borrower shall maintain, at all times in full force and effect, at its own expense, with reputable insurers reasonably acceptable to the Agent in its Permitted Discretion, and comply with all the terms and conditions of, the following: keep adequate insurance in respect of all of its insurable Properties adequately insured against losses, damages and hazards as are customarily insured against by businesses engaging in similar activities or the Business or owning similar Properties and at least the minimum amount required by Applicable Law and any other agreement to which the

Borrower is a party or pursuant to which the Borrower provides any services, including, without limitation, liability, property and business interruption insurance, as applicable; and maintain general liability insurance at all times against liability on account of damage to Persons and Property and directors and officers liability insurance, in each case having such limits, deductibles, exclusions and co-insurance and other provisions as are customary for a business engaged in activities similar to those of the Borrower; all of the foregoing insurance policies and coverage levels to (i) be satisfactory to the Agent in its Permitted Discretion (the insurance coverage at the date hereof being accepted as adequate), (ii) name the Agent, for the benefit of the Lender Parties, as first loss payee/mortgagee in respect of property damage and casualty insurance, additional insured in respect of liability insurance and assignee in respect of business interruption insurance, and (iii) expressly provide that they cannot be altered, amended, modified, cancelled or terminated without at least thirty (30) days' prior written notice to the Agent from the insurer, and that the same are subject to the standard mortgage clause approved by the Insurance Bureau of Canada. Upon request of the Agent or any Lender, the Borrower shall furnish to Agent, with sufficient copies for each Lender Party, at reasonable intervals (but not more than once per calendar year) a certificate of a Responsible Officer on behalf of the Borrower (and, if requested by the Agent, any insurance broker of the Borrower) setting forth the nature and extent of all insurance maintained by the Borrower and its Subsidiaries in accordance with this Section. Unless the Borrower provides the Agent with evidence of the insurance coverage required by this Agreement, the Agent may purchase insurance at the Borrower's expense to protect the Agent's and the Lenders' interests in the Borrower's Properties. This insurance may, but need not, protect the Borrower's interests. The coverage that the Agent purchases may not pay any claim that the Borrower makes or any claim that is made against the Borrower in connection with said Property. The Borrower may later cancel any insurance purchased by the Agent, but only after providing the Agent with satisfactory evidence to the Agent, and written acknowledgment thereof, that the Borrower has obtained insurance as required by this Agreement. If the Agent purchases insurance, the Borrower shall be responsible for the costs of that insurance, including interest and any other charges the Agent may impose in connection with the placement of insurance, until the effective date of the cancellation or expiration of the insurance. The costs of the insurance shall be added to the Obligations and payable on demand. The costs incurred by the Agent of the insurance may be more than the costs of insurance the Borrower may be able to obtain on its own.

6.5 Inspection

The Borrower shall permit the representatives of the Lender Party from time to time during normal business hours upon reasonable notice to (i) visit and inspect any of the Borrower's offices or occupied premises or any other place where Collateral is located to inspect the Collateral and/or to examine and/or audit all of the Borrower's books of account, records, reports and other papers, (ii) make copies and extracts therefrom and (iii) discuss the Borrower's Business, operations, prospects, properties, assets, liabilities, condition and/or Accounts with its officers and chartered accountants (and by this provision such officers and accountants are authorized to discuss the foregoing); provided, however, that (x) the Borrower shall be obligated to reimburse reasonable expenses for visits, inspections, examinations and audits under the foregoing clause (i) of the Agent conducted if an Event of Default has occurred, and (y) no notice shall be required to do any of the foregoing if any Event of Default has occurred. The Agent shall be entitled at reasonable intervals to confirm the Accounts with the Account Debtors, subject to the Agent having given the Borrower reasonable notice of its intention to do so (except in the case of a Default which is continuing) When the Borrower is not in Default, such confirmation shall be made upon request by the Agent to the Borrower, which shall in turn contact the Account Debtors requiring them to provide such confirmation directly to the Agent.

6.6 Use of Proceeds

The Loan to be advanced pursuant to the terms of this Agreement will be used solely for the following purposes:

Credit Facility	**Use**
Term Operating Facility	Working capital and general corporate purposes

6.7 Material Contracts

The Borrower will maintain in good standing the Material Contracts for the contract term thereof, and will, promptly, advise the Agent, of any proposed material amendment, or default pursuant to, the Material Contracts.

6.8 Further Assurances; Post Closing Deliveries

The Borrower shall, within five (5) Business Days after demand by the Agent or the Requisite Lenders take such further actions to obtain such consents and approvals and duly execute and deliver such further agreements, assignments, instructions or documents as may be requested in their Permitted Discretion in order to carry out the purposes, terms and conditions of the Loan Documents and the transactions contemplated thereby, whether before, at or after the performance and/or consummation of the transactions contemplated hereby or the occurrence of any Default or Event of Default.

6.9 Intellectual Property

The Borrower will conduct its business and affairs without, to its knowledge, infringing or interfering with any Intellectual Property of any other Person in any material respect and shall comply in all material respects with the terms of its licenses of Intellectual Property. The Borrower agrees to cause its legal counsel to file in the applicable Canadian Intellectual Property Office promptly following the Closing Date a notice of security interest in the form provided by the Agent to the Borrower prior to the closing date for such purpose in respect of the Intellectual Property designated by the Agent as the Intellectual Property in respect of which such notice is to be filed and to deliver to the Agent evidence of the recordation of such notice in respect of such Intellectual Property promptly following the Borrower's legal counsel's receipt thereof.

6.10 Environmental Matters

The Borrower shall and shall cause each Person within its control to: (a) conduct its operations and keep and maintain its real estate in compliance with all Environmental Laws and environmental permits other than non-compliance that could not reasonably be expected to have a Material Adverse Effect; (b) implement any and all investigation, remediation, removal and response actions that are appropriate or necessary to maintain the value and marketability of the real estate or to otherwise comply in all material respects with Environmental Laws and environmental permits pertaining to the presence, generation, treatment, storage, use, disposal, transportation or release of any Hazardous Substance on, at, in, into, under, above, to, from or about any of its real estate; (c) notify the Agent promptly after the Borrower becomes aware of any violation of Environmental Laws or environmental permits or any release of a Hazardous Substance on, at, in, under, above, to, from or about any real estate or of any order or intention to issue an order under any Environmental Laws that is reasonably likely to result in environmental liabilities having a Material Adverse Effect or, in any case, in excess of Two Million Five Hundred Thousand Dollars ($2,500,000); and (d) promptly forward to the Agent a copy of any order, notice, request for information or any communication or report received by the Borrower in connection with any such violation, release of a Hazardous Substance or order or any other matter relating to any Environmental Laws or environmental permits that could reasonably be expected to result in environmental liabilities having a Material Adverse Effect or, in any case, in excess of Two Million Five Hundred Thousand Dollars ($2,500,000), in each case whether or not any Governmental Authority has taken or threatened any action in connection with any such violation, release of a Hazardous Substance, order or other matter. If the Agent at any time has a reasonable basis to believe that there may be a violation of any Environmental Laws or environmental permits by the Borrower or any environmental liability arising thereunder, or a release of a Hazardous Substance on, at, in, under, above, to, from or about any of its real estate or of the issuance or threat to issue any order under Environmental Laws, that, in each case, could reasonably be expected to have a Material Adverse Effect, then the Borrower shall, upon the Agent's written request (i) cause the performance of such environmental investigations or audits including subsurface sampling of soil and groundwater, and preparation of such environmental reports, at the Borrower's expense, as the Agent may from time to time reasonably request, which shall be conducted by reputable environmental consulting firms reasonably acceptable to the Agent and shall be in form and substance reasonably acceptable to the Agent, and (ii) permit the Agent or its representatives to have access to all real estate for the purpose of conducting such environmental audits and testing as the Agent deems appropriate, including subsurface sampling of soil and groundwater. The Borrower shall reimburse the Agent for the costs of such audits and tests and the same will constitute a part of the Obligations secured hereunder.

6.11 Security

As general and continuing security for the payment of all liabilities and indebtedness and performance of all other obligations of the Borrower to the Agent and the Lenders in respect of the Loans, the Borrower shall deliver, or cause to be delivered, to the Agent all agreements and other instruments as may in the opinion of the Agent be necessary or desirable to create and effect in favour of the Lenders a first-priority Lien (subject only to Permitted Liens) constituting a fixed and specific Lien on all property and assets of the Borrower and its future Subsidiaries of whatsoever nature or kind and wherever situate, both real and personal, present and future, including the following agreements and other instruments (all of which shall be in form and substance satisfactory to the Lender):

(a) a general security agreement granting a security interest in all present and future property of the Borrower;

(b) an unlimited, continuing guarantee by each Subsidiary;

(c) a pledge of all of the shares of each Subsidiary;

(d) such security agreements, mortgages and other security documents granting a Lien on all present and future property of each Subsidiary;

(e) such other assignments, security agreements and other documents as the Agent shall, acting reasonably, request in order to give effect to any of the foregoing and the registration thereof.

7. NEGATIVE COVENANTS

The Borrower covenants and agrees with and in favour of the Lender Parties that, until the full performance and satisfaction, and indefeasible payment in full of all Obligations (other than contingent indemnification Obligations to the extent no claim giving rise thereto has been asserted) and the termination of all Commitments and this Agreement:

7.1 Financial Covenants

The Borrower shall not violate any of the financial covenants set forth in Exhibit B-1 hereto, calculated and determined as of the respective dates and for the respective periods set forth thereon.

7.2 Indebtedness

The Borrower shall not create, incur, assume, suffer to exist, or otherwise become or remain directly or indirectly liable with respect to, any Indebtedness, except the following (collectively, "**Permitted Indebtedness**"):

(a) Indebtedness of the Borrower evidenced by the Loan Documents;

(b) any Indebtedness of the Borrower and their Subsidiaries existing on the Closing Date and set forth on Schedule 7.2 hereto, including extensions and replacements thereof; provided that the principal amount of such Indebtedness as of the date of such extension or replacement is not increased and the maturity and weighted average life thereof is not shortened;

(c) Indebtedness of the Borrower and its Subsidiaries incurred after the Closing Date secured by purchase money Liens permitted under Section 7.3(e) (including Capital Lease Obligations set out in Schedule 7.3) provided the aggregate amount thereof outstanding at any time (including the aggregate rent for the term of all operating leases) does not exceed Two Million Dollars ($2,000,000);

(d) Indebtedness consisting of obligations under any foreign exchange contract, currency swap agreement, interest swap, cap or collar or other similar agreement or arrangement and entered into by the Borrower in the ordinary course, pursuant to the reasonable requirements of its Business and for the purpose of hedging risk and not speculation pursuant to arrangements which do not require the posting of credit support (the foregoing being "**Hedging Agreements**");

(e) Indebtedness of the Borrower and its Subsidiaries to suppliers of goods and services in the ordinary course of business, not to exceed Five Million Dollars ($5,000,000) in the aggregate outstanding at any time.

All payments under Permitted Indebtedness shall be made in accordance with the terms thereof as approved by the Agent.

7.3 Liens

The Borrower shall not directly or indirectly, make, create, incur, assume or suffer to exist any Lien upon, in, against or with respect to any part of, or any pledge of, any of the Collateral or any of its other Property, whether now owned or hereafter acquired, except the following (collectively, "**Permitted Liens**"):

(a) Liens created by the Loan Documents or otherwise arising in favour of the Agent, for the benefit of the Lender Parties;

(b) Liens imposed by law for taxes, assessments or charges of any Governmental Authority (i) that are not yet due or (ii) which are being contested in good faith by appropriate proceedings and with respect to which adequate reserves or other appropriate provisions are being maintained by the Borrower or Subsidiary in accordance with GAAP;

(c) statutory Liens of landlords, carriers, warehousemen, mechanics and/or material men and other similar Liens imposed by law or that arise by operation of law in the Ordinary Course of Business that, in any such case, are only for amounts not yet due or which are being contested in good faith by appropriate proceedings (which have the effect of preventing the forfeiture or sale of the Property subject thereto) and with respect to which adequate reserves or other appropriate provisions are being maintained by such Person in accordance with GAAP;

(d) Liens incurred or deposits or pledges made in the Ordinary Course of Business (including, without limitation, surety bonds and appeal bonds) in connection with workers' compensation, unemployment insurance and other types of social security benefits or to secure the performance of tenders, bids, leases, trade contracts, statutory obligations and other similar obligations (other than for the repayment of Indebtedness);

(e) purchase money Liens (including Capital Lease Obligations) in respect of which no default shall have occurred which is continuing; provided, that (w) the aggregate amount secured by purchase money Liens does not exceed the limit specified in Section 7.2(c), (x) any such Lien attaches to the subject Property concurrently with or within twenty (20) days after the acquisition thereof, (y) such Lien attaches only to the subject Property and the proceeds thereof and (z) the principal amount of such Indebtedness secured thereby does not exceed one hundred percent (100%) of the cost of such Property;

(f) any attachment or judgment Lien provided that the enforcement of such Liens is effectively stayed and such Liens secure claims not otherwise constituting an Event of Default;

(g) easements, rights of way, restrictions, zoning ordinances, reservations, covenants and other similar charges, title exceptions, title defects, irregularities or encumbrances relating to real Property of the Borrower incurred in the Ordinary Course of Business that, either individually or in the aggregate, do not interfere in any material respect with the use of the Property affected or the ordinary conduct of the Business of the Borrower and do not result in material diminution in value of the Property subject thereto;

(h) Liens disclosed on <u>Schedule 7.3</u> as of the Closing Date in respect of which no default shall have occurred which is continuing;

(i) reservations, limitations, provisos and conditions expressed in any original grant from the Crown or other grant of real or immovable property, or interests therein, which do not materially affect the use of the affected land for the purpose for which it is used by that Person;

(j) licences, permits, reservations, covenants, servitudes, easements, rights-of-way and rights in the nature of easements (including, without limiting the generality of the foregoing, licenses, easements, rights-of-way and rights in the nature of easements for sidewalks, public ways, sewers, drains, gas, steam and water mains or electric light and power, or telephone and telegraph conduits, poles, wires and cables) and zoning, land use and building restrictions, by-laws, regulations and ordinances of federal, provincial, regional, state, municipal and other Governmental Authorities, which will not materially impair the use of the affected land for the purpose of which it is used by that Person;

(k) the right reserved to or vested in any Governmental Authority by the terms of any lease, license, franchise, grant or permit acquired by that Person or by any statutory provision to terminate any such lease, license, franchise, grant or permit, or to require annual or other payments as a condition to the continuance thereof; and

(l) Liens given to a public utility or any Governmental Authority when required by such utility or Governmental Authority in connection with the operations of that Person in the Ordinary Course of Business.

7.4 Consolidations, Mergers and Investments

The Borrower shall not directly or indirectly, (i) merge, liquidate, amalgamate or consolidate with or into any Person, (ii) purchase, own, hold, invest in or otherwise acquire any obligations or stock or other securities of, or any other interest in, any Person (including the establishment or creation of any Subsidiary) or any joint venture, or otherwise consummate or commit to make any Acquisition (including by way of merger, consolidation or other combination), (iii) purchase, own, hold, invest in or otherwise acquire any "securities" (as defined in the PPSA), or (iv) make, permit to exist or commit to make any loans, advances or extensions of credit to or for the benefit of any Person, or assume, guarantee, indemnify, endorse, contingently agree to purchase or otherwise become liable for or upon or incur any obligation of, any person (the items described in the foregoing clauses (ii), (iii) and (iv) sometimes are referred to as "**Investments**"), except:

(a) Permitted Acquisitions; and

(b) an amalgamation, merger, winding-up, consolidation, reorganization, transfer, sale, lease or otherwise by and among the Borrower and one or more of its Subsidiaries operating exclusively in Canada and incorporated under the laws of a Canadian jurisdiction where (i) the Person (the "**Successor**") formed by or surviving any such transaction or series of transactions (the "**Transaction**") shall assume all the Obligations under or in respect of all Loans, (ii) all Loan Documents shall remain in full force and effect, (iii) the Security Documents and their ranking shall not be impaired by the Transaction, (iv) the Successor shall be a solvent Person, (v) the Successor shall be validly existing under the laws of a Canadian jurisdiction, (vi) no Default or Event of Default shall have occurred and be continuing immediately before the Transaction and no Default or Event of Default would occur (or would reasonably be expected to occur) as a result of the Transaction, (vii) the Transaction is on such terms and is carried out in such manner so as to preserve and not impair, any rights or powers of the Lenders or otherwise under the Loan Documents and so as not have any Material Adverse Effect and (viii) the Borrower shall have delivered, or shall have caused to be delivered, to the Agent such opinions and additional Loan Documents (in form and substance satisfactory to the Agent) as are necessary or desirable in the opinion of the Agent in connection with the matters mentioned above.

7.5 Transactions with Affiliates

The Borrower shall not enter into or consummate any transaction with any Affiliate of such Person other than transactions pursuant to written agreements which are entered into in the Ordinary Course of Business and are on fair and reasonable terms not less favourable to such Person than would be obtained in an arm's length transaction between unrelated parties of equal bargaining power.

7.6 Contingent Obligations

The Borrower shall not enter into, create, assume, suffer to exist or incur any Contingent Obligations or assume, guarantee, indemnify, endorse, contingently agree to purchase or otherwise become liable for or upon or incur any obligation of any Person or otherwise incur any off balance sheet liabilities or commitments (excluding "take or pay" contracts) which are material or which are outside of the Ordinary Course of Business, except those set out in Schedule 7.6 or those to which the Agent has given its prior written consent.

7.7 Organizational Documents; Accounting Changes; Use of Proceeds; Insurance; Business; Other Liabilities

The Borrower shall not:

(a) amend, modify, restate or change any of its Organizational Documents or make any change to its equity structure, in any such case in any respect adverse to the Agent or Lenders, or, without the prior written consent of the Agent. The Agent and the Lenders each acknowledge and agree that it is not adverse to the Agent or the Lenders for a Credit Party to change its name or its jurisdiction of incorporation or formation as applicable, provided, the Borrower provides five (5) days written notice to the Agent.

(b) make any significant change in accounting treatment or reporting practices, except as required by GAAP, or change its fiscal year;

(c) amend, modify, take any step or action with respect to any Material Contract, permit or licence, except (other than in the case of the Ontario) which could not reasonably be expected to result in a Material Adverse Effect;

(d) sell or otherwise dispose of (whether in a single transaction or in a series of transactions) a material part of its Property;

(e) engage, directly or indirectly, in any business other than the Business and ancillary business;

(f) amend, modify, restate or change any insurance policy in any material respect (including, without limitation, any increase in the amount of any deductibles payable by the Borrower under any such insurance policy or any change in the scope of coverage, coverage amount, beneficiaries, loss payees and/or additional insureds) and in any manner adverse to the Agent, except changes in the term of coverage in connection with renewals thereof in the Ordinary Course of Business; or

(g) change its fiscal year end.

7.8 Certain Specific Agreements

The Borrower and no Subsidiary of the Borrower shall enter into license agreements for software or use of third party Intellectual Property (excluding licenses of generally commercially-available software) which (i) restrict or prohibit the pledge, assignment or other transfer of such agreement or any change of control of ownership of the Borrower or (ii) restrict or limit in any way the sale of Inventory by the Agent or its designee containing or bearing (whether on the packaging therefore or the goods)

Intellectual Property subject to such license, unless such license agreement is on terms satisfactory to the Agent in its Permitted Discretion.

7.9 Material Contracts

The Borrower shall not (i) amend, supplement, waive or otherwise modify any of the terms or provisions of, and will not fail to enforce or diligently pursue its remedies under, any Material Contract, as in effect on the Closing Date, in any manner adverse to the Agent or any Lender or which reasonably could be expected to result in a Material Adverse Effect, or (ii) take or fail to take any other action under any Material Contract that reasonably could be expected to result in a Material Adverse Effect.

7.10 Negative Pledges

Except as a result of the Loan Documents, the Borrower shall not, directly or indirectly, create or otherwise cause or suffer to exist or become effective any consensual restriction or encumbrance of any kind on the ability of a Subsidiary to pay dividends or make any other distribution on any of such Subsidiary's equity securities or to pay fees or make other payments and distributions to the Borrower or any of its Subsidiaries. The Borrower shall not, directly or indirectly, enter into, assume or become subject to any contract or agreement that prohibits or otherwise restricts the existence of any Lien upon any of its Property in favour of the Agent, for the benefit of the Lender Parties, whether now owned or hereafter acquired except (i) in connection with any document or instrument governing Liens related to purchase money Indebtedness and Capital Leases which, in each case, otherwise constitute Permitted Liens or (ii) customary non-assignment provisions in agreements or permits. The Borrower will not cause, or permit, any inactive subsidiary, an inactive subsidiary being any subsidiary which has not provided a guarantee to the Agent for the Lenders, to own any property, have any obligations, carry on any business, receive funds, assets, transfers, or otherwise, from the Borrower to such subsidiary.

7.11 Place of Business

The Borrower will maintain its place of business solely in the Province of Ontario, at the place identified as the address of the Borrower in this Agreement. The Borrower shall not have any place of business, or own any tangible property located at a jurisdiction outside of the Province of Ontario, except in the case of Inventory located elsewhere in Canada or in the United States at such locations and in such volumes as the Agent has been provided notice of; provided that the Agent shall be at liberty to make such registrations as it wants in order to satisfy itself to ensure security in favour of the Agent has been validly registered, to the full satisfaction of the Agent, as to such tangible property and the Agent is satisfied it holds first perfected interest as to such assets; provided that the Borrower may have Inventory in the European Economic Community with an aggregate value of up to $2,500,000.00 without security being registered as long as it is not included in the Borrowing Base.

7.12 Hazardous Materials

The Borrower shall not cause or permit a release of a Hazardous Substance on, at, in, under, above, to or from any of the real estate where such release would (a) violate in any respect, or form the basis for any environmental liabilities under, any Environmental Laws or environmental permits or (b) otherwise adversely impact the value or marketability of any of the real estate or any of the Collateral, other than if such release, or violations or environmental liabilities would not reasonably be expected to have a Material Adverse Effect.

7.13 Sale Leasebacks

The Borrower shall not enter into any arrangement, directly or indirectly, whereby it shall sell or transfer any property, real or personal, used or useful in its business, whether now owned or hereafter acquired, and thereafter rent or lease such property or other property that it intends to use for substantially the same purpose or purposes as the property sold or transferred.

