Court File No. CV-09-8247-00CL

ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST

IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*, R.S.C. 1985, c. C-36, AS AMENDED

AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF GRANT FOREST PRODUCTS INC., GRANT ALBERTA INC., GRANT FOREST PRODUCTS SALES INC. and GRANT U.S. HOLDINGS GP

Applicants

MOTION RECORD
(returnable November 16, 2011)

October 3, 2011

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Applicants

NOTICE OF MOTION

THE TORONTO-DOMINION BANK (the **"First Lien Lenders' Agent"**) will make a motion which will be heard by Mr. Justice Campbell on November 16, 2011 at 10:00 a.m., or as soon after that time as the motion can be heard, at 330 University Avenue, Toronto, Ontario.

PROPOSED METHOD OF HEARING: The motion is to be heard orally.

THE MOTION IS FOR AN ORDER:

1. Declaring that interest payable pursuant to section 4.05(2) of the First Lien Credit Agreement (as defined below) remains owing to the First Lien Lenders under and pursuant to the First Lien Credit Agreement and has not been irrevocably paid in full;

2. Declaring that interest calculated pursuant to section 4.05(2) of the First Lien Credit Agreement is a valid and enforceable obligation of the Borrowers (as defined in the First Lien Credit Agreement);

3. Directing the Monitor, pursuant to the order of this Court made on June 4, 2010 (the "**Distribution Order**"), to distribute sufficient cash or cash equivalents from the proceeds received or realized in these proceedings to the First Lien Lenders' Agent to satisfy all obligations owing to the First Lien Lenders including interest calculated pursuant to section 4.05(2) of the First Lien Credit Agreement and their costs of these proceedings and this motion on a full indemnity basis;

4. In the alternative, declaring that any amounts distributed to the Second Lien Lenders' Agent (as defined below) and/or any Second Lien Lender from the Proceeds (as defined in the Distribution Order) must be held in trust for the First Lien Lenders and turned over to the First Lien Lenders' Agent for irreversible distribution to the First Lien Lenders; and

5. such further and other relief as this Honourable Court considers just.

THE GROUNDS FOR THE MOTION ARE:

Background

1. The Applicants, together with affiliates and subsidiaries (the "**Grant Group**"), manufactured, sold and distributed oriented stand board ("**OSB**") from facilities located in Canada and the United States.

2. The Grant Group included Grant Forest Products Inc. ("**GFPI**" or the "**Canadian Borrower**"), which owned facilities in Canada (the "**Englehart Mill**" and the "**Timmins Mill**") for the manufacture and sale of OSB and whose assets included inventory, equipment and accounts receivable as well as other business assets such a joint venture interest in an OSB mill in Alberta called Footner.

3. The Grant Group also included a Delaware partnership called Grant U.S. Holdings GP (the "**US Borrower**"), which indirectly owned and operated OSB Mills ("**Allendale**" and "**Clarendon**") for the manufacture and sale of OSB in South Carolina. The assets of the US Borrower and its affiliates included inventory, equipment and accounts receivable generated and used in the United States in the conduct of the business operated by the Grant Group.

4. The Applicants remain indebted to the First Lien Lenders under the terms of a syndicated loan agreement dated October 26, 2005 (as amended by an agreement dated as of March 21, 2007, the "**First Lien Credit Agreement**") between the First Lien Lenders, as lenders, and the Canadian Borrower and the US Borrower, as borrowers.

5. The Applicants are also indebted to certain lenders (the "**Second Lien Lenders**") under the terms of an agreement dated March 21, 2007 (the "**Second Lien Credit Agreement**") between the US Borrower, as borrower, and the Second Lien Lenders, as lenders.

6. The first lien debt (inclusive of interest and costs, the "**First Lien Debt**"), consisted of loans totaling US$ 375 million advanced to the US Borrower (the "**US Loan**") and loans totaling US$25 million (the "**Cdn Loan**") to the Canadian Borrower.

7. The proceeds of the US Loan were used primarily for the development, construction and operation of the Clarendon and Allendale Mills in South Carolina, U.S.A.

8. The second lien debt (the "**Second Lien Debt**") is the balance owing under a U.S. $150,000,000 non-revolving term loan advanced to the US Borrower that was to mature on September 21, 2013. The Bank of New York Mellon is the agent of the Second Lien Lenders (the "**Second Lien Lenders' Agent**").

9. The First Lien Debt is guaranteed by the Guarantors and secured by charges and security interests in all of the assets of the Canadian Borrower, US Borrower and Guarantors pursuant to general security agreements, debentures and other security documents (the "**First Lien Security**").

10. The Second Lien Debt, guaranteed by the Canadian Borrower, the Guarantors and U.S. Sales, is secured by charges and security interests in all of the assets of the Applicants and such affiliates pursuant to general security agreements, debentures and other security documents (the "**Second Lien Security**").

11. The First Lien Lenders' Agent and the Second Lien Lenders' Agent entered into an agreement to govern the relationship between the First Lien Lenders and the Second Lien Lenders (as amended, the "**Intercreditor Agreement**"). In the Intercreditor Agreement, the First Lien Lenders and the Second Lien Lenders, among other things, agreed that the First Lien Lenders shall receive payment of the First Lien Debt in full before the Second Lien Lenders receive any proceeds of the assets and property subject to the First and Second Lien Security.

The CCAA Proceedings and Sale of Assets

12. On June 25, 2009, the Applicants and the US Borrower sought and obtained protection under the Companies' Creditors Arrangement Act ("***CCAA***").

13. The Grant Group entered into and completed a transaction with Georgia Pacific under which the Englehart Mill and the partnership that indirectly owned the Clarendon and Allendale mills were sold to Georgia Pacific with other assets of the business of the Applicants for proceeds that exceeded US$400 million (the "**Georgia Pacific Transaction**").

14. After completion of the Georgia Pacific Transaction, the mill located in Timmins was sold for proceeds of approximately $1 million (approved by order dated March 9, 2011) and the interest of GFPI in the joint venture that owns the Footner mill in Alberta was sold for proceeds of approximately $20 million (approved by order dated January 5, 2011).

Distribution

15. On June 4, 2010, this Honourable Court ordered (the "**Distribution Order**") that the proceeds from the Georgia Pacific Transaction and the sale of the Applicants' remaining assets be paid to the First Lien Lenders' Agent to apply to the fees, costs, interest and principal owed to the First Lien Lenders "*until all amounts owing to the First Lien Lenders under and pursuant to the First Lien Credit Agreement have been irrevocably paid in full*" [emphasis added].

16. Pursuant to the Distribution Order, the Monitor has made distributions to the First Lien Lenders' Agent on account of the First Lien Debt exceeding US$430 million, sufficient to pay all of the First Lien Debt except interest payable pursuant to section 4.05(2) of the First Lien Loan

Agreement ("**Post-default Interest**"), which remains outstanding and has not been paid pursuant to the Distribution Order.

17. The Monitor has acknowledged that it has retained sufficient proceeds of the disposition of the Applicants assets to satisfy the Post-default Interest in full.

The First Lien Credit Agreement

18. In accordance with customary commercial practice for syndicated loans, the First Lien Credit Agreement provides that the applicable interest rate varies by reference to financial tests which reflect the credit risk associated with the credit facilities committed by the First Lien Lenders in the First Lien Credit Agreement.

19. Under section 4.05(2) of the First Lien Credit Agreement, in keeping with this principle, the Applicable Margin payable following an Event of Default is "the highest rate set forth in the applicable table in the definition of Applicable Margin [...] *plus 2.00% per annum.* [emphasis added]."

20. An Event of Default occurred on the granting of the Initial Order in these proceedings and is continuing.

Section 4.05(2) Valid and Enforceable

21. Section 4.05(2) of the First Lien Credit Agreement is valid and not contrary to section 8 of the *Interest Act*. Among other things:

(a) While there is a real property component to the First Lien Security, the substance of the security provided to the First Lien Lenders as security for the First Lien

Debt is the ***business*** of the Applicants and their affiliates, not real property. The incidental presence of real property as part of the First Lien Security does not change its fundamental nature, which is security over the entire business of the Applicants and their affiliates.

(b) The First Lien Debt was not advanced to acquire or develop real property in Canada, it primarily funded the Grant Group's US operations. The Cdn Loan makes up only 6.25% of advances under the First Lien Credit Agreement. From both a commercial and legal perspective, the First Lien Security secures a loan to a North American-wide business enterprise, substantially weighted in respect of the purpose of the loan, the use of proceeds and value of collateral, to the United States. To the extent there is real property as part of the security pledged, virtually all of the value of that real property is in the U.S. and indirectly owned by the US Borrower.

(c) Section 4.05(2) of the First Lien Credit Agreement is a commercially reasonable term that was freely bargained between sophisticated parties. It is consistent with the structure of the First Lien Credit Agreement generally, with market convention, with economic realities and is in no respect abusive or coercive. A virtually identical term is found in the Second Lien Credit Agreement.

(d) Any dispute over the First Lien Lenders' entitlement to interest at the rate prescribed in section 4.05(2) of the First Lien Credit Agreement is a matter between the First Lien Lenders and the Second Lien Lenders and thus governed by the Intercreditor Agreement. Under the Intercreditor Agreement, the First Lien Lenders are entitled to interest due under the First Lien Loan Agreement expressly including interest due after commencement of an insolvency proceeding. Moreover, the Intercreditor Agreement provides the Second Lien Lenders will not take or receive Collateral in its capacity as a creditor in violation of the Intercreditor Agreement unless and until the Discharge of the First Lien Obligations has occurred and not oppose or seek to challenge any claim by the First Lien Lenders' Agent or any other First Lien Claimholder for post-petition interest, fees or expenses to the extent of the value of any First Lien Lenders' Lien.

(e) Section 4.05(2) applies to the entire First Lien Debt without distinguishing between arrears and amounts not in arrears.

22. The First Lien Lenders' Agent also relies upon:

(a) the provisions of the *CCAA* and the equitable jurisdiction of this court

(b) The *Interest Act* R.S.C. 1985 c. I-15; and

(c) such further and other grounds as counsel may advise and this Honourable Court may permit.

THE FOLLOWING DOCUMENTARY EVIDENCE WILL BE USED at the hearing of the motion:

1. the Affidavit of Ben Montgomery;

2. the Response to Information Request by First Lien Lenders' Agent; and

3. such further and other materials as counsel may advise and this Honourable Court may permit.

October 3, 2011

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Lawyers for The Toronto-Dominion Bank

TO: THE ATTACHED SERVICE LIST

IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*, R.S.C. 1985, c. C-36, AS AMENDED

IN THE MATTER OF THE A PLAN OF COMPROMISE OR ARRANGEMENT OF GRANT FOREST PRODUCTS INC. et al.

Court File No. CV-09-8247-00CL

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NOTICE OF MOTION

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Applicants

AFFIDAVIT OF BEN MONTGOMERY

I, Ben Montgomery, of the City of Vancouver, in the Province of British Columbia, SWEAR THAT:

1. I am a Vice President & Director, Corporate Credit of TD Securities, a division of The Toronto-Dominion Bank ("**TD**" or the "**First Lien Lenders' Agent**"), agent for a syndicate of lenders including banks (together with TD, the "**First Lien Lenders**") who are the senior secured lenders to the Canadian Borrower and the U.S. Borrower (both as defined below). As such, I have personal knowledge of the matters to which I depose in this affidavit. Where facts stated in this affidavit are not based on my personal knowledge, I have stated the source of my information and in all such instances, I believe such facts to be true.

2. I swear this affidavit in support of a motion by the First Lien Lenders' Agent for an order directing Ernst & Young Inc., the monitor appointed in these *CCAA* proceedings (the "**Monitor**"), to distribute to the First Lien Lenders' Agent funds realized from the assets of the

Applicants and the Additional Applicants (as defined below) sufficient to satisfy in full all obligations owing to the First Lien Lenders, including interest calculated at the rate prescribed in section 4.05(2) of the First Lien Credit Agreement (as defined below), and for no other or improper purpose.

Background

3. The Applicants, together with affiliates and subsidiaries (the "**Grant Group**"), manufactured, sold and distributed oriented stand board ("**OSB**") from facilities located in Canada and the United States:

(a) The Canadian entities and facilities are as follows:

(i) The Canadian Entities: the Applicant, Grant Forest Products Inc. ("**GFPI**" or the "**Canadian Borrower**"), is the sole shareholder of the Applicants Grant Alberta Inc. ("**Grant Alberta**") and Grant Forest Products Sales Inc. ("**Grant Sales**"), and holds a 50% interest in Footner Forest Products Ltd. in Alberta ("**Footner**") and certain shares in Grant Equipment Corp.

(ii) The Canadian Mills: GFPI owned two OSB mills in Ontario located in Englehart (the "**Englehart Mill**") and Timmins (the "**Timmins Mill**"), and has a 50% interest (via its interest in Footner) in an OSB mill located at High Level in Alberta held by Footner as trustee (the "**Footner Mill**").

(b) The U.S. entities and facilities are as follows:

(i) The U.S. Entities: Grant U.S. Holdings GP (the "**U.S. Borrower**"), a U.S. partnership, is the parent of various U.S. entities (including Southeast Properties LLC ("**Southeast**"), Grant Newco LLC ("**Newco**"), Grant U.S. Sales Inc. ("**U.S. Sales**"), Grant Clarendon LP ("**Clarendon**"), Grant Allendale LP ("**Allendale**") and Grant Excluded FP ("**Excluded**") (collectively, the "**Additional Applicants**")) through which the Grant Group owned and operated mills in the U.S.

(ii) The U.S. Mills: There were two OSB mills in the U.S., one owned by Allendale and located in Allendale county, South Carolina (the "**Allendale Mill**"), the other owned by Clarendon and located in Clarendon county, South Carolina (the "**Clarendon Mill**").

I have attached a copy of the organization structure of the applicants and the subsidiaries as of June 1, 2009 as Exhibit "A".

4. The Applicants remain indebted to the First Lien Lenders under the terms of a syndicated loan agreement dated October 26, 2005 (as amended by an agreement dated as of March 21, 2007, the "**First Lien Credit Agreement**") between the First Lien Lenders, as lenders, and the Canadian Borrower and the U.S. Borrower (together, the "**Borrowers**"), as borrowers. Grant Sales, Grant Alberta, Southeast, Allendale and Clarendon are each guarantors under the First Lien Credit Agreement (the "**Guarantors**"). I have attached a copy of the First Lien Credit Agreement, without schedules, as Exhibit "B".

5. The Applicants are also indebted to certain lenders (the "**Second Lien Lenders**") under the terms of an agreement dated March 21, 2007 (the "**Second Lien Credit Agreement**") between the U.S. Borrower, as borrower, and the Second Lien Lenders, as lenders. The

Canadian Borrower, the Guarantors and U.S. Sales are each guarantors under the Second Lien Credit Agreement. I have attached a copy of the Second Lien Credit Agreement, without Schedules, as Exhibit "C". The Bank of New York Mellon is the as agent of the Second Lien Lenders (the "**Second Lien Lenders' Agent**").

6. The first lien debt (inclusive of interest and costs, the "**First Lien Debt**"), consists of the balance owing under:

(i) the following facilities that were only available or advanced to the U.S. Borrower:

A. a U.S. revolving facility in the amount of up to U.S. $202,500,000, which was available only to the U.S. Borrower (subject to certain permitted reallocations) (the "**U.S. Revolving Facility**");

B. a U.S. $172,500,000 non-revolving term facility (the "**Non-Revolving Facility**") that was to mature on November 1, 2012 and which was advanced to the U.S. Borrower; and

(ii) the following facility that was only available to the Canadian Borrower (subject to certain permitted reallocations): a Canadian revolving facility in the amount of up to U.S. $25,000,000 (the "**Canadian Revolving Facility**", together with the U.S. Revolving Facility the "**Revolving Facilities**").

7. The second lien debt (the "**Second Lien Debt**") is the balance owing under a U.S. $150,000,000 non-revolving term loan advanced to the U.S. Borrower that was to mature on September 21, 2013.

8. The First Lien Debt is guaranteed by the Guarantors and secured by charges and security interests in all of the assets of the Canadian Borrower, U.S. Borrower and Guarantors pursuant to general security agreements, debentures and other security documents (the "**First Lien Security**"). The Monitor has obtained legal opinions of independent counsel that the First Lien Security validly charges the assets of those parties.