8. EVENTS OF DEFAULT

8.1 Events of Default

The occurrence of any one or more of the following shall constitute an "Event of Default":

(a) the Borrower shall fail to pay when due and payable (i) any principal payment provided for or required under this Agreement and/or the Notes, or (ii) any interest, fees or other Obligations (other than principal) provided for or required under this Agreement or the other Loan Documents, in any such case described in the foregoing clause (i) or (ii), whether on any payment date, at maturity, by reason of acceleration, by notice of intention to prepay, by required prepayment or otherwise); provided late interest payments which are not more than five (5) Business Days late in payment, or not more than two (2) occurrences in a twelve (12) month period, will not be considered an Event of Default;

(b) any representation or warranty made or deemed made by the Borrower, in any Loan Document or in any other certificate, document, report or opinion delivered pursuant to any Loan Document to which it is a party shall not be true and correct in all material respects or shall have been false or misleading in any material respect on the date when made or deemed to have been made (except to the extent already qualified by materiality, in which case it shall have been true and correct in all respects and shall not have been false or misleading in any respect on the date when made or deemed to have been made);

(c) except as otherwise provided in this Section 8.1, the Borrower shall be in violation, breach or Default of, or shall fail to perform, observe or comply with, any covenant, obligation or agreement set forth herein, or any event of default occurs under any other Loan Document; provided that, except in the case of Sections 6.2(d), 6.4, 6.5, 6.6 or Article 7 of this Agreement for which no cure period shall apply, such violation, breach, Default, event of default or failure shall result in an Event of Default only if it remains uncured for fifteen (15) calendar days after the earlier of (i) Receipt by such Person of written notice of such violation, breach, Default, event of default or failure and (ii) the time at which such Person or any authorized officer thereof knew or became aware, or should reasonably have known or been aware, of such violation, breach, default, Default, event of default or failure;

(d) (i) any Loan Document is unenforceable or otherwise shall cease to be in full force and effect (other than in accordance with its terms), (ii) any Lien created under any Loan Document ceases to constitute a valid first priority perfected Lien (subject only to Priority Permitted Liens) in accordance with the terms of such Loan Document, (iii) the Borrower shall contest or deny that it has any liability or obligation thereunder or any other Person shall successfully contest in any manner the validity or enforceability of any of the foregoing or deny that it has any liability or obligation thereunder, or (iv) the Obligations, for any reason shall not have the priority contemplated by this Agreement or any applicable subordination provisions;

(e) one or more judgments or decrees is or are rendered against the Borrower in an amount in excess of Ten Million Dollars ($10,000,000) individually or in the aggregate (excluding judgments and decrees to the extent covered by third party insurance of such Persons where such coverage has been acknowledged by the insurer), which is/are not satisfied, stayed, vacated or discharged of record within ten (10) Business Days of being rendered;

(f) (i) with respect to any Indebtedness (other than the Obligations) of the Borrower in excess of Ten Million Dollars ($10,000,000), either individually or in the aggregate, any violation, breach or default of, or failure to perform, observe or comply with, or any event of default under, which is not cured within any applicable cure period, (x) any payment obligation, or (y) any other provision which permits the holder of any such Indebtedness or obligations to accelerate the maturity thereof, or (ii) any violation, breach or default of, or failure to perform, observe or comply with, or any event of default under, any agreement, document, instrument or arrangement (other than the Loan Documents) between the Borrower and any Lender Party or Affiliate thereof; or (iii) any Indebtedness or other obligations covered by clause (i) hereof is accelerated, declared to be due and payable or is required to be paid prior to its stated maturity or (iv) any violation, breach or default of, or failure to perform, observe or comply with, or any event of default under, any Material Contract;

(g) the Borrower shall (i) be unable to pay its debts generally as they become due, (ii) file a petition under any insolvency statute, (iii) make a general assignment for the benefit of its creditors, (iv) commence a proceeding for the appointment of a receiver, trustee, liquidator or conservator of itself or of the whole or any substantial part of its Property or shall otherwise be dissolved or liquidated, or (v) file a petition seeking reorganization or liquidation or similar relief under any Debtor Relief Law or any other Applicable Law or statute;

(h) (i) a court of competent jurisdiction shall (A) enter an order, judgment or decree appointing a custodian, receiver, trustee, liquidator or conservator of the Borrower or the whole or any substantial part of any such Person's Properties, (B) approve a petition filed against the Borrower seeking reorganization, liquidation or similar relief under the any Debtor Relief Law or any other Applicable Law or statute, which is not dismissed within thirty (30) calendar days, or (C) under the provisions of any Debtor Relief Law or other Applicable Law or statute, assume custody or control of the Borrower or of the whole or any substantial part of any such Person's Properties, or (ii) there is commenced against the Borrower any proceeding or petition seeking reorganization, liquidation or similar relief under any Debtor Relief Law or any other Applicable Law or statute (A) which is not unconditionally dismissed within thirty (30) calendar days after the date of commencement or (B) in respect of which the Borrower takes any action to indicate its approval of or consent to any such proceeding or petition;

(i) any Change of Control or any Material Adverse Effect, including specifically a Material Adverse Effect arising as a consequence of any permit, material agreement or lease being breached, amended or terminated occurs;

(j) the Agent or any Lender receives any evidence that the Borrower has directly or indirectly engaged in any type of activity which could reasonably result in forfeiture of any material portion of Collateral to any Governmental Authority, which shall have continued unremedied for a period of twenty (20) calendar days after written notice from the Agent;

(k) uninsured damage to, or uninsured loss, theft or destruction of, any portion of the Collateral occurs that exceeds One Million Dollars ($1,000,000) in the aggregate;

(l) (i) the Borrower is criminally convicted (A) of an indictable offence or (B) under any law that could lead to forfeiture of any material portion of Collateral, or (ii) any director or senior officer of the Borrower is convicted (A) of an indictable offence for fraud or dishonesty in connection with the Business or (B) under any law that could lead to forfeiture of any material portion of Collateral;

(m) the issuance of any process for levy, attachment or garnishment or execution upon or any judgment against the Borrower or any of its material Property or against any of the Collateral, in any case which is not satisfied, stayed, vacated, dismissed or discharged within thirty (30) calendar days of being issued or executed;

(n) the Borrower does, or is enjoined, restrained or in any way prevented by the order of any court or other Governmental Authority from conducting all or any part of its business for more than fifteen (15) calendar days which is reasonably likely to be, have or result in a Material Adverse Effect;

then, upon the occurrence of any such Event of Default, and in any such event, notwithstanding any other provision of any Loan Document,

(A) the Agent may (and at the request of Requisite Lenders, shall), by notice to the Borrower (i) terminate the Lenders' Commitments and obligations hereunder, whereupon the same shall immediately terminate, and (ii) declare all or any of the Loan and/or any Notes, all interest thereon and all other Obligations to be due and payable immediately (provided, that in the case of any Event of Default under Sections 8.1(g) or (h), all of the foregoing automatically and without any act by the Agent or any Lender shall be due and payable immediately and the Lenders' Commitments and obligations hereunder shall immediately terminate; in each case without presentment, demand, protest or notice of any kind, all of which hereby are expressly waived by the Borrower); and

(B) if any breach pursuant to the terms of this Agreement which would amount to an Event of Default arises as a consequence of the breach of a financial covenant, it is agreed that the Agent will not exercise the remedies provided hereunder as a result of such breach of such financial covenant if, within twenty-one (21) days after the end of the fiscal quarter in which the breach occurs, the Borrower issues Capital Stock for cash and uses the proceeds thereof to repay the credit facilities in an amount such that taking into account such payment after such payment is made, the breach of the financial covenants would not occur with the calculation as to whether such breach would occur to be calculated at the end of the fiscal quarter in which such breach of financial covenants occurs but taking account of the additional equity, as applicable.

9. RIGHTS AND REMEDIES AFTER DEFAULT

9.1 Rights and Remedies

Notwithstanding any provision of any Loan Document and without limiting any of the other rights and/or remedies of any Lender Party, if an Event of Default shall occur:

(a) In addition to the acceleration and other provisions set forth in Section 8.1, upon the occurrence of an Event of Default, the Agent shall have the right to (and at the request of Requisite Lenders, shall) exercise any and all rights and remedies provided for in any Loan Document, under the PPSA or at law or in equity, including, without limitation, the right to (i) apply any Property of the Borrower held by the Agent, for the benefit of the Lender Parties, or any Lender to reduce the Obligations, (ii) realize upon the Liens created under the Loan Documents, (iii) realize upon, take possession of and/or sell or otherwise transfer any Collateral or securities pledged, with or without judicial process, (iv) exercise all rights and powers with respect to the Collateral as the Borrower might exercise, (v) collect and send notices regarding the Collateral, with or without judicial process, (vi) by its own means or with judicial assistance, enter any premises at which Collateral and/or pledged securities are located, or render any of the foregoing unusable or dispose of the Collateral and/or pledged securities on such premises without any liability for rent, storage, utilities, or other sums, and the Borrower shall not resist or interfere with such action, (vii) at Borrower's expense, require that all or any part of the Collateral be assembled and made available to the Agent at any place designated by the Agent in its Permitted Discretion, and/or (viii) relinquish or abandon any Collateral or securities pledged or any Lien thereon. Notwithstanding any provision of any Loan Document, the Agent, in its Permitted Discretion, shall have the right, at any time that the Borrower fails to do so, and from time to time, without prior notice, to: (i) obtain insurance covering any of the Collateral to the extent required hereunder; (ii) pay for the performance of any of the Obligations; (iii) discharge taxes, levies and/or Liens on any of the Collateral that are in violation of any Loan Document; unless the Borrower is, in good faith, with due diligence, by appropriate proceedings, contesting these items and such contest stays the effect of or any claim pursuant to those items; and (iv) pay for the maintenance, repair and/or preservation of the Collateral. Such expenses and advances shall be added to the Obligations until reimbursed to the Agent and shall be secured by the Collateral and payable on demand, and such payments by the Agent shall not be construed as a waiver by the Agent or the Lenders of any Event of Default or any other rights or remedies of the Agent and the Lenders. To facilitate the foregoing, the Agent shall have the right to take possession of the Borrower's original books and records, to obtain access to the Borrower's data processing equipment, computer hardware and software and to use all of the foregoing and the information contained therein in any manner which the Agent deems appropriate. The Agent shall have the right to conduct such sales on the Borrower's premises or elsewhere and shall have the right to use the Borrower's premises without charge for such time or times as the Agent deems necessary or advisable.

(b) If any Event of Default shall have occurred, the Agent shall also have the right to require that the Borrower store and keep any Collateral pending further action by the Agent, and while Collateral is so stored or kept, provide such guards and maintenance services as shall be necessary to protect the same and to preserve and maintain the Collateral in good condition. Until the Agent is able to effect a sale, lease, license or other disposition of Collateral, the Agent shall have the right to hold or use Collateral, or any part thereof, to the extent that it deems appropriate for the purpose of preserving Collateral or its value or for any other purpose deemed appropriate by the Agent. The Agent shall have no obligation to the Borrower to maintain or preserve the rights of the Borrower as against third parties with respect to Collateral while Collateral is in the possession of the Agent. The Agent shall apply the Net Proceeds of any sale, lease, license, other disposition of, or any collection, recovery, receipt, or realization on, the Collateral to the Obligations as provided herein, and only after so paying over such Net Proceeds, and after the payment by the Agent of any other amount required by any provision of law, need the Agent account for the surplus, if any, to the Borrower. To the maximum extent permitted by Applicable Law, the Borrower waives all claims, damages, and demands against the Agent or any Lender arising out of the repossession, retention or sale of the Collateral except such as arise solely out of the gross negligence or wilful misconduct of the Agent or such Lender as finally determined by a court of competent jurisdiction. In connection with any sale, lease, license or other disposition of Collateral, the Agent may disclaim any warranties that might arise in connection therewith and the Agent shall have no obligation to provide any warranties at such time. The Borrower shall remain liable for any deficiency if the proceeds of any sale or disposition of the Collateral are insufficient to pay all Obligations, including any legal fees or other expenses incurred by the Agent or any Lender to collect such deficiency.

(c) The Borrower agrees that notice received at least ten (10) calendar days before the time of any intended public sale, or the time after which any private sale or other disposition of Collateral is to be made, shall be deemed to be reasonable notice of such sale or other disposition. Notwithstanding any such notice of sale, the Agent shall not be obligated to make any sale of Collateral. If permitted by Applicable Law, any perishable Collateral which threatens to speedily decline in value or which is sold on a recognized market may be sold immediately by the Agent without prior notice to the Borrower. At any sale or disposition of Collateral or securities pledged, the Agent may (to the extent permitted by Applicable Law) purchase all or any part thereof free from any right of redemption by the Borrower, which right hereby is waived and released. The Borrower covenants and agrees not to, and not to permit or cause any of their Subsidiaries to, interfere with or impose any obstacle to the Agent's exercise of its rights and remedies with respect to the Collateral, directly or indirectly. In dealing with or disposing of the Collateral or any part thereof, the Agent and Lenders shall not be required to give priority or preference to any item of Collateral or otherwise to marshal assets or to take possession or sell any Collateral with judicial process.

(d) To the extent that Applicable Law imposes duties on the Agent to exercise remedies in a commercially reasonable manner, the Borrower acknowledges and agrees that it is commercially reasonable for the Agent (i) to fail to incur expenses deemed significant by the Agent to prepare Collateral for disposition or otherwise to complete raw material or work in process into finished goods or other finished products for disposition, (ii) to fail to obtain third party consents for access to Collateral to be disposed of, or to obtain or, if not required by other law, to fail to obtain governmental or third party consents for the collection or disposition of Collateral to be collected or disposed of, (iii) to fail to exercise collection remedies against account debtors or other Persons obligated on Collateral or to remove Liens on or any adverse claims against Collateral, (iv) to exercise collection remedies against account debtors and other Persons obligated on Collateral directly or through the use of collection agencies and other collection specialists, (v) to advertise dispositions of Collateral through publications or media of general circulation, whether or not the Collateral is of a specialized nature, (vi) to contact other Persons, whether or not in the same business as the Borrower, for expressions of interest in acquiring all or any portion of such

Collateral, (vii) to hire one or more professional auctioneers to assist in the disposition of Collateral, whether or not the Collateral is of a specialized nature, (viii) to dispose of Collateral by utilizing internet sites that provide for the auction of assets of the types included in the Collateral or that have the reasonable capacity of doing so, or that match buyers and sellers of assets, (ix) to dispose of assets in wholesale rather than retail markets, (x) to disclaim disposition warranties, such as title, possession or quiet enjoyment, (xi) to purchase insurance or credit enhancements to insure the Agent against risks of loss, collection or disposition of Collateral or to provide to the Agent a guaranteed return from the collection or disposition of Collateral, or (xii) to the extent deemed appropriate by the Agent, to obtain the services of other brokers, investment bankers, consultants and other professionals to assist the Agent in the collection or disposition of any of the Collateral. The Borrower acknowledges that the purpose of this clause is to provide non-exhaustive indications of what actions or omissions by the Agent would be commercially reasonable in the Agent's exercise of remedies against the Collateral and that other actions or omissions by the Agent shall not be deemed commercially unreasonable solely on account of not being indicated in this clause. Without limitation upon the foregoing, nothing contained in this Section 9.1(d) shall be construed to grant any rights to the Borrower or to impose any duties on the Agent that would not have been granted or imposed by this Agreement or any Security Agreement or by Applicable Law in the absence of this clause.

(e) Neither the Agent nor any Lender shall be required to make any demand upon, or pursue or exhaust any of their rights or remedies against, the Borrower, any other obligor, guarantor, pledgor or any other Person with respect to the payment of the Obligations or to pursue or exhaust any of their rights or remedies with respect to any Collateral therefor or any direct or indirect guarantee thereof. Neither the Agent nor any Lender shall be required to marshal the Collateral or any guarantee of the Obligations or to resort to the Collateral or any such guarantee in any particular order, and all of its and their rights hereunder or under any other Loan Document shall be cumulative. To the extent it may lawfully do so, the Borrower absolutely and irrevocably waives and relinquishes the benefit and advantage of, and covenants not to assert against the Agent or any Lender, any valuation, stay, appraisement, extension, redemption or similar laws and any and all rights or defences it may have as a surety now or hereafter existing which, but for this provision, might be applicable to the sale of any Collateral made under the judgment, order or decree of any court, or privately under the power of sale conferred by this Agreement, or otherwise.

(f) The Borrower hereby grants to the Agent, for the benefit of the Lender Parties, after the occurrence and during the continuance of an Event of Default, an irrevocable, nonexclusive license (exercisable without payment of royalty or other compensation to the Borrower) to use, assign, license or sublicense any Intellectual Property, now owned or hereafter acquired by the Borrower, and wherever the same may be located, including in such license reasonable access as to all media in which any of the licensed items may be recorded or stored and to all computer programs and used for the compilation or printout thereof. All proceeds received by the Agent or Lenders in connection with such license shall be used by the Agent or the Lenders to satisfy the Obligations.

(g) In addition to the acceleration and other provisions set forth in Section 8.1, upon the occurrence of an Event of Default, the Borrower shall take any action that the Agent, for the benefit of itself and the Lenders, may request in order to enable the Agent to obtain and enjoy the full rights and benefits granted to the Agent hereunder.

9.2 Application of Proceeds

In addition to any other rights and remedies the Agent and the Lenders have under the Loan Documents, the PPSA, at law or in equity, and any provision contained herein to the contrary notwithstanding, all payments received after the occurrence of any Event of Default, and all proceeds collected or received from collecting, holding, managing, renting, selling or otherwise disposing of all or any part of the Collateral or any proceeds thereof upon exercise of remedies hereunder upon the occurrence of an Event of Default, shall be applied in the following order of priority:

(a) first, to the repayment of Special Agent Advances and payment of all costs and expenses of such collection, holding, managing, renting, selling or disposition, and of conducting the Borrower's Businesses and of maintenance, repairs, replacements, alterations, additions and improvements of or to the Collateral, and to the payment of all sums which the Agent or the Lenders may be required or may elect to pay, if any, for taxes, assessments, insurance and other charges upon the Collateral or any part thereof, and all other payments that the Agent or the Lenders may be required or authorized to make under any provision of the Loan Documents (including, without limitation, in each such case, in-house documentation and diligence fees and legal expenses, search, audit, recording, professional and filing fees and expenses and legal fees and all expenses, liabilities and advances made or incurred in connection therewith);

(b) second, to payment of all accrued unpaid interest on the Obligations and fees owed to the Agent and the Lenders Pro Rata;

(c) third, to payment of principal of the Obligations Pro Rata;

(d) fourth, to payment of any other amounts owing constituting Obligations Pro Rata; and

(e) fifth, any surplus then remaining to the Borrower, unless otherwise provided by law or directed by a court of competent jurisdiction;

provided that the Borrower shall be liable for any deficiency if such proceeds are insufficient to satisfy all of the Obligations or any of the other items referred to in this Section. In carrying out the foregoing, (x) amounts received shall be applied in the numerical order provided until exhausted prior to the application to the next succeeding category; and (y) each of the Lenders shall receive an amount equal to its Pro Rata share of amounts available to be applied pursuant to clauses (b), (c), (d) and (e) above.

9.3 Rights to Appoint Receiver

(a) Court Appointed Without limiting any other rights, options and remedies the Agent and the Lenders have under the Loan Documents, the PPSA, at law or in equity, upon the occurrence of an Event of Default, the Agent and the Lenders shall have the right to apply for and have a receiver appointed by a court of competent jurisdiction in any action taken by Agent to enforce its and Lenders' rights and remedies in order to manage, protect and preserve the Collateral, to sell or dispose of the Collateral and continue the operation of the Businesses of the Borrower and to collect all revenues and profits thereof and apply the same to the payment of all expenses and other charges of such receivership including the compensation of the receiver and to the payments as aforesaid until a sale or other disposition of such Collateral shall be finally made and consummated. To the extent not prohibited by Applicable Law, the Borrower hereby irrevocably consents to, and waives any right to object to or otherwise contest, the appointment of, a receiver as provided above.

(b) Private Appointment Without limiting any other rights, options and remedies the Agent and the Lenders have under the Loan Documents, the PPSA, at law or in equity, upon the occurrence of an Event of Default, the Agent and the Lenders shall have the right to, and with or without entry into possession of the Collateral of the Borrower, or any part thereof, exercise the rights and remedies in favour of the Agent and the Lenders hereunder and under the Security Documents and in connection therewith, by instrument in writing, appoint any Person, whether an officer or officers or an employee or employees of the Agent or the Lenders, or not, to be a receiver (which term as used herein includes a receiver-manager and also includes the plural as well as the singular) of the Collateral or any part thereof and of the rents and profits thereof and with or without security and may from time to time by similar writing remove any receiver and appoint another in the receiver's stead or the Agent may institute proceedings in any court of competent jurisdiction for the appointment of a receiver. In making any such appointment or removal the Agent shall be deemed to be acting as the agent or attorney for the Borrower but no such appointment shall be revocable by the Borrower. The Borrower undertakes to ratify and confirm whatever such receiver may do concerning the Collateral of the Borrower. The reasonable remuneration and expenses of the receiver shall be paid by the Borrower on demand, shall be a charge on the Collateral owned by the Borrower and shall bear interest from the date of demand at the rate calculated and payable, and bearing interest on overdue interest (to the extent permitted by law), in the same manner, mutatis mutandis as interest payable hereunder.

9.4 Attorney in Fact

The Borrower hereby irrevocably appoints the Agent, for the benefit of the Lender Parties, as its attorney in fact to take any action, the Agent or Requisite Lenders deem necessary or desirable upon the occurrence of an Event of Default to protect and realize upon the Liens in the Collateral, including the execution and delivery of any and all documents or instruments related to the Collateral in the Borrower's name, and said appointment shall create in the Agent, for the benefit of the Lender Parties, a power coupled with an interest.

9.5 Rights and Remedies not Exclusive

As among the Lender Parties on one hand and the Borrower on the other hand, the Agent and the Lenders shall have the right in their sole discretion to determine which rights, Liens and/or remedies the Agent and/or the Lenders may at any time pursue, relinquish, subordinate or modify, and such determination shall not in any way modify or affect any of the Agent's or the Lenders' rights, Liens or remedies under any Loan Document, Applicable Law or equity. The enumeration of any rights and remedies in any Loan Document is not intended to be exhaustive, and all rights and remedies of the Agent and the Lenders described in any Loan Document are cumulative and are not alternative to or exclusive of any other rights or remedies which the Agent and the Lenders otherwise may have. The partial or complete exercise of any right or remedy shall not preclude any other further exercise of such or any other right or remedy.

10. WAIVERS AND JUDICIAL PROCEEDINGS

10.1 Certain Waivers

(a) The Borrower hereby absolutely and unconditionally waives, with respect to or arising under the Obligations, Collateral or the Loan Documents (i) all rights of rescission, set-off, counterclaim, demand, presentment, or protest, and all defences, with respect to any and all obligations, liabilities, agreements, arrangements or instruments, including without limitation, in any action or proceeding brought to obtain a court order recognizing the Lien of the Agent in and to any Collateral, (ii) except as expressly provided herein, all notices and demands of any description, (iii) the pleading of any statute of limitations, and (iv) any duty, responsibility or obligation of any Lender Party with respect to any of the Collateral, including, without limitation, to give priority or preference to any item of Collateral, marshal assets, take possession or sell any Collateral with judicial process, collect any sums due in respect of any Collateral, or protect or preserve any Collateral or any rights thereto or thereunder, and no Lender Party shall have any such duty, responsibility or obligation.

(b) No course of action or dealing, forbearance, event, act or omission, in whole or in part, by any Lender Party under or in connection with any Loan Document shall affect the liability of the Borrower or any Subsidiary thereof, or operate as a waiver of any provision of any Loan Document or preclude any other or further course of action or dealing, forbearance, event, act or omission under or in connection with any provision of any Loan Document. Each waiver or consent under any Loan Document shall be limited solely to the express terms and conditions of such waiver or consent. Notwithstanding any other provision of any Loan Document, no Lender Party waives any violation under any Loan Document by virtue of completing the Closing or funding the Loan. Unless expressly provided otherwise, any matter subject to any Lender Party's discretion under any Loan Document shall be at such Lender Party's sole and absolute discretion.

10.2 Amendments and Waivers

(a) No amendment, modification or waiver of any Loan Document, or consent to any departure by the Borrower therefrom, shall be effective unless in writing and signed by (a) the Agent, (b) the Borrower and (c) the Lenders (unless in any case the Lenders have authorized the Agent to do any such thing without the Lenders' express concurrence.

(b) In the event the Agent requests the consent of a Lender and does not receive a written denial thereof within ten (10) Business Days after such Lender's receipt of such request, then such Lender will be deemed to have given such consent so long as such request contained a notice stating that such failure to respond within ten (10) Business Days would be deemed to be a consent of such Lender.

(c) Notwithstanding anything to the contrary contained in this Section, in the event that the Borrower shall request that this Agreement or any other Loan Document be modified, amended or waived in a manner which would require the consent of the Lenders pursuant to clause (a) above and such amendment is approved by the Agent, but not by the requisite percentage of all the Lenders, the Borrower and the Agent shall be permitted to amend this Agreement without the consent of any Lender or Lenders that, together with their Affiliates hold less than ten percent (10%) of the Loan, at such time, and that did not agree to the modification, amendment or waiver requested by the Borrower (such Lender or Lenders, collectively the "**Minority Lenders**") subject to their providing for (i) the termination of the Commitment of such of the Minority Lenders, (ii) the addition to this Agreement of one or more other financial institutions which would qualify as an Eligible Assignee, subject to the approval of the Agent, or an increase in the Commitment of one or more of the Lenders, so that the Commitments after giving effect to such amendment shall be in the same amount as the aggregate Commitments immediately before giving effect to such amendment, (iii) if any Loans are outstanding at the time of such amendment, the making of such additional Loans by such new or increasing Lender or Lenders, as the case may be, as may be necessary to repay in full the outstanding Loans of the Minority Lenders, together with accrued and unpaid interest, immediately before giving effect to such amendment; and (iv) such other modifications to this Agreement or the Loan Documents as may be appropriate and incidental to the foregoing.

10.3 Survival

All obligations, covenants, agreements, representations, warranties, waivers and indemnities made by the Borrower in the Loan Documents shall survive the execution and delivery of the Loan Documents, the Closing, the making and funding of the Loan and any termination of this Agreement until all Obligations (other than contingent indemnification Obligations to the extent no claim giving rise thereto has been asserted) are fully performed and indefeasibly paid in full in cash; provided, that, the obligations and provisions of Sections 9.1 10.1, 11.5, 11.8, 11.9, 11.12, 11.13 and

11.14 shall survive the termination of the Loan Documents and any payment, in full or in part, of the Obligations.]

11. MISCELLANEOUS

11.1 Agent Appointment

Each Lender hereby appoints the Agent as the sole and exclusive administrative, payment and collateral agent under the Loan Documents and each Lender hereby irrevocably authorizes the Agent, as the Agent for such Lender, to take such action or to refrain from taking such action on its behalf under the provisions of the Loan Documents and to exercise such powers and perform such duties as are delegated to the Agent by the terms of the Loan Documents, together with such other powers as are reasonably incidental thereto. The Agent agrees to act as such on the conditions as may be agreed upon between the Agent and the Lenders. The provisions of this Section are solely for the benefit of the Agent and the Lenders and the Borrower shall have no rights hereunder. The Agent may perform any of its duties under the Loan Documents, by or through its respective Affiliates, and its or their respective officers, directors, managers, equity owners, employees, advisors, attorneys, agents, representatives, and the successors, assigns and Affiliates of each of the foregoing.

It is acknowledged that the Agent is the Borrower's primary contact for all matters concerning the Loan, including the dissemination of information. However, upon reasonable request from time to time, the Borrower will communicate or meet directly with the Lenders. The Borrower acknowledges that, as long as there is only one Lender, the Lender is entitled to reasonable access to the Borrower.

11.2 Special Agent Advances

The Agent may in its sole discretion from time to time at any time that an Event of Default exists or upon any failure of a condition precedent to any of the Loans, make such disbursements and advances ("**Special Agent Advances**") which the Agent, in its sole discretion, (i) deems necessary or desirable either to preserve or protect any portion of the Collateral, (ii) to enhance the likelihood of or maximize the amount of repayment by Borrower of the Obligations, and/or (iii) to pay any other amount chargeable to the Borrower pursuant to the terms of any Loan Documents, including without limitation, costs, fees and expenses. Notwithstanding any provision of the Loan Documents, Special Agent Advances shall be repayable on demand and together with, all interest thereon shall constitute Obligations and shall be payable prior to the payment of interest and principal of all other Loans.

11.3 Governing Law; Jurisdiction; Service of Process; Venue

The Loan Documents shall be governed by and construed in accordance with the laws of the Province of Ontario and the laws of Canada applicable therein without giving effect to its choice of law provisions. By execution and delivery of each Loan Document to which it is a party, the Borrower hereby (i) accepts the non-exclusive jurisdiction of any courts of the Province of Ontario and irrevocably agrees to be bound by any Judgment rendered thereby, (ii) waives personal service of process, (iii) agrees that service of process upon it may be made pursuant to Section 11.6 hereof or in any manner permitted by Applicable Law, and (iv) waives any objection to jurisdiction and venue of any action instituted hereunder and agrees not to assert any defence based on lack of jurisdiction, venue, convenience or forum nonconveniens.

11.4 Successors and Assigns; Assignments and Participations

(a) Subject to clause (b) below, each Lender may assign all or any portion provided such assignment is on a pro rata basis as to the Loan or Loans then held by such Lender of its rights and delegate all or any portion of its obligations under any Loan Document to one or more Eligible Assignee in accordance with the terms hereof (each, a "**Assignee**"). Each Lender may furnish any information concerning the Borrower in the possession of that Lender from time to time to assignees and participants (including prospective assignees and participants), subject to confidentiality requirements hereunder.

(b) (i) Any assignment hereunder shall be effective only upon satisfaction of the following conditions: (w) execution and delivery by the Assignee, the assigning Lender and Agent of an original Lender Addition Agreement; (x) the Agent shall have consented to and accepted such Lender Addition Agreement and recorded in the Register the names and addresses, Commitment, the principal amount of the Loan owing to, and Notes, if any, evidencing such assignment; (y) receipt by the Agent of a processing fee in the amount of Three Thousand Five Hundred Dollars ($3,500); and (z) save for an assignment to an Affiliate, if the assignment does not result in the Lender or the Assignee holding a Commitment less than One Million Dollars ($1,000,000);

(c) Each Lender may sell participations in all or any part of its rights and obligations under the Loan Documents to one or more Persons (each, a "**Participant**"). Upon any such sale, (i) such Lender's obligations under each Loan Document shall remain unchanged, such Lender shall remain solely responsible for the performance thereof, such Lender shall remain the holder of any Loan and all parties hereto shall continue to deal solely and directly with such Lender in connection with the Loan Documents. Any agreement pursuant to which any Lender shall sell any such participation shall provide that such Lender shall retain the sole right and responsibility to exercise such Lender's rights and enforce the Borrower's obligations hereunder, including the right to consent to any amendment, supplement, modification or waiver of any provision of any Loan Document. The Borrower hereby acknowledges and agrees that the Participant under each participation shall, solely for the purposes of Sections 10.3, 11.5 and 11.8 hereof, be considered to be a "Lender" hereunder.

(d) Notwithstanding any other provision set forth in any Loan Document, any Lender may at any time create a security interest in any portion of its rights under any Loan Document. The Borrower agrees to use best efforts to assist any Lender in making assignments or selling participations in any part of any Loan.

(e) The Loan Documents shall (i) inure to the benefit of each Lender Assignee, Participant (only to the extent expressly provided herein) and all future holders of the Loan, the Obligations and/or any Collateral, and each of their respective successors and assigns, (ii) be binding upon all parties hereto other than Lender Parties and their respective successors and assigns. No Credit Party may sell, assign or transfer any of its interests or Obligations under any Loan Document. No rights are intended to be created under any Loan Document for the benefit of any third party donee, creditor or incidental beneficiary of the Borrower. Nothing contained in any Loan Document shall be construed as a delegation to any Lender of any other Person's duty of performance.

(f) For greater certainty, and notwithstanding any of the foregoing, no assignment hereunder shall be deemed, or be deemed to be, a discharge, recission, extinguishment, novation, issue, repayment, advance, disposition or substitution of any Loan and any Loan so assumed shall continue to be the same obligation and not a new obligation.

11.5 Reinstatement; Application of Payments; Releases

To the extent that any payment made or received with respect to the Obligations is subsequently set aside, defeased or required to be repaid to any Person for any reason, then such Obligations (and the Liens corresponding thereto) shall be automatically revived as if such payment had not been received. Anything contained in any Loan Document to the contrary notwithstanding, only upon (a) payment in full in cash and performance of all of the Obligations (other than contingent indemnification Obligations for which no unsatisfied claim has been asserted), (b) termination of the Commitments (c) delivery of a written release by the Borrower of all claims against all Lender Parties in a form satisfactory to the Agent in its Permitted Discretion, and (d) so long as no suits, actions, proceedings or claims are pending or threatened against any Indemnified Person, relating to the Obligations or this Agreement shall the Agent be required to deliver to Borrower the termination statements, Mortgage releases and other documents necessary or appropriate to evidence the termination of the Liens securing the Obligations.

11.6 Notice

Any notice or request under any Loan Document shall be given to any party to this Agreement at such party's address or e-mail (in portable document format) set forth beneath its signature to this Agreement, or at such other address as such party hereafter may specify in a notice given in the manner required under this Section. Any notice or request hereunder shall be given only by, and shall be deemed to have been received upon (each, a "**Receipt**"): (i) registered or certified mail, return receipt requested, on the date indicated in such return receipt, (ii) delivery by a nationally recognized overnight courier, one (1) Business Day after deposit with such courier, or (iii) e-mail (in portable document format), facsimile or electronic transmission, in each case upon telephone or further electronic communication from the recipient acknowledging receipt (whether automatic or manual from recipient), as applicable. Clerical error or other failure to provide notice to any additional notice address, including to legal counsel, will not invalidate any notice given to the first specified notice address for any party.

11.7 Severability; Captions; Counterparts

Any provision of any Loan Document that is adjudicated to be invalid under Applicable Law shall be inapplicable to the extent of such invalidity and shall not affect the validity or enforceability of the remainder of the Loan Documents, which shall be given effect so far as possible. The captions in the Loan Documents are intended for reference only and shall not affect the meaning of the Loan Documents. The Loan Documents may be executed in one or more counterparts and by facsimile transmission, which counterparts and facsimile signatures shall be considered original executed counterparts.

11.8 Expenses

The Borrower agrees to pay on demand all reasonable costs, taxes, fees, charges, expenses and advances incurred by any Lender Party and/or its Affiliates (including, without limitation, legal fees and expenses and in-house counsels' charges in accordance with their standard rate structures), relating to or arising out of any Loan Document or any agreement, arrangement, instrument, matter or transaction contemplated thereby including, without limitation, the negotiations and investigations relating to the establishment of the Loan, the preparation, execution, filing and registration of any of the Loan Documents (whether or not any Advance is made), in connection with exercising (or forbearing) any right or remedy under any of the foregoing, administering the Obligations, syndicating any Loan, taking or refraining from taking any action requested by the Borrower, seeking, obtaining or receiving any advice with respect to any of the foregoing, or modifying, amending, or waiving any of the foregoing. All of the foregoing shall be part of the Obligations. If for any reason (other than the default of the Agent or the Lenders), the first Advance is not made on or before the 15th day of August, 2007, the Agent and the Lenders may terminate this Agreement, but the Borrower shall be responsible for the payment on demand of all costs and expenses mentioned in this Section, as well as the commitment fee and work fee specified in Sections 3.1 and 3.3, respectively.

11.9 Entire Agreement

The Loan Documents constitute the entire agreement between and among the parties thereto and supersede all prior agreements and arrangements relating to the subject matter thereof (including, without limitation, the Term Sheet). Execution hereof constitutes a full, complete and irrevocable release of any and all claims which the Borrower may have under Applicable Law. Each party hereto acknowledges that it has been advised by counsel in connection with the negotiation and execution of the Loan Documents this Agreement and is not relying upon oral representations or statements inconsistent with the terms and provisions hereof. Any and all Schedules, exhibits, appendices, annexes and attachments to any Loan Documents shall be incorporated therein and made a part thereof, as applicable.

11.10 This Agreement to Govern

If there is any inconsistency between the terms of this Agreement and the terms of any other Loan Document, the provisions hereof shall prevail to the extent of the inconsistency except to the extent the other Loan Document expressly provides to the contrary, but the foregoing shall not apply to limit or restrict in any way the rights and remedies of the Lender under the terms of the Security Documents. For greater certainty:

(a) notwithstanding that the rate of interest stipulated in any of the Security Documents may exceed the rate of interest stipulated herein in respect of all or any portion of the Obligations, the rate or rates of interest applicable to the Obligations shall be as stipulated herein;

(b) notwithstanding that any Security Document may contain a promise by the Borrower to pay to the Lender a principal amount which may be in excess of the Obligations then owing to the Lender, the Borrower shall only be liable to pay to the Lender in respect of such excess principal amounts, the amounts owing to the Lender pursuant hereto;

(c) notwithstanding that any Security Document may provide for payment on demand or upon the occurrence of certain defaults or events of default, the Obligations shall only be payable as stipulated herein or in the document pursuant to which such Obligation arises; and

(d) If any act or omission of the Borrower is expressly permitted under this Agreement but is expressly prohibited under another Loan Document, such act or omission shall be permitted. If any act or omission is expressly prohibited under a Loan Document (other than this Agreement), but this Agreement does not expressly permit such act or omission, or if any act is expressly required to be performed under such Loan Document but this Agreement does not expressly relieve the Borrower from such performance, such circumstances shall not constitute a conflict in or between the provisions of this Agreement and the provision of such Loan Document.

11.11 Approvals and Duties

Unless expressly provided herein to the contrary, any approval, consent, waiver or satisfaction of the Agent with respect to any matter that is the subject of any Loan Document may be granted or withheld by the Agent in its sole and absolute discretion. Other than the Agent's duty of reasonable care with respect to Collateral delivered pursuant to the Loan Documents in accordance with Applicable Law (to the extent not waivable), the Agent shall have no responsibility for or obligation or duty with respect to any of the Collateral or any matter or proceeding arising out of or relating thereto, including, without limitation, any obligation or duty to collect any sums due in respect thereof or to protect or preserve any rights pertaining thereto.

11.12 Confidentiality and Publicity

(a) The Borrower shall not, and shall not permit any of their Affiliates to, (i) except to the extent required by Applicable Law (in which case such Person shall use best efforts to obtain confidential treatment), disclose any provision of any Loan Document to any Person (without the Agent's prior written consent, other than to their respective directors, equity owners, advisors, counsel, accountants and officers on a need-to-know basis, all of whom shall be deemed to be bound by these provisions (and the Borrower shall be responsible for any violations hereof by such other Persons), (ii) publish or disclose any materials containing any Lender Party's name without first obtaining such Lender Party's prior written consent, (iii) use any Lender Party's name (or the name of any of their Affiliates) in connection with its operations or Business. Nothing contained in any Loan Document is intended to permit or authorize the Borrower or any of its Affiliates to contract on behalf of any Lender Party.

(b) Each Lender Party shall exercise commercially reasonable efforts to maintain in confidence, in accordance with its customary procedures for handling confidential information, all written non-public information of the Borrower that the Borrower furnishes on a confidential basis clearly identified as such (**"Confidential Information"**), including all financial statements relating to the Borrower and the Annual Business Plan, other than any such Confidential Information that becomes generally available to the public or becomes available to any Lender Party from a source other than the Borrower and that is not, known to such recipient to be subject to confidentiality obligations; provided, that each Lender Party and their affiliates shall have the right to disclose Confidential Information to:

(i) such Person's affiliates;

(ii) such Person's or such Person's affiliates' lenders, funding or financing sources;

(iii) such Person's or such Person's affiliates' directors, officers, trustees, partners, employees, agents, attorneys, equity owners, professional consultants, portfolio management services and rating agencies;

(iv) any other Lender Party and any successor or assign of any Lender Party;

(v) (A) any Person to whom any Lender Party offers to sell, assign or transfer any Loan or any part thereof or any interest or participation therein, or (B) any Person if the disclosure consists of general portfolio information and does not identify the Borrower specifically by name;

(vi) any federal or provincial regulatory authority or examiner, or any insurance industry association, regulating or having jurisdiction over the Agent or any Lender;

(vii) any Person that provides statistical analysis and/or information services to such Lender Party or its Affiliates; and

(viii) any Person (A) to the extent required by Applicable Law, including, without limitation, any insurance industry association, (B) in response to any subpoena or other legal process or informal investigative demand, (C) in connection with any litigation, or (D) in connection with the actual or potential exercise or enforcement of any right or remedy under any Loan Document.

(c) Notwithstanding any provision of any Loan Document, each Lender Party and their affiliates may (i) disclose a general description of transactions arising under the Loan Documents for advertising, marketing or other similar purposes, and (ii) use the Borrower's name, logo or other indicia germane to such party in connection with such advertising, marketing or other similar purposes.

(d) The obligations of the Lender Parties and their affiliates under this Section shall supersede and replace obligations previously agreed to by any Lender Party or their Affiliates.

11.13 No Consequential Damages

No Lender Party nor any of its respective Affiliates, nor the managers, members, employees, equity owners, agents, representatives, accountants, legal counsel, successors, assigns and Affiliates of any of the foregoing shall be liable for any special, indirect, consequential or punitive damages.

11.14 Judgment Currency

A payment obligation in one currency (the "**Currency Due**") under this Agreement or any Loan Document shall not be discharged by an amount paid in another currency (the "**Other Currency**"), whether pursuant to any judgment expressed in or converted into any Other Currency or in another place except to the extent that such tender or recovery results in the effective receipt by the Lenders of the full amount of Currency Due payable to the Agent, and the Lenders under this Agreement. If for the purpose of obtaining judgment in any court it is necessary to convert a sum due hereunder in Currency Due into the Other Currency, the rate of exchange that shall be applied shall be that at which in accordance with normal banking procedures the Agent could purchase Currency Due in Toronto, Ontario with the Other Currency on the Business Day next preceding the day on which such judgment is rendered. The obligation of the Borrower in respect of any such sum due from it to the Agent and the Lenders hereunder or under any other Loan Document shall, notwithstanding the rate of exchange actually applied in rendering such judgment, be discharged only to the extent that on the Business Day following receipt by the Agent or any Lender of any sum adjudged to be due hereunder in the Other Currency the Agent may in accordance with normal banking procedures purchase Currency Due with the amount of the judgment currency so adjudged to be due, and the Borrower hereby, as a separate obligation and notwithstanding any such judgment, agrees to indemnify the Agent and the Lenders against, and to pay the Agent and Lenders on demand, in Currency Due, the amount (if any) by which the sum originally due to the Agent and the Lenders in Currency Due hereunder exceeds the amount of the Other Currency so purchased.

12. YIELD PROTECTION

12.1 Change in Law

In the event that by reason of a change in any law, regulation or requirement or interpretation thereof by any Governmental Authority, or, after the date hereof, the imposition of any requirement of any such Governmental Authority, whether or not having the force of law, including the imposition of any reserve and/or special deposit requirement (other than reserves included in the Eurocurrency Reserve Requirements), the Agent or any Lender shall be subjected to any tax, levy, impost, charge, fee, duty, deduction or withholding of any kind whatsoever (other than any tax imposed on or measured by the net income of the Agent or any Lender as a result of a present or former connection between such Lender or Agent and the jurisdiction of the Governmental Authority imposing such tax or any political subdivision thereof or therein (other than any such connection arising solely from such Lender or Agent having executed, delivered or performed its obligations or received payments under, or enforced, this Agreement or any other Loan Document)), and if any such measures shall result in an increase in the cost to the Agent or any Lender of providing the credit facilities hereunder or in a reduction in the amount of principal or interest receivable by the Agent or any Lender in respect thereof, within ten (10) days after receipt of a notice from the Agent or the affected Lender (which notice shall be accompanied by a statement in reasonable detail setting forth the basis for the calculation thereof, which calculation, in the absence of manifest error, shall be presumptively correct), an amount equal to such increased cost or reduced amount.

12.2 Certificates of Lenders

Any Lender claiming reimbursement or compensation pursuant to this Article shall deliver to the Borrower (with a copy to the Agent) a certificate setting forth in reasonable detail the amount payable to such Lender hereunder and such certificate shall be conclusive and binding on the Borrower in the absence of demonstrable error.

12.3 Payments

(a) Except as otherwise provided for in this Section, any and all payments by the Borrower to each Lender or the Agent under this Agreement or any other Loan Document shall be made free and clear of, and without deduction or withholding for, any and all present or future taxes, levies, imposts, deductions, charges or withholdings, and all liabilities with respect thereto, excluding, in the case of each Lender and the Agent, such taxes (including income taxes or franchise taxes) as are imposed on or measured by the net income of such Lender or the Agent, respectively, as a result of a present or former connection between such Lender or Agent and the jurisdiction of the Governmental Authority imposing such tax or any political subdivision thereof or therein (other than any such connection arising solely from such Lender or Agent having executed, delivered or performed its obligations or received payments under, or enforced, this Agreement or any other Loan Document) (all such non-excluded taxes, levies, imposts, deductions, charges, withholdings and liabilities being hereinafter referred to as "**Taxes**").

(b) In addition, the Borrower shall pay any present or future stamp or documentary taxes or any other excise or property taxes, charges or similar levies which arise from any payment made hereunder or from the execution, delivery, enforcement or registration of, or otherwise with respect to, this Agreement or any other Loan Document (hereinafter referred to as "**Other Taxes**").

(c) If the Borrower shall be required by Applicable Law to deduct or withhold any Taxes or Other Taxes from or in respect of any sum payable hereunder to any Lender or the Agent, then:

(i) the sum payable shall be increased as necessary so that after making all required deductions (including deductions applicable to additional sums payable under this Section), such Lender or the Agent, as the case may be, receives an amount equal to the sum it would have received had no such deductions been made;

(ii) the Borrower shall make such deductions; and

1. the Borrower shall pay the full amount deducted to the relevant taxation authority or other authority in accordance with applicable law.

(d) Within ten (10) days after the date of any payment by the Borrower of Taxes or Other Taxes as required under this Section, the Borrower shall furnish to the Agent (and the applicable Lender) the original or a certified copy of a receipt evidencing payment thereof, or other evidence of payment satisfactory to the Agent (and the applicable Lender).

(e) The Borrower shall indemnify and hold harmless each Lender and the Agent for the full amount of Taxes arising on any and all payments by the Borrower or any other Credit Party to such Lender or the Agent under this Agreement or any other Loan Documents or Other Taxes (including any Taxes or Other Taxes imposed by any jurisdiction on amounts payable under this Section) paid by such Lender or the Agent and any liability (including penalties, interest, additions to tax and expenses) arising therefrom or with respect thereto, whether or not such Taxes or Other Taxes were correctly or legally asserted. Payment under this indemnification shall be made within ten (10) days from the date any Lender or Agent makes written demand therefor.

(f) If the Agent or any Lender determines, in good faith, that it has received a refund, credit, relief or remission (collectively, a "**Refund**") of any Taxes or Other Taxes as to which it has been indemnified by the Borrower or with respect to which the Borrower has paid additional amounts pursuant to this Article, it shall promptly pay over such Refund to the Borrower (but only to the extent of indemnity payments made, or additional amounts paid, by the Borrower under this Article with respect to the Taxes or Other Taxes giving rise to such Refund), net of all out-of-pocket expenses of the Agent or such Lender and without interest (other than any interest paid by the relevant Governmental Authority with respect to such Refund); provided that the Borrower, upon the request of the Agent or such Lender, agrees to repay such Refund (plus any penalties, interest, additions to tax and expenses imposed by the relevant Governmental Authority) to the Agent or such Lender in the event that the Agent or such Lender is required to repay such Refund to such Governmental Authority. This paragraph shall not be construed to require the Agent or any Lender to make available its tax returns (or any other information to its taxes which it deems confidential) to the Borrower or any other Person.

(g) If the Borrower is required to pay additional amounts to any Lender or the Agent pursuant to clause (c) above, then such Lender shall use its reasonable efforts (consistent with legal and regulatory restrictions) to change the jurisdiction of its Lending Office so as to eliminate any such additional payment by the Borrower which may thereafter accrue if such change in the judgment of such Lender is not otherwise disadvantageous to such Lender.

12.4 Survival

The agreements and obligations of the Borrower in this Article 12 shall survive the payment of all other Obligations.