9. The Second Lien Debt, guaranteed by the Canadian Borrower, the Guarantors and U.S. Sales, is secured by charges and security interests in all of the assets of those parties and the U.S. Borrower pursuant to general security agreements, debentures and other security documents (the "**Second Lien Security**").

10. On March 21, 2007, the First Lien Lenders' Agent and the Second Lien Lenders' Agent entered into an agreement to govern the relationship between the First Lien Lenders and the Second Lien Lenders (as amended, the "**Intercreditor Agreement**"). In the Intercreditor Agreement, the First Lien Lenders and the Second Lien Lenders, among other things, agreed that the First Lien Lenders shall receive payment of the First Lien Debt in full before the Second Lien Lenders receive any proceeds of the assets and property subject to the First and Second Lien Security. I have attached a copy of the Intercreditor Agreement as Exhibit "D".

The CCAA Proceedings and Sale of Assets

11. On June 25, 2009, the Applicants and the U.S. Borrower sought and obtained protection under the Companies' Creditors Arrangement Act ("***CCAA***").

12. Pursuant to an order dated March 30, 2010, the Additional Applicants were added as applicants in these CCAA proceedings.

13. As set out above, the Canadian Borrower owned the Englehart Mill and Timmins Mill in Ontario and an interest in the Footner Mill in Alberta. The U.S. Borrower controlled and indirectly owned the Clarendon Mill and the Allendale Mill in the United States (together the "**U.S. Mills**"). The U.S. Mills were constructed using the proceeds of the First Lien Debt and the Second Lien Debt.

14. As described in the Fourteenth Report of the Monitor dated June 1, 2010, the Applicants, the U.S. Borrower and the Additional Applicants entered into and completed a transaction with Georgia Pacific (as defined in the Fourteenth Report of the Monitor) on May 26, 2010, under which the Englehart Mill (one of the Canadian mills) and the U.S. Borrower (the partnership that owned the two U.S. Mills) were sold to Georgia Pacific with other assets of the business of the Applicants (the "**Georgia Pacific Transaction**"). The purchase price was US$403 million plus US$22.6 million with respect to a working capital adjustment. I have attached a copy of the Fourteenth Report of the Monitor as Exhibit "E", which describes this background.

15. The Georgia Pacific Transaction was approved by the Court by order dated March 30, 2010, and the agreement evidencing the Georgia Pacific Transaction was filed with the Court under seal (the "**Georgia Pacific Sale Agreement**"). I have attached a copy of the Order dated March 30, 2010, without appendices, as Exhibit "F".

16. As described in the Twentieth Report of the Monitor dated April 15, 2011, after completion of the Georgia Pacific Transaction, the Timmins Mill was sold for proceeds of approximately $1 million (approved by order dated March 9, 2011) and the interest of GFPI in the joint venture that owns the Footner Mill in Alberta was sold for proceeds of approximately $20 million (approved by order dated January 5, 2011). I have attached a copy of the Twentieth

Report of the Monitor as Exhibit "G", which describes this background.

Distribution

17. As stated above, the Monitor retained counsel in Canada and the U.S. to conduct a review of the First Lien Security. The results of such reviews were reported in the Monitor's Fourteenth report to this Court which states that the First Lien Security (subject to qualifications) is valid and effective. See the Fourteenth Report of the Monitor (attached hereto as Exhibit "E").

18. Based on the Monitor's Fourteenth report and on notice to the service list which includes representatives of the Second Lien Lenders, on June 4, 2011, this Honourable Court ordered that the proceeds from the Georgia Pacific Transaction and the sale of the Applicants' remaining assets be paid to the First Lien Lenders' Agent to apply to the fees, costs, interest and principal owed to the First Lien Lenders *until all amounts owing to the First Lien Lenders under and pursuant to the First Lien Credit Agreement have been irrevocably paid in full*" [emphasis added]. I have attached a copy of the order approving distributions to the First Lien Lenders' Agent (the "**Distribution Order**") as Exhibit "H".

19. Pursuant to the Distribution Order, the Monitor has made distributions (in excess of US$430 million) to the First Lien Lenders' Agent on account of the First Lien Debt, sufficient to pay all of the First Lien Debt except interest payable pursuant to section 4.05(2) of the First Lien Loan Agreement ("**Post-default Interest**") which remains outstanding and has not been paid pursuant to the Distribution Order.

20. The First Lien Lenders' Agent now seeks an order directing the Monitor to distribute sufficient proceeds to irrevocably pay the Post-default Interest in full. The Monitor has

acknowledged that it has retained sufficient proceeds of the disposition of the Applicants' assets to satisfy the Post-default Interest in full. However, the Monitor has advised that a legal question has arisen regarding whether section 8 of the *Interest Act*, R.S.C. 1985 c. I-15 disentitles the First Lien Lenders to receive the Post-default Interest.

The First Lien Credit Agreement

21. The purpose of the First Lien Debt is set out in s. 2.05 of the First Lien Credit Agreement as follows:

(a) "under the Revolving Facilities, for working capital and general corporate requirements in the ordinary course of business of the Borrowers (and either of them), including to assist in financing the construction and operation of the Mills [which is defined as the U.S. Mills being constructed by Allendale and Clarendon and associated assets and *does not include the Canadian mills*]"; and

(b) "under the U.S. Non-Revolving Term Facility, to assist in financing the construction and operation of the Mills [again meaning the U.S. Mills and associated assets]."

22. As set out above, the vast majority of the First Lien Debt (the U.S. Revolving Facility of up to U.S. $202,500,000 and the Non-Revolving Facility of U.S. $172,500,000) was only available to the U.S. Borrower. It was agreed to be used for U.S. operations and as part of the financing of the construction and operation of the U.S. Mills in South Carolina in the U.S.

23. In accordance with customary commercial practice for syndicated loans, the First Lien Credit Agreement provides that the applicable interest rate varies by reference to financial tests

which reflect the credit risk associated with the credit facilities committed by the First Lien Lenders in the First Lien Credit Agreement. Accordingly, and for example:

(a) For the Revolving Facility the amount of interest applicable (the "**Applicable Margin**") is dependent on the total debt to capitalization ratio with respect to the Canadian Borrower on a consolidated basis (obtained by dividing the total debt of the Borrowers by the capitalization of the Borrowers, in each case consolidated with respect to the Borrowers and Guarantors (and permitted successors and assigns)). The Applicable Margin ranges from 0.625% to 2.0% above Base Rate, U.S. Prime Rate, and Canadian Prime Rate, and from 1.625% to 3.0% in respect of BA Stamping Fee Rate, Letter of Credit Fee Rate for LIBOR;

(b) For the Non-Revolving Facility the Applicable Margin is also dependent on the total debt to capitalization ratio with respect to the Canadian Borrower on a consolidated basis. The rate ranges from 0.875% to 2.125% above U.S. Prime Rate and 1.875% to 3.125% for LIBOR.

24. Further and in keeping with this principle, the Applicable Margin payable following an Event of Default increased further. Section 4.05(2) provides:

> (2) Upon the occurrence of, and during the continuance of, an Event of Default, to the full extent permitted by law, the Applicable Margin will be the highest rate set forth in the applicable table in the definition of Applicable Margin for the applicable type of Loan and Letter of Credit (regardless of the Total Debt to Capitalization Ratio) *plus 2.00% per annum.* [emphasis added]

25. Pursuant to section 11.01(k) of the First Lien Credit Agreement, seeking relief under the *CCAA* constitutes an "Event of Default".

26. Section 11.02 of the First Lien Credit Agreement provides:

> (1) If any Event of Default occurs, the Lenders will have no further obligation to make Loans or issue Letters of Credit hereunder, whereupon the Commitments of the Lenders will terminate, and all Obligations will, at the option of the Administrative Agent or upon the request of the Required Lenders, become immediately due and payable with interest thereon, at the rate or rates determined as herein provided, *to the date of actual payment thereof*... [emphasis added]

Entitlement to Interest

27. I have been advised by Kevin McElcheran of McCarthy Tétrault LLP, counsel for TD, that section 8 of the *Interest Act* provides:

> 8. (1) No fine, penalty or rate of interest shall be stipulated for, taken, reserved or exacted on any arrears of principal or interest secured by mortgage on real property or hypothec on immovables that has the effect of increasing the charge on the arrears beyond the rate of interest payable on principal money not in arrears.

Section 4.05(2) Does Not Violate the Interest Act

A) First Lien Security is over the Entire Business

28. While there is a real property component to the First Lien Security, the substance of the security provided to the First Lien Lenders as security for the First Lien Debt is the ***business*** of the Applicants and their affiliates (i.e. the cash flow of the business), not real property.

29. The security granted to secure the First Lien Debt consisted of the following, among other things:

(a) Guarantees and cross guarantees of all advances by the Borrowers and their affiliates and general security agreements and charges from each Borrower and all such affiliates over all of their present and future assets and property (the "**General Security Agreements**"). The General Security Agreements define "**Collateral**" to include all receivables, inventory, equipment, chattel paper, documents of title, securities and instruments, intangibles, money, books, records, substitutions and proceeds belonging to the Applicants and their affiliates. I have attached copies of three such General Security Agreements all dated October 26, 2005 to this affidavit as Exhibits "I", "J" and "K".;

(b) A demand debenture by the Applicant GFPI dated October 26, 2005 in the face principal amount of U.S. $600,000,000 secured by a fixed and specific mortgage and a charge of all present and after acquired real and immoveable property and equipment and a floating charge over all property not subject to such fixed and specific mortgages and charges. I have attached a copy of the demand debenture to this affidavit as Exhibit "L"; and

(c) A pledge by the shareholder of all shares of each of the Applicants Grant Alberta and Grant Sales.

30. The value of the First Lien Security is heavily weighed toward assets other than real property. By way of illustration, in December 2007, according to the Applicants' draft 2008 consolidated financial statements, the consolidated assets of the Applicants and their affiliates were as follows:

(a) Accounts receivable: $12,857,000

(b) Inventory: $34,828,000

(c) Capital assets (other than real property): $920,056,000

(d) Land, site and services: $2,672,000

(e) Buildings: $41,533,000

I have attached a copy of the 2008 draft consolidated financial statements provided to TD by GFPI as Exhibit "M" to this affidavit.

31. The incidental presence of real property as part of the First Lien Security does not change its fundamental nature which is security over the entire business of the Applicants and their affiliates.

B) First Lien Debt Primarily Funded U.S. Operations

32. As set out above, the vast majority of the First Lien Debt was advanced to the U.S. Borrower and was primarily intended to fund the construction and operation of the U.S. Mills situated in the U.S. Only 6.25% of advances under the First Lien Credit Agreement were available to the Canadian Borrower to provide it with working capital. The balance of the advances, US$375 million, was available only to the U.S. Borrower, a partnership whose only assets were located in the U.S.

33. To the extent there is real property as part of the security pledged, most of the value of that real property was in the U.S. and indirectly owned by the U.S. Borrower. Indeed, in the Georgia Pacific Transaction in which the Englehart Mill (in Ontario) and the interest in the U.S. Borrower (indirect owner of the U.S. Mills) were sold, only a small fraction of the proceeds realized from that transaction were allocated to Canadian real property. Since the Georgia Pacific Sale Agreement was provided to the Court under seal, relevant portions thereof and calculations related to the allocation will be provided to the Court as a separate, sealed exhibit.

34. Moreover, in terms of an allocation of the proceeds in the hands of the Monitor, since the Georgia Pacific Transaction involved the sale of the partnership interest in the U.S. Borrower, even those funds allocated to the U.S. side of the sale are properly described as proceeds from the sale of the partnership interest and not the sale of real property in the U.S.

35. While the precise allocation is part of the sealed Georgia Pacific Sale Agreement, the Distribution Order, read together with the approval and vesting order dated March 30, 2010, reflects the following allocation of the portion of the proceeds realized from the Georgia Pacific Transaction being distributed at that time:

(a) US$78,555,110.64, being the proceeds of the sale of the assets of the Canadian Borrower included in the Georgia Pacific Transaction (which included Canadian real property but also accounts receivable, inventory and equipment); and

(b) US $291,540,985.00, being the amounts paid by U.S. purchasers (affiliates of Georgia Pacific) to acquire the partnership interests in the U.S. Borrower (the owner of the two U.S. Mills sold in the transaction). These proceeds are from the sale of the partnership interests, not the sale of real estate.

36. Consistent with the draft financial statements and the view of the First Lien Lenders that First Lien Debt was secured by the business of the Grant Group as a whole rather than a mortgage of Canadian real estate, the agreed allocation of the proceeds of the Georgia Pacific Transaction placed a higher value on the U.S. assets than on the Canadian assets and an even smaller value on the real property in Canada.

37. This is also consistent with the fact that the First Lien Debt was not advanced to acquire or develop real property in Canada. It was advanced as part of the financing of the Applicants' and U.S. Borrowers' business of manufacturing, selling and distributing OSB products and the construction of the U.S. Mills in South Carolina. From both a commercial and legal perspective, the First Lien Security secures a loan to a North American-wide business enterprise, substantially weighted in respect of the purpose of the loan, the use of proceeds and value of collateral, to the U.S.

C) Commercially Reasonable Agreement Between Sophisticated Parties

38. Section 4.05(2) of the First Lien Credit Agreement is a commercially reasonable term that was freely bargained between sophisticated parties. It is consistent with the structure of the First Lien Credit Agreement generally, with market convention, with economic realities and is in no respect abusive or coercive.

39. Section 4.05(2) exists as part of the First Lien Credit Agreement for a specific and legitimate business reason: namely, to partially compensate the First Lien Lenders for the significant additional costs associated with holding a loan or outstanding lending commitments to a borrower with a deteriorating risk profile. Far from unusual, linking debt pricing to risk profile in the manner of the First Lien Credit Agreement is now market convention, designed to address the significantly higher costs associated with riskier loans.

40. The principle of linking debt pricing to risk profile is fundamental to the entire First Lien Credit Agreement; it underlies the calculation of the Applicable Margin at all times that the First Lien Loans remain outstanding, not just after the occurrence of an Event of Default. The First Lien Credit Agreement is structured so that the Applicable Margin fluctuates according to the risk profile of the borrower as determined by reference to the borrower's debt to capitalization ratio.

41. One of the main reasons that holding a riskier loan is more costly to a lender is the increased capital requirements imposed by regulatory bodies. As a borrower's financial situation deteriorates, regulated lenders, such as Canadian banks like TD, are required to reserve higher levels of capital against that loan, substantially increasing the capital costs associated with the loan.

42. Further, upon a *CCAA* filing lenders are obligated to undertake additional steps (requiring additional expenditures) as part of the *CCAA* process, such as the following:

(a) Assigning additional personnel to address the significantly higher amount of work necessary to manage the file, particularly when the loan is syndicated among a large number of lenders;

(b) Negotiating pre-filing agreements, such as forbearance agreements;

(c) Forming and participating in a steering committees of lenders;

(d) Retaining counsel for participating in court hearings;

(e) Conducting additional agent work, such as facilitating calls for steering committees and providing information to lenders;

(f) Conducting more frequent and comprehensive risk management analyses;

(g) Responding to increased internal and regulatory reporting requirements; and

(h) Performing back office work, such as cash collateralizing letters of credit and taking and reversing provisions.

43. Since regulatory capital requirements force lenders to hold significantly higher levels of capital against loans to risky borrowers and since lenders also face increased monitoring and other costs associated with a risky loan or a loan in default, a market convention has developed to permit lenders to recoup some of these added expenses through risk-based pricing: adjusting debt pricing to correspond with costs imposed on the lender relative to the changing risk profile of the borrower.

44. Varying the interest rate based on changes in the risk profile of the borrower is not only market convention and beneficial to lenders but also it is beneficial to borrowers because

borrowers get the benefit of rates at the low end of the range when their business is performing well. Lenders are prepared to provide this benefit because they have the protection of increased rates if the borrower's business deteriorates during the term of the loan.

45. Accordingly, the variations to the Applicable Margin set out in the First Lien Credit Agreement, including the variations set out in section 4.05(2), reflect a market convention that is responsive to the business objectives of both lenders and borrowers.