[REMAINDER OF PAGE INTENTIONALLY BLANK; SIGNATURE PAGES FOLLOW]

[SIGNATURE PAGE TO CREDIT AGREEMENT]

IN WITNESS WHEREOF, each of the parties has duly executed this Agreement as of the date first written above.

BORROWER: **TERRACE BAY PULP INC.**

By: [signature]
Name: TARAS SAWULA
Title: VICE PRESIDENT & TREASURER

Address: 21 Mill Road
Terrace Bay, ON POT 2W0

Attention: TARAS SAWULA CA
Telephone: (807) 343-6392
Fax: (807) 346-0453
E-Mail: taras@bls-tb.com

[SIGNATURE PAGE TO CREDIT AGREEMENT]

IN WITNESS WHEREOF, each of the parties has duly executed this Agreement as of the date first written above.

AGENT:

NEXCAP FINANCE CORPORATION

By:
Name: BRUCE SHERK
Title: PRESIDENT

Address: 5420 North Service Road
Burlington, ON L7L 6C7

Attention: President: (re Terrace Bay)
Telephone: 905-637-4467
Fax: 905-637-1882
E-Mail:

LENDER:

NEXCAP CANADA INC.

By:
Name: BRUCE SHERK
Title: PRESIDENT

Address: 5420 North Service Road
Burlington, ON L7L 6C7

Attention: President (re: Terrace Bay)
Telephone: 905-637-4467
Fax: 905-637-1882
E-Mail:

Appendix A
Lenders/Commitments/Accounts

NEXCAP CANADA INC.	100%

Wire Instructions:
Bank:
Account:
ABA:
Account Name:
Reference:
Deposit

Appendix B
Definitions

The following terms are defined in the Sections or subsections referenced opposite such terms:

"Agent"	Preamble
"Agreement"	Preamble
"Approved Institution"	Appendix B - "Cash"
"Assignee"	11.4 (a)
"Borrower"	Preamble
"Hedging Agreements"	7.2(d)
"Investments"	7.4
"Minority Lenders"	10.2(c)
"Other Currency"	11.14
"Other Taxes"	12.312.3(b)
"Participant"	11.4 (c)
"Permitted Indebtedness"	7.2
"Permitted Liens"	7.3
"Receipt"	11.6
"Refund"	12.3(f)
"Register"	2.2(a)
"Special Agent Advances"	11.2
"Successor"	7.4(b)
"Taxes"	12.312.3(a)
"Transaction"	7.4(b)

In addition to the terms defined elsewhere in the Agreement, the following terms have the following meanings:

"Account" shall have such meaning as defined in the PPSA.

"Account Debtor" shall mean any person who is obliged under an Account.

"Acquisition" shall mean any transaction or series of related transactions for the purpose of or resulting, directly or indirectly, in (a) the acquisition of all or substantially all of the assets of a Person, or of any business or division of a Person, (b) the acquisition of more than fifty percent (50%) of the Capital Stock of any Person or otherwise causing any Person to become a Subsidiary of a Credit Party, or (c) a merger, amalgamation, consolidation or other combination with another Person.

"Advance" shall mean any borrowing under the Loan.

"Affiliate" or "affiliate" shall mean, as to any initial Person, any other Person (a) that, directly or indirectly through one or more intermediaries, controls, is controlled by, or is under common control with, such initial Person, (b) who is a current or former director or officer (i) of such initial Person, (ii) of any Subsidiary of such initial Person, or (iii) of any other Person described in clause (a) above with respect to such initial Person, or (c) which, directly or indirectly through one or more intermediaries, is the beneficial or record owner of ten percent (10%) or more of any class of the outstanding Capital Stock of such initial Person. For purposes of this definition, the term "control" (and the correlative terms, "controlled by" and "under common control with") shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the management and/or policies of a Person, whether through ownership of securities or other interests, by contract or otherwise.

"Annual Business Plan" shall mean, in respect of any fiscal year of the Borrower, the Operating Budget and Projections described in clause (d) of Exhibit C-1 in respect of that year.

"Applicable Law" shall mean any applicable law, treaty, rule, requirement, regulation, ordinances, code, policy, rule of common law, and the like, now or hereafter in effect, of any Governmental Authority, including any judicial, administrative or other Governmental Authority interpretations thereof, and any judicial or administrative orders, consents, decrees or Judgments binding on such Person or any of its respective Properties.

"Basis Point" means one-hundredth of one percent.

"Borrowing Base" shall mean, as of any date of determination, the aggregate value of a borrowing base comprised of the sum of:

(a) eighty-five percent (85%) of the Borrower's Eligible Receivables at such time for credits which are Rated Credits; and

(b) in the case of the Borrower's Eligible Receivables at such time for credits which are not Rated Credits, eighty-five percent (85%) of those which are, to the satisfaction of the Agent, subject to payment by Buchanan Lumber Sales Inc. pursuant to the Commission Sales Agreement and otherwise seventy (70%) percent;

(other than in either case intercompany accounts among Persons not at arm's length to the Borrower, accounts subject to priority claims, Accounts outstanding for sixty (60) days or more and less any discounts and promotional allowances which will be reserved and calculated in the Lenders' sole discretion);

and

(c) sixty (60%) percent of the Borrower's Eligible Inventory consisting of first quality finished goods inventory; and

(d) the lesser of (x) Six Million Dollars ($6,000,000) and (y) Fifty percent (50%) of the Borrower's Eligible Inventory consisting wood fibres supplies, (excluding mill maintenance supplies, work in process, chemicals and other items identified by the Lenders); and

(e) ninety (90%) percent of any provincial and federal tax credits, refunds, rebates and grants (including the Road Construction and Maintenance Program) calculated on a net basis after all offsets or "clawbacks" to which the Governmental Authorities may be entitled.

"Borrowing Base Certificate" shall mean a Borrowing Base Certificate substantially in the form attached to the Borrowing Certificate, and otherwise in form and substance satisfactory to Agent in its Permitted Discretion.

"Business" shall mean the manufacture and sale of bleached softwood kraft or other pulp products.

"Business Day" shall mean any day other than a Saturday, Sunday or other day on which the banks, Agent or Lenders as to their offices in Toronto, Ontario are authorized or required by law to be closed.

"Capital Expenditures" shall mean, for any period and for any Person(s), the sum, without duplication, of all expenditures (whether paid in cash or accrued as liabilities) that are or are required to be treated as capital expenditures under GAAP, but excluding expenditures made in connection with the replacement, substitution or restoration of assets to the extent financed (a) from insurance proceeds (or other similar recoveries) paid on account of the loss of or damage to the assets being replaced or restored, (b) with awards of compensation arising from the taking by eminent domain or condemnation of the assets being replaced, or (c) with Net Proceeds from any disposition of fixed assets (other than scaffolding sold in the Ordinary Course of Business) permitted by this Agreement.

"Capital Lease" shall mean, as to any Person, any lease of any interest in any kind of property or asset by that Person as lessee that is, should be or should have been recorded as a "capital lease" in accordance with GAAP.

"Capital Lease Obligation" shall mean all obligations of any Person under Capital Leases, in each case taken at the amount thereof accounted for as a liability in accordance with GAAP.

"Capital Stock" shall mean, as to any Person that is a corporation, the authorized shares of such Person's capital stock, including all classes of common, preferred, voting and nonvoting capital stock, and, as to any Person that is not a corporation or an individual, the partnership, membership or other ownership interests in such Person, including, without limitation, the right to share in profits and losses, the right to receive distributions of cash and other Property, and the right to receive allocations of items of income, gain, loss, deduction and credit and similar items from such Person, whether or not such interests include voting or similar rights entitling the holder thereof to exercise control over such Person, collectively with, in any such case, all warrants, options and other rights to purchase or otherwise acquire, and all other instruments convertible into or exchangeable for, any of the foregoing.

"Cash" shall mean Canadian dollar denominated demand deposits of (i) any Lender (ii) any domestic commercial bank of recognized standing having capital and surplus in excess of Five Hundred Million Dollars ($500,000,000) or (iii) any bank (or the parent company of such bank) whose short term securities are rated at least R-1 (middle) by the Dominion Bond Rating Service (each of the foregoing, an "Approved Institution"), which is not subject to any Lien (except to secure the Loan) or otherwise restricted and which is not part of the Cash Reserves.

"Cash Equivalents" shall mean (a) securities issued, or directly and fully guaranteed or insured, by the federal government of Canada or any agency or instrumentality thereof (provided that the full faith and credit of the federal government of Canada is pledged in support thereof) having maturities of not more than six (6) months from the date of acquisition, (b) Canadian dollar denominated time deposits, certificates of deposit and bankers' acceptances of any Approved Institution, (c) repurchase obligations with a term of not more than seven (7) days for underlying securities of the types described in clause (a) above entered into with any Approved Institution, (d) commercial paper issued by any Approved Institution or by the parent company of any Approved Institution and commercial paper issued by, or guaranteed by, any industrial or financial company with a short-term commercial paper rating of at least R-1(middle) by the Dominion Bond Rating Service, and in each case maturing within six (6) months after the date of acquisition, and (e) investments in money market funds substantially all of whose assets are comprised of securities of the type described in clauses (a) through (d) above; the amount of all Cash Equivalents shall at all times be the market value thereof.

"Change of Control" shall occur if at any time LSH ceases to own and control, directly or directly, more than Fifty Percent (50%) of each class of issued and outstanding Capital Stock of the Borrower.

"Charter and Good Standing Documents" shall mean, for the Borrower, (i) a copy of the certificate of incorporation or formation (or other applicable charter document) certified by an officer as of a date not more than ten (10) Business Days prior to the Closing Date by the applicable Governmental Authority of the jurisdiction of incorporation or organization of the Borrower, (ii) a copy of the bylaws or similar Organizational Documents of the Borrower certified as of a date not more than ten (10) Business Days prior to the Closing Date by the corporate secretary or assistant secretary of the Borrower (or its general partner or managing member, as the case may be), (iii) an original certificate of good standing as of a date acceptable to Agent issued by the applicable Governmental Authority of the jurisdiction of incorporation or organization of the Borrower and proof of extra provincial registration in every other jurisdiction in which the Borrower conducts business or is otherwise required to be in good standing, and (iv) copies of the resolutions of the Board of Directors or Managers (or other applicable governing body) and, if required, stockholders, members, partners or other equity owners, authorizing the execution, delivery and performance of the Loan Documents to which the Borrower is a party, certified by a Responsible Officer of such Person as of the Closing Date.

"Claims" shall mean any and all liabilities, obligations, losses, damages, penalties, claims, actions, litigation, proceedings, investigations, Judgments, suits, fees, cost, expenses, advances and disbursements of any kind (including, without limitation, those of counsel (including in-house counsel)), except to the extent that they result from such Person's gross negligence or wilful misconduct as determined by a court of competent jurisdiction on a final and non-appealable basis.

"Closing" shall mean the satisfaction, or written waiver by the Agent and the Requisite Lenders, of all of the conditions precedent set forth in this Agreement required to be satisfied prior to the disbursement of the Initial Advance, the Loan and consummation of the other transactions contemplated hereby.

"Collateral" shall mean, collectively, all Property, interests in Property, collateral and/or security granted and/or securities pledged to the Agent, for the benefit of the Lender Parties, or any Lender by the Borrower and any other Person pursuant to the Loan Documents, including, without limitation, all Property in which a Lien is granted pursuant to the Security Documents.

"Commission Sales Agreement" shall mean the agreement made as of May 1st, 2007 between the Borrower and Buchanan Lumber Sales Inc.;

"Commitment" or "Commitments" shall mean the aggregate commitment of such Lender to fund its Pro Rata Share of the Loan, as set forth on Appendix A or in the most recent Lender Addition Agreement, if any, executed by such Lender, in each case as the same may be reduced, modified or terminated from time to time pursuant to this Agreement.

"Compliance Certificate" shall mean a compliance certificate executed by a Responsible Officer of the Borrower in the form of Exhibit B-2 hereto.

"Contingent Obligations" shall mean, as to any Person, any agreement, undertaking or arrangement by which such Person assures, guarantees, endorses, contingently agrees to purchase or provides funds for the payment of, or otherwise becomes or is contingently liable upon, any Indebtedness, leases, dividends or other obligations ("primary obligations") of any other Person (the "primary obligor") in any manner, whether directly or indirectly, including, without limitation, any obligation of such Person, whether or not contingent, (a) to purchase any such primary obligation or any property constituting direct or indirect security therefor, (b) to advance or supply funds (i) for the purchase or payment of any such primary obligation or (ii) to maintain working capital or equity capital of the primary obligor or otherwise to maintain the net worth or solvency of the primary obligor, including, without limitation, any so-called "keepwell" or "makewell" agreement, (c) to purchase property, securities or services primarily for the purpose of assuring the owner of any such primary obligation of the ability of the primary obligor to make payment of such primary obligation, (d) otherwise to assure or to hold harmless the owner of such primary obligation against loss in respect thereof, (e) with respect to any letter of credit of such Person or as to which that Person is otherwise liable for reimbursement of drawings, or (f) with respect to any Hedging Agreement; provided, however, that the term "Contingent Obligation" shall not include endorsements of instruments for deposit or collection in the Ordinary Course of Business. The amount of any Contingent Obligation shall be deemed to be an amount equal to the stated or determinable amount of the primary obligation in respect of which such Contingent Obligation is made or, if not stated or determinable, the maximum reasonably anticipated liability in respect thereof (assuming such Person is required to perform thereunder) as determined by such Person in good faith.

"Credit Parties" shall mean the Borrower and those Persons who from time to time have guaranteed all or any part of the Obligations; and "Credit Party" means any of them.

"Debtor Relief Law" shall mean, collectively, the Bankruptcy and Insolvency Act (Canada), the Companies' Creditors Arrangement Act (Canada), and all other applicable liquidation, conservatorship, bankruptcy, moratorium, rearrangement, receivership, insolvency, reorganization or similar debtor relief laws from time to time in effect affecting the rights of creditors generally, in each case as amended from time to time.

"Default" shall mean any event, fact, circumstance or condition that, with the giving of applicable notice or passage of time or both, would constitute, be or result in an Event of Default. A Default is "continuing" unless it has been remedied or waived.

"Dollars" and "$" shall mean lawful money of Canada, except where otherwise expressly provided.

"Eligible Assignee" shall mean any of the following: (a) a commercial bank organized under the laws of Canada; (b) a commercial bank organized under the laws of any other country; (c) a finance company, insurance company or other financial institution or fund which is engaged in making, purchasing or otherwise investing in commercial loans or other debt obligations for its own account in its ordinary course of business; (d) a Related Fund; (e) the Ontario Teachers' Pension Plan Board; or (e) during the continuance of an Event of Default, any other Person.

"Eligible Receivables" shall mean each Account payable to Borrower arising in the Ordinary Course of Business of the Borrower from the sale of goods or rendering of services unless:

(a) it is not subject to a valid perfected first priority security interest in favour of the Agent, subject to only Permitted Liens having a lower priority than the Liens in favour of the Agent;

(b) it is not evidenced by documentary evidence satisfactory to the Agent in its Permitted Discretion; provided, however, that the Agent in its sole discretion may include Accounts that are not evidenced by such documentary evidence as Eligible Receivables and determine the Advance rate and reserves applicable to Advances made on any such Accounts;

(c) it arises out of any transaction between, among or with one or more Affiliates of the Borrower;

(d) it remains unpaid for longer than the earlier of (i) sixty (60) calendar days after the original due date, or (ii) ninety (90) calendar days after the original invoice date;

(e) any covenant, agreement, representation or warranty contained in any Loan Document with respect to such Account has been breached and remains uncured;

(f) the Account Debtor for such Account has commenced a voluntary case under any Debtor Relief Law or has made an assignment for the benefit of creditors, or a decree or order for relief has been entered by a court having jurisdiction in respect of such Account Debtor in an involuntary case under any Debtor Relief Law, or any other petition or application for relief under any Debtor Relief Law has been filed against such Account Debtor, or such Account Debtor did not have the capacity to contract at the time any contract or other document giving rise to any Account was executed, or such Account Debtor has failed, suspended Business, ceased to be Solvent, called a meeting of its creditors, or has consented to or suffered a receiver, trustee, liquidator or custodian to be appointed for it or for all or a significant portion of its assets or affairs;

(g) it arises from the sale of property or services rendered to an Account Debtor outside of Canada or the United States or that has its principal place of business or chief executive office outside of Canada or the United States, subject to any exception which the Agent may in writing allow from time to time for particular Accounts in considering the aggregate exceptions of this nature for the time being and the perceived commercial risk or difficulty in collection in the jurisdiction in question;

(h) it represents the sale of goods, rendering of services to an Account Debtor on a bill and hold, guaranteed sale, sale-and-return, sale on approval, consignment or any other repurchase or return basis or is evidenced by Chattel Paper or an Instrument (as such terms are defined in the PPSA) of any kind or has been reduced to Judgment;

(i) the applicable Account Debtor for such Account is any Governmental Authority, unless rights to payment of such Account have been assigned to the Agent pursuant to the Applicable Law respecting the assignment of such Accounts and such laws shall have been complied with;

(j) it is, or in the future will be, subject to any offset, credit (including any resource or other income credit or offset), deduction, defence, discount, chargeback, freight claim, allowance, adjustment, adverse condition, dispute or counterclaim, or is contingent or not absolutely owing to the Borrower in any respect or for any reason (but only to the extent of such offset, credit, deduction, defence, discount, chargeback, freight claim, allowance, adjustment, adverse condition, dispute or counterclaim or contingency);

(k) there is any agreement with an Account Debtor for any deduction from such Account, except for discounts or allowances made in the Ordinary Course of Business for prompt payment, all of which discounts or allowances are reflected in the calculation of the face value of each invoice related thereto, such that only the discounted amount of such Account shall be considered an Eligible Receivable;

(l) there are any facts, events or occurrences which in any way impair the validity, enforceability or collectibility thereof;

(m) any return, rejection or repossession of goods or services related to it has occurred;

(n) it constitutes a re-billing of an amount previously billed or double billing (i.e., counted twice) or a billing for a sample, or is not payable to the Borrower;

(o) the Borrower has agreed to accept or has accepted any non-cash payment for such Account;

(p) with respect to any Account arising from the sale of goods, the transit of the goods to the Account Debtor or its designee has not commenced;

(q) with respect to any Account arising from the performance of services, the services have not been actually performed or the services were undertaken in violation of any law;

(r) the applicable Account Debtor for such Account is located in a jurisdiction that requires a creditor to make a local filing in order to bring suit or enforce its remedies against an Account Debtor in such a jurisdiction, unless the Borrower has qualified to do business in such jurisdiction, or has satisfied such filing requirement for the then-current year, or is exempt from such filing requirement, or the failure to meet such requirement may be cured under Applicable Law;

(s) it is an Account subject to a debit memo issued by the Borrower, or a surety bond, guaranty, indemnity or other similar arrangement;

(t) such Accounts are not owned solely by the Borrower or do not arise from the actual and bona fide sale and delivery of goods by the Borrower or rendition of services by the Borrower in the Ordinary Course of Business;

(u) it is an Account owed by an Account Debtor that is subject to legal process by the Borrower or against which the Borrower has asserted a Lien or that is subject to collection by the Borrower;

(v) it is an "invoiced hold back"; or

(w) it fails to meet such other specifications and requirements which may from time to time be established by the Agent or is not otherwise satisfactory to the Agent, as determined in the Agent's Permitted Discretion; provided, however, that any failure of the Agent to communicate such specifications or requirements shall not negate the effectiveness of such provisions, result in any liability of the Agent or otherwise release or excuse the Borrower from complying with this definition.

"Eligible Inventory" shall mean the amount that is equal to the value (at the lesser of cost and market) of inventory of the Borrower, as to which each of the following requirements has been fulfilled to the reasonable satisfaction of the Agent:

(a) it is owned by and in the possession of the Borrower;

(b) the Security constitutes a perfected first ranking lien and security interest on the inventory in the jurisdiction in which the inventory is physically located or in such other jurisdictions as may be required by applicable law, subject only to Permitted Liens;

(c) the inventory is physically located at the locations set out in Schedule 5.4 and those locations in respect of which the Agent has been notified in writing, other than inventory temporarily removed therefrom in the ordinary course of business and inventory in transit;

(d) the inventory is not subject to any execution, attachment or similar process; and

(e) is not subject to any Lien, except Permitted Liens;

(f) the inventory is not stored with a bailee, consignee, warehouseman, processor or similar party or lessor or located on premises not owned by the Borrower unless the Agent has given its prior written approval and the Borrower has caused such bailee, consignee, warehouseman, processor or similar party or lessor to issue and deliver to the Agent, in form and substance acceptable to the Agent, such financing statements, warehouse receipts, waivers and other documents as the Agent may require;

but does not include any inventory which the Agent has determined in good faith is inventory which may become subject to a claim under Section 81.1 of the *Bankruptcy and Insolvency Act* (Canada) or comparable legislation of any other applicable jurisdiction, and in respect of which the Agent has given notice to the Borrower of such determination.

"Employment Agreement" shall mean an employment agreement between the Borrower and any of the key personnel as designated by the Agent or a Person not dealing at arm's length with any Affiliate of the Borrower.

"Environmental Laws" shall mean all applicable federal, provincial or local laws, statutes, rules, regulations, ordinances and codes having the force of law, together with all administrative orders, directed duties, licenses, authorizations and permits of, and agreements with, any Governmental Authority, in each case relating to environmental, health and safety, the *Hazardous Products Act*, R.S. c. 1185, c. H 3, the *Canadian Environmental Protection Act*, S.C. 1988, c. 22, the *Environmental Protection Act*, R.S.O. 1980, c. 141, the *Ontario Water Resources Act*, R.S.O. 1980, c. 3.

"Environmental Report" shall mean the report dated June 1, 2006 prepared by H. Multamaki entitled "Environmental Report on the Neenah Paper Company of Canada Pulp Mill (Terrace Bay Operations) Thunder Bay, Ontario.

"Equivalent" shall mean the amount in one currency which is equivalent to an amount in another currency when such latter amount is converted to such former currency at the spot rate of exchange determined by the Agent.

"Event of Default" shall have the meaning ascribed thereto in Section 8.1. An Event of Default is "continuing" unless it has been remedied during any period expressly allowed for such purpose or has been waived.

"GAAP" shall mean generally accepted accounting principles in Canada in effect from time to time as applied by nationally recognized accounting firms.

"Governmental Authority" shall mean any federal, state, foreign, municipal, national, provincial, local or other governmental department, court, commission, board, bureau, agency or instrumentality or political subdivision thereof, or any entity or officer exercising executive, legislative or judicial, regulatory or administrative functions of or pertaining to any government or any court.

"Hazardous Substances" shall mean any flammable explosives, radon, radioactive materials, asbestos, urea formaldehyde foam insulation, polychlorinated biphenyls, petroleum and petroleum products, methane, hazardous materials, hazardous wastes, hazardous or toxic substances or related materials as defined in or other substances or materials regulated by or subject to, or which may form the basis of liability under, any applicable Environmental Law.

"Indebtedness" of any Person shall mean, without duplication: (a) all indebtedness for borrowed money; (b) all obligations issued, undertaken or assumed as the deferred purchase price of property or services (other than trade payables incurred and paid in the Ordinary Course of Business of such Person); (c) the face amount of all letters of credit issued for the account of such Person and, without duplication, all drafts drawn thereunder and all reimbursement or payment obligations with respect to letters of credit, surety bonds and other similar instruments issued by such Person; (d) all obligations evidenced by notes, bonds, debentures or similar instruments, including obligations so evidenced incurred in connection with the acquisition of property, assets or businesses; (e) all indebtedness created or arising under any conditional sale or other title retention agreement, or incurred as financing, in either case with respect to Property acquired by such Person (even though the rights and remedies of the seller or bank under such agreement in the event of default are limited to repossession or sale of such property); (f) all Capital Lease Obligations; (g) the principal balance outstanding under any synthetic lease, off-balance sheet loan or similar off balance sheet financing products; (h) all indebtedness referred to in clauses (a) through (g) above secured by (or for which the holder of such Indebtedness has an existing right, contingent or otherwise, to be secured by) any Lien upon or in Property (including accounts and contracts rights) owned by such Person, even though such Person has not assumed or become liable for the payment of such indebtedness; and (i) all Contingent Obligations in respect of indebtedness or obligations of others of the kinds referred to in clauses (a) through (h) above.