46. The increased rate applicable after an Event of Default, as set out in section 4.05(2) of the First Lien Credit Agreement responds to the significant increase in costs to the First Lien Lenders associated with a default to allow for some portion of those significantly higher costs to be recouped. Such a term is fair and reasonable and reflects commercial realities. It is by no means abusive or coercive.

47. A good demonstration that section 4.05(2) of the First Lien Credit Agreement corresponds with market convention and is a commercially reasonable term is found in the Second Lien Credit Agreement which, in section 4.05, also provides for an increased rate of interest on default in virtually identical terms.

D) Interest Payable Pursuant to Intercreditor Agreement

48. It is apparent from the Monitor's Fourteenth Report (and later reports including the Twentieth Report) that the assets of the Applicants are not sufficient to pay out both the First Lien Lenders and the Second Lien Lenders. Accordingly, any dispute over the First Lien Lenders' entitlement to interest at the rate prescribed in section 4.05(2) of the First Lien Credit Agreement is a matter between the First Lien Lenders and the Second Lien Lenders.

49. Any disputes between the First Lien Lenders and the Second Lien Lenders are governed by the Intercreditor Agreement.

50. The Intercreditor Agreement makes clear that the First Lien Lenders are entitled to interest due under the First Lien Loan Agreement and it is explicitly agreed that this includes interest due after commencement of an insolvency proceeding "in accordance with the rate specified in the relevant First Lien Loan Document":

(a) Section 1.1 defines "First Lien Obligations" to mean all Obligations outstanding under the First Lien Credit Agreement and the other First Lien Loan documents, and to include "*all interest accrued or accruing* (or which would, absent commencement of an Insolvency or Liquidation Proceeding, accrue) *after commencement of an Insolvency or Liquidation Proceeding in accordance with the rate specified in the relevant First Lien Loan Document whether or not the claim for such interest is allowed as a claim in such Insolvency or Liquidation Proceeding*…"[emphasis added]

(b) Section 1.1 defines "Discharge of First Lien Obligations" to mean, among other things, "payment in full in cash of the principal of and interest (*including interest accruing on or after the commencement of any Insolvency or Liquidation Proceeding, whether or not such interest would be allowed in such Insolvency or Liquidation Proceeding*), on all Indebtedness outstanding under the First Lien Loan Documents and constituting First Lien Obligations." [emphasis added]

51. Moreover, the Intercreditor Agreement is clear that the First Lien Debt has priority over the Second Lien Debt. Among other relevant provisions in the Intercreditor Agreement are the following:

(a) Section 2.1(a) provides that any lien on the collateral securing any First Lien Obligations is senior in all respects and prior to any lien on the collateral securing any Second Lien Obligations;

(b) Section 2.1(b) provides that any lien on the collateral securing any Second Lien Obligations shall be junior and subordinate in all respects to all Liens on the Collateral securing any First Lien Obligations;

(c) Section 2.2 provides that the Second Lien Lenders agree not to contest in any proceeding the validity of a lien held by or on behalf of any of the First Lien Lenders;

(d) Section 3.1(c) provides that the Second Lien Lenders "will not take or receive any Collateral or any proceeds of Collateral" in its capacity as a creditor in violation of the Intercreditor Agreement unless and until the Discharge of the First Lien Obligations has occurred, with limited exceptions;

(e) Section 3.1(d) provides: "(1) Subject to Section 3.1(a), the Second Lien Collateral Agent, for itself and on behalf of the other Second Lien Claimholders, agrees that the Second Lien Collateral Agent and the other Second Lien Claimholders will not take any action that would hinder, restrain, limit, delay or otherwise interfere with any exercise of remedies under the First Lien Loan Documents…"

(f) Section 4.2 provides that "So long as the Discharge of First Lien Obligations has not occurred, whether or not any Insolvency or Liquidation Proceeding has been commenced by or against the Company or any other Grantor, any Collateral or proceeds thereof […] received by the Second Lien Collateral Agent or any of the other Second Lien Claimholders in contravention of this Agreement shall be segregated and held in trust and forthwith paid over to the First Lien Collateral Agent for the benefit of the First Lien Claimholders in the same form as received…"

(g) Section 6.7 provides that "Neither the Second Lien Collateral Agent nor any other Second Lien Claimholder shall oppose or seek to challenge any claim by the First Lien Collateral Agent or any other First Lien Claimholder for allowance in any Insolvency or Liquidation Proceeding of First Lien Obligations consisting of post-petition interest, fees or expenses to the extent of the value of any First Lien Claimholder's Lien, without regard to the existence of the Lien of the Second Lien Collateral Agent on behalf of the Second Lien Claimholders on the Collateral."

(h) Section 7.1(a) provides that "At any time following the occurrence and during the continuation of an Insolvency or Liquidation Proceeding […] the First Lien Collateral Agent will apply the proceeds of any collection, sale, foreclosure or other realization upon any Collateral […] in the following order of application:

> <u>First</u>, to the payment of all costs and expenses incurred by the First Lien Collateral Agent …;
>
> <u>Second</u>, to the First Lien Collateral Agent for application to the payment of all outstanding First Lien Obligations […] in an amount sufficient to pay in full in cash all outstanding First Lien Obligations that are then due and payable …"

(i) Section 9.2 of the Intercreditor Agreement states that the terms of the Agreement "shall survive, and shall continue in full force and effect, in any Insolvency or Liquidation Proceeding."

52. Accordingly, as between the First Lien Lenders and the Second Lien Lenders and pursuant to the Intercreditor Agreement, interest is payable to the First Lien Lenders after the commencement of insolvency proceedings at the rate specified in section 4.05(2) of the First Lien Credit Agreement whether or not such interest is recoverable from the Applicants as a claim in these *CCAA* proceedings. Moreover, to the extent such an amount is not paid to the First Lien Lenders that ought to have been payable to them and is instead paid to the Second Lien Lenders, the Second Lien Lenders are contractually obliged to disgorge such amounts to the First Lien Lenders and, until disgorged, are required to hold such amounts in trust for the First Lien Lenders.

E) Section Does Not Apply to Payment of Arrears

53. Finally, section 4.05(2) applies to the entire First Lien Debt without distinguishing between arrears and amounts not in arrears. In other words, when there has been an Event of Default under the First Lien Credit Agreement, section 4.05(2) operates to change the interest rate applicable on all amounts including arrears and principal money not in arrears.

Conclusion

54. Accordingly, the First Lien Lenders' Agent seeks distribution of the remaining funds payable to the First Lien Lenders, which includes interest payable in accordance with section 4.05(2) of the Credit Agreement.

Conclusion

54. Accordingly, the First Lien Lenders' Agent seeks distribution of the remaining funds payable to the First Lien Lenders, which includes interest payable in accordance with section 4.05(2) of the Credit Agreement.

SWORN BEFORE ME at the City of Vancouver, in the Province of British Columbia, on May 11, 2011. Commissioner for taking affidavits	Ben Montgomery

ANDREW PILLIAR
Barrister & Solicitor
McCarthy Tétrault LLP
1300 - 777 DUNSMUIR STREET
VANCOUVER, B.C. V7Y 1K2
DIRECT 604-643-5875

This is Exhibit "A" *referred to in the affidavit of* Ben Montgomery *sworn before me, this* 11th *day of* May *20*11

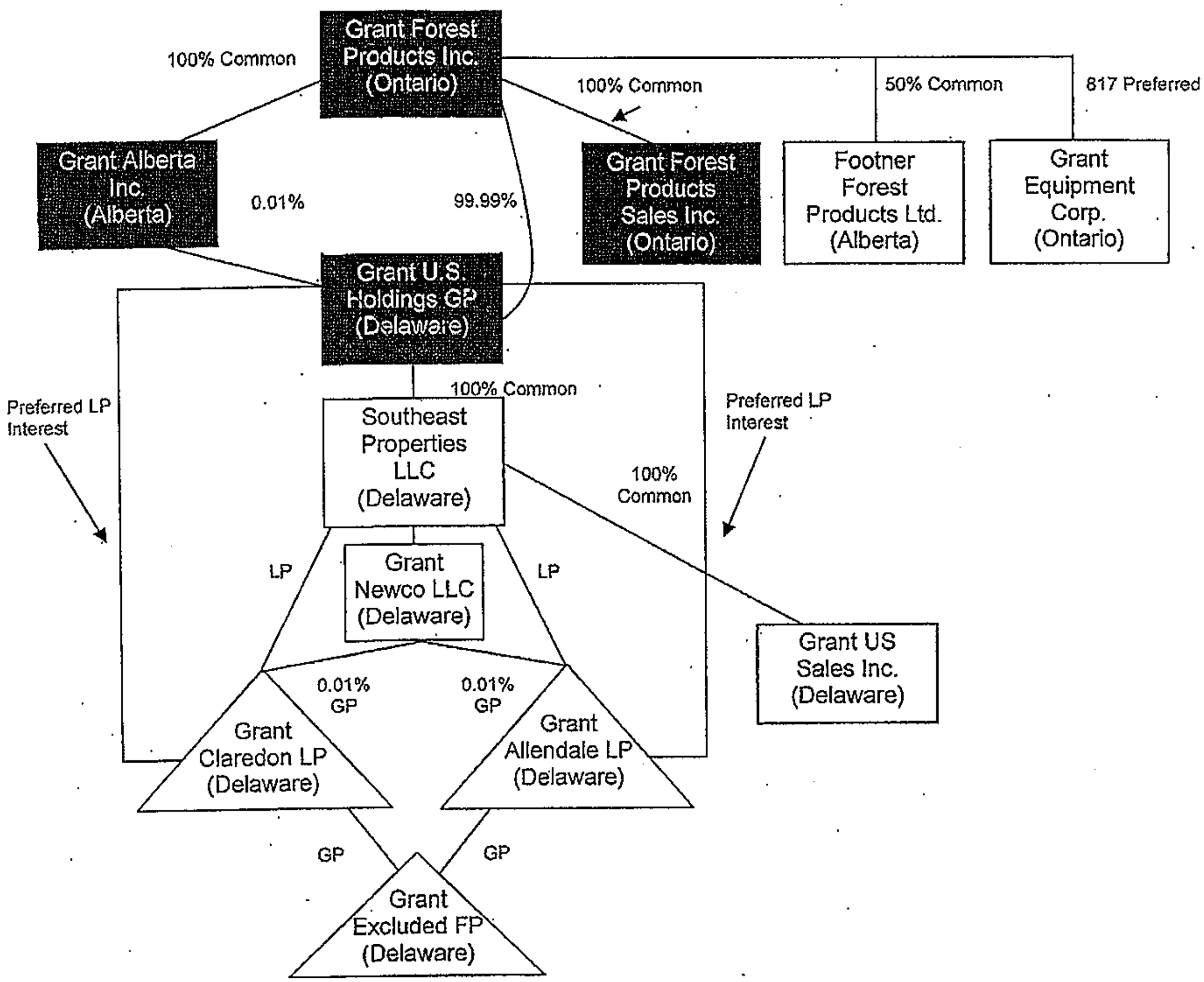
A COMMISSIONER FOR TAKING AFFIDAVITS

ANDREW PILLIAR
Barrister & Solicitor
McCarthy Tétrault LLP
1300 - 777 DUNSMUIR STREET
VANCOUVER, B.C. V7Y 1K2
DIRECT 604-643-5875

EXHIBIT "A"

Organizational Structure of the Applicants and the Subsidiaries

June 1, 2009



This is Exhibit "B" referred to in the affidavit of Ben Montgomery sworn before me, this 11th day of May 20 11

A COMMISSIONER FOR TAKING AFFIDAVITS

ANDREW PILLIAR
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McCarthy Tétrault LLP
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DIRECT 604-643-5875

U.S. $400,000,000

CREDIT AGREEMENT

AMONG

GRANT FOREST PRODUCTS INC.
and
GRANT U.S. HOLDINGS LLP
as Borrowers

AND

GRANT FOREST PRODUCT SALES INC.,
GRANT ALBERTA INC.,
SOUTHEAST PROPERTIES INC.,
GRANT ALLENDALE INC.,
and
GRANT CLARENDON INC.
as Guarantors

AND

TD SECURITIES
and
CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC
as Co-Lead Arrangers

AND

TD SECURITIES
as Bookmanager

AND

THE TORONTO-DOMINION BANK
as Administrative Agent for the Canadian Revolving Facility Lenders

AND

TORONTO DOMINION (TEXAS) LLC
as Administrative Agent for the U.S. Revolving Facility Lenders and the U.S. Non-Revolving Term Facility Lenders

AND

CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC
as Syndication Agent

AND

BANK OF MONTREAL
and
NATIONAL BANK OF CANADA
as Documentation Agents

AND

THE TORONTO-DOMINION BANK,
CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC,
BANK OF MONTREAL,
NATIONAL BANK OF CANADA,
PRUDENTIAL INVESTMENT MANAGEMENT, INC.,
BANK OF AMERICA,
CAISSE CENTRALE DESJARDINS,
U.S. BANK NATIONAL ASSOCIATION
WACHOVIA BANK, NATIONAL ASSOCIATION
and
THE FINANCIAL INSTITUTIONS
from time to time parties hereto
as Lenders

Made as of October 26, 2005

TABLE OF CONTENTS

SCHEDULES

CREDIT AGREEMENT

THIS AGREEMENT is made as of October 26, 2005, among **GRANT FOREST PRODUCTS INC.**, a corporation incorporated under the laws of Ontario (the "**Canadian Borrower**"), **GRANT U.S. HOLDINGS LLP**, a limited liability partnership formed under the laws of Delaware (the "**U.S. Borrower**"), and **GRANT FOREST PRODUCTS SALES INC.**, a corporation incorporated under the laws of Ontario, **GRANT ALBERTA INC.**, a corporation incorporated under the laws of Alberta, **SOUTHEAST PROPERTIES INC.**, a corporation incorporated under the laws of Delaware, **GRANT ALLENDALE INC.**, a corporation incorporated under the laws of Delaware, and **GRANT CLARENDON INC.**, a corporation incorporated under the laws of Delaware, (each, a "**Guarantor**" and, collectively, the "**Guarantors**"), **THE TORONTO-DOMINION BANK**, in its capacity as administrative agent for the Canadian Revolving Facility Lenders (the "**Canadian Administrative Agent**"), **TORONTO DOMINION (TEXAS) LLC**, in its capacity as administrative agent for the U.S. Revolving Facility Lenders and the U.S. Non-Revolving Term Facility Lenders (the "**U.S. Administrative Agent**") and **THE FINANCIAL INSTITUTIONS** from time to time parties to this Agreement and designated as Lenders on the signatures pages of this Agreement (each, a "**Lender**" and, collectively, the "**Lenders**").

WHEREAS, the Borrowers have requested the Credit Facilities and the Lenders have agreed to provide the Credit Facilities to the Borrowers upon and subject to the terms and conditions set forth in this Agreement; and

WHEREAS, The Toronto-Dominion Bank and Toronto Dominion (Texas) LLC will be the Administrative Agent collectively or individually as the context may require as contemplated by Section 7.1 of Schedule A;

NOW THEREFORE, in consideration of the covenants and agreements herein contained, the parties agree as follows:

ARTICLE 1 – INTERPRETATION

1.01 Definitions

In this Agreement, unless something in the subject matter or context is inconsistent therewith:

"**Administrative Agent**" means, collectively or individually as the context may require, the Canadian Administrative Agent and the U.S. Administrative Agent, and, in respect of the Canadian Revolving Facility, means the Canadian Administrative Agent, and, in respect of the U.S. Revolving Facility and the U.S. Non-Revolving Term Facility, means the U.S. Administrative Agent.

"**Administrative Questionnaire**" has the meaning set forth in Schedule A.

"**Affiliate**" has the meaning set forth in Schedule A.

"**Aggregate Exposure**" means, at any time, the sum of all positive Exposures for each Hedging Party under all Hedging Arrangements as determined, where applicable, by the Group Valuation Agent under the Aggregate Repricing Agreement, or, otherwise (and prior to the first advance under this Agreement), as determined in accordance with the applicable Hedging Arrangement agreements.

"**Aggregate Hedge Limit**" has the meaning set forth in the Aggregate Repricing Agreement.

"**Aggregate Repricing Agreement**" means the Aggregate Repricing Agreement dated as of October 26, 2005 among the Borrowers, each relevant Hedging Party and The Toronto-Dominion Bank, as Group Valuation Agent.