"Initial Advance" means the initial Advance of the Loan.

"Intellectual Property" shall mean all present and future: trade secrets, know-how and other proprietary information; trademarks, trademark applications, internet domain names, service marks, trade dress, trade names, business names, designs, logos, slogans (and all translations, adaptations, derivations and combinations of the foregoing), indicia and other source and/or business identifiers, and the goodwill of the business relating thereto and all registrations or applications for registrations which have heretofore been or may hereafter be issued thereon throughout the world; copyrights and copyright applications; (including copyrights for computer programs) and all tangible and intangible property embodying the copyrights, unpatented inventions (whether or not patentable); patents and patent applications; industrial design applications and registered industrial designs; license agreements related to any of the foregoing and income therefrom; books, records, writings, computer tapes or disks, flow diagrams, specification sheets, computer software, source codes, object codes, executable code, data, databases and other physical manifestations, embodiments or incorporations of any of the foregoing; the right to sue for all past, present and future infringements of any of the foregoing; all other intellectual property; and all common law and other rights throughout the world in and to all of the foregoing.

"Interest Expense" shall mean total interest expense of Borrower on a consolidated basis generated during the period in question (including attributable to conditional sales contracts, Capital Leases and other title retention agreements in accordance with GAAP) with respect to all outstanding Indebtedness, including, without limitation, accrued interest, interest paid or payable in kind and capitalized interest, but excluding net costs under Hedging Agreements.

"Interest Payment Date" shall mean the first day of each calendar month.

"Interest Period" shall mean, in the case of the first Interest Period, a period from and including the applicable date of disbursement of the Loan to and including the first Interest Payment Date and, thereafter, shall mean a period from (but excluding) an Interest Payment Date to and including the succeeding Interest Payment Date.

"Judgment" shall mean judgments, decrees, awards, orders, writs or injunctions of, or issued by and Governmental Authority.

"Lender Addition Agreement" shall mean an agreement among the Agent, a Lender and such Lender's assignee regarding their respective rights and obligations with respect to assignments of the Commitments, the Loan and other interests under this Agreement and the other Loan Documents, in form and substance acceptable to the Agent in its Permitted Discretion; it being agreed and understood that the consent or approval of the Borrower shall be required thereto only in accordance with the terms of Section 11.4.

"Lender Parties" shall mean, collectively, the Agent and the Lenders and any Affiliate of any Lender, and "Lender Party" shall mean any of them.

"Lenders" shall mean the persons named on Appendix A as such and their respective successors and permitted assigns (but not, except as expressly set for the herein, any Participant that otherwise is not a part to this Agreement) providing the Loans; and "Lender" shall mean any of them.

"Lending Office" shall mean, with respect to any Lender, the office or offices of such Lender specified as its "Lending Office" opposite its name on the applicable signature page hereto, or such other office or offices of such Lender as it may from time to time notify the Borrower and the Agent.

"Lien" shall mean any mortgage, pledge, security interest, encumbrance, lien or charge of any kind or any other priority arrangement (including any agreement to give any of the foregoing, any conditional sale or other title retention agreement or any lease in the nature thereof), or any other arrangement pursuant to which title to the Property is retained by or vested in some other Person for security purposes.

"Loan" shall mean the Term Operating Facility extended by the Lenders on the Closing Date pursuant to Section 2.1(a) in the aggregate original principal amount of up to Twenty-Five Million Dollars ($25,000,000), and all Obligations related thereto.

"Loan Documents" shall mean, collectively, this Agreement, the Notes, the Security Documents, all Compliance Certificates, and all other agreements, documents, instruments and certificates heretofore or hereafter executed or delivered by the Borrower or any other Person (including LSH and Buchanan Lumber Sales Limited) to the Agent or any Lender in connection with any of the foregoing or the Loan, in each case as the same may be amended, modified or supplemented from time to time.

"LSH" means Lucky Star Holdings Inc., a corporation incorporated under the laws of Ontario and its successors.

"Mark-to-Market Exposure" means the total of the market values (expressed in Canadian Dollars), whether positive or negative, in respect of all Hedging Agreements.

"Material Adverse Effect" shall mean any event, condition, obligation, liability or circumstance or set of events, conditions, obligations, liabilities or circumstances or any change(s) which:

(a) has, had or reasonably could be expected to have a material adverse effect upon or change in (i) the legality, validity or enforceability of any Loan Document or (ii) the perfection or priority of any Lien granted to the Agent or any Lender under any of the Security Documents; or

(b) has been or reasonably could be expected to be material and adverse to the value of any of the Collateral or to the business, operations, prospects, properties, assets, liabilities or condition (financial or otherwise) of the Borrower taken as a whole or has materially impaired or reasonably would be expected to materially impair the ability of the Borrower to perform the Obligations or its obligations, or to consummate the transactions, under the Loan Documents.

"Material Contract" shall mean, with respect to the Borrower, all contracts, agreements and arrangements material to the business, operations, properties, prospects, assets, or condition as a whole of the Borrower and which, in the event of expiry or termination, are not replaceable on commercially reasonable terms with other contract counterparties within a reasonable period of time.

"Maturity Date" shall mean the earliest to occur of (i) the acceleration (whether automatic or by written notice) of any Obligations in accordance with the terms of this Agreement, (ii) the Agent's demand of payment of any Obligations in accordance with the terms hereof and (iii) the last day of the Term.

"Mortgage" shall mean a mortgage, deed of trust, deed to secure debt, leasehold mortgage, leasehold deed of trust, leasehold deed to secure debt or similar instrument creating a Lien on real Property or on any interest in Real Property.

"Net Income" shall mean, for any period and for any Person(s), all as determined in accordance with GAAP, the net income (or loss) of such Person(s) on a consolidated basis for such period taken as a single accounting period, but excluding (i) the income (or loss) of any Person in which any other Person (other than the Borrower) has a joint interest, except to the extent of the amount of dividends or other distributions actually paid in cash to the Borrower by such Person during such period, (ii) the income (or loss) of any Person accrued prior to the date it becomes a Credit Party or is merged into or consolidated with the Borrower or that Person's assets are acquired by the Borrower, (iii) the income of any Subsidiary of the Borrower to the extent that the declaration or payment of dividends or similar distributions of that income by that Subsidiary is not at the time permitted by operation of the terms of the charter or any agreement, instrument, judgment, decree, order, statute, rule or governmental regulation applicable to that Subsidiary, (iv) compensation expense resulting from the issuance of capital stock, stock options or stock appreciation rights issued to former or current employees, including officers, of the Borrower, or the exercise of such options or rights, in each case to the extent the obligation (if any) associated therewith is not expected to be settled by the payment of cash by the Borrower or any Affiliate thereof, (v) compensation expense resulting from the repurchase of capital stock, options and rights described in clause (iv) of this definition of Net Income, and (vi) the income (or loss) associated with any Hedging Agreements.

"Net Proceeds" shall mean:

(a) in respect of any issuance of debt or equity, cash proceeds received or receivable in connection therewith, net of underwriting discounts and reasonable out-of-pocket costs and expenses paid or incurred in connection therewith in favour of any Person that is not an Affiliate of the Borrower;

(b) in respect of any disposition, casualty, condemnation, taking or other event of loss, proceeds in cash, cheques or other cash equivalent financial instruments (including Cash Equivalents) as and when received by the Person making such disposition or all insurance proceeds received on account of such casualty, condemnation, taking or other event of loss, in any such case net of: (i) in the event of a disposition, (x) the direct costs relating to such disposition excluding amounts payable to the Borrower or any Affiliate of the Borrower, (y) sale, use or other transaction taxes paid or payable as a result thereof, and (z) amounts required to be applied to repay principal, interest and prepayment premiums and penalties on Indebtedness (other than the Obligations) secured by a Lien on the asset that is the subject of such disposition; and (ii) in the event of a casualty, condemnation, taking or other event of loss, (x) all money actually applied to repair or reconstruct the damaged property or property affected by the condemnation or taking in accordance with the terms hereof, (y) all of the costs and expenses reasonably incurred in connection with the collection of such proceeds, award or other payments, and (z) any amounts retained by or paid to parties having superior rights to such proceeds, awards or other payments; and

(c) in respect of any other event, cash proceeds received or receivable in connection therewith, net of underwriting discounts and reasonable out-of-pocket costs and expenses paid or incurred in connection therewith in favour of any Person that is not an Affiliate of the Borrower.

"NKC Contract" means the Pulp Manufacturing Agreement between Neenah Paper Inc. and the Borrower dated August 29, 2006.

"Notes" shall mean any promissory notes issued by the Borrower to evidence one or more of the Loans.

"Obligations" shall mean, without duplication, all present and future obligations, Indebtedness and liabilities of the Borrower and/or any other Credit Party or other Person to the Agent and/or the other Lender Parties at any time and from time to time of every kind, nature and description arising under any Loan Document, whether direct or indirect, secured or unsecured, joint and/or several, absolute or contingent, due or to become due, matured or unmatured, now existing or hereafter arising, contractual or tortuous or liquidated or unliquidated, including, without limitation, all interest, fees, charges, expenses and/or amounts paid or advanced by Agent or any other Lender Party to, on behalf of or for the benefit of any such Person for any reason at any time, obligations of performance as well as obligations of payment, and all interest, fees and other amounts that accrue after the commencement of any proceeding under any Debtor Relief Law by or against any such Person or its Properties.

"Ordinary Course of Business" shall mean, in respect of any transaction involving the Borrower, the ordinary course of the Borrower's business, as conducted by the Borrower in accordance with past practices and undertaken by the Borrower in good faith and not for purposes of evading any covenant or restriction in any Loan Document.

"Organizational Documents" shall mean (a) for any corporation, the certificate or articles of incorporation, the bylaws, any certificate of designation or other instrument relating to the rights of preferred shareholders or stockholders of such corporation, any shareholder rights agreement and all applicable resolutions of the Board of Directors (or any committee thereof) of such corporation, (b) for any partnership, the partnership agreement and, if applicable, the certificate of limited partnership, and (c) for any limited liability company, the operating agreement and articles or certificate of formation or organization.

"Permit" shall mean any license, lease, power, permit, franchise, certificate, authorization or approval issued by a Governmental Authority.

"Permitted Acquisition" means an acquisition that satisfies the following conditions:

(a) If the aggregate purchase price of the entity or assets being acquired is less than $5,000,000 the proposed acquisition shall be permitted so long as:

(i) the entity being acquired is in the same business as the Borrower or an element thereof and its assets (or the assets being acquired) are located primarily in Canada, the United States or the United Kingdom;

(ii) the acquisition is not made pursuant to a hostile take-over bid;

(iii) the Borrower gives the Agent reasonable advance notice of the proposed acquisition and provides projections for a period of three years from such acquisition date, demonstrating pro forma compliance with financial covenants;

(iv) no Default or Event of Default exists at the time of any such proposed acquisition or would exist immediately after the implementation of such proposed acquisition; or

(b) If the total consideration paid for any single Permitted Acquisition exceeds $5,000,000 and the aggregate consideration paid for all such Permitted Acquisitions does not exceed $15,000,000, the proposed acquisition shall be permitted so long as:

(i) the entity being acquired is in the same business as the Borrower or an element thereof and its assets (or the assets being acquired) are located primarily in Canada, the United States or the United Kingdom;

(ii) the acquisition is not made pursuant to a hostile take-over bid;

(iii) the Borrower gives the Agent reasonable advance notice of the proposed acquisition and provides projections for a period of three years from such acquisition date, demonstrating pro forma compliance with financial covenants;

(iv) no default or event of default exists at the time of any such proposed acquisition or would exist immediately after the implementation of such proposed acquisition;

(v) if the acquisition is a share purchase, no less than 100% of the issued and outstanding voting securities of the entity being acquired are acquired;

(vi) the acquisition is financed in its entirety from proceeds derived from an equity issuance or equity contribution, except for up to $1,000,000 which can be financed by cash;

(c) All other acquisitions that are consented to in writing by the Requisite Lenders, whose consent shall not be unreasonably withheld or delayed.

"Permitted Discretion" shall mean, with respect to any Person, a determination or judgment made by such Person in good faith in the exercise of reasonable (from the perspective of a secured lender) credit or business judgment, giving the Borrower a reasonable opportunity to discuss the same (except while a Default is continuing).

"Permitted Uses" shall mean, as to any Person, (a) investments in Cash Equivalents; (b) Capital Expenditures in connection with property used in the business of the Person; (c) subject to the prior written approval of the Lenders (including the amount to be employed for such use), any other specific use in the business of the Person; or (d) the payment of its Taxes and other statutory obligations.

"Person" shall mean an individual, a partnership, a corporation, a limited liability company, a business trust, a joint stock company, a trust, an unincorporated association, a joint venture, a Governmental Authority or any other entity of whatever nature.

"PPSA" means the Personal Property Security Act (Ontario), as in effect from time to time.

"Priority Permitted Liens" shall mean Permitted Liens permitted under Sections 7.3(d) and 7.3(e) and, to the extent that by operation of law they rank in priority to the Liens held by the Agent, Section 7.3(b).

"Property" shall mean all types of real, personal or mixed property and all types of tangible or intangible property.

"Pro Rata Share" shall mean with respect to any Lender as to all Lenders, the percentage obtained by dividing (i) the aggregate amount of such Lender's Commitment by (ii) the aggregate amount of all Lenders' Commitments (disregarding any Advances which may have been made), except for the purposes of Section 9.2 in which case the applicable percentage is obtained by dividing (i) the amount of the Advances owing to such Lender by (ii) the aggregate amount of all Advances outstanding ;

"Rated Credit" shall mean an Account Debtor whose credit rating by Standard & Poor's is for the time being at least BBB+ or the equivalent by another recognized credit rating service.

"Real Property" shall mean the property described in Schedule 5.4.

"Related Fund" shall mean (a) any fund, trust or similar entity that invests in commercial loans in the ordinary course of its business and is advised or managed by (i) a Lender, (ii) an Affiliate of a Lender, (iii) the same investment advisor that manages a Lender or (iv) an Affiliate of an investment advisor that manages a Lender or (b) any finance company, insurance company or other financial institution which temporarily warehouses the Loan for any Lender or any Person described in clause (a) above.

"Requisite Lenders" shall mean at any time Lender or Lenders then holding more than sixty-six and two-thirds percent (66 2/3%) of the sum of the aggregate unpaid principal amount of the Loan then outstanding.

"Reserves" shall mean the aggregate of any amounts accrued or payable (including interest and penalties) which arise by operation of any Applicable Law and may rank prior to or *pari passu* with any Lien held by the Agent (whether or not they constitute Permitted Liens), including without limitation vacation pay, pension plan contributions, amounts required to be withheld from payments to employees, federal goods and services tax and claims which suppliers could assert pursuant to Section 81.1 or Section 81.2 of the *Bankruptcy and Insolvency Act* (Canada) or similar legislation.

"Responsible Officer" shall mean the chief executive officer or the president of the Borrower or any other officer having substantially the same authority and responsibility; or, with respect to compliance with financial covenants or delivery of financial information, the chief financial officer or the treasurer of the Borrower or any other officer having substantially the same authority and responsibility.

"Restricted Payments" shall mean:

(a) any loan, advance, salary, bonus, commission, consulting fee, management fee, management bonus or other payment (other than payments on normal trade terms to acquire assets permitted to be acquired pursuant to clause (e) below) made to Affiliate of the Borrower, or to any Person related by blood, adoption or marriage to any of the foregoing or to any Person not dealing at arm's length with an Affiliate of any of the foregoing,

(b) any cash dividend, or other dividend or distribution on any Capital Stock payable in any property,

(c) any payment made for the purchase, redemption or retirement of any Capital Stock or other reduction of capital, or for options, warrants or other like rights to acquire Capital Stock,

(d) any payment on account of any principal or interest on any loans or advances owing to any Affiliate, and

(e) any payment made to acquire any Capital Stock or debt obligations of, or any assets acquired or to be acquired from, any Affiliate of the Borrower (other than assets or Capital Stock acquired for fair market value and on normal trade terms, the acquisition of which would not result in a Default or an Event of Default).

"Security Documents" shall mean the security or pledge agreements executed by the Borrower in favour of the Agent, for the benefit of the Lender Parties, to secure the Obligations.

"Solvent" shall mean, as to any Person at any time, that (a) the fair value of the Property of such Person is greater than the amount of such Person's liabilities (including disputed, contingent and unliquidated liabilities); (b) the present fair saleable value of the Property of such Person is not less than the amount that will be required to pay the probable liability of such Person on its debts as they become absolute and matured; (c) such Person is able to pay its debts and other liabilities (including disputed, contingent and unliquidated liabilities) as they mature in the normal course of business; and (d) such Person does not intend to, and does not believe that it will, incur debts or liabilities beyond such Person's ability to pay as such debts and liabilities mature.

"Subsidiary" shall mean, as to any initial Person, any other Person in which more than fifty percent (50%) of all equity, membership, partnership or other ownership interests is owned directly or indirectly by such initial Person or one or more of its Subsidiaries. For purposes of the Loan Documents, any reference to "Subsidiary" shall be deemed to refer to a Subsidiary of the Borrower unless the context provides otherwise.

"Term" shall mean the period of time commencing on the Closing and ending on the date one day after the fifth (5^{th}) anniversary of such date, subject to the possibility of an extension for one (1) year as follows:

(a) Within the sixty day period before the third (3rd) anniversary date of the Closing, the Borrower may by notice in writing to the Lenders and the Agent request a one year extension to Term and otherwise on the terms and conditions applicable to the Loan except a renewal fee to be specified by the Borrower in its request.

(b) Unless the Lenders unanimously approve such extension, the Borrower may make the same request within the same period before the fourth (4^{th}) anniversary date of the Closing.

Unless the Lenders unanimously approve the extension pursuant to clauses (a) or (b) above, the Borrower may make the same request within one hundred and eighty (180) days before the fifth (5th) anniversary date of the Closing and the following terms and conditions shall apply:

(c) Each Lender shall advise the Borrower, the other Lenders and the Agent within thirty (30) days after receiving the Borrower's request if it is prepared to extend the Term and the maximum amount of its Commitment in respect thereof.

(d) If the Lenders do not unanimously approve such extension and the aggregate maximum amount of the Commitments from the Lenders who approve the extension is at least equal to the then outstanding principal amount of the Loan, then the Term will be extended for the requested one (1) year period.

(e) If the Lenders do not unanimously approve such extension and the aggregate maximum amount of the Commitments from the Lenders who approve the extension is less than then outstanding principal amount of the Loan, then the Borrower may at its option accept the extension for a lower Loan amount by notice given to the approving Lenders and the Agent within thirty (30) days after its receipt of the last notice from the approving Lenders.

(f) If the Term is extended at a lower Loan amount, the Borrower shall at the end of the original Term pay the Agent the amount by which the outstanding principal amount of the Loan exceeds the lower Loan amount applicable to the extension and all other Obligations then accrued with respect to that portion of the Loan, for remittance to the Lenders who have not granted the extension.

(g) If the Term is extended by some Lenders but not all of them, their Commitments shall, commencing on the expiry of the original Term, be in the same proportion as the maximum amount as stated in their notices offering the extension.

(h) In the case mentioned in the preceding clause, the Lenders shall co-operate with one another to assign their Commitments or part thereof to facilitate the extension.

Note: Additional defined terms are found in Exhibit B-1.

Schedule 5.3
Subsidiaries, Capitalization and Ownership Interests

1. Subsidiaries

   None

2. Authorized and Issued Capital

   Authorized – an unlimited number of non-voting, non-cumulative, 7% redeemable special shares and an unlimited number of common shares.

   Issued – 100 common shares issued to Lucky Star Holdings Inc.

3. Directors and Officers

   Directors: Wolfgang Gericke

   Officers: President – Wolfgang Gericke

   Vice President and Treasurer: Taras Sawula

   Treasurer – Taras Sawula

   General Manager: Robert Baxter

4. Ownership of Any Interest or Participation in any Joint Venture or Partnership

   None

5. Agreement Restricting the Transfer of Equity Securities

   None

6. Issue of Any Convertible or Exchangeable Equity Securities

   None

7. Obligation to Repurchase or Acquire or Retire Equity Securities

   None

Schedule 5.4
Properties; Locations

1. Location of Chief Executive Office and Collateral

   Terrace Bay Pulp Inc.

   21 Mill Road

   Terrace Bay, On POT 2W0

2. Owned Property

   see attached

3. Leased Property

   see attached

SCHEDULE 5.4 - OWNED PROPERTY OF TERRACE BAY PULP INC.

No.	PIN No.	Owner	Parcel Nos.	Property Remarks	Charges	Subject To	Other Registrations
1	62456-0120	Terrace Bay Pulp Inc.	PCL 8876	Crown Grant See PPA5365	Lucky Star Holdings Inc. - TY38407	n/a	n/a
2	62456-0122	Terrace Bay Pulp Inc.	PCL 8876	Crown Grant See PPA5365	Lucky Star Holdings Inc. - TY38407	n/a	Transfer Easement LPA83790 Plan Reference PAR301
3	62457-0432	Terrace Bay Pulp Inc.	PCL 9558	Crown Grant See PPA5174	Lucky Star Holdings Inc. - TY38407	n/a	Order LPA32578
4	62457-0492	Terrace Bay Pulp Inc.	PCL 14333	Crown Grant See PPA5174	Lucky Star Holdings Inc. - TY38407	n/a	n/a
5	62457-0728	Terrace Bay Pulp Inc.	PCL Plan-1	Crown Grant See PPA5174	Lucky Star Holdings Inc. - TY38407	n/a	n/a
6	62457-0815	Terrace Bay Pulp Inc.	PCL Plan-1	Crown Grant see PPA5174	Lucky Star Holdings Inc. - TY38407	n/a	Plan Reference 55R3613
7	62457-0954	Terrace Bay Pulp Inc.	PCL Plan-1	Crown Grant See PPA5174	Lucky Star Holdings Inc. - TY38407	n/a	Plan Reference 55R3613
8	62457-0956	Terrace Bay Pulp Inc.	PCL Plan-1	Crown Grant See PPA5174	Lucky Star Holdings Inc. - TY38407	n/a	Plan Reference 55R3613
9	62457-1000	Terrace Bay Pulp Inc.	PCL 12860	Crown Grant See PPA5174	Lucky Star Holdings Inc. - TY38407	n/a	Plan Reference 55R5587
10	62457-1024	Terrace Bay Pulp Inc.	PCL 12860	Crown Grant See PPA5174	Lucky Star Holdings Inc. - TY38407	n/a	Plan Reference 55R9343
11	62457-1025	Terrace Bay Pulp Inc.	PCL 12860	Crown Grant See PPA5174	Lucky Star Holdings Inc. - TY38407	n/a	n/a

SCHEDULE 5.4 - OWNED PROPERTY OF TERRACE BAY PULP INC.

No.	PIN No.	Owner	Parcel Nos.	Property Remarks	Charges	Subject To	Other Registrations
12	62457-1026	Terrace Bay Pulp Inc.	PCL 12860	Crown Grant See PPA5174	Lucky Star Holdings Inc. - TY38407	n/a	n/a
13	62457-1033	Terrace Bay Pulp Inc.	PCL 12860	Crown Grant See PPA5174	Lucky Star Holdings Inc. - TY38407	n/a	n/a
14	62457-1034	Terrace Bay Pulp Inc.	PCL 12860	Crown Grant See PPA5174, PPA5189	Lucky Star Holdings Inc. - TY38407	n/a	Plan Reference 55R6668
15	62457-1041	Terrace Bay Pulp Inc.	PCL 12860	Crown Grant See PPA5174, PPA5189	Lucky Star Holdings Inc. - TY38407	n/a	n/a
16	62457-1048	Terrace Bay Pulp Inc.	PCL 23484	Crown Grant See PPA5174	Lucky Star Holdings Inc. - TY38407	S/T LT235181	Plan Reference 55R6668
							Transfer Easement LT235181
17	62457-1082	Terrace Bay Pulp Inc.	PCL 20408	Planning Act Consent as in LT173634; Crown Grant See PPA5174	Lucky Star Holdings Inc. - TY38407	n/a	Plan Reference 55R732
							Notice LT174387
18	62457-1083	Terrace Bay Pulp Inc.	PCL 8903	n/a	Lucky Star Holdings Inc. - TY38407	S/T LPA43496, LT210598	Transfer Easement LPA43496
							Plan Reference 55R1257
							Plan Reference 55R3595
							Plan Reference 55R5375
							Transfer Easement LT210598
							Plan Reference 55R11103
							LR's Order TY3308

SCHEDULE 5.4 - OWNED PROPERTY OF TERRACE BAY PULP INC.

No.	PIN No.	Owner	Parcel Nos.	Property Remarks	Charges	Subject To	Other Registrations
19	62457-1091	Terrace Bay Pulp Inc.	PCL 12878	n/a	Lucky Star Holdings Inc.	n/a	n/a
20	62457-1096	Terrace Bay Pulp Inc.	PCL 17109	Crown Grant See PPA5174	Lucky Star Holdings Inc.	n/a	Order LPA32578
							Plan Reference 55R2142
21	62457-1105	Terrace Bay Pulp Inc.	PCL 8464	Crown Grant See PPA5189	Lucky Star Holdings Inc.	n/a	Order LPA32578
							Plan Reference 55R11640
							Plan Reference 55R11735
22	62457-1116	Terrace Bay Pulp Inc.	PCL 8952	n/a	Lucky Star Holdings Inc.	n/a	Order LPA32578
23	62457-1117	Terrace Bay Pulp Inc.	PCL 8757	n/a	Lucky Star Holdings Inc.	n/a	Notice LPA31804
24	62457-1118	Terrace Bay Pulp Inc.	PCL 8624	Crown Grant See PPA5277	Lucky Star Holdings Inc.	S/T LPA43496 Partially Released by LT152053	Order LPA32578
							APL (General) LPA40453
							Transfer Easement LPA43496
							Release LT152053
							Plan Reference 55R4505
							APL (General) LT164282
							Plan Reference 55R4825
							Notice LT209729
							Plan Reference 55R8154
							Plan Reference 55R11544
							Certificate F116935
							LR's Order F137148
25	62457-1119	Terrace Bay Pulp Inc.	PCL 8625	n/a	Lucky Star Holdings Inc.	n/a	Order LPA32578
26	62457-1120	Terrace Bay Pulp Inc.	PCL 8626	n/a	Lucky Star Holdings Inc.	S/T LPA43492, LPA43494, LPA43496, LT210598	Order LPA32578
							APL (General) LPA40453

SCHEDULE 5.4 - OWNED PROPERTY OF TERRACE BAY PULP INC.

No.	PIN No.	Owner	Parcel Nos.	Property Remarks	Charges	Subject To	Other Registrations
							Transfer Easement LPA43492
							Transfer Easement LPA43496
							Transfer Easement LPA43496
							Plan Reference 55R5375
							Transfer Easement LT210598
27	62457-1121	Terrace Bay Pulp Inc.	PCL 8505	n/a	Lucky Star Holdings Inc.	n/a	Order LPA32578
28	62457-1206	Terrace Bay Pulp Inc.	PT LOC JK300	n/a	Lucky Star Holdings Inc.	S/T F65076, LPA49848, LT148632	Order LPA32578
							Transfer Easement LPA49848
							Plan Reference PAR576
							Plan Reference 55R3612
							Transfer Easement LT148631
							Transfer Easement LT148632
							Plan Reference 55R7495
							Order LT233066
							Plan Reference 55R10328
							Transfer Easement F65076
							LR's Order F137183.
							APL (General) TY238
							LR's Order TY2293
29	62457-1202	Terrace Bay Pulp Inc.	PCL 8876	Crown Grant See PPA5365	Lucky Star Holdings Inc.	S/T LPA83730	Transfer Easement LPA83730
							Plan Reference PAR301
30	62458-0523	Terrace Bay Pulp Inc.	PCL 5378	Crown Grant See PPA3368	Lucky Star Holdings Inc.	S/T Right In LPA32803	Order LPA32578
31	62458-0533	Terrace Bay Pulp Inc.	PCL 8623	Crown Grant See PPA5276	Lucky Star Holdings Inc.	n/a	Order LPA32578
32	62458-0534	Terrace Bay Pulp Inc.	PCL 8666	Crown Grant See PPA5289	Lucky Star Holdings Inc.	n/a	APL (General) LPA40453

SCHEDULE 5.4 - OWNED PROPERTY OF TERRACE BAY PULP INC.

No.	PIN No.	Owner	Parcel Nos.	Property Remarks	Charges	Subject To	Other Registrations
33	62458-0578	Terrace Bay Pulp Inc.	PCL 16166	Crown Grant See PPA889	Lucky Star Holdings Inc.	n/a	Plan Reference 55R11271
							APL (General) TY32012
34	62458-0579	Terrace Bay Pulp Inc.	PCL 16180	Crown Grant See PPA861	Lucky Star Holdings Inc.	S/T LT201161	Plan Reference 55R5898
							Transfer Easement LT201161
							Plan Reference 55R11271
							Transfer Easement F96840E
							LR's Order F137164
							APL (General) TY32012
35	62458-0591	Terrace Bay Pulp Inc.	PCL 8591	n/a	Lucky Star Holdings Inc.	n/a	Order LPA32578
							Plan Reference 55R11271
36	62501-0002	Terrace Bay Pulp Inc.	PCL 8904	n/a	Lucky Star Holdings Inc.	n/a	n/a
37	62501-0003	Terrace Bay Pulp Inc.	PCL 8686	Crown Grant See PPA5315	Lucky Star Holdings Inc.	n/a	n/a
38	62501-0090	Terrace Bay Pulp Inc.	PCL 8877	Crown Grant See PPA5366	Lucky Star Holdings Inc.	S/T LPA53820	Transfer Easement LPA53820
39	62458-0314	Terrace Bay Pulp Inc.	PCL 26553	Crown Grant See PPA861	Lucky Star Holdings Inc.	S/T Ease Over Parts 5 & 6, 55R11271 In LT201161; S/T Ease Over Parts 2, 4, 5 & 7 on 55R11271 in favour of Part 9 on 55R11271 as in F96838, Terrace Bay	Transfer Easement LT201161
							Plan Reference 55R11271
							APL (General) TY32012

SCHEDULE 5.4 - OWNED PROPERTY OF TERRACE BAY PULP INC.

No.	PIN No.	Owner	Parcel Nos.	Property Remarks	Charges	Subject To	Other Registrations	
40	62457-0632	Terrace Bay Pulp Inc.	PCL 34-1	Crown Grant See PPA5174	Lucky Star Holdings Inc.	S/T LT141973	Plan Reference 55R2612	
							Transfer Easement LT141973	

SCHEDULE 5.4 - LEASED PROPERTY OF TERRACE BAY PULP INC.

No.	LUP No.	Permittee	Township	Area in ha.	Geographic Location	Permit Effective Date	Permit Termination Date
1	LUP1176-10000407	Neenah Paper Company of Canada	Daley	2242	Kenogami Forest Roads 1,115.5km	1-Jan-01	31-Dec-10
2	LUP1176-1000364	Neenah Paper Company of Canada	Klotz	0.81	North of PAR 80, South of Klotz Twp.	1-Jan-01	31-Dec-10
3	LUP1176-1000412	Neenah Paper Company of Canada	Lukinto Lake	47	S.of O'Meara Twp. - KC Nursery, Seed Orch.	1-Jan-02	31-Dec-10
4	LUP1176-1002609	Neenah Paper Company of Canada	Zircon Lake	3	1 1/2 miles north of Little Kay Lake	1-Jan-01	31-Dec-10
5	LUP1176-1002610	Neenah Paper Company of Canada	unknown	1	Junction of Blueberry and Twin Lake Road	1-Jan-03	31-Dec-10
6	LUP1176-1000557	Neenah Paper Company of Canada	Summit Lake	2.24	Mi. 48.5 Ogoki Rd.	1-Jan-01	31-Dec-10
7	LUP1176-1002653	Neenah Paper Company of Canada	Zircon Lake	0.1	Mile 44 - Callonite Road	1-Jan-05	31-Dec-10
8	LUP1176-1002652	Neenah Paper Company of Canada	Klotz	0.05	Castlebar Road - Mile 32	1-Jan-05	31-Dec-10
9	LUP1176-1002654	Neenah Paper Company of Canada	McLeod Lake	0.9	Mile 75 - Callonite Road	1-Jan-05	31-Dec-10
10							
11							
12							
13							

SCHEDULE 5.6

TERRACE BAY PULP INC.

LITIGATION

NIL

Schedule 5.7
Environmental Matters

As disclosed in the Environmental Report

(The body of the Report without the Appendices is attached for convenience of reference but any reference herein to the Environmental Report includes the Appendices.)

SCHEDULE 5.7

COMMERCIALLY CONFIDENTIAL

ENVIRONMENTAL REPORT
ON THE
NEENAH PAPER COMPANY of CANADA PULP MILL
(Terrace Bay Operations)
TERRACE BAY, ONTARIO

JUNE 1, 2006

PREPARED BY:
H. MULTAMAKI, R.P.F.

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LIST OF APPENDICIES

ENVIRONMENTAL REPORT
ON THE
NEENAH PAPER PULP MILL
TERRACE BAY, ONTARIO

PURPOSE

The purpose of this report is to review the environmental equipment, systems and programs at the Terrace Bay mill as a part of the due diligence process. This review examines both the operating systems and the regulatory conditions under which these systems operate. One of the primary purposes is to determine if and where compliance issues occur and the potential costs and concerns around bringing this mill into compliance.

METHODOLOGY

This report was prepared through a combination of site visits, staff input and document review. It is recognized that the time frame available was extremely short as the deadline for completion was June 1, 2006 which provided approximately one week to complete the process. Fortunately the previous owners, Kimberly-Clark Corporation had completed a phase one environmental report in April 2004 that provided a detailed review of the environmental equipment and programs at the mill.

The critical information presented in this report is broken down into five key areas which are as follows.

1. Air Emissions – This section provides a review of the compounds and chemicals that are being released to the atmosphere and any legal, operational and compliance issues regarding these emissions.
2. Hazardous Waste – This section discusses any concerns and issues regarding the handling, storage and disposal of hazardous waste on the site.
3. Solid Non-Hazardous Waste – This section of the report presents and discusses the Land filling program that has occurred and continues to occur on the site.
4. Liquid Effluent – This part of the report presents and discusses the liquid effluent part of the mill process.
5. Other Environmental Issues – This final section presents and discusses a number of environmental situations that are of significance and do not easily fit into any of the other sections of this report.

All major concerns and issues will be high lighted in the text and summarized at the end of the report. The summary will also clearly indicate the state of each concern and issue and provide details on if and how it has been addressed.

RESOURCES UTILIZED

The following is a list of the various resources used in preparing this report.

STAFF CONTACTS

1. Mr. Rodger Ferguson, Director of Environment, Neenah Paper InCorporated
2. Mr. Mike Molinski, Environmental Coordinator, Neenah Paper Company of Canada – Terrace Bay Facility
3. Mr. Patrick Morash, Lake Superior Advisor, MOE
4.

DOCUMENTS

1. Environmental Schedule of Reports for 2006
2. Letter – Mrs. S. Hakala, Terrace Bay Total reduced Sulphur (TRS) Reduction Plan – Dated June 1, 2005.
3. Letter – Mrs. S. Hakala, Air Facility Inspection – November 22, 2005 – Dated March 31, 2006.
4. Letter – Industrial sewage Inspection – November 8, 2005 – Dated March 31, 2006
5. Summary Report – Canadian Corporate Environmental Inspection Summary – Dated May 25, 2006
6. Summary report – TRS Continuous Sampling Report – Dated 2005
7. Ortech Report - # 2 Lime kiln Emission Testing for Total Reduced Sulphur (TRS) – Dated May 27, 2005
8. Ortech Report – Reduced Sulphur Compound Emission Testing Program – Dated M ay 26, 2005
9. Jaakko Poyry Report – TRS control Plan – Dated January 5, 2005
10. Sandwell Report – Air and Water Emissions reduction Assessment – Dated January 19, 2004
11. Sandwell Report – TRS Emissions Reductions Options – dated November 22, 2004
12. Ortech Report – Reduced Sulphur Compound Emission Testing Program – April 17, 2002
13. InterGreyted International LLC - Phase 1 Environmental Assessment – Dated April 2004.
14. Summary Report – Statement of Certification for NPRI/EPA-RCF – Dated May 22, 2006.
15. UMA Engineering Report – 2005 Annual ASB Compliance Report – Dated March, 2006
16. UMA Engineering Report – 2005 Annual Landfill Compliance Report – Dated March, 2006
17. Ecometrix Report – EEM Cycle 4 Study Design for Neena Paper's Terrace Bay Mill – Dated March, 2006

SITE INSPECTIONS

1. Mr. H. Multamaki - Personal Mill Site Inspection done on Thursday May 25, 2006

LIMITATIONS AND CAUTIONS

It must be recognized that given the short time frame available for completion of this report it was not possible to complete an in depth review of all reports and information available regarding the environmental condition of the entire mill property. The report is based on a combination of personal interviews with relevant mill personnel, a site inspection of the facility and a review of critical documents associated with the environmental program. The critical documents used in this review are attached as appendices and referenced throughout the report.

It should also be noted that this site was subject to heavy industrial pulp and paper activities since 1946 and it is possible that there may be unrecorded activities that occurred over this period of time and may have an adverse impact on the environment.

SITE DESCRIPTION

The mill site is located in the Town of Terrace Bay, Ontario approximately 170 km northeast of Thunder Bay, Ontario. The actual mill site is on the north side of Highway 17 about one km up Mill Road. The property being reviewed is owned by Neenah Paper Incorporated and is approximately 7,000 acres in size. This review focuses primarily on the 600 acres of land at the end of Mill Road where the pulp mill is situated. This report does include a review of several associated parcels of land that have various activities and operations that could be of interest in an environmental review. These include the Lake Superior water pumping station, municipal airport, old KCC hanger and runway and the Blackbird Creek system.

Appendix A contains a copy of the Integreyted International LLC, Phase One ESA Report that provides a detailed description of each parcel in Table 2-1 beginning on Page 2-2. It is important to recognize that there are a number of "island " properties that are either partially or completely encompassed within the Neenah Paper Incorporated property but owned by others. This is particularly important where issues such as point of impingement (POI) requirements are involved.

In general the entire site is relatively flat and is composed almost entirely of sandy soils. This is particularly important when reviewing those portions of the environmental program that involve land filling activities and/or ground water movement of chemicals and liquids.

AIR EMMISSIONS

TOTAL REDUCED SULPHUR (TRS)

One of the critical issues facing the mill is the production of TRS as a waste byproduct that is emitted into the atmosphere as a result of normal operations at the mill. This issue has been an ongoing concern for the Ontario Ministry of the Environment for a number of years and regularly appears in their inspections and reports as an issue. Appendix A contains recent letters of response from Neenah personnel to the MOE regarding this issue. The Ontario Ministry of the Environment has a one hour TRS concentration guideline limit of 27 ppb. This limit has been exceeded on a number of occasions during the previous year (2005). Appendix C contains a copy of the 2005 Annual data Summary for the Continuous Sampling program in the area around the Neenah mill site.

An examination of this data and discussions with the environmental staff at the mill indicate that a number of changes and updates where made in early summer of 2005 to various pieces of mill equipment to reduce the TRS emissions. These changes and updates appear to have been mostly effective as preliminary continuous sampling data after June 2005 show a significant decrease in TRS emissions (See Appendix C).

The changes and updates that occurred and appear to have had a significant positive effect on TRS emissions were as follows.

1. A new burner was installed in the lime kiln in early 2005. The intent was to lower the TRS emission rate to below 20 ppm, however this upgrade did not perform to the complete satisfaction of company managers and further work was required with modifications to the kiln door occurring in late 2005. A continuous, on-line TRS monitoring trial is required to qualify the potential improvements which may have been achieved by the new burner installation and on-going optimization activities.
2. Significant reductions in TRS emissions occurred as a direct result of modifications that were completed in 2005 to the condensate collection and stripper system. This change was one of the critical changes that resulted in the significant decrease in TRS emissions after June 2005 (Appendix D).
3. During the 2005 operating year Neenah Paper Inc. dredged the outside edges of the spill pond and removed 860 truck loads of material in 2004 and516 truckloads of material in 2005 that had been deposited from effluent handling operations in the past. This sediment is estimated to contribute to the TRS issue at a rate of 0.25 g/s (Appendix E) as result of vapor being released from this sediment. This sediment removal program was implemented as a direct result of the MOE issuing a Provincial Officers Order that required the company to dredge the entire bottom of the spill pond. Company staff received an estimate of $750,000 to complete the dredging project however it is not clear that this additional work would in fact be required as the more recent TRS samples are below the Guidelines as set by the MOE. Discussions with the Neenah staff made it clear that this estimate was likely very high and that local contractors had indicated that they could complete the job at a much lower cost.

The latest continuous TRS results from the two monitoring stations in town indicate that this is an issue that is being brought under control and that future costs are likely to be those associated with monitoring and analysis.

PARTICULATE EMISSIONS

The second area of review with respect to air emissions is particulate. This is an area that is presently in a state of change with respect to the legislation and guidelines enforced by the MOE. The mill presently relies on a combination of C of A's for various pieces of equipment and "grandfathering" for those pieces that do not have a C of A. Each of the C of A's have been approved under Regulation 346, which is being replaced by the new regulation 419. This new regulation will require a full site wide Emission Summary Dispersion Model (ESDM) by the year 2013 or earlier if changes are made that require a new or update to an existing C of A. Compliance with Reg 419 should be determined prior to the 2013 deadline should activities or improvements be required to ensure compliance. The ESDM required under Regulation 419 will be a newer (and different) program developed by the US EPA called AerMod and will provide more accurate results than the existing Reg. 346 model that was previously used.

There is a risk that an updated site wide AerMod run would not meet all of the guideline criteria as set out in Regulation 419. It is difficult to quantify the level of risk in this updated legislation as some of the compounds contained in the attached schedules have not been modeled and in some cases are not even measured or tested on this site. However this regulation will apply to all of the pulp and paper mills in the province and there will be mills that have higher emission rates than the Terrace Bay mill.

It should be noted that the mill site is quite extensive in size and this alone tends to reduce the impacts of most mill emissions as particulate impacts are measured at the property boundary.

OTHER COMPOUNDS

It is difficult to determine the status of a number of other compounds that may be emitted by this facility as they are mostly estimated from the NCASI database for NPRI reporting purposes. Appendix E contains a copy of the 2005 NPRI report and a list of the additional compounds that this facility will be required to report on as part of the NPRI reporting requirement. These are also compounds that in general will be included in the new provincial regulation 419.

The NPRI report does not indicate any obvious concerns with these compounds, but these are estimates only and new limits may be established at any time.

LIQUID EFFLUENT

The effluent discharge from this facility has been an environmental concern for a large number of years. It was only in the past several years with the construction of the primary and secondary treatment systems that this concern was mostly addressed. Prior to secondary treatment installation in 1989, effluent was discharged into the Blackbird Creek system and moved down this creek system fore about 14 kilometers prior to entering Moberly Bay on Lake Superior. The primary compounds of concern were significant amounts of organic material, dioxins (TTCD's), and furans (TTCF's).

This discharge was identified by both the Federal and Provincial governments as being a significant concern on the Great lakes and a Public Advisory Committee (PAC) was formed. The resulting Remedial Action Plan (RAP) recommended that the Blackbird creek system be left to naturally attenuate over time and that regular monitoring in lake Superior occur. A monitoring event is scheduled to occur in Moberly Bay In the summer of 2006. The previous monitoring event showed a decline in contamination in Moberly Bay and it is expected that this next monitoring event will provide information that shows the situation is improving over time. This is to be expected as the effluent is being effectively treated in the primary and secondary treatment systems prior to discharge.

An ongoing federally regulated program, the Environmental Effects Monitoring Study (EEM) is also scheduled for completion in the fall of 2006. This will be the fourth cycle of this program in which the mill has conducted extensive monitoring and sampling programs to document the receiving water quality. Improvements have been observed since the installation of secondary treatment in 1989.

The basic risk in the Blackbird creek system is in the original drainage pond (Lake A) and related channel as this area still contains a large amount of contaminated sediment.

SECONDARY TREATMENT POND (ASB)

The secondary treatment system is an aeration stabilization basin (ASB) system, which relies on a series of 75 hp and 35 hp floating aerators in a 300 million USG settling basin. The effluent leaves the primary clarifiers and enters this secondary system where it moves slowly through the aeration system until it is finally discharged at the far end. The aeration process creates a significant amount of foam as a result of the spraying action that is taking place in the sodium rich process effluent. In the past this has resulted in the contaminated foam moving out of the pond at the southeast corner and getting into the groundwater at this location. This was particularly acute during high wind events where the foam was blown over the edge of the pond. The company constructed a net fence at this location and the foam is no longer able to move over the edge of the pond. It would appear that this issue is improving as the groundwater in this area continues to show signs of improvement as indicated in the last two years of annual reports.

The ASB has small shed at the outlet to blackbird creek that contains constant sampling equipment. This equipment takes regular composite samples of the effluent which is then analyzed by an off site independent lab for compliance with provincial and federal regulations. This system appears to be operating in compliance, although on January 3, 2005 there was a toxicity test failure with rainbow trout. The monthly rainbow trout test had 100% mortality and appears to be directly related to post Christmas start-up and a 10 degree difference in operating temperature. The secondary treatment system was operating at a temperature that was 10 degrees Celsius below normal as a result of an extended No.1 mill shutdown and extreme winter weather conditions. This was a single occurrence and has not reoccurred since this time. The secondary treatment system is obviously capable of operating in compliance with the provincial and federal regulations and this appears to be an isolated instance. Appendix F contains the documentation regarding this issue.

The diversion pond (spills pond) is an additional component of the secondary treatment system that is used occasionally and has demonstrated some concern with respect to contributing to the TRS issue. This was previously discussed under the TRS section of this report.

OTHER ENVIRONMENTAL ISSUES

CERTIFICATES OF APPROVAL

The Neenah Paper mill in Terrace Bay, Ontario is subject to a number of very specific pieces of federal and provincial legislation with respect to air emissions. It also requires one or more Certificates of Approval Air (C of A) from the Province of Ontario in order to operate in compliance with provincial legislation. C of A's provide the authority to operate equipment that causes air emissions to occur and they also provide a series of conditions that must be fulfilled when operating these pieces of equipment.
The mill complex presently holds the following Certificates of Approval for various pieces of equipment and environmental control systems located on the mill site.