"**Agreement**" means this Credit Agreement, including its recitals and schedules.

"**Applicable Law**" has the meaning set forth in Schedule A.

"**Applicable Margin**" means the percentage rate *per annum*, in the case of Loans and Letters of Credit other than LIBO Rate Loans and U.S. Prime Rate Loans, or a rate for a period of 360 days, in the case of LIBO Rate Loans and U.S. Prime Rate Loans, determined in accordance with the applicable table below and adjusted in accordance with Section 4.05:

Revolving Facilities

Total Debt to Capitalization Ratio	Canadian Prime Rate Margin	BA Stamping Fee Rate	Letter of Credit Fee Rate	Base Rate Margin and U.S. Prime Rate Margin	LIBO Rate Margin
< 0.30:1.0	0.625%	1.625%	1.625%	0.625%	1.625%
0.30:1.0 ≤x < 0.40:1.0	0.875%	1.875%	1.875%	0.875%	1.875%
≥0.40:1.0	1.125%	2.125%	2.125%	1.125%	2.125%

U.S. Non-Revolving Term Facility

Total Debt to Capitalization Ratio	U.S. Prime Rate Margin	LIBO Rate Margin
< 0.30:1.0	0.875%	1.875%
≥0.30:1.0	1.125%	2.125%

"**Applicable Margin Adjustment Date**" has the meaning set forth in Section 4.05.

"**Applicable Percentage**" has the meaning set forth in Schedule A.

"**Assignment and Assumption**" has the meaning set forth in Schedule A.

"**BA Discount Proceeds**" means, with respect to a particular Bankers' Acceptance, the amount calculated in accordance with the following formula:

$$\frac{F}{1+D \times \frac{T}{365}}$$

where

F means the face amount of such Bankers' Acceptance,

D means the applicable BA Discount Rate for such Bankers' Acceptance, and

T means the number of days to maturity of such Bankers' Acceptance,

with the amount as so calculated being rounded up or down to the fifth decimal place and 0.000005 being rounded up.

"BA Discount Rate" means, (i) for Schedule I Lenders, the rate as it appears on the Reuters Screen CDOR Page for bankers' acceptance for a period identical to the term to maturity of the relevant Bankers' Acceptance, and (ii) for Schedule II Lenders and Other Lenders, the sum of (I) the BA Discount Rate for Schedule I Lenders determined in accordance with clause (i) above and (II) 10 basis points.

"BA Equivalent Note" has the meaning set forth in Section 5.01(1).

"BA Lender" means any Lender that is a bank chartered under the *Bank Act* (Canada) and that has not notified the Administrative Agent in writing that it is unwilling or unable to accept Drafts as provided for in Article 5.

"BA Stamping Fee" means, for each issuance of Bankers' Acceptances or a BA Equivalent Note, the amount calculated by multiplying the face amount of a Bankers' Acceptance or a BA Equivalent Note by the BA Stamping Fee Rate and then multiplying the result by a fraction, the numerator of which is the number of days to elapse from and including the date of acceptance of such Bankers' Acceptance or purchase of such BA Equivalent Note by a Lender up to but excluding the maturity date of such Bankers' Acceptance or BA Equivalent Note, and the denominator of which is the number of days in the calendar year in question.

"BA Stamping Fee Rate" means, with respect to a Bankers' Acceptance or a BA Equivalent Note, the applicable percentage rate *per annum* indicated below the reference to "BA Stamping Fee Rate" in the definition of "Applicable Margin".

"Bankers' Acceptance" means a depository bill, as defined in the *Depository Bills and Notes Act* (Canada), in Canadian Dollars that is in the form of a Draft signed by any Borrower and accepted by a BA Lender as contemplated under Section 5.01, or for Lenders not participating in clearing services as contemplated in that Act, a draft or other bill of exchange in Canadian Dollars that is signed on behalf of any Borrower and accepted by a Lender, and each reference to a "banker's acceptance" in Schedule A will be treated as a reference to a "Bankers' Acceptance".

"Base Rate" means the greater of (i) the variable *per annum* reference rate of interest announced and adjusted by the Administrative Agent from time to time for United States Dollar loans in Canada, and (ii) the sum of (A) the Federal Funds Effective Rate, and (B) 1.00% *per annum*.

"Base Rate Loan" means a Loan in, or Conversion into, United States Dollars with respect to which the Canadian Borrower has specified that interest is to be calculated by reference to the Base Rate.

"Base Rate Margin" means, for any period, the applicable percentage rate *per annum* applicable to that period as set forth below the heading "Base Rate Margin" in the applicable table in the definition of "Applicable Margin".

"**BMO Credit Agreement**" means the Credit Agreement dated as of October 12, 2000 among the Canadian Borrower, Morgan Stanley Senior Funding, Inc., Bank of Montreal and the other lenders thereto as parties to such Credit Agreement.

"**BMO Existing Letters of Credit**" means the letters of credit listed on Schedule 1.01(n) issued by Bank of Montreal under the BMO Credit Agreement which will form part of the Obligations secured hereby.

"**BMO Hedge Agreements**" means those current swap contracts listed in Schedule 1.01(o) hereto between Bank of Montreal and the Canadian Borrower together with any others entered into by such parties prior to the date of the first advance under this Agreement which until the date of the first advance hereunder will be secured by the BMO Security.

"**BMO Letters of Credit**" means the standby letters of credit or commercial letters of credit issued or deemed to be issued by Bank of Montreal pursuant to the BMO Credit Agreement at the request and for the account of the Canadian Borrower under the BMO Credit Agreement. The term includes the BMO Existing Letters of Credit.

"**BMO Security**" means the security granted by a Restricted Party pursuant to or in respect of the BMO Credit Agreement.

"**Borrowers' Counsel**" means Fraser Milner Casgrain LLP or such other firm of legal counsel, including local and foreign counsel to the Borrowers, as the Borrowers may from time to time designate and that is acceptable to the Administrative Agent.

"**Borrowers**" means, collectively, the Canadian Borrower and the U.S. Borrower and individually, each a "Borrower".

"**Bush Lots**" means vacant parcels of real property leased or owned by a Restricted Party which in the aggregate have a value of less than Cdn. $1,000,000 acquired or held by a Restricted Party solely for purposes of harvesting the trees located thereon.

"**Business Day**" means a day of the year, other than a Saturday, Sunday or statutory holiday, on which the Administrative Agent, in respect of the Canadian Revolving Facility and the Canadian Swingline Facility, is open for business at its executive offices in Toronto, Ontario, in respect of the U.S. Revolving Facility, the U.S. Swingline Facility, and the U.S. Non-Revolving Term Facility, is open for business at its executive offices in New York, New York, and in respect of United States Dollar Loans, at its agency in New York, New York, and, in respect of LIBO Rate Loans, at is principal office in London, England.

"**Business Plan**" has the meaning set forth in Section 9.03(5).

"**Caisse**" means Caisse de dépôt et placement du Québec.

"**Canadian Administrative Agent**" means The Toronto-Dominion Bank in its capacity as administrative agent for the Canadian Revolving Facility Lenders under this Agreement, and its successors and permitted assigns in such capacity.

"**Canadian Administrative Agent's Office**" means the branch of the Canadian Administrative Agent located at 77 King Street West, 18th Floor, Royal Trust Tower, TD Centre, Toronto, Ontario, M5K 1A2, Facsimile: (416) 982-5535 (with a copy faxed to 212-827-7820), or such other office that the Canadian Administrative Agent may from time to time designate by notice to the Borrowers.

"**Canadian Borrower**" means Grant Forest Products Inc., and its successors and permitted assigns.

"**Canadian Dollars**" and "**Cdn. $**" means the lawful money of Canada.

"**Canadian Prime Rate**" means the greater of (i) the variable *per annum* reference rate of interest announced and adjusted by the Administrative Agent from time to time for Canadian Dollar loans in Canada, and (ii) the rate of interest *per annum* that is equal to the sum of (A) the Reuters Screen CDOR Page one month BA Discount Rate expressed as an annual yield rate, and (B) 1.00% *per annum.*

"**Canadian Prime Rate Loan**" means a Loan in or a Conversion into Canadian Dollars made by the Lenders to any Borrower with respect to which such Borrower has specified that interest is to be calculated by reference to the Canadian Prime Rate.

"**Canadian Prime Rate Margin**" means, for any period, the applicable percentage rate *per annum* applicable to that period as set forth below the heading "Canadian Prime Rate Margin" in the definition of "Applicable Margin".

"**Canadian Revolving Facility**" has the meaning set forth in Section 2.01(1)(a).

"**Canadian Revolving Facility Lenders**" means each of the Lenders identified from time to time as a Canadian Revolving Facility Lender in Schedule B who are as set forth in Section 21(1) of Schedule A hereto.

"**Canadian Swingline Facility**" has the meaning set forth in Section 2.02(1).

"**Canadian Swingline Lender**" means the Lender identified from time to time as the Canadian Swingline Lender in Schedule B.

"**Canadian Swingline Loan**" has the meaning set forth in Section 2.02(2).

"**Capital Expenditures**" means any expenditure made by any Person for the purchase or acquisition, repair or replacement of capital assets, net of proceeds of disposition of capital assets (other than proceeds received on a sale-leaseback transaction), and any expenditure related to a Capital Lease, but excluding the amount expended on repair or replacement of Property to the extent of insurance proceeds or third party funding received by such Person on account of damage or destruction, all as determined in accordance with GAAP.

"**Capital Lease**" means a capital lease or a lease that is accounted for as a capital lease under GAAP.

"**Capitalization**" means, with respect to a Person, the sum of the Debt and Equity of such Person (including postponed Shareholder Loans) as shown on the balance sheet forming part of the most recent consolidated financial statements of such Person.

"**Cash**" means money, currency or credit balance in a deposit account.

"**Cash Equivalents**" means (i) securities issued or fully guaranteed by the government of Canada or any agency or instrumentality thereof, (ii) term deposits, certificates of deposit or bankers' acceptances of any Lender, or any bank that is not a Lender but is referred to in either Schedule I or II of the *Bank Act* (Canada) the short-term debt or deposits of which have been rated at least A-1 or the equivalent thereof by Standard & Poors Ratings Group or at least P-1 or the equivalent thereof by Moodys Investor Service, Inc. or which have been rated at least A-1 or the equivalent thereof by CBRS Inc. or at least R-1 or the equivalent thereof by Dominion Bond Rating Service Limited, and (iii) commercial paper rated at least A1 or the equivalent thereof by CBRS Inc. and R1 by Dominion Bond Rating Service Limited, in each case provided for in clauses (i), (ii) and (iii) above, maturing within 90 days after the date of acquisition.

"**CDOR**" means, for any day and relative to Canadian Dollar Bankers' Acceptances or BA Equivalent Notes, the stated average of the annual rates that appears on the Reuters Screen CDOR page as of at 10:00 a.m. (Toronto time) on such day (or, if such day is not a Business Day, as of 10:00 a.m. on the next preceding Business Day) for bankers acceptances issued on that day for a term equal or comparable to the term of such Canadian Dollars Bankers' Acceptances or BA Equivalent Notes, provided that if such rate does not appear on the Reuters Screen CDOR page at such time on such day, CDOR for such day will be the annual discount rate (rounded upward to the nearest whole multiple of 1/100 of 1% with 5/1,000 of 1% being rounded up) as of 10:00 a.m. on such day at which the Administrative Agent is then offering to purchase bankers' acceptances accepted by it having a comparable aggregate face amount and identical maturity date to the aggregate face amount and maturity date of such Bankers' Acceptances or BA Equivalent Notes, as the case may be.

"**Change in Law**" has the meaning set forth in Schedule A.

"**Change of Control**" means an event or series of events whereby Grant ceases to own beneficially, directly or indirectly, more than 75% of the outstanding Voting Shares of the Canadian Borrower, or the Canadian Borrower ceases to own beneficially 99.99% of the outstanding equity voting interest in the U.S. Borrower.

"**Closing Date**" means October 31, 2005.

"**Commodity Hedge Arrangement**" means a swap or forward agreement between a Restricted Party and another Person relating to energy, fuel, raw material or oriented strand board contracts that is designed to protect the Restricted Party that is party thereto against fluctuation in the price of such commodity and that are entered into *bona fide* and in good faith in the ordinary course of business for the purpose of carrying on same and not for speculative purposes, and includes Third Party Commodity Hedge Arrangements and Lender Commodity Hedge Arrangements.

"**Commitment**" means, in respect of each Lender with respect to a particular Credit Facility, the amount specified with respect to such Lender in Schedule B (which will be amended and distributed to all parties by the Administrative Agent from time to time as other persons become Lenders), being the sum of the maximum aggregate amount of (i) Loans that such Lender is obliged to make, and (ii) such Lender's participations in Letters of Credit, as such amount may be reduced from time to time by such Lender's Applicable Percentage of the amount of any permanent repayments, reductions or prepayments required or made hereunder.

"**Commitment Reallocation Notice**" means a notice, substantially in the form set forth in Schedule 2.01(2), to be given to the Administrative Agent by the Borrowers pursuant to Section 2.01(2).

"**Compliance Certificate**" means the certificate required pursuant to Section 9.03(4), substantially in the form attached as Schedule 1.01(a), signed by any one of the President, a Senior Vice-President or the Chief Financial Officer of the Canadian Borrower in respect of the Borrowers.

"**Computer Equipment**" means all computers, software or other equipment that includes computing technology or embedded logic such as microchips and sensors, whether owned or leased.

"**Contingent Obligation**" means, with respect to any Person, any obligation, whether secured or unsecured, of such Person guaranteeing or indemnifying, or in effect guaranteeing or indemnifying, any indebtedness, leases, dividends, letters of credit or other monetary obligations (the "primary obligations") of any other

Person (the "primary obligor") in any manner, whether directly or indirectly, including any obligation of such Person as an account party in respect of a letter of credit or letter of guarantee issued to assure payment by the primary obligor of any such primary obligation and any obligations of such Person, whether or not contingent, (i) to purchase any such primary obligation or any Property constituting direct or indirect security therefor, (ii) to advance or supply funds for the purchase or payment of any such primary obligation or to maintain working capital or equity capital of the primary obligor or otherwise to maintain the net worth or solvency of the primary obligor, (iii) to purchase Property, securities or services primarily for the purpose of assuring the obligee under any such primary obligation of the ability of the primary obligor to make payment of such primary obligation, or (iv) otherwise to assure or hold harmless the obligee under such primary obligation against loss in respect of such primary obligation; provided, however, that the term Contingent Obligation does not include endorsements of instruments for deposit or collection in the ordinary course of business.

"**Control**" has the meaning set forth in Schedule A.

"**Conversion**" means a conversion of a Loan pursuant to Section 2.08.

"**Conversion Date**" means the Business Day specified by any Borrower in a Conversion Notice as being the date on which such Borrower has elected to convert one type of Loan into another type of Loan.

"**Conversion Notice**" means a notice, substantially in the form set forth in Schedule 1.01(b), to be given to the Administrative Agent by any Borrower pursuant to Section 2.08.

"**Costs to Complete**" means, at any given time, the costs to complete the construction of the Mills with reference to the Mills Budget and the Mills Construction Schedule, as confirmed twice each year to the Administrative Agent by a certificate from the Independent Engineer, in form and substance satisfactory to the Administrative Agent.

"**Credit Facilities**" means, collectively the Canadian Revolving Facility, the U.S. Revolving Facility, and the U.S. Non-Revolving Term Facility, and, as the context may require, individually, a "Credit Facility" means any one of the Credit Facilities.

"**Debt**" means, without duplication, with respect to any Person, all obligations that, in accordance with GAAP, would then be classified as a liability of such Person, and, without duplication, includes, with respect to such Person,

(i) an obligation in respect of borrowed money or for the deferred purchase price of Property or services or an obligation that is evidenced by a note, bond, debenture or any other similar instrument;

(ii) a transfer with recourse or with an obligation to repurchase, to the extent of the liability of such Person with respect thereto;

(iii) an obligation under a Capital Lease;

(iv) a reimbursement obligation or other obligation in connection with a bankers' acceptance or any similar instrument, or letter of credit or letter of guarantee issued by or for the account of such Person;

(v) a Contingent Obligation to the extent that the primary obligation so guaranteed would be classified as "Debt" (within the meaning of this definition) of such Person;

(vi) the aggregate amount at which any shares of such Person that are redeemable or retractable at the option of the holder of such shares (except where the holder is such Person) may be redeemed or retracted prior to the U.S. Non-Revolving Term Facility Maturity Date for cash or obligations constituting Debt or any combination thereof; and

(vii) the Aggregate Exposure of such Person;

provided, however, that there will not be included for the purpose of this definition any obligation that is on account of (A) reserves for deferred income taxes or general contingencies, (B) minority interests in Subsidiaries, or (C) trade accounts payable and accrued liabilities (including contract loans and income taxes payable) incurred in the ordinary course of business.

"**Default**" has the meaning set forth in Schedule A.

"**Deposit Amount**" has the meaning set forth in Section 5.02(12).

"**Depreciation Expense**" means, for any period with respect to any Person, depreciation, amortization, depletion and other like reductions to income of such Person for such period not involving any outlay of cash.

"**Disposition**" means, with respect to a Person, any sale, assignment, transfer, conveyance, lease, licence or other disposition of any nature or kind whatsoever of any Property or of any right, title or interest in or to any Property that is out of the ordinary course of business of such Person, and the verb "Dispose" has a corresponding meaning.

"**Disposition Trigger Event**" means any Disposition by a Restricted Party (other than a Disposition to another Restricted Party), provided, however, that (i) any such Disposition in respect of Net Proceeds up to an aggregate amount not to exceed US $25,000,000 for each financial year of the Canadian Borrower will not constitute a Disposition Trigger Event, and (ii) any such Disposition will not constitute a Disposition Trigger Event if the relevant Restricted Party notifies the Administrative Agent within 30 days after such Disposition that it plans to reinvest the Net Proceeds of such Disposition in Capital Expenditures as promptly as practicable, but in any event within 180 days after such Disposition; provided further that, if a Restricted Party delivers a notice with respect to a Disposition as contemplated by clause (ii) above, and if, on the expiration of the 180-day period less than all the Net Proceeds of such Disposition have been reinvested or applied as provided above, then a Disposition Trigger Event will be deemed to have occurred at the expiration of such 180-day period with Net Proceeds equal to the Net Proceeds of such Disposition that have not been reinvested or applied.

"**Distribution**" means (i) any payment, declaration of dividend or other distribution, whether in cash or Property, (but expressly excluding any distribution by way of the payment of dividends by the issuance of equity securities of an issuer) to any holder of shares of any class of any Borrower or any other Restricted Party, (ii) any repurchase, redemption, retraction or other retirement or purchase for cancellation of shares of any Borrower or any other Restricted Party, or of any options, warrants or other rights to acquire any of such shares, or (iii) any payment or repayment of any advance, loan, extension of credit, capital contribution to, or guarantee of any obligation of, any Person that holds Equity of any Borrower or any other Restricted Party; but , in each case, excludes any such payments made by a Restricted Party to any other Restricted Party and amounts prepaid to employees of a Restricted Party for ordinary course employee expenses.

"**Documentation**" means all systems, user, technical or other documentation or information (including any input or output formats, program listings, narrative descriptions, operating instructions or manuals, specifications, user guides and systems, user or technical manuals) that have been, are or may be provided in connection with Software and includes any corrections, replacements, modifications or releases thereof or thereto, whether distributed in print, magnetic, electronic, video or other format.

"**Draft**" has the meaning set forth in Section 5.01(1).

"**Drawdown**" means:

(i) the advance of a Canadian Prime Rate Loan, a Base Rate Loan, a U.S. Prime Rate Loan or one or more LIBO Rate Loans;

(ii) the issue of one or more Bankers' Acceptances or BA Equivalent Notes; or

(iii) the issue of one or more Letters of Credit;

but excludes a Conversion or a Rollover.

"**Drawdown Date**" means the date on which a Drawdown is made by any Borrower pursuant to the provisions hereof.

"**Drawdown Notice**" means a notice, substantially in the form set forth in Schedule 1.01(c), to be given to the Administrative Agent by any Borrower pursuant to Section 2.08.

"**EBITDA**" means, with respect to any Person for any period, the Net Income of such Person for such period plus, without duplication and to the extent reflected as a charge in the statement of net income included in the financial statements of such Person:

(i) all amounts deducted in the calculation thereof in respect of Depreciation Expense, and current and deferred taxes, net losses of Subsidiaries and any other losses incurred in respect of investments that are accounted for on an equity basis;

(ii) Total Interest Expense;

(iii) any extraordinary, non-recurring or unusual expenses or losses (including, whether or not otherwise includable as a separate item in such statement of net income, losses on sales outside of the ordinary course of business or on sales of Property of a Restricted Party which is leased back to any Restricted Party); and

(iv) unrealized losses from Hedge Arrangements to the extent that they have been used in determining Net Income as a matter of GAAP;

less, without duplication and to the extent reflected as a credit in such statement of net income,

(v) any reduction of deferred taxes;

(vi) amounts included in the calculation thereof in respect of net profits of Subsidiaries and any other profits in respect of investments that are accounted for on an equity basis;

(vii) any extraordinary, non-recurring or unusual income or gains (including, whether or not otherwise includable as a separate item in such statement of net income, gains on sales outside of the ordinary course of business or on sales of Property by a Restricted Party that are leased back to any Restricted Party); and

(viii) unrealized gains from Hedge Arrangements to the extent that they have been used in determining Net Income as a matter of GAAP.

"**EBITDA to Total Interest Expense Ratio**" means, at any time with respect to the Canadian Borrower on a consolidated basis, the ratio obtained by dividing (i) the EBITDA of the Canadian Borrower, by (ii) the Total Interest Expense of the Canadian Borrower in each case in respect of the Canadian Borrower's then four full consecutive fiscal quarters most recently ended, in each case consolidated with respect to all Restricted Parties, whether or not such consolidation complies with GAAP.

"**Eligible Assignee**" has the meaning set forth in Schedule A.

"**Encumbrance**" means, with respect to any Person, any mortgage, debenture, pledge, hypothec, lien, charge, assignment by way of security, hypothecation or security interest granted or permitted by such Person or arising by operation of law, in respect of any of such Person's Property, or any consignment by way of security or Capital Lease of Property by such Person as consignee or lessee, as the case may be, or any other security agreement, trust or arrangement having the effect of security for the payment of any debt, liability or other obligation, and "Encumbrances", "Encumbrancer", "Encumber" and "Encumbered" have corresponding meanings.

"**Environmental Claim**" means any and all obligations, liabilities, losses, administrative, regulatory or judicial action, suits, demands, decrees, claims, liens, judgments, warning notices, notices of non-compliance or violation, investigation, proceedings, removal or remedial actions or orders, or damages (foreseeable and unforeseeable, including consequential and punitive damages), penalties, fees, out-of-pocket costs, expenses, disbursements, attorneys' or consultants' fees, relating in any way to any Environmental Law or any permit or licence issued under any such violation or alleged violation of any Environmental Law (hereinafter "Claims"), including (a) any and all Claims by Governmental Authorities for enforcement, cleanup, removal, response, remedial or other actions in damages pursuant to any applicable Environmental Law and (b) any and all Claims by any third party seeking damages, contribution, indemnification, cost recovery, compensation or injunctive relief resulting from Hazardous Substances or arising from alleged injury or threat or injury to health, safety or the environment.

"**Environmental Law**" means any Applicable Law and the common law relating to the environment or human health and safety including those pertaining to the following:

(i) reporting, licensing, permitting, investigating, remediating and cleaning up in connection with any presence or Release, or the threat of the same, of Hazardous Substances, and

(ii) the manufacture, generation processing, distribution, use, treatment, storage, disposal, transport, handling and the like of Hazardous Substances, including those pertaining to occupational health and safety.

"**Equity**" means, with respect to any Person at any time, the aggregate of all common, preferred and other share capital interests, partnership contributions, participations or other equivalents (however designated, whether voting or non-voting or whether certificated or not certificated) (other than all shares of, or partnership interests or units in, the Person that are redeemable or retractable at the option of any Person (other than the Person in respect of whom a determination of the Equity of such Person is being made)) in, and all warrants of, that Person that would be reflected as equity on the balance sheet of that Person at that time, together with retained earnings and contributed surplus of that Person, that would be reflected on the balance sheet of that Person at that time.

"**Equity Contribution**" means an Equity contribution in the total amount of U.S. $125,000,000 by the Canadian Borrower and/or Grant Alberta Inc. made by way of contributions in the partnership capital of the U.S. Borrower, in a form and substance that is acceptable to the Lenders.

"**Equivalent Amount**" means, on any day, the equivalent amount in Canadian Dollars or United States Dollars, as the case may be, after giving effect to a conversion of a specified amount of United States Dollars to Canadian Dollars or of Canadian Dollars to United States Dollars , as the case may be, at the official noon rate of exchange published by the Bank of Canada for the day immediately preceding the day in question for the conversion of United States Dollars to Canadian Dollars or at the rate that is the reciprocal thereof for the conversion of Canadian Dollars to United States Dollars, as the case may be, or, if such rate is not so published by the Bank of Canada for any such day, then at the spot rate quoted by the Administrative Agent at the Administrative Agent's Office at approximately noon (Toronto time) for the day immediately preceding that day in accordance with its normal practice for the applicable currency conversion in the wholesale market.

"**ERISA**" means the *Employee Retirement Income Security Act of 1974* of the United States, together with the regulations thereunder, as the same may be amended from time to time.

"**ERISA Affiliate**" means any trade or business (whether or not incorporated) that, together with any Borrower, is treated as a single employer under Section 414(b) or (c) of the Code or, solely for purposes of Section 302 of ERISA and Section 412 of the Code, is treated as a single employer under Section 414 of the Code.

"**ERISA Event**" means (a) any "reportable event", as defined in Section 4043 of ERISA or the regulations issued thereunder with respect to a Pension Plan (other than an event for which the 30 day notice period is waived); (b) the existence with respect to any Pension Plan of an "accumulated funding deficiency" (as defined in Section 412 of the Code or Section 302 of ERISA), whether or not waived; (c) the filing pursuant to Section 412(d) of the Code or Section 303(d) of ERISA of an application for a waiver of the minimum funding standard with respect to any Pension Plan; (d) the incurrence by any Borrower or any of its ERISA Affiliates of any liability under Title IV of ERISA with respect to the termination of any Pension Plan; (e) the receipt by any Borrower or any ERISA Affiliate from the PBGC or a plan administrator of any notice relating to an intention to terminate any Pension Plan or to appoint a trustee to administer any Pension Plan; (f) the incurrence by any Borrower or any of its ERISA Affiliates of any liability with respect to the withdrawal or partial withdrawal from any Pension Plan or Multiemployer Pension Plan; or (g) the receipt by any Borrower or any ERISA Affiliate of any notice, or the receipt by any Multiemployer Pension Plan from any Borrower or any ERISA Affiliate of any notice, concerning the imposition of Withdrawal Liability or a determination that a Multiemployer Pension Plan is, or is expected to be, insolvent or in reorganization, within the meaning of Title IV of ERISA.

"**Eurocurrency Reserve Percentage**" of any Lender for any Interest Period for any LIBO Rate Loan means the reserve percentage applicable to such Lender during such Interest Period (or if more than one such percentage is so applicable, the daily average of such percentages for those days in such Interest Period during which any such percentage is so applicable) under regulations issued from time to time by the Board of Governors of the Federal Reserve System of the United States for determining the maximum reserve requirement (including any emergency, supplemental or other marginal reserve requirement) then applicable to such Lender with respect to liabilities or assets consisting of or including Eurocurrency liabilities having a term equal to such Interest Period.

"**Event of Default**" has the meaning set forth in Section 11.01.

"**Excluded Taxes**" has the meaning set forth in Schedule A.

"**Exposure**" has the meaning set forth in the Aggregate Repricing Agreement and, where applicable, is calculated in the manner specified by the Aggregate Repricing Agreement.

"**Federal Funds Effective Rate**" means, for any day, a fluctuating rate of interest expressed as a percentage rate *per annum* equal to the weighted average of the rates on overnight federal funds transactions with members of the Federal Reserve System arranged by federal funds brokers as published for such day (or, if such day is not a Business Day, for the preceding Business Day) by the Federal Reserve Bank of New York or, for any day on which that rate is not published for that day by the Federal Reserve Bank of New York, the simple average of the quotations for that day for such transactions received by the Administrative Agent from three federal funds brokers of recognized standing selected by it.

"**Final Maturity Date**" means (i) with respect to the Revolving Facility, the Revolving Facility Maturity Date, and (ii) with respect to the U.S. Non-Revolving Term Facility, the U.S. Non-Revolving Term Facility Maturity Date.

"**Financial Assistance**" means, without duplication and with respect to any Person, all loans granted by that Person and guarantees or Contingent Obligations incurred by that Person for the purpose of or having the effect of providing financial assistance to another Person or Persons, including letters of guarantee, letters of credit, legally binding comfort letters or indemnities issued in connection therewith, endorsements of bills of exchange (other than for collection or deposit in the ordinary course of business), obligations to purchase assets regardless of the delivery or non-delivery thereof and obligations to make advances or otherwise provide financial assistance to any other Person; provided that "Financial Assistance" shall not include amounts prepaid to employees of a Person for ordinary course employee expenses, or amount loaned to employees to finance their purchases of houses up to the principal amount of U.S. $150,000 per loan and up to an aggregate principal amount of U.S. $500,000 for all such housing loans.

"**Financing**" means, with respect to any Person, the raising of funds by issuing debt obligations, including convertible or exchangeable debt obligations (but excluding Subordinated Debt) or by borrowing from a lender or other financial institution, or by issuing securities (however designated, whether voting or non-voting or whether certificated or non-certificated) of capital of such Person and any other interest or participation that confers on a Person the right to receive a share of the profits and losses of, or distributions of assets of, such Person.

"**Footner Buyout**" means the acquisition by the Canadian Borrower (or any of the other Restricted Parties) of all or any portion of the 50% equity interest in the Footner Joint Venture currently owned by Ainsworth Lumber Co. Ltd. or one or more of its Subsidiaries or Affiliates, and the shares, currently owned by Ainsworth Lumber Co. Ltd. or one or more of its Subsidiaries or Affiliates, of Footner Forest Products Ltd., the owner of the assets comprising the Footner Mills located in High Level, Alberta.

"**Footner Buyout Financing**" has the meaning set forth in clause (xiii) of the definition of Permitted Encumbrances.

"**Footner Joint Venture**" means the unincorporated joint venture in the oriented strand board mill, in High Level, Alberta, also known as the "Footner Mill", owned equally by the Canadian Borrower and Ainsworth Lumber Co. Ltd. or one or more of its Subsidiaries established pursuant to the Footner Joint Venture Agreement.

"**Footner Joint Venture Agreement**" means the memorandum of agreement dated December 9, 1999 between Ainsworth Lumber Co. Ltd. and Grant Forest Products Corp. together with the assignment agreement relating thereto made as of December 9, 1999 between Grant Forest Products Corp. and the Canadian

Borrower by which all rights and obligations of Grant Forest Products Corp. under such memorandum of agreement were assigned to, and assumed by, the Canadian Borrower.

"**Foreign Lender**" has the meaning set forth in Schedule A.

"**Free Cash Flow**" means, with respect to the Canadian Borrower at any time on a consolidated basis, EBITDA for its four then most recently completed fiscal quarters less all then current taxes, Total Interest Expense and Capital Expenditures incurred during such four then most recently completed fiscal quarters; provided, however, that before the Mills Completion Date, Capital Expenditures in respect of the Mills will not be included for purposes of calculating Free Cash Flow.

"**Fund**" has the meaning set forth in Schedule A.

"**GAAP**" means those accounting principles that are from time to time approved by the Canadian Institute of Chartered Accountants, or any successor institute.

"**Governmental Authority**" has the meaning set forth in Schedule A.

"**Grant**" means, collectively, the Peter Grant Family and the Peter Grant Family Trust.

"**Grant Equipment Transaction**" means the sale by the Canadian Borrower to Grant Equipment Corp. of equipment pursuant to an agreement dated as of August 31, 2005 between them as described in Schedule 1.01(p) hereto.