Certificates of Approval – Air

A)	#8-6001-76-006	Lime Kiln Venturi Scrubbers
B)	#8-6029-94-006	Extension of #2 Lime Kiln Stack
C)	#8-6020-76-006	NCG Incineration and Controls
D)	#8-6100-96-976	No.1 Bleach Scrubber
	#8-6100-96-987	No.1 Bleach Scrubber (amended)
E)	#8-6076-97-006	No.2 Bleach Scrubber
F)	#8-6022-76-776	Power Boiler
G)	#8-6018-85-006	Modifications to Power Boiler
H)	#8-6009-81-826	Installation of Wet Scrubber for #1 Lime Slaker
I)	#8-6002-82-006	Modifications to NCG Incineration
J)	#8-6003-82-006	Modifications to Turpentine Decanter

K)	#8-6004-82-006	Relocation of Smelt Dissolving Tank Vent
L)	#8-6013-88-006	RSH Scrubber
M)	#8-6090-95-966	RSH Scrubber – Stack Diversion
N)	#8-6023-94-006	Black Liquor concentrator No.2 Recovery
O)	#8-6031-95-006	Cascading Crossover Economizer No.2 Recovery
P)	#8-6014-76-006	No.3 Recovery Boiler
Q)	#8-6014-76-006	Modifications to increase efficiency of existing evaporators
R)	#8-6040-95-006	Modification to Packed Bed Scrubber (R-8 Tailgas)
S)	#8-6126-97-986	Gas-Diesel Generators

Certificates of Approval – Water

1) #4-0097-88-947 Wastewater Treatment Facility Consolidated C. of A. July 22nd, 1994

2) #4-0097-88-947 Construction of a Spill Basin (Revision No.1) November 25th, 1994

3) #4-0097-88-947 Collection and Transmission System (Revision No.3) August 24th, 1995

4) #4-0097-88-947 Sludge Handling System (Revision No.5) February 22nd, 1999

5) #4-0097-88-947 Modification to Sewage Works (Revision No.6) February 23rd, 2001

6) #7-0657-85-866 Lake Superior Pump House April 29th, 1986

7) #6260-6BMQUT Terrace Bay Water Treatment Plant May 23rd, 2005

8) #4-0147-97-986 Infiltration Bed January 28th, 1998

9) #4-0101-97-006 Containment Ponds 1997

The latest information regarding the status of C of A's on the mill site appears to be the December 14,2005 MOE inspection report and follow up letter from Mr. M. A. Molinski to Mrs. S. Hakala (contained in Appendix B). According to this correspondence and personal discussions with Mr. M. A. Molinski the mill has all of the required C of A's in place although it has been suggested by Mrs. Hakala that the company should apply for a C of A for the package boiler. This does not appear to be a legal requirement or a non-compliance issue as this piece of equipment clearly falls into the category of being "grandfathered". Over time the MOE staff will most likely try to exert as much pressure as possible on the mill in an attempt to see this happen.

PCB STORAGE AND DISPOSAL

The site has a state of the art PCB storage facility that is a self contained metal clad building with a self contained floor drainage system. The building contains a 25,000 liter steel tank that is isolated behind a concrete containment wall and is used to hold the PCB bearing oil once it is removed from the plant equipment. The building presently contains 10 drained transformers that are ready to be shipped for disposal. The PCB tank contains approximately 22,000 liters of askarel with another, approximate, 2000 liters in 45 USG storage drums. It would appear that a minor amount of storm water is finding its' way under the sheet metal wall and is contributing to the storm water in the self contained drainage system. This is a minor concern other than this water eventually has to either evaporate or get pumped out and disposed of at a licensed facility.

There are still 12 transformers in the mill that are presently operating and contain PCB's (12 in use and 10 in storage awaiting disposal). These transformers will be drained and properly disposed of as they come up for replacement during the normal course of operations. The PCB program appears to be well managed and under control.

HAZARDOUS WASTE DISPOSAL

The site contains a building that is used to store a variety of materials that are classified as being hazardous wastes. This building is an old dry kiln which was part of a past sawmilling complex which no longer exists. The building has a concrete floor with a concrete curbing which makes it secure in the event of a spill. The building contains a 25,000 liter double walled storage tank that is used to store waste oil from various pieces of mobile equipment. It also provides storage for lab chemicals, used batteries and varsol.

This building appears to meet the standards required for this type of storage facility.

MAIN PUMP HOUSE

The main pump house is located on the shore of Lake Superior on the south side of Terrace Bay. This facility provides the main source of supply for both process water in the mill and town water for the municipal water treatment plant. It no longer contains a chlorination system and there is no longer liquid chlorine on site. The building is locked at all time and appears to be relatively secure. The building itself contains non friable asbestos and will require appropriate disposal when removed. The concern with this facility is not from the environmental side but from an operating cost/arrangement perspective.

EMERGENCY PUMP HOUSE

The mill site contains an emergency pump house adjacent to the dam on Hays Lake. The facility contains a large diesel pumping system to supply water to the mill in the event that the main water supply fails. This facility has storage for both diesel oil to run the pumps and chlorine to purify the water. The diesel tanks at the top of the hill and in the building are locked at all times. The tank at the top of the hill is double walled. The chlorine supply area is locked, however there were empty chlorine tanks stored outside awaiting transport. The chlorination system is ready to be decommissioned and removed as it will no longer be used in the future.

The interior of the building has non-friable asbestos on the walls.

BUNKER C PIT AND TANKS

There are two bunker C storage tanks on the north side of the mill. These tanks are filled from a railroad siding adjacent to the tanks and associated steam plant. The steam plant provides steam continuously to warm the bunker C and has a condensate pit beside the building to collect water condensation from the plant.

The MOE has expressed concerns with the offloading, handling and heating system involving bunker C as numerous reportable incidents have originated from this off-loading facility. The tanks have an earth berm around them but are not on an impervious pad. The condensate pit regularly shows evidence of bunker C contamination.

This area appears to be more of an annoyance to the MOE than a real environmental issue, however it is worth examining to see if there are any reasonable solutions to handling the condensate and limiting bunker C contamination and spills.

BOILERHOUSE and RECAUSTIZING DISCHARGE(s)

This area is located on the northeast wall of the mill between the mill and the bunker C tanks. The material deposited here is either ash (from the power boiler) or Lime (CaO), Lime Mud (CaCO3), or Grits (carbon and inert metals) from the kiln and recausticizing areas. While these wastes have an elevated pH, they all have passed both the T-clip and slump tests in the past and therefore can be deposited in the land fill site on the property. The caution on this material is that it is border line in passing the slump test and caution should be used when dealing with it.

STORAGE TANKS

The mill site contains a number of storage tanks above the ground and below the ground. These tanks contain a variety of liquids that are all potentially of concern for environmental reasons. The tanks of most concern are the single walled tanks particularly where they are underground. The concern is undetected leakage and subsequent groundwater contamination.

The double walled tanks have for the most part been discussed in conjunction with other associated equipment or mill systems and this part of the report will only focus on those few remaining tanks that have not been previously discussed. The single largest tank is the 315,000 US gal turpentine tank that is buried on the northeast corner of the mill and stores the byproduct, turpentine until it can be loaded on rail cars for shipment to market. This underground tank is actually an old digester that was decommissioned and put into service as a storage tank. To date there have been no problems with this situation, however monitoring this tank will be critical as the volume of material being stored is of potential concern.

The Hydrogen peroxide tanks, methanol tank and sulphuric acid tank are contained through a concrete spill containment system and pose no real risk of leaking into the environment.

It is possible that there are still underground tanks on the site that remain undetected, however the likelihood of this is fairly remote as the staff have been conscious of this issue for a long period of time and have removed and tested a few underground tanks that have been discovered in the past.

The other area of minor concern is at the airport where the local drag club is presently storing high octane fuel in a haphazard manner behind the company hanger. Most of the 45 gallon drums containing this fuel have been opened and contain partial volumes of liquid. There is a risk that these drums will leak into the soil particularly where they are being stored on their side.

OIL SEEPAGE

The mill site has two areas on the southeast side of the property where there is evidence of oil seepage. The first area is adjacent to beaver creek and has been addressed through the construction of two drainage ponds that collect the oil prior to allowing the water to move downstream. The oil is periodically removed from the pond surface by a pump truck and taken to a licensed disposal facility. These ponds appear to be effective and the MOE has not required further action on this site.

The second site is adjacent to the Aquasabon River downstream from the Hays Lake hydro dam. This pond is not showing any signs of oil seepage and discussions with mill staff indicate that this seepage has most likely dried up and the pond could be decommissioned. This pond also appears to be subject to periodic flooding when the river is in full flow.

STORM WATER

The mill has applied for a C of A for storm water discharge on the southwest side of the facility where it flows into the Aquasabon River. This discharge point drains the chip pad on the south side of the mill property. The other storm water drainage system on the southwest side of the property, which does have a C of A, drains into a weeping tile system which is designed to limit the potential for discharge into the receiving environment. The Stormwater run-off from the eastern portions of the mill and property are collected by the Spills Elimination Basin (SEB) which is eventually pumped into the ASB for secondary treatment.

All of these systems appear to be very low risk and will require minimal monitoring and maintenance.

RADIOACTIVE SOURCES

The mill utilizes a minor amount of radioactive material on site (59 devices in total) in measuring instruments and gauges. This is a very minor risk as these instruments are self contained and are sent back to the manufacturer for appropriate disposal.

LANDFILLS

The mill site contains two recognized landfills on the property. One site – old bark pile, or bark resource pile, is currently in the application process to obtain a landfill C of A (closed site). This site is located on the northwest side of the property a few hundred meters from the mill and has been identified as a concern by the MOE and is presently subject to a closure order by the MOE. It has been sloped and is ready for final cover as per regulated closure plans submitted in the application. The cost of covering this landfill will be in the low six figures ($150,000). This landfill is having little impact on the environment (groundwater is observed as impacted immediately down-gradient of the pile, and several elevated parameters have been observed as being elevated at the lakeshore boundary monitoring wells) and it would be appropriate to work with the MOE to delay the covering process as long as possible in order to try to sell this material where possible and save the cost of coverage.

The newer, active land fill is located further to the northwest and has two large cells that where closed and covered in 1990 and 2004 respectively. The cell that was closed in 2004 has not been successfully revegetated and is exhibiting signs of slumping on the top. This cell will require some mechanical (, improvements/repairs) regarding on the top and the application of additional MTO grass seed mixture. The estimated cost of completing this closure process will be in the range of $30-50,000.

The new landfill also contains an active cell further to the northwest and it is being actively used to receive wood products, and other incidental materials such as ash caustic. This landfill is starting to exhibit minor impacts on the groundwater wells to the west of the site and has started to trigger the contingency plan for some of the wells at the lakeshore boundary wells (cobalt, vanadium, phenol, and iron). Contingency plan sources wells immediately downgradient of the landfill site have been observed to be below trigger levels.. Discussions with the mill staff indicate that there is some ability to review and adjust the triggers that are contained in the C of A as it is felt that they are not appropriate. There are also some mechanical options available that include coverage or partial coverage of the cell to limit infiltration. It is recognized that full coverage would most likely address the concern with leachate but it would also eliminate the opportunity to utilize this landfill. This will be an ongoing concern with this landfill and will require ongoing monitoring for the foreseeable future.

SUMMARY

In summary this site is in very good condition with respect to the environmental situation given the size and type of facility that has been operating on the property for the past six decades. There are obviously a number of areas of concern and some challenges that face the mill with respect to the operating processes and the legislative environment in Ontario. It does not appear that the facility is out of compliance with any existing legislation although future changes to the legislation may prove to be a challenge.

There are a number of unknowns with respect to some of the new legislation that is being contemplated and clearly a number of compounds being produce are not clearly defined or monitored, as this was not a prior requirement. In my opinion there is nothing on this site that is unusual for an operating pulp mill and it is generally in as good or better condition than other facilities in the same industry.

Schedule 5.11
Intellectual Property

None

Schedule 5.14
Insurance

see attached

SCHEULE 5.14

AON

Insurance Brokers
Risk Consultants

CERTIFICATE OF INSURANCE

TO: Nexcap Finance Corporation
Suite 504 - 5420 North Service Road
Burlington, ON L7L 6C7

This is to Certify that Insurance as described hereunder has been arranged for the Insured named herein on whose behalf Certificate is executed and we hereby certify that such insurance is in full force and effect.

INSURED:	TERRACE BAY PULP INC.
ADDRESS:	21 Mill Road, Terrace Bay, ON P0T 2W0
TYPE OF INSURANCE:	Property / Boiler & Machinery / Business Interruption
INSURER(S):	FM Global
POLICY NUMBER:	SU174
TERM:	August 29, 2006 to December 31, 2007
LIMIT(S) OF LIABILITY:	$1,000,000,000.00 Blanket Limit of Liability with respect to Property / Boiler & Machinery and Business Interruption covering all properties owned by the Named Insured.

SPECIAL CONDITIONS APPLICABLE TO ADDRESSEE:

Loss Payable: Loss, if any, is payable to:
- Nexcap Finance Corporation or its assignees in connection with a loan transaction, as their interests may appear

INSURANCE PROVIDED IS SUBJECT TO THE TERMS, CONDITIONS AND EXCLUSIONS OF THE APPLICABLE POLICY.

AON REED STENHOUSE INC.
Greg Smeall

DATE: July 24, 2007
/13

AON

Insurance Brokers
Risk Consultants

CERTIFICATE OF INSURANCE

TO: Nexcap Finance Corporation
Suite 504 - 5420 North Service Road
Burlington, ON L7L 6C7

This is to Certify that Insurance as described hereunder has been arranged for the Insured named herein on whose behalf Certificate is executed and we hereby certify that such insurance is in full force and effect.

INSURED:	TERRACE BAY PULP INC.
ADDRESS:	21 Mill Road, Terrace Bay, ON P0T 2W0
TYPE OF INSURANCE:	Contractors Equipment
INSURER(S):	Continental Casualty Company
POLICY NUMBER:	MP/S-RW 7632
TERM:	August 29, 2006 to December 31, 2007
LIMIT(S) OF LIABILITY:	- $4,000,000.00 any one Loss, Casualty or Disaster on all Equipment owned by the Insured or property of others for which the Insured has assumed responsibility or which the Insured may be legally liable, while situate in policy territory including while in transit. - $150,000.00 any one Loss, Casualty or Disaster on all Equipment while waterborne.

SPECIAL CONDITIONS APPLICABLE TO ADDRESSEE:

Loss Payable: Loss, if any, is payable to:
- Nexcap Finance Corporation or its assignees in connection with a loan transaction, as their interests may appear

INSURANCE PROVIDED IS SUBJECT TO THE TERMS, CONDITIONS AND EXCLUSIONS OF THE APPLICABLE POLICY.

AON REED STENHOUSE INC.

Greg Stmssell

DATE: July 24, 2007
/14

Aon Reed Stenhouse Inc.
One Lombard Place • Suite 1800 • Winnipeg, Manitoba R3B 2A3
tel: (204) 956-1070 • fax: (204) 956-2148 • website: www.aon.ca

AON

Insurance Brokers
Risk Consultants

July 25, 2007

TO WHOM IT MAY CONCERN

Re: **Terrace Bay Pulp Inc.**
Property Insurance Policy No. SU174
August 29, 2007 - December 31, 2007

Please accept this letter as confirmation that all premiums under the subject policy have been paid in full for the policy period and remitted to the Insurer, in accordance with policy conditions.

Please contact our office if you have any questions.

Yours truly,

G.A. Mussell, B.Sc., A.I.I.C.
Senior Vice-President

GAM/cd

Aon Reed Stenhouse Inc.
One Lombard Place • Suite 1800 • Winnipeg, Manitoba R3B 2A3
tel: (204) 956-1070 • fax: (204) 956-2148 • website: www.aon.ca

Schedule 5.21
Material Contracts

NKC Contract

<u>Schedule 7.2</u>
<u>Permitted Indebtedness</u>

None

Schedule 7.3
Permitted Liens

1.	File Number:	616818447
	Registration Number:	20050708 1447 1530 5075
	Debtors:	Neenah Paper Company of Canada and Neenah Paper, Inc. and Terrace Bay Pulp Inc.
	Secured Party:	GMAC Leaseco Corporation
	Security:	2005 Chevrolet Equinox 2CNDL23F156154599
2.	File Number:	634468275
	Registration Number:	20070418 1943 1531 9387
	Debtor:	Terrace Bay Pulp Inc.
	Secured Party:	Citicorp Vendor Finance, Ltd.
	Security:	2007 Toyota 7FGU24 84961 2007 Toyota 7FGU25 84969

Schedule 7.6
Contingent Obligations

(a) The Borrower or any of its Subsidiaries may enter into guarantees otherwise permitted under Section 7.2 hereof.

(b) The Borrower and its Subsidiaries may endorse cheques for collection in the Ordinary Course of Business.

(c) Contingent Obligations of the Borrower or any of its Subsidiaries, incurred in the Ordinary Course of Business with respect to surety and appeal bonds, performance bonds and other similar obligations.

(d) Ordinary Contingent Obligations of the Borrower or any of its Subsidiaries arising under indemnity agreements to title insurers to cause such title insurers to issue to the Agent title insurance policies.

(e) Borrower has contingent liability (as an Indemnitor) under Asset Purchase Agreement between Neenah Paper Inc. and Neenah Paper Company of Canada Inc. and Eagle Logging Inc. related to Woodlands purchase.

Exhibit A
Form of Borrowing Certificate

BORROWING CERTIFICATE

This Borrowing Certificate (this "**Certificate**") is given on behalf of Terrace Bay Pulp Inc. (the "**Borrower**"), pursuant to clause (a)(iv) of Exhibit C-1 of that certain Credit Agreement dated as of July 26, 2007 among the Borrower, Nexcap Canada Inc. (the "**Lender**") and Nexcap Finance Corporation in its capacity as administrative agent for the Lender (as amended, modified, supplemented or restated from time to time, the "**Credit Agreement**"). Capitalized terms used herein without definition shall have the meanings set forth in the Credit Agreement.

I, , a senior officer of the Borrower, hereby represent, warrant and certify for and on behalf of the Borrower and not in my personal capacity that:

1. Attached hereto is the Borrowing Base Certificate as to the calculation of the Borrowing Base therein stated as of the close of business on the date set out therein.

2. The Borrowing Base Certificate is a true and correct statement of and the information contained herein is true and correct in all respects and the amounts reflected herein are in compliance with the provisions of the Credit Agreement.

3. The undersigned further represents and warrants on behalf of the Borrower that there is no Event of Default and all representations and warranties contained in the Credit Agreement and the other Loan Documents are true and correct as of the date of this Borrowing Certificate, except to the extent that such representations and warranties expressly relate to an earlier date. The undersigned understands that the Lender will extend and credit facilities in reliance upon the information contained herein. In the event of a conflict between the summary of eligibility criteria and in the Borrowing Base Certificate and the Credit Agreement, the Credit Agreement shall govern.

DATED the day of , 20 .

Name:

Annex 1 - Borrowing Certificate
Borrowing Base Certificate

see attached

Terrace Bay Pulp Inc.
Borrowing Base Calculation
As at June 30, 2007

		Supported by BLS	Unsupported by BLS
Accounts receivable	Balance ($US) per aged trial balance	$0	$0
	Amounts ($US) outstanding > 59 days	0	0
	Net balance ($US)	$0	$0
	Exchange rate at month-end	0.0000	0.0000
		$0	$0
Less:	Amounts subject to priority claim	0	0
	Intercompany amounts receivable	0	0
	Eligible accounts receivable	$0	$0
	Advance rate	85.00%	70.00%
	Available Eligible AR	**$0**	**$0**
Finished goods inventory	Balance per financial statements	$0	
	Advance rate	60.00%	
	Available Eligible FG Inventory	**$0**	
Wood fibre supplies inventory	Logs - balance per financial statements	$0	
	Chips - balance per financial statements	0	
	Total fibre supplies inventory	$0	
	Facilities cap	12,000,000	
	Eligible wood fibre supplies inventory	0	
	Advance rate	50.00%	
	Available Eligible WFS Inventory	**$0**	
Refundable taxes	GST receivable	$0	
	Due from MNR	0	
	Eligible refundable taxes	$0	
	Advance rate	90.00%	
	Available Eligible Refundable Taxes	**$0**	
Summary	Available Eligible AR	$0	
	Available Eligible FG Inventory	0	
	Available Eligible WFS Inventory	0	
	Available Eligible Refundable Taxes	0	
	Total Eligible Amounts	$0	
	Facility Cap	$25,000,000	
	Excess (Insufficient) Eligible Amount	($25,000,000)	

Dated this ________ day of ________________, ______________.

Terrace Bay Pulp Inc.

____

Taras Sawula CA, Treasurer

Exhibit B-1
Financial Covenants

1. *Minimum Cash On Hand.* The Borrower will at all times maintain Cash and Cash Equivalents of not less than Five Million Dollars ($5,000,000).

2. *Minimum Net Working Capital.* The Borrower will at all times maintain a Minimum Net Working Capital, Working Capital being net current assets less net current liabilities, in an amount of not less than Twenty Million Dollars ($20,000,000).

3. *Minimum Current Ratio.* The Borrower will at all times maintain a Minimum Current Ratio, being the ratio of current assets to current liabilities of not less than 2.0:1

4. *Interest Coverage Ratio.* The Borrower will at all times maintain an Interest Coverage Ratio, being the ratio of EBITDA to Total Interest Expense, in each fiscal quarter, of not less than 2.0:1, at all times, tested on a rolling basis as being met over six (6) consecutive fiscal quarters.

5. *Total Debt Ratio.* The Borrower will maintain at all times a ratio of Total Debt to the sum of Total Debt and Tangible Equity, expressed as a percentage, of not more than sixty-seven (67%) percent, in respect of the fiscal year ending April 30, 2008, sixty (60%) percent in the respect of the following fiscal year and fifty-five (55%) percent at all times thereafter, measured in each case at the end of the fiscal year in question.

6. *Permitted Distributions.* The Borrower will not at any time make any Restricted Payment except a Permitted Distribution.

7. *Capital Expenditure.* The Borrower will not incur expansionary Capital Expenditures other than:

a, Strategic Capital Expenditures that are funded solely from Cash Reserves or the proceeds of the issuance of Capital Stock or, if funded through internally generated cash flows, are included in the calculation of Fixed Charges and are included in the Fixed Charge Coverage Ratio;

b. funded by Permitted Indebtedness pursuant to Section 7.2(c); or

c. Maintenance Capital Expenditures.

The foregoing covenants will be determined on an unconsolidated basis.

"<u>Cash Reserves</u>" means Cash held by the Borrower in segregated reserve accounts domiciled in Canada, which is to be used to fund Strategic Capital Expenditures and/or Permitted Distributions.

"EBITDA" means, for any relevant period, an amount equal to the Borrower's net income or net loss for the period;

(a) plus amounts deducted in calculating net income or net loss in respect of depreciation and amortization and other non-cash expenses;

(b) plus total interest expense on Total Debt and other financing costs;

(c) plus amounts deducted in calculating net income or net loss in respect of income taxes, whether or not deferred;

and excluding:

(d) any gains or loss attributable to the sale, conversion or other disposition of assets (excluding sales of inventory in the ordinary course);

(e) gains resulting from the write-up of assets and losses resulting from the write-down of assets;

(f) any gain or loss on the repurchase or redemption of any securities (including in connection with the early retirement or defeasance of any indebtedness);

(g) any unrealized gain or loss relating to interest rate or currency hedging agreements;

(h) any other extraordinary, non-recurring or unusual item; and

(i) amounts attributable to companies other than the Borrower or to minority interests in subsidiaries of the Borrower,

all of which shall be calculated in accordance with GAAP applied on a consistent basis unless otherwise expressly described.

"Fixed Charge Coverage Ratio" means, at any time, the ratio calculated by dividing (i) the aggregate of EBITDA for the Borrower's four most recently completed fiscal quarters by (ii) Fixed Charges for that period.