"**Group Valuation Agent**" means The Toronto-Dominion Bank in its capacity as group valuation agent under the Aggregate Repricing Agreement, and its successors and permitted assigns in such capacity.

"**Guaranteed Obligations**" means, with respect to each Guarantor, without duplication, the Obligations of each Restricted Party (other than such Guarantor).

"**Guarantors**" means each Person identified on the signature pages hereto as a Guarantor and each other Subsidiary of any Borrower that may from time to time become a party hereto in accordance with Section 9.04(18) (including the Borrowers) and their successors and assigns, and "Guarantor" means any one of them.

"**Hazardous Substance**" means any substance or material that is prohibited, controlled or regulated by any Governmental Authority pursuant to Environmental Laws, including pollutants, contaminants, dangerous goods or substances, toxic or hazardous substances or materials and wastes (including solid non-hazardous wastes and subject wastes), all as defined in or pursuant to any Environmental Law and further including petroleum and its derivatives and by-products and other hydrocarbons.

"**Hedge Arrangement**" means, with respect to any Restricted Party, any arrangement or transaction between such Restricted Party and any other Person (other than another Restricted Party) that is a rate swap transaction, basis swap, forward rate transaction, equity or equity index swap or option, Commodity Hedge Arrangement, interest rate option, forward foreign exchange transaction, cap transaction, floor transaction, collar transaction, currency swap transaction, cross-currency rate swap transaction, currency option or any other similar transaction (including any option with respect to any of such transactions or arrangements) designed to protect or mitigate against risks in interest, currency exchange or commodity price fluctuations, and each reference to a "derivative" in Schedule A is to be treated as a reference to a "Hedge Arrangement".

"**Hedging Party**" has the meaning set forth in the Aggregate Repricing Agreement.

"**Independent Engineer**" means CPM Project Management Inc., or such other recognized independent engineering firm selected by the Administrative Agent.

"**Indemnified Taxes**" has the meaning set forth in Schedule A.

"**Intellectual Property**" means intellectual property of whatever nature and kind including all domestic and foreign trade-marks, business names, trade names, domain names, trading styles, patents, trade secrets, Software, industrial designs and copyrights, whether registered or unregistered, and all applications for registration thereof, and inventions, formulae, recipes, product formulations, processes and processing methods, technology and techniques, know-how and manuals.

"**Interbank Reference Rate**" means the interest rate expressed as a percentage *per annum* that is customarily used by the Administrative Agent when calculating interest due by it or owing to it arising from the correction of errors and other adjustments between the Administrative Agent and other Canadian chartered banks.

"**Interest**" means, with respect to the Borrowers on a consolidated basis, the total of all amounts of interest paid and/or payable by the Borrowers to the Lenders under this Agreement, plus the total of all amounts actually paid by the Canadian Borrower in respect of its outstanding Preferred Shares.

"**Interest Payment Date**" means

(i) with respect to each Canadian Prime Rate Loan, each U.S. Prime Rate Loan and each Base Rate Loan, the third Business Day of each calendar month, and

(ii) with respect to each LIBO Rate Loan, the last Business Day of each applicable Interest Period, and, if any Interest Period is longer than three months, the last Business Day of each successive three month period during such Interest Period.

"**Interest Period**" means:

(i) with respect to each Canadian Prime Rate Loan, each U.S. Prime Rate Loan and each Base Rate Loan, the period commencing on the applicable Drawdown Date or Conversion Date, as the case may be, and ending on the date selected by any Borrower for the Conversion of such Loan into another type of Loan or for the repayment of such Loan;

(ii) with respect to each Bankers' Acceptance or BA Equivalent Note, the period selected by any Borrower hereunder and being of one, two, three or six months duration commencing on the Drawdown Date, Rollover Date or Conversion Date of such Loan; and

(iii) with respect to each LIBO Rate Loan, the period selected by any Borrower and being of one to six months duration (in appropriate one month multiples thereof) commencing on the applicable Drawdown Date, Rollover Date or Conversion Date, as the case may be;

provided that in any case the last day of each Interest Period will be also the first day of the next Interest Period and further provided that the last day of each Interest Period will be a Business Day. If the last day of an Interest Period selected by the applicable Borrower is not a Business Day such Borrower will be deemed to have selected an Interest Period the last day of which is the Business Day next following the last day of the Interest Period otherwise selected unless such next following Business Day falls in the next calendar month in which event such Borrower will be deemed to have selected an Interest Period the last day of which is the Business Day next preceding the last day of the Interest Period otherwise selected and further provided that the last Interest Period hereunder must expire on or prior to the Final Maturity Date.

"**Investment**" in any Person means any direct or indirect (i) acquisition of any shares, partnership interests, participation interests in any arrangement, options or warrants, or any indebtedness, whether or not evidenced by any bond, debenture or other written evidence of such Person, or (ii) acquisition, by purchase or otherwise, of all or substantially all of the business, assets or stock or other evidence of beneficial ownership of such Person. The amount of any Investment will be the original cost of such Investment, plus the cost of all additions thereto and minus the amount of any portion of such Investment repaid to such Person in cash as a return of capital, but without any other adjustments for increases or decreases in value, or write-ups, write-downs or write-offs with respect to such Investment. In determining the amount of any Investment involving a transfer of any Property other than cash, such Property will be valued at its fair market value at the time of such transfer.

"**ISP**" has the meaning attributed thereto in Section 5.02(1) hereof.

"**Issuing Bank**" means The Toronto-Dominion Bank or The Toronto-Dominion Bank, New York and, while any BMO Letters of Credit are outstanding, Bank of Montreal with respect to the BMO Letters of Credit.

"**Judgment Conversion Date**" has the meaning set forth in Section 14.03(1)(b).

"**Judgment Currency**" has the meaning set forth in Section 14.03(1).

"**Lender Commodity Hedge Arrangements**" means a Commodity Hedge Arrangement that is entered into by a Restricted Party with a Lender.

"**Lenders**" means, collectively the Persons from time to time party to this Agreement and identified as either a Canadian Revolving Facility Lender, a U.S. Non-Revolving Term Facility Lender, a U.S. Revolving Facility Lender, a Canadian Swingline Lender, a U.S. Swingline Lender or the Issuing Bank in Schedule B, and, as the context may require, "Lender" means any one of the Lenders.

"**Lenders' Counsel**" means McCarthy Tétrault LLP or such other firm of legal counsel as the Administrative Agent may from time to time designate.

"**Lending Office**" means, with respect to a particular Lender, the branch or office specified in Schedule B from which such Lender makes advances and to which the Administrative Agent disburses payments received for the benefit of such Lender.

"**Letter of Credit Fee Rate**" means, for any period, with respect to a Letter of Credit, the percentage rate *per annum* applicable to that period as set forth below the heading "Letter of Credit Fee Rate" in the definition of "Applicable Margin".

"**Letter of Credit**" means a standby letter of credit or a commercial letter of credit issued or deemed to be issued by the Issuing Bank pursuant to the Revolving Facility at the request and for the account of such Borrower under this Agreement.

"**LIBO Rate**" means, for each Interest Period for a LIBO Rate Loan, the interest rate expressed as a percentage rate *per* annum calculated on the basis of a 360 day year, equal to:

(i) the rate for deposits in U.S. Dollars in the London, England inter-bank market, for a period comparable to such Interest Period, which appears on the "LIBOROI Page" of the Reuters Money Rates Service (or any successor source from time to time for such rate) as of 11:00 a.m. (London, England time) on the second Business Day preceding the first day of such Interest Period, or

(ii) if a rate is not determinable pursuant to clause (i) of this definition at the relevant time, the average (rounded upward, if necessary, to the nearest whole multiple of 625/10,000 of 1%) of the rates of interest, expressed as rates of interest *per annum* on the basis of a year of 360 days, at which deposits in U.S. Dollars are offered by the principal lending offices in London, England of the Schedule I Reference Lenders to prime banks in the London inter-bank market at approximately 11:00 a.m. (London, England time) on the second Business Day preceding the first day of such Interest Period for a period comparable to the Interest Period and in an amount comparable to the amount of the LIBO Rate Loan to be outstanding during such Interest Period.

"**LIBO Rate Loan**" means a Loan in or Conversion into United States Dollars made by the Lenders to any Borrower with respect to which such Borrower has specified that interest is to be calculated by reference to the LIBO Rate.

"**LIBO Rate Margin**" means, for any period, the applicable percentage rate *per annum* applicable to that period as set forth below the heading "LIBO Rate Margin" in the definition of "Applicable Margin".

"**Loan**" has the meaning set forth in Schedule A.

"**Loan Documents**" means (a) this Agreement, (b) the Security, (c) the Aggregate Repricing Agreement, (d) the agreements relating to each Hedge Arrangement entered into by a Restricted Party with a Lender, and (e) all present and future agreements, documents, certificates and instruments delivered by any Restricted Party to the Administrative Agent or the Lenders pursuant to or in respect of this Agreement or the Security, in each case as the same may from time to time be amended, and "Loan Document" means any one of the Loan Documents.

"**Local Time**" means, (i) with respect to the Canadian Revolving Facility, including the Canadian Swingline Facility, Toronto time, and (ii) with respect to the U.S. Revolving Facility and the U.S. Non-Revolving Term Facility, New York time.

"**Material Adverse Change**" means any change after the date of this Agreement (unless otherwise specified) having a material adverse effect on the business, operations or condition (financial or otherwise) of the Borrowers and the other Restricted Parties, taken as a whole, or on the ability of such parties taken as a whole to carry on their business or a significant part of their business, which would reasonably be expected to cause or result in, or has resulted in, an impairment of the ability of any Borrower to perform any of its Obligations, as determined by the Required Lenders, acting reasonably.

"**Material Contracts**" means, with respect to a particular Restricted Party, the contracts set forth under such Restricted Party's name in Schedule 1.01(d) and all other contracts to which such Person is a party or by which it is bound or may hereafter become a party or be bound, (i) the breach or default of which would cause or result in a Material Adverse Change, and (ii) which is designated by the Administrative Agent, acting reasonably, as a Material Contract provided that the Administrative Agent has notified the Borrowers of such designation, and "**Material Contract**" means any one thereof.

"**Material Licences**" means all licences, permits or approvals issued by any Governmental Authority, or any applicable stock exchange or securities commission, to any Restricted Party, and which are at any time on or after the date of this Agreement:

(i) necessary or material to the business and operations of such Restricted Party, the breach or default of which would cause or result in a Material Adverse Change, and

(ii) designated by the Administrative Agent, acting reasonably, as a Material Licence, provided that the Administrative Agent has notified the Borrowers of such designation;

which as at the date hereof are as set forth on Schedule 1.01(e) hereto.

"**Mills**" means the two oriented strand board manufacturing facilities situated in Allendale County and Clarendon County, South Carolina, each of which will have an expected capacity of at least 800 million square feet (on a 3/8 inch basis) per annum at full operating level, to be constructed for Grant Allendale Inc. or Grant Clarendon Inc. pursuant to the Mills Construction Contracts, together with all buildings, structures and improvements, all alterations thereto or replacement thereof, all fixtures, attachments, appliances, equipment, machinery and other articles attached thereto or used in connection therewith and all Parts which may from time to time be incorporated or installed in or attached thereto, all contracts and agreements for the purchase or sale of commodities or other property related thereto, all leases of real or personal property related thereto, and all other real and tangible and intangible personal property leased or owned by Grant Allendale Inc. or Grant Clarendon Inc. and placed upon or used in connection with the manufacturing of oriented strand board.

"**Mills Budget**" means a budget in the form set forth in Schedule 1.01(k) for all anticipated Mills Costs, together with a statement of sources and uses of proceeds (and any other funds necessary to complete the construction, including starting-up and testing, of the Mills), which describes construction phases, costs and components.

"**Mills Completion**" means, with respect to the Mills, that "Substantial Completion" as defined in the Mills Construction Contracts will have occurred, that the Mills are operating at 60% (or more) of their respective rated capacity for a period of 30 days (or more) and that the output of the Mills is APA certified, all as satisfactorily confirmed by the Independent Engineer in a certificate to the Administrative Agent.

"**Mills Completion Date**" means, with respect to the Mills, the date on which the Mills Completion is effective and specified as such in a certificate of the Independent Engineer to the Administrative Agent.

"**Mills Construction Contracts**" means, collectively, the Engineering Services Contract dated as of April 28, 2005 with UMA/AECOM and the Installation Services Contract dated as of July 1, 2005 with Wabi America, Inc., in each case, with a Restricted Party, and separately, each a "**Mills Construction Contract**".

"**Mills Construction Period**" means, with respect to the Mill at Allendale County, South Carolina, the period from February 1, 2005 to and including March 31, 2007, and, with respect to the Mill at Clarendon County, South Carolina, the period from February 1, 2005 to and including December 31, 2007.

"**Mills Construction Schedule**" means the schedule for the construction and completion of the Mills as set forth in Schedule 1.01(m).

"**Mills Costs**" means (a) the cost of designing, engineering, equipping, procuring, constructing, starting up and testing the Mills; (b) the cost of acquiring any lease and any other necessary interest in the Property with respect to the Mills; (c) real and personal property taxes, *ad valorem* taxes, sales, use and excise taxes and insurance (including title insurance) premiums payable with respect to the Mills during the Mills Construction Period; (d) the costs of acquiring Material Licences for the Mills during the Mills Construction Period; (e) the cost of establishing a spare parts inventory for the Mills; and (f) other fees, costs and expenses relating to the development, construction and closing of the financing for the Mills, including financial, legal and consulting fees, costs and expenses.

"**Mills Operating Projections**" means a projection of operating results, expenses and cash flows for the Mills in the form set forth in Schedule 1.01(l).

"**Multiemployer Plan**" means a multiemployer plan as defined in Section 4001(a)(3) of ERISA.

"**Net Income**" means, with respect to any Person for any period, the net revenue of such Person for such period on a consolidated basis, less all expenses and other charges not otherwise deducted in computing such net revenue for such period, determined in accordance with GAAP, but excluding extraordinary items as determined in accordance with GAAP, earnings resulting from any reappraisal, revaluation or other write-up of assets and gains arising from the repurchase of any equity security of such Person or any Subsidiary.

"**Net Proceeds**" means, (a) with respect to any Disposition, the aggregate fair market value of proceeds of such Disposition (whether such proceeds are in the form of cash or other Property or part cash and part other Property) net of reasonable, *bona fide* direct transaction costs and expenses incurred in connection with such Disposition, including (i) reasonable legal fees and disbursements, the customary fees of agents or brokers payable in connection with such Disposition within one year of such Disposition and title and recording expenses payable in connection with such Disposition, and (ii) payment of the outstanding principal amount of, premium or penalty, if any, and interest on any Debt that is secured by a Permitted Encumbrance, if any, on any of the Property that is the subject matter of such Disposition ranking in priority to the Encumbrance of the Security and that is required to be repaid under the terms of such Debt as a result of such Disposition; or (b) with respect to insurance, the aggregate insurance proceeds in respect of Property, net of reasonable, *bona fide* direct recovery costs, provided that such amounts have not been or are not being applied to restore or rebuild the Property or acquire other Property as permitted or required by Section 9.01(8) of this Agreement.

"**Non BA Lender**" means any Lender that is not a BA Lender.

"**Obligations**" means, without duplication, all obligations of each Restricted Party to the Administrative Agent, the Lenders, or any of them, under or in connection with this Agreement or the other Loan Documents, including all debts and liabilities, present or future, direct or indirect, absolute or contingent, matured or not, at any time owing by any Borrower to the Administrative Agent or the Lenders, or any of them, in any currency or remaining unpaid by such Borrower to the Administrative Agent or the Lenders, or any of them, under or in connection with this Agreement or the other Loan Documents whether arising from dealings between the Administrative Agent or the Lenders, or any of them, and such Borrower or from any other dealings or proceedings by which the Administrative Agent or the Lenders, or any of them, may be or become in any manner whatever a creditor of such Borrower pursuant to this Agreement or the other Loan Documents, and wherever incurred, and whether incurred by such Borrower alone or with another or others and whether as principal or surety, and all interest, fees, legal and other costs, charges and expenses relating thereto.

"**Obligors**" has the meaning set forth in Schedule A.

"**Officers' Certificate**" means a certificate signed by any one of the President, a Senior Vice-President or the Chief Financial Officer of any Borrower or other Restricted Party, as the case may be, or by any other senior officer of such Borrower or other Restricted Party acceptable to the Administrative Agent.

"**Organizational Documents**" means, with respect to any Person, such Person's articles, memorandum or other charter documents, partnership agreement, joint venture agreement, declaration of trust, trust agreement, by-laws, unanimous shareholder agreement, or any and all other similar agreements, documents and instruments pursuant to which such Person is constituted, organized or governed.

"Other Lenders" means all Lenders that are incorporated or otherwise established under the laws of Canada or the laws of a province or territory of Canada, other than Schedule I Lenders and Schedule II Lenders.

"Other Taxes" has the meaning set forth in Schedule A.

"Participant" has the meaning set forth in Schedule A.

"Parts" means any part, appliance, instrument, appurtenance, accessory or other personal property of any nature necessary or useful to the operation, maintenance, service or repair of the Mills.

"Pension Plan" means (i) a "pension plan" or "plan" which is a "registered pension plan" as defined in the *Income Tax Act* (Canada) or is subject to the funding requirements of applicable pension benefits legislation in any Canadian jurisdiction and is applicable to employees resident in Canada of a Restricted Party, (ii) a "pension plan", as such term is defined in Section 3(2) of ERISA, which is subject to Title IV of ERISA (other than a multiemployer plan as defined in Section 4001(a)(3) of ERISA), and to which a Restricted Party may reasonably be expected to have liability, including any liability by reason of having been a substantial employer within the meaning of Section 4063 of ERISA at any time during the preceding five years, or by reason of being deemed to be a contributing sponsor under Section 4069 of ERISA, or (iii) any other pension benefit plan or similar arrangement applicable to employees of a Restricted Party.

"Permitted Capital Expenditures" means Capital Expenditures made by Restricted Parties in any fiscal year of the Canadian Borrower not in excess of the aggregate of:

(i) $30,000,000;

(ii) if the total amount of Capital Expenditures made by Restricted Parties after the date of this Agreement but in the then next preceding fiscal year of the Canadian Borrower was less than $30,000,000, an amount equivalent to such difference; and

(iii) if the total amount of Distributions made after the date of this Agreement but in such fiscal year (and all preceding fiscal years) of the Canadian Borrower was less than the total amount of the Distributions permitted to be made during such period pursuant to this Agreement, an amount (without duplication) equivalent to such difference; and

(iv) in addition to the foregoing, all Mills Costs.

"Permitted Debt" means:

(i) Debt under this Agreement;

(ii) Debt owing by a Restricted Party to any other Restricted Party so long as any security for such Debt is subordinated to and in favour of the Security, in a manner that is acceptable to the Administrative Agent;

(iii) Debt in respect of Purchase Money Security Interests (including by way of Capital Leases) granted by a Restricted Party provided the total principal amount thereof does not exceed U.S. $10,000,000;

(iv) Debt in respect of the Footner Buyout Financing by a Restricted Party provided the total principal amount thereof does not exceed Cdn. $50,000,000 (and including Debt pursuant to guarantees by other Restricted Parties with respect thereto);

(v) Debt under Hedge Arrangements;

(vi) Debt under Commodity Hedge Arrangements;

(vii) Debt of the Footner Joint Venture provided the total principal amount thereof does not exceed Cdn. $5,000,000 in respect of the acquisition or development of the Property of the Footner Joint Venture;

(viii) Subordinated Debt;

(ix) Shareholder Loans;

(x) until the first advance is made under this Agreement, Debt owing pursuant to or in respect of the BMO Credit Agreement or BMO Hedge Agreements provided that the total principal amount of such Debt under the BMO Credit Agreement (excluding any amount owing under the BMO Hedge Agreements) does not exceed U.S. $10,000,000; and

(xi) other Debt in a total amount not exceeding U.S. $1,000,000.

"**Permitted Encumbrances**" means, with respect to any Person, the following:

(i) liens for Taxes, rates, assessments or other governmental charges or levies not yet due, or for which instalments have been paid based on reasonable estimates pending final assessments, or if due, the validity of which is being contested diligently and in good faith by appropriate proceedings by that Person;

(ii) undetermined or inchoate liens, statutory liens, rights of distress and charges incidental to current operations that have not at such time been filed or exercised and of which none of the Lenders has been given notice, or that relate to obligations not due or payable, or if due, the validity of which is being contested diligently and in good faith by appropriate proceedings by that Person;

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

(iv) licences, easements, rights-of-way and rights in the nature of easements (including licences, easements, rights-of-way and rights in the nature of easements for railways, sidewalks, public ways, sewers, drains, gas, steam and water mains or electric light and power, or telephone and telegraph conduits, poles, wires and cables) that do not materially impair the use of the affected land for the purpose for which it is used by that Person;

(v) title defects, irregularities or other matters relating to title that are of a minor nature and that in the aggregate do not materially impair the use of the affected property for the purpose for which it is used by that Person;

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

(vii) the Encumbrance resulting from the deposit of cash or securities in connection with contracts, tenders or expropriation proceedings, or to secure workmen's compensation, unemployment insurance, surety or appeal bonds, costs of litigation when required by law not to exceed U.S. $2,000,000 in aggregate outstanding at any time, liens and claims incidental to current construction, mechanics', warehousemen's, carriers' and other similar liens, and public, statutory and other like obligations incurred in the ordinary course of business;

(viii) security given to a public utility or any Governmental Authority when required by such utility or authority in connection with the operations of that Person in the ordinary course of its business;

(ix) the Encumbrance created by a judgement of a court of competent jurisdiction, as long as the judgement is being contested diligently and in good faith by appropriate proceedings by that Person and does not result in an Event of Default;

(x) the Security;

(xi) any Encumbrance securing Permitted Debt (other than Subordinated Debt), provided that the Encumbrance (and all rights relating thereto) conforms to the requirements of this Agreement;

(xii) any Encumbrance described in Schedule 1.01(f);

(xiii) security interests in all the undertakings and existing and after-acquired assets of all Restricted Parties securing Debts incurred by any of the Borrowers (or any of their respective Subsidiaries) for the purpose of financing all or part of the cost of acquiring the remaining 50% interest in the Footner Joint Venture and the remaining 50% of the shares of Footner Forest Products Ltd. currently owned by Ainsworth Lumber Co. Ltd. or one or more of its Subsidiaries or Affiliates; provided, however, that (a) the principal amount of the Debt secured thereby does not exceed 100% of the fair market value of the 50% interest in the Footner Joint Venture and the remaining 50% of the shares of Footner Forest Products Ltd. at the time of the incurrence of such Debt, (b) the aggregate principal amount of all Debt secured thereby will not at any time exceed Cdn. $50,000,000 and will rank *pari passu* with the Obligations, (c) the Borrowers will confirm full compliance on a *pro forma* basis of all covenants hereunder, including the ability to Drawdown an additional U.S. $1.00, in form and substance satisfactory to the Required Lenders, (d) the documentation with respect to such acquisition will be subject to the prior written approval of the Required Lenders, and (e) if such financing is made, in whole or in part, by Subordinated Debt, or other form of debt financing (whether subordinated or not), provided by lenders, the lenders in respect of such debt financing will enter into an intercreditor agreement with the Lenders, on terms and conditions satisfactory to the Required Lenders, which provides for the equal priority ranking of all security of such lenders and the Security (the "**Footner Buyout Financing**");

(xiv) an Encumbrance resulting from the deposit of cash or the issue of bonds in order to effect the discharge of construction liens, mechanics' liens or other similar liens from title to the real property on which either of the Mills is located;

(xv) security granted by Grant Allandale Inc. or Grant Clarendon Inc. to Southeast Properties Inc. as security for indebtedness owing by Grant Allandale Inc. or Grant Clarendon Inc., respectively, to Southeast Properties Inc. so long as it is subordinated to the applicable Security in a manner that is acceptable to the Administrative Agent; and

(xvi) Encumbrances securing the obligations under the BMO Credit Agreement until discharged as contemplated in Sections 3.01(f) and (g) hereof.

"**Permitted Investments**" means: (i) the current 50% interest of the Canadian Borrower in the Footner Joint Venture and its shares of Footner Forest Products Ltd.; (ii) the investment contemplated by the Footner Buyout; (iii) the preferred shares of Grant Equipment Corp. to be acquired by the Canadian Borrower in respect of the Grant Equipment Transaction; (iv) capital contributions and loans by one Restricted Party to another Restricted Party; and (v) shares and partnership interests in a Restricted Party.

"**Person**" has the meaning set forth in Schedule A.

"**Peter Grant Family**" means Peter Grant Sr. and his direct or indirect issue.

"**Peter Grant Family Trust**" means Twin Lakes Trust created by a Declaration of Trust dated June 10, 1998.

"**Preferred Shares**" means 112,000 preferred shares issued and outstanding in the capital of the Canadian Borrower and currently held by Grant Forest Products Corp.

"**Property**" means, with respect to any Person, all or any portion of that Person's undertaking and property, both real and personal, including immovable and movable property.

"**Purchase Money Security Interest**" means an Encumbrance created or incurred by a Restricted Party securing Debt incurred to finance the acquisition of Property (including the cost of installation thereof), provided that (i) such Encumbrance is created substantially simultaneously with the acquisition of such Property, (ii) such Encumbrance does not at any time encumber any Property other than the Property financed by such Debt, (iii) the amount of Debt secured thereby is not increased subsequent to such acquisition, (iv) the principal amount of Debt secured thereby at no time exceeds 100% of the original purchase price of such Property and the cost of installation thereof, and (v) the aggregate of all Debts secured thereby will not at any time exceed U.S. $10,000,000; and for the purposes of this definition the term "acquisition" includes a Capital Lease.

"**Register**" has the meaning set forth in Section 10(c) of Schedule A.

"**Related Parties**" has the meaning set forth in Schedule A.

"**Release**" means any release or discharge of any Hazardous Substance including any discharge, spray, injection, inoculation, abandonment, deposit, spillage, leakage, seepage, pouring, emission, emptying, throwing, dumping, placing, exhausting, escape, leach, migration, dispersal, dispensing or disposal.

"**Relevant Amount**" has the meaning set forth in Section 5.02(5).

"**Relevant Jurisdiction**" means, from time to time, with respect to a Person that is granting Security hereunder, any province or territory of Canada, any state of the United States or any other country or political subdivision thereof in which such Person has its chief executive office or chief place of business or has Property and, for greater certainty, includes the provinces and states set forth in Schedule 1.01(g).

"**Relevant Quarter**" has the meaning set forth in Section 4.05(1).

"**Repayment Notice**" means the notice substantially in the form set forth in Schedule 1.01(h).

"**Required Lenders**" means (i) if no Loans or Letters of Credit are outstanding under this Agreement, the Lenders holding at least 66 2/3% of the aggregate amount of Commitments, and (ii) if any Loans or Letters of Credit are outstanding under this Agreement, the Lenders holding 66 2/3% of the aggregate amount of both drawn and undrawn Commitments (with the obligation owed under outstanding Letters of Credit to the Issuing Bank in respect of such outstanding Letters of Credit being treated as an obligation owed to the participating Lenders *pro rata*).

"**Requirements of Law**" means, with respect to any Person, the Organizational Documents of such Person and any Applicable Law or any determination of a Governmental Authority, in each case applicable to or binding upon such Person or any of its business or Property or to which such Person or any of its business or Property is subject.

"**Restricted Parties**" means the Borrowers and the Guarantors and their respective successors and assigns permitted by this Agreement, and "Restricted Party" means any one of them.

"**Revolving Period**" means, in relation to the Revolving Facilities, the period commencing on the Closing Date and ending on the Revolving Facility Maturity Date.

"**Revolving Facilities**" means collectively the Canadian Revolving Facility and the U.S. Revolving Facility, and, as the context may require, individually a "Revolving Facility".

"**Revolving Facility Maturity Date**" has the meaning set forth in Section 2.04(1).

"**Rollover**" means the acceptance of a Bankers' Acceptance in like principal amount upon the maturity of a Bankers' Acceptance or the extension of a LIBO Rate Loan or a BA Equivalent Note for an additional Interest Period.

"**Rollover Date**" means the date of commencement of a new Interest Period applicable to a Bankers' Acceptance, BA Equivalent Note or LIBO Rate Loan that is being rolled over.

"**Rollover Notice**" means the notice, substantially in the form set forth in Schedule 1.01(i), to be given to the Administrative Agent by any Borrower in connection with the Rollover of a Bankers' Acceptance, BA Equivalent Note or LIBO Rate Loan.

"**Schedule I Lenders**" means those banks that are chartered under the *Bank Act* (Canada) and named in Schedule I thereto, and "Schedule I Lender" means each such bank.

"**Schedule II Lenders**" means those banks that are chartered under the *Bank Act* (Canada) and named in Schedule II thereto, and "Schedule II Lender" means each such bank.

"**Schedule I Reference Lenders**" means, collectively, The Toronto-Dominion Bank and any other Schedule I Lender selected by the Administrative Agent in consultation with the Borrowers.

"**Schedule II Reference Lenders**" means, collectively, up to three Schedule II Lenders selected by the Administrative Agent, in its discretion, as being in the opinion of the Administrative Agent representative of the Schedule II Lenders.

"**Security**" means the documents creating an Encumbrance of any collateral held from time to time by, the Lenders or on behalf of the Lenders by the Administrative Agent, in each case securing or intended to secure payment and performance of the Obligations, including without limitation all security described in Article 10.

"**Senior Debt**" means, with respect to the Borrowers on a consolidated basis, without duplication, the total of all amounts outstanding under the Credit Facilities, plus the following amounts: (i) the total of all amounts owing by Restricted Parties and secured by Permitted Encumbrances that rank *pari passu* with or in priority to the Security; and (ii) the Aggregate Exposure on all Hedge Arrangements (excluding Third Party Commodity Hedge Arrangements); less the following: (i) the minimum amount of Cash or Cash Equivalents balances during the most recent quarter not exceeding U.S. $50 million; and (ii) the total potential value of all Hedge Arrangements (excluding Third Party Commodity Hedge Arrangements) of the Restricted Parties that are in-the-money calculated on a mark-to-market basis up to a maximum value of U.S. $15,000,000; but excluding (i) current trade payables, accrued liabilities, minority interest, income taxes payable and deferred income taxes; and (ii) Subordinated Debt.

"**Senior Debt to Capitalization Ratio**" means, at any time, with respect to the Canadian Borrower on a consolidated basis, the ratio of (i) Senior Debt at such time, to (ii) Capitalization at such time, in each case consolidated with respect to all Restricted Parties, whether or not such consolidation complies with GAAP.

"**Shareholders' Equity**" means from time to time the consolidated equity of the Canadian Borrower as determined in accordance with GAAP as shown on the most recent consolidated balance sheet of the Canadian Borrower plus an amount equal to any and all outstanding loans (including Shareholder Loans) made to the Canadian Borrower by its direct or indirect shareholders provided that, by agreement or by its or their terms, payment of interest thereon and principal thereof is postponed and subordinated in right of payment to the Obligations and the Security on terms satisfactory to the Required Lenders.

"**Shareholder Loans**" means amounts owing in respect of any loan made to the Canadian Borrower by 1308406 Ontario Inc. provided that, by agreement or by its terms, payment of interest thereon and principal thereof is postponed and subordinated in right of payment to the Obligations and the Security on terms satisfactory to the Required Lenders.

"**Software**" means, with respect to any Restricted Party, all software of such Restricted Party including the computer programs known by the names as set forth in Schedule 1.01(j), including all versions thereof, and all related documentation, manuals, source code and object code, program files, data files, computer related data, field and data definitions and relationships, data definition specifications, data models, program and system logic, interfaces, program modules, routines, sub-routines, algorithms, program architecture, design concepts, system designs, program structure, sequence and organization, screen displays and report layouts, and all other material related to such software.

"**Software Products**" means, individually or collectively, as appropriate, all Software and Documentation that have been, are or may be provided to a Restricted Party.

"**Subordinated Debt**" means any unsecured Debt of any Person that has been subordinated in right to payment to the Obligations on terms satisfactory to the Required Lenders and includes the current Shareholder Loans.