"Fixed Charges" means, for any particular period, the sum of total cash interest expense (net of interest income), cash taxes (paid net of tax refunds), Permitted Distributions, Capital Expenditures described in clauses 7.a and 7.b.ii of this Exhibit B-1, Strategic Capital Expenditures that are not funded from Cash Reserves or the proceeds of the issuance of Capital Stock, scheduled principal payments of Total Debt made or required to have been made during such period by the Borrower, determined in accordance with generally accepted accounting principles.

"Maintenance Capital Expenditures" means capital expenditures necessary to sustain business operations of the Borrower and its respective wholly-owned subsidiaries, which are funded in the relevant fiscal year.

"Permitted Distributions" shall mean:

(a) the reimbursement of proper and reasonable expenses incurred on behalf of such Person in the ordinary course of business,

(b) regular salaries to employees paid in the ordinary course of business at rates not exceeding the fair value of the service provided and not exceeding the amounts provided therefor in the Annual Business Plan as provided to by the Agent,

(c) dividends or other distributions in respect of Capital Stock to the immediate parent of the Borrower; provided that:

(A) the Fixed Charge Coverage Ratio at that time is greater than or equal to 4.00:1,

(B) no Default has occurred or would occur as a result of making such distribution; and

(C) if at the time of such distribution, the Fixed Charge Coverage Ratio is less than 5.50:1 but greater than 4:00:1, the maximum amount of distribution under this clause (c) shall not exceed 50% of net income of the Borrower during the period of calculation of the said ratio.

The Borrower shall give the Agent reasonable advance notice of any proposed distribution pursuant to this clause (c) and shall demonstrate to the satisfaction of the Agent that the distribution would have been in pro forma compliance with the above conditions if made on the last day of the period covered by the Borrower's most recent compliance certificate, excluding any distribution made in the first fiscal quarter of the calculation period.

"Strategic Capital Expenditures" means Capital Expenditures other than Maintenance Capital Expenditures, which are financed by cash or equity contributions held in Cash Reserves .

"Tangible Equity" of any Person at any time means the aggregate of amounts in respect of:

(a) amounts paid upon issued and outstanding Capital Stock,

(b) contributed surplus, and

(c) retained earnings,

less the aggregate of:

(d) any amount due to such Person from any director, officer, shareholder, Affiliate or Person not dealing at arm's length with such Person,

(e) the amount of any investments in Affiliates other than Subsidiaries; and

(f) intangible assets including goodwill, franchises, copyrights, trademarks and patents,

determined on a consolidated basis.

"Total Debt" means obligations of the Borrower in respect of indebtedness for borrowed money or that is evidenced by bonds, debentures, notes or other similar instruments, the face amount of all bankers acceptances and similar instruments, all liabilities upon which interest charges are customarily paid, capital lease obligations, synthetic lease obligations and deferred purchase money obligations, contingent liabilities in respect of letters of credit, letters of guarantee and similar instruments, capital stock which is retractable at the option of the holder, contingent liabilities required to be treated as a liability on a balance sheet of the Borrower in accordance to GAAP and contingent liabilities under any guarantee of any of the foregoing, but excluding operating leases and trade payables arising in the ordinary course of business. For greater certainty, Total Debt includes inter alia, the aggregate principal amount outstanding under the Loan plus any subordinated debt.

"Total Interest Expense" means, for any relevant period, without duplication, the aggregate expense incurred by the Borrower for interest and equivalent costs of borrowing, including but not limited to (a) bankers' acceptance fees and letter of credit commissions, (b) discount on bankers' acceptances, (c) the interest portion of any capital lease, (d) net payments under interest rate swap transactions, and (e) all fees and other compensation paid to any person that has extend credit to the Borrower, (other than upfront fees, and agency fees paid in connection with the Loan and reimbursement of expenses or third party fees and costs), in each case whether or not actually paid. In all cases, interest income earned by the Borrower will be deducted from the Total Interest Expense calculation.

Exhibit B-2
Form of Compliance Certificate

Date: ___________, ________.

This Compliance Certificate (this "**Certificate**") is given by Terrace Bay Pulp Inc. (the "**Borrower**"), pursuant to the Credit Agreement dated as of July 26, 2007 among the Borrower, Nexcap Finance Corporation in its capacity as administrative agent for the Lenders (in such capacity, the "**Agent**") and the Lenders from time to time party thereto (as amended, modified, supplemented or restated from time to time, the "**Credit Agreement**"). Capitalized terms used here in without definition shall have the meanings set forth in the Credit Agreement.

The officer executing this Certificate is the ____________________ of the Borrower, and as such is duly authorized to execute and deliver this Certificate on behalf of the Borrower. By so executing this Certificate, the Borrower hereby certifies to the Lender Parties that:

(a) the financial statements delivered with this Certificate comply with all requirements of Section 6.1(a) of the Credit Agreement;

(b) the Borrower has reviewed the relevant terms of the Loan Documents and the condition of the Borrower and their subsidiaries;

(c) the Borrower are in compliance with all financial covenants set forth on Exhibit B-1 to the Credit Agreement, as demonstrated by the calculations of such covenants set forth in the Excel spreadsheets attached hereto;

(d) no Default or Event of Default exists, except as set forth on Schedule 1 hereto, which includes a description of the nature and status and period of existence of such Default or Event of Default, if any, and what action the Borrower have taken, and are undertaking and proposes to take with respect thereto;

(e) [**for Closing**] to the best of the knowledge of the signatory hereto, the Closing Conditions set out in Exhibit D of the Credit Agreement have been satisfied; and

(f) the representations and warranties contained in the Credit Agreement and the other Loan Documents are true, correct and complete in all material respects on and as of the date hereof to the same extent as though made on and as of the date hereof, except to the extent such representations and warranties specifically relate to an earlier date, in which case such representations and warranties were true, correct and complete in all material respects on and as of such earlier date.

IN WITNESS WHEREOF, the Borrower has caused this Certificate to be executed by the ______________________________ of the Borrower this _____ day of ____________, 20__.

TERRACE BAY PULP INC.

By: ______________________________
Name: ______________________________
Title: ______________________________

[Attach calculation sheet]

Exhibit C-1
Reporting Requirements

(a) **Financial Reports.** The Borrower shall furnish to the Agent in each case by electronic (Excel) or other spreadsheet programs acceptable to the Agent:

(i) as soon as available and in any event within ninety (90) calendar days after the end of each fiscal year of the Borrower audited consolidated financial statements of the Borrower including the notes thereto, consisting of a consolidated balance sheet at the end of such fiscal year and the related consolidated statements of income, retained earnings and cash flows and owners' equity for such fiscal year, which financial statements shall be prepared by and accompanied by a certificate and an opinion of any "Big Four" or any other nationally recognized chartered accounting firm satisfactory to the Agent in its Permitted Discretion (including BDO Dunwoody) (which opinion shall be without (1) a "going concern" qualification, (2) any qualification or exception as to the scope of such audit and (3) any qualification which relates to the treatment or classification of any item and which, as a condition to the removal of such qualification, would require an adjustment to such item, the effect of which would be to cause any non-compliance with the provisions of Exhibit B-1), and which opinion shall state that such financial statements present fairly in all material respects the financial position for the periods indicated in conformity with GAAP applied on a basis consistent with prior years (or identifying deviations therefrom in conformity with GAAP);

(ii) as soon as available and in any event within thirty (30) calendar days after the end of each quarter of each fiscal year, unaudited unconsolidated financial statements of the Borrower and each Subsidiary, consisting of a balance sheet and statements of income, retained earnings and cash flows and owners' equity as of the end of such calendar month, all certified on behalf of the Borrower by a Responsible Officer as being complete and correct and fairly presenting, in accordance with GAAP, the financial position and the results of operations of the Borrower, subject to normal year-end adjustments and the absence of footnote disclosure, but including any Mark-to-Market Exposure, if any;

(iii) as soon as available and in any event within fifteen (15) calendar days after the end of each month, unaudited unconsolidated financial statements of the Borrower and each Subsidiary, consisting of a balance sheet and statements of income, retained earnings and cash flows and owners' equity as of the end of such calendar month, all certified on behalf of the Borrower by a Responsible Officer as being complete and correct and fairly presenting, in accordance with GAAP, the financial position and the results of operations of the Borrower, subject to normal year-end adjustments and the absence of footnote disclosure;

(iv) as soon as available and in any event within fifteen (15) calendar days after the end of each calendar month (or more frequently upon the request of the Agent), a Borrowing Base Certificate substantially in the form set out in Exhibit A accompanied by a separate detailed aging and categorization of the Borrower's Accounts, inventory and accounts payable and such other supporting documentation with respect to the figures and information in the Borrowing Base Certificate as the Agent shall request in its Permitted Discretion.

All such financial statements shall be prepared in accordance with GAAP consistently applied with prior periods (subject to Article 1 of this Agreement and subject, as to interim statements, to normal year-end adjustments, but including footnote disclosure, all in conformity with GAAP). Each quarter, the Borrower also shall deliver to the Agent (i) a completed Compliance Certificate certified on behalf of the Borrower by a Responsible Officer.

(b) **Other Materials.** The Borrower shall furnish to the Agent:

(i) concurrently with the delivery of annual (or if indicated monthly or quarterly) financial statements pursuant to clause (a) above:

(1) a report listing and describing material details about any and all new Material Contracts entered into by the Borrower during the preceding fiscal year that are material to its Business;

(2) with the monthly financial statements an operating report in a form provided to its directors;

(3) with the monthly financial statements a report specifying all unpaid amounts, fees, payables and balances owing to any Governmental Authority (other than for taxes) as of the last day of such ended fiscal year or quarter;

(4) with the monthly financial statements, the Borrowing Base calculations in respect of that month;

(5) with the quarterly financial statements, the compliance certificate;

(6) with the quarterly financial statements, a utilization report in the form presented to the Agent prior to the date hereof;

(7) the Borrower will, contemporaneously with the delivery of the annual financial statements as required hereunder, provide to the Agent, for the Lenders, a

reconciliation of the financial results for the then applicable fiscal year to the annual budget of the Borrower which was provided to the Agent, for the Lenders, for such year.

(ii) as soon as available, and in any event within ten (10) calendar days after the preparation, receipt or issuance thereof or request by the Agent therefor, as applicable:

(1) copies of any reports submitted to the Borrower by their accountants in connection with any interim audit of the books of such Person and copies of each management control letter provided by such accountants; and

(2) such additional information, documents, statements, reports and other materials as the Agent may reasonably request from time to time in its discretion, including with respect to LSH; provided if such information or materials cannot reasonably be prepared and provided within such ten (10) day period, then within such further period of time as is reasonable given commercially reasonable efforts to prepare and deliver; and

(3) evidence of compliance with the insurance requirements of this Agreement, no later than 5 days after renewal of applicable policies.

(c) **Notices.** The Borrower shall promptly, and in any event within (x) with respect to notices delivered pursuant to clause (ii) below, five (5) Business Days; and (y) with respect to all other notices delivered pursuant to this clause, ten (10) Business Days after the Borrower or any Responsible Officer of the Borrower obtains knowledge thereof, notify the Agent in writing of:

(i) any pending or threatened litigation, suit, investigation, arbitration, enforcement action, dispute resolution proceeding or administrative or regulatory proceeding brought or initiated by or against the Borrower or otherwise affecting or involving or relating to the Borrower or the Borrower's Property to the extent (A) the amount in controversy exceeds One Hundred and Twenty Five Thousand Dollars ($125,000) individually or Two Hundred and Fifty Thousand Dollars ($250,000) in the aggregate for all such events or (B) to the extent any of the foregoing seeks injunctive relief against a Credit Party;

(ii) the occurrence or existence of any Default or Event of Default, which notice shall specify the nature, status and period of existence thereof and the actions proposed to be taken with respect thereto;

(iii) any other development, event, fact, circumstance or condition that reasonably could be expected to result in a Material Adverse Effect, in each case describing the nature and status thereof and the actions proposed to be taken with respect thereto;

(iv) any matter(s) in existence at any time adversely affecting the value, enforceability or collectibility of any of the Collateral;

(v) to the extent not duplicative of deliveries made hereunder, any notice of default or acceleration received by the Borrower from any lender of any the Borrower with respect to Indebtedness in excess of Two Hundred and Fifty Thousand Dollars ($250,000), together with copies thereof, as applicable;

(vi) (A) the receipt of any notice or request from any Governmental Authority regarding any liability or claim of liability in the amount equal to or exceeding One Hundred and Twenty Five Thousand Dollars ($125,000) individually or Two Hundred and Fifty Thousand Dollars ($250,000) in the aggregate or (B) any action taken or threatened to be taken by any Governmental Authority (or any notice of any of the foregoing) with respect to the Borrower which reasonably could be expected to result in a Material Adverse Effect;

(vii) receipt or giving of any notice by the Borrower regarding termination by the landlord for default by the Credit Party of any lease of real property (other than by expiration of the term) or the termination or resignation of any director or any of the Chief Executive Officer, the Chief Financial Officer, the President or any Vice-President or other officer, or the loss, termination or expiration of any Material Contract to which the Borrower is a party or by which its properties or assets are subject or bound;

(viii) the filing, recording or assessment of any federal, local or foreign tax Lien against any Collateral or the Borrower;

(ix) a copy of any amendment to any Material Contract or to any agreement with an Affiliate of the Borrower and a copy of any new Material Contract or any such other agreement; and

(x) the creation, establishment or acquisition of any Subsidiary or the issuance by the Borrower of any Capital Stock.

Each notice in accordance with the foregoing shall be accompanied by a written statement by a Responsible Officer on behalf of the Borrower setting forth details of the occurrence referred to therein.

(d) **Operating Budget and Projections; Updates.** The Borrower shall furnish to the Agent on or prior to the Closing Date (other than with respect to the following clause (ii)) and for each fiscal year of the Borrower thereafter within sixty (60) calendar days before the commencement of such fiscal year, (i) consolidated and consolidating month by month projections of profit and loss statements, balance sheets and cash flow statements of and for the Borrower for such upcoming fiscal year (including a profit and loss statement for and a balance sheet as at the end of each such month), and annual projections for the fiscal years then remaining in the Term, in each case prepared in accordance with GAAP consistently applied with prior periods (subject to normal year-end adjustments and the absence of footnote disclosure), and (ii) revisions of and supplements to the disclosure schedules to the Loan Documents to the extent necessary to disclose new or changed facts or circumstances after the Closing Date; provided, that delivery or receipt thereof by the Agent shall not constitute a waiver by the Agent or any Lender or a cure of any Default or Event of Default resulting in connection with the matters so disclosed.

(e) **Shareholder/Equity Holder Reports and Government Filings.** The Borrower shall furnish to the Agent, concurrently with the sending or filing thereof, copies of all proxy statements, financial statements and reports which the Borrower has made available generally to its shareholders or other equity owners as a class or any class or series of shareholders or other equity owners as a class or series, and copies of all regular, periodic and special reports, financial statements or registration statements which the Borrower files with any securities commission, any stock exchange or any Governmental Authority.

Exhibit C-2
Collateral Reporting and Other Requirements

(a) **Collateral Reporting.** The Borrower shall:

(i) provide the Agent with not less than fifteen (15) days' prior written notice of any change in the Borrower's legal name, organizational identification number, if any, chief place of business or chief executive office, corporate or organizational form or jurisdiction of organization, or of any new jurisdiction of location for any of its Property, or any other changes to the information set forth on Schedule 5.4;

(ii) notify the Agent promptly (and in any event not less than three (3) Business Days prior to the event) in writing (A) prior to any change in the proposed use by the Borrower or Subsidiary of any trade name or fictitious business name and (B) upon obtaining knowledge that any application or registration relating to any Intellectual Property (whether now or hereafter existing) may become abandoned or dedicated, or of any adverse determination or development (including the institution of, or any such determination or development in, any proceeding in the Canadian Patent and Trademark Office, the Canadian Copyright Office or any court) regarding the Borrower's or Subsidiary's ownership of any Intellectual Property, its right to register the same, or to keep and maintain the same;

(iii) upon acquiring or receiving any of the same, deliver and pledge to the Agent any and all Instruments, Documents of Title, Chattel Paper and certificated Securities (as such terms are defined in the PPSA) (or Capital Stock) (accompanied by stock powers executed in blank) duly endorsed and/or accompanied by such instruments of assignment and transfer executed by such Person in such form and substance as the Agent may request; provided, that so long as no Event of Default shall have occurred, the Borrower or Subsidiary may retain for collection in the Ordinary Course of Business any Instruments, Documents of Title, Chattel Paper and certificated Securities received by such Person in the Ordinary Course of Business; provided, further, that if any the Borrower or Subsidiary retains possession of any Instruments, Documents of Title, Chattel Paper or certificated Securities pursuant to the terms hereof, each such Instrument, Document of Title, Chattel Paper and certificated Security shall be marked with the following legend: "This writing and the obligations evidenced or secured hereby are subject to the security interest of Nexcap Finance Corporation, as Agent, as secured party, for the benefit of certain Lender Parties";

(iv) deliver to the Agent an updated Schedule 5.4 within five (5) Business Days following each fiscal quarter of the Borrower in which any material change was made thereto;

(v) prior to the Borrower opening any new deposit or securities accounts, the Borrower shall give the Agent not less than three (3) Business Days' prior written notice of its intention to do so and shall deliver to Agent a listing and description of such accounts;

(vi) advise the Agent promptly (and in any event within three (3) Business Days of obtaining knowledge thereof), in reasonable detail, (A) of any Lien (other than a Permitted Lien) or claim made or asserted against a material part of the Collateral, and (B) of the occurrence of any other event which could reasonably be expected to have a Material Adverse Effect on the Liens created hereunder or under any other Loan Document; and

(vii) if requested by the Agent but not to exceed one request per year, provide the Agent a certificate of good standing from its jurisdiction of incorporation, formation or organization.

(b) **Accounts and Inventory Covenants**

(i) The Borrower shall, and shall cause each of its Subsidiaries to, notify Agent in reasonable detail within five (5) Business Days following the occurrence of: (A) such Person's receipt of any material adverse information relating to the financial condition of any Account Debtor, and (B) any event or circumstance which, to the best of such Person's knowledge, would cause the Agent to consider any then existing Accounts as ineligible. No credit, discount, allowance or extension or agreement for any of the foregoing shall be granted to any Account Debtor without the Agent's consent, except in the Ordinary Course of Business and as set forth in the Borrowing Certificate delivered to the Agent. The Borrower shall settle, adjust or compromise any claim, offset, counterclaim or dispute with any Account Debtor, provided that during the existence of an Event of Default, Agent shall, upon notice to the Borrower, have the exclusive right (but not the obligation) to settle, adjust or compromise any claim, offset, counterclaim or dispute with Account Debtors or grant any credits, discounts or allowances. At any time that an Event of Default exists, the Borrower shall execute and deliver to the Agent formal written assignments of all of their respective Accounts as the Agent may request, including all Accounts created since the date of the last assignment, together with copies of claims, invoices and/or other information related thereto.

(ii) With respect to each Account: (A) the amounts shown on any invoice or Borrowing Certificate delivered to the Agent shall be true and complete, (B) no payments shall be made thereon except pursuant to the terms of this Agreement, (C) with respect to any Eligible Receivable, there shall be no setoffs, deductions, defences, counterclaims or disputes except as reported to the Agent in the applicable Borrowing Certificate, and (D) none of the transactions giving rise thereto will violate any Applicable Law, and all documentation relating thereto will be legally sufficient and enforceable.

(iii) The Agent and its nominees shall have the right, to verify the validity, amount or any other matter relating to any Accounts or other Collateral.

Exhibit D
Closing Conditions

(a) The Agent shall have received the Loan Documents executed by the Borrower and the other parties thereto;

(b) The Agent shall have received (i) PPSA, pending suit and judgment lien searches as requested by the Agent, which shall show no Liens on the Collateral (other than Permitted Liens and Liens to be terminated at Closing), (ii) evidence of the filing, registration and recording, as applicable, of any PPSA financing statement required to create and perfect, in favour of the Agent, for the benefit of the Lender Parties, a first priority Lien upon the Collateral, subject only to Permitted Liens, and (iii) evidence of each such filing and of the payment by the Borrower of any necessary fee, tax or expense relating thereto;

(c) The Agent shall have received:

(i) a guarantee or other instrument, in form satisfactory to the Lenders in their sole discretion, from Buchanan Lumber Sales Limited, guaranteeing or otherwise assuring the payment of all of the Borrower's pulp accounts receivable within 90 days of the date of shipment,

(ii) a comfort letter from LSH to fund losses and cure financial covenant deficiencies if required by the Lenders and/or the Agent,

(iii) a Borrowing Certificate as of June 30, 2007, setting forth the Borrowing Base as of Closing, together with a list of Aged Accounts Receivable as at Closing (which confirms that the Aged Accounts Receivable at Closing are substantially similar to those as at June 30th 2007)

(iv) a Compliance Certificate as of Closing,

(v) in respect of Eligible Inventory which the Borrower has included in the Borrowing Base Certificate delivered at Closing, the documents mentioned in clause (f) of the definition of Eligible Inventory.

(d) The Agent shall have received (i) the Charter and Good Standing Documents, (ii) a certificate executed by a Responsible Officer of the Borrower, dated the Closing Date, as to the incumbency and signature of the Persons executing the Loan Documents on behalf of the Borrower and (iii) the written legal opinions of counsel and/or special counsel for the Borrower;

(e) The Agent shall be satisfied with all corporate and other proceedings, documents, instruments and other legal matters in connection with the transactions contemplated by the Loan Documents (including, but not limited to, those relating to corporate and capital structures of the Borrower), and shall have received such consents, approvals and agreements from such third parties as Agent and its counsel shall determine in their Permitted Discretion are necessary or desirable;

(f) The Agent shall have received the certificates of insurance with respect to all required insurance policies (or other evidence of insurance satisfactory to the Agent), and confirmation that such policies are in effect and that the premiums then due and owing with respect thereto have been paid in full, which policies shall name the Agent, for the benefit of the Lender Parties, as beneficiary, loss payee or additional insured, as applicable;

(g) The Agent is satisfied that all necessary authorizations by Governmental Authorities (including under Environmental Laws) in connection with the properties and operations of the Borrower have been obtained.

(h) The Agent shall have received (or shall receive simultaneously with the funding of the Loan, as applicable) all fees, charges and expenses due and payable to the Agent and the Lenders on or prior to the Closing Date pursuant to the Loan Documents.

(i) The Agent shall have received true copies of all Material Contracts on terms satisfactory to the Agent;

(j) No Material Adverse Effect shall have occurred with respect to the Business as previously conducted by the Borrower since April 30, 2007;

(k) The Agent and the Lenders shall have completed their due diligence examinations of the Borrower, including, without limitation, (i) examination of the Collateral and its financial due diligence, (ii) an examination of the terms and conditions of all obligations owed by the Borrower deemed material by the Agent and the Lenders, the results of which shall be satisfactory to the Agent and the Lenders, and (iii) customer reference checks and calls, credit checks and background checks with respect to the relevant key management and principals of the Borrower;

(l) The Agent and the Lenders shall have received and be satisfied with all non-compete and non-solicitation contracts with key management employees;

(m) The Lenders, acting reasonably, are satisfied with the terms, conditions, security, priority, and agreements as to subordination, or otherwise, as to any indebtedness permitted to the Borrower by the terms of this Agreement;

(n) The Lenders will have been provided with, and are satisfied with, a review of legal counsel appointed by the Lenders, including specifically therewith opinions and certificates, providing for disclosure to a due diligence standard, confirming that the Borrower, are not subject to any active or potential adverse claims, of any nature or kind;

(o) The Agent shall have received all documents evidencing Permitted Indebtedness and agreements constituting Permitted Liens and shall be satisfied with the terms thereof.