"**Subsidiary**" means, at any time, with respect to any Person, any other Person, if at such time the first mentioned Person (i) owns, directly or indirectly, securities or other ownership interests in such other Person, having ordinary voting power to elect a majority of the board of directors or persons performing similar functions for such other Person, and (ii) directly or indirectly, through the operation of any agreement or otherwise, the ability to elect or cause the election of a majority of the board of directors or other persons performing similar functions for such other Person or otherwise exercise control over the management and policies of such other Person, and in either case will include any other Person in like relationship to a Subsidiary of such first mentioned Person.

"**Swingline Lender**" means a Canadian Swingline Lender or a U.S. Swingline Lender.

"**Taxes**" has the meaning set forth in Schedule A.

"**Third Party Commodity Hedge Arrangement**" means a Commodity Hedge Arrangement that is entered into by a Restricted Party with a Person that is not a Lender.

"**Total Debt**" means, without duplication, with respect to any Person on a consolidated basis, the total of all amounts of obligations in respect of borrowed money, plus the following: (i) the total of all amounts paid and/or payable in respect of the Capital Leases, (ii) the Aggregate Exposure on all Hedge Arrangements, (iii) the total of all amounts under Letters of Credit, and (iv) the total of all amounts in respect of guarantees, less the following: (i) the minimum amount of Cash and Cash Equivalents balances during the most recent quarter not exceeding U.S. $50 million, and (ii) the total potential value of all Hedge Arrangements (excluding Third Party Commodity Hedge Arrangements) of the Restricted Parties that are in-the-money calculated on a mark-to-market basis up to a maximum value of U.S. $15,000,000; and (iii) the amount of any Shareholder Loans.

"**Total Debt to Capitalization Ratio**" means, with respect to the Canadian Borrower on a consolidated basis, the ratio calculated at the end of a fiscal quarter obtained by dividing (i) the Total Debt of the Borrowers as at such time, by (ii) the Capitalization of the Borrowers as at such time, in each case consolidated with respect to all Restricted Parties, whether or not such consolidation complies with GAAP.

"**Total Interest Expense**" means, with respect to any Person for any period, without duplication, the aggregate amount of interest and other financing charges (other than up-front commitment fees paid in respect of this Agreement or the commitments relating thereto) expensed by such Person on account of such period with respect to Debt, including distributions in respect of the Preferred Shares outstanding on the Closing Date, any distribution on other shares of the Canadian Borrower and any repayment of principal or payment of interest on any Shareholder Loans, existing now or hereafter created, interest, discount financing fees, commissions, discounts, the interest or time value of money component of costs related to factoring or securitizing receivables or monetizing inventory and other fees and charges payable with respect to letters of credit, letters of guarantee and bankers' acceptance financings, standby fees, the interest component of Capital Leases and net payments (if any) pursuant to Hedge Arrangements involving interest (but excluding any amount, such as amortization of debt discount and expenses, that would qualify as Depreciation Expense and the amount reflected in Net Income for such period in respect of gains (or losses) attributable to translation of Debt from one currency to another currency) and less all interest income earned during such period, all as determined on a consolidated basis in accordance with GAAP.

"**United States Dollars**", "**U.S. Dollars**" and "**U.S. $**" means the lawful money of the United States of America.

"**U.S. Administrative Agent**" means Toronto Dominion (Texas) LLC in its capacity as administrative agent for the U.S. Revolving Facility Lenders and the U.S. Non-Revolving Term Facility Lenders under this Agreement, and its successors and permitted assigns in such capacity.

"**U.S. Administrative Agent's Office**" means the branch of the U.S. Administrative Agent located at 31 West 52nd Street, 22nd Floor, New York, New York 10019, Facsimile: 212-827-7820 (with a copy faxed to 416-307-3826), or such other office in such State in the United States that the U.S. Administrative Agent may from time to time designate by notice to the Borrowers.

"**U.S. Borrower**" means Grant U.S. Holdings LLP and its successors and permitted assigns.

"**U.S. Facility Lender**" means any of the U.S. Non-Revolving Term Facility Lenders, U.S. Revolving Facility Lenders and the U.S. Swingline Lender.

"**U.S. Non-Revolving Period**" means, in relation to the U.S. Non-Revolving Term Facility, the period commencing on the Closing Date and ending on the U.S. Non-Revolving Term Facility Maturity Date.

"**U.S. Non-Revolving Term Facility**" has the meaning set forth in Section 2.01(1)(b).

"**U.S. Non-Revolving Term Facility Lenders**" means from time to time Lenders providing a Commitment with respect to the U.S. Non-Revolving Term Facility.

"**U.S. Non-Revolving Term Facility Maturity Date**" has the meaning set forth in Section 2.04(2).

"**U.S. Prime Rate**" means for any day a fluctuating rate per annum equal to the greater of (i) the rate in effect for such day as announced by the U.S. Administrative Agent from time to time and used by it as a reference rate for commercial loans made by it in the United States and denominated in United States Dollars and (ii) the sum of the Federal Funds Effective Rate plus 1.00% per annum.

"**U.S. Prime Rate Loan**" means a Loan in, or Conversion into, United States Dollars with respect to which the U.S. Borrower has specified that interest is to be calculated by reference to the U.S. Prime Rate.

"**U.S. Prime Rate Margin**" means, for any period, the applicable percentage rate per annum applicable to that period as set forth below the heading "U.S. Prime Rate Margin" in the applicable table in the definition of "Applicable Margin".

"**U.S. Revolving Facility**" has the meaning set forth in Section 2.01(1)(a).

"**U.S. Revolving Facility Lenders**" means each of the Lenders identified from time to time as a Lender providing a Commitment with respect to the U.S. Revolving Facility.

"**U.S. Swingline Facility**" has the meaning set forth in Section 2.03(1).

"**U.S. Swingline Lender**" means the Lender identified from time to time as the U.S. Swingline Lender in Schedule B.

"**U.S. Swingline Loan**" has the meaning set forth in Section 2.03(2).

"**Voting Shares**" means shares of any class of a corporation or company carrying a voting right under all circumstances.

"**Welfare Plan**" means a "welfare plan" as such term is defined in Section 3(1) of ERISA.

1.07 **Conflicts**

In the event of a conflict between the provisions of this Agreement and the provisions of any other Loan Document, then, unless such Loan Document or an acknowledgement from the Restricted Party and the Administrative Agent relative to such Loan Document expressly states that this Section 1.07 is not applicable to such Loan Document, notwithstanding anything else contained in such other Loan Document, the provisions of this Agreement will prevail and the provisions of such other Loan Document will be deemed to be amended to the extent necessary to eliminate such conflict.

1.08 **Schedules**

The following are the Schedules attached hereto and incorporated by reference and deemed to be part hereof:

Schedule A	-	Model Credit Agreement Provisions
Schedule B	-	Lenders and Commitments
Schedule 1.01(a)	-	Compliance Certificate
Schedule 1.01(b)	-	Conversion Notice
Schedule 1.01I	-	Drawdown Notice
Schedule 1.01(d)	-	Material Contracts
Schedule 1.01(e)	-	Material Licences
Schedule 1.01(f)	-	Additional Permitted Encumbrances
Schedule 1.01(g)	-	Relevant Jurisdictions
Schedule 1.01(h)	-	Repayment Notice
Schedule 1.01(i)	-	Rollover Notice
Schedule 1.01(j)	-	Software
Schedule 1.01(k)	-	Mills Budget
Schedule 1.01(l)	-	Mills Projections of Operating Results, Expenses and Cash Flow
Schedule 1.01(m)	-	Mills Construction Schedule
Schedule 1.01(n)	-	BMO Existing Letters of Credit
Schedule 1.01(o)	-	Hedge Arrangements
Schedule 1.01(p)	-	Grant Equipment Transaction
Schedule 2.01(2)	-	Commitment Reallocation Notice
Schedule 8.01(17)	-	Ownership Structure
Schedule 8.01(19)	-	Real Property
Schedule 8.01(21)	-	Intellectual Property Rights
Schedule 8.01(27)	-	Pension Plan Disclosure
Schedule 8.01(33)	-	List of Documents Required to be Delivered by the Borrowers at Signing

ARTICLE 2 - THE CREDIT FACILITIES

2.01 **Borrowers Facilities and Reallocation of Commitments**

(1) Subject to the terms and conditions of this Agreement, the Lenders establish in favour of the Borrowers:

(a) a revolving facility (the "**Revolving Facility**") in an amount up to U.S. $227,500,000 which will only be available during the Revolving Period and which Revolving Facility includes (i)

"**Withdrawal Liability**" means liability to a Multiemployer Plan as a result of a complete or partial withdrawal from such Multiemployer Plan, as such terms are defined in Part I of Subtitle E of Title IV of ERISA.

1.02 **Accounting Principles**

All accounting terms not defined herein will be construed, and all financial computations required under this Agreement, including calculations for the purpose of determining compliance with the financial ratios and financial covenants in this Agreement, will be made, in accordance with GAAP, consistently applied; provided, however, that if the Borrowers notify the Administrative Agent that the Borrowers wish to amend the financial ratios or financial covenants in this Agreement to eliminate the effects of any change in GAAP on the operation of such financial ratios or financial covenants (or if the Administrative Agent notifies the Borrowers that the Required Lenders wish to amend the financial ratios or financial covenants in this Agreement for such purpose), then the Borrowers' compliance with such financial ratios or financial covenants in this Agreement will be determined on the basis of GAAP in effect immediately before the relevant change in GAAP became effective, until other such notice is withdrawn or such financial ratios or financial covenants are amended in a manner reasonably satisfactory to the Borrowers and the Required Lenders.

1.03 **Interest Calculations and Payments**

Unless otherwise stated, wherever in this Agreement reference is made to a rate of interest "*per annum*" or a similar expression is used, such interest will be calculated on the basis of a calendar year of 365 days or 366 days, as the case may be, and using the nominal rate method of calculation and not the effective rate method of calculation or on any other basis that gives effect to the principle of deemed reinvestment of interest. Interest will continue to accrue after maturity and default and/or judgment, if any, until payment in full thereof, and interest will accrue on overdue interest, if any.

1.04 **Interest Act (Canada)**

For the purposes of disclosure under the Interest Act (Canada) and for this Agreement, whenever interest to be paid hereunder is to be calculated on the basis of 360 days or any other period of time that is less than a calendar year, the yearly rate of interest to which the rate determined pursuant to such calculation is equivalent is the rate so determined multiplied by the actual number of days in the calendar year in which the same is to be ascertained and divided by 360 or such other number of days in such period, as the case may be.

1.05 **Permitted Encumbrances**

The inclusion of reference to Permitted Encumbrances in any Loan Document is not intended to subordinate and will not subordinate, any Encumbrance created by any of the Security to any Permitted Encumbrance.

1.06 **Currency**

Unless otherwise specified in this Agreement, all references to currency (without further description) are to lawful money of the United States of America.

a Canadian Revolving Facility (the **"Canadian Revolving Facility"**) in an amount up to U.S. $25,000,000 (or the Equivalent Amount in Canadian Dollars) that will, except as otherwise provided in Section 2.01(2), only be made available to the Canadian Borrower and which Canadian Revolving Facility includes a Canadian Swingline Facility in an amount up to U.S. $25,000,000 (or the Equivalent Amount in Canadian Dollars); and (ii) a U.S. Revolving Facility (the **"U.S. Revolving Facility"**) in an amount up to U.S. $202,500,000 that will, except as otherwise provided in Section 2.01(2), only be made available to the U.S. Borrower and which U.S. Revolving Facility includes a U.S. Swingline Facility in an amount initially set at no availability, subject to Section 2.01(2); and

(b) a non-revolving term facility (the **"U.S. Non-Revolving Term Facility"**) in an amount of U.S. $172,500,000, which facility will be available only during the U.S. Non-Revolving Period and will only be made available to the U.S. Borrower;

provided, however, that (A) at no time will the aggregate amount outstanding or available under the Canadian Revolving Facility, including the Canadian Swingline Facility, and the U.S. Revolving Facility, including the U.S. Swingline Facility, exceed U.S. $227,500,000 (or Equivalent Amount in Canadian Dollars); (B) (i) Drawdowns under the Canadian Revolving Facility will only be made from the Canadian Revolving Facility Lenders, (ii) draws under the Canadian Swingline Facility will only be made from the Canadian Swingline Lender, (iii) Drawdowns under the U.S. Revolving Facility will only be made from the U.S. Revolving Facility Lenders, (iv) Drawdowns under the U.S. Swingline Facility will only be made from the U.S. Swingline Lender; and (v) Drawdowns under the U.S. Non-Revolving Term Facility will only be made from the U.S. Non-Revolving Term Facility Lenders; (C) at no time will any Lender be obligated to advance, except under the Canadian Swingline Facility and under the U.S. Swingline Facility, with respect to any Loan or Letter of Credit such that after giving effect to any such advance, (x) the aggregate outstanding Loans (excluding the Loans under the Canadian Swingline Facility and the U.S. Swingline Facility) and Letters of Credit would exceed 100% of the Mills Costs incurred, less the aggregate Equity Contributions which have been made to such time, as shown in a report from the Borrowers delivered to the Administrative Agent pursuant to this Agreement or (y) the Costs to Complete would at such time exceed the sum of the remaining availability under the Revolving Facility (other than the remaining availability under the Canadian Swingline Facility and the U.S. Swingline Facility) and the U.S. Non-Revolving Term Facility; (D), with respect to the Revolving Facility (excluding the Loans under the Canadian Swingline Facility and the U.S. Swingline Facility) and the U.S. Non-Revolving Term Facility, each Drawdown will be made on a *pro rata* basis between the Revolving Facilities, on the one hand, and the U.S. Non-Revolving Term Facility, on the other hand; provided, however, that any Loan repaid under the U.S. Revolving Facility will not be redrawn on a *pro rata* basis between a Revolving Facility and the U.S. Non-Revolving Term Facility; and (E) Loans under the Revolving Facilities repaid may be reborrowed and Loans under the U.S. Non-Revolving Term Facility repaid may not be reborrowed. A Conversion or Rollover of a Loan shall be deemed for all purposes not to be a repayment or a reborrowing of a Loan. For greater certainty, Drawdowns made by the Borrowers under the Canadian Swingline Facility and the U.S. Swingline Facility will not be limited by and will be made without any reference to the Mills Budget, the Mills Construction Schedule, the Mills Costs or the Costs to Complete.

(2) The Borrowers may, once every quarter, upon at least 10 Business Days' written notice (the **"Commitment Reallocation Notice"**) to the Administrative Agent, elect jointly to reallocate the Commitments of the Lenders with respect to, and as between, (i) the Canadian Swingline Facility and the U.S. Swingline Facility, and (ii) the Canadian Revolving Facility and the U.S. Revolving Facility, with effect at 11:00 a.m. (Local Time) on the date specified by the Borrowers in such notice, which Commitment reallocation date will not be earlier than the following Business Day after the 10 Business Day's prior notice.

(3) The Administrative Agent will promptly notify the Lenders of its receipt of a Commitment Reallocation Notice under Section 2.01(2).

2.02 **Canadian Swingline Facility**

(1) Subject to the terms and conditions of this Agreement, the Canadian Swingline Lender establishes in favour of the Canadian Borrower a revolving facility that is part of the Canadian Revolving Facility on the terms set forth in this Section 2.02 (the "**Canadian Swingline Facility**") up to the amount specified in Section 2.02(3).

(2) At any time that the Canadian Borrower would be entitled to obtain Canadian Prime Rate Loans under the Canadian Revolving Facility, the Canadian Borrower will be entitled to draw cheques on its Canadian Dollar chequing account maintained from time to time with the Canadian Swingline Lender at the Lending Office of the Canadian Swingline Lender specified in Schedule B (or such other accounts with the Canadian Swingline Lender at such other Lending Office of the Canadian Swingline Lender as may be agreed upon by the Canadian Swingline Lender and the Canadian Borrower from time to time). The debit balance from time to time in any such account will be deemed for all purposes hereunder to be a Canadian Prime Rate Loan outstanding to the Canadian Borrower from the Canadian Swingline Lender under the Canadian Revolving Facility. If at any time the Canadian Borrower is a party to a cash concentration agreement between the Canadian Borrower and the Canadian Swingline Lender, the amount of any overdraft from time to time in the Canadian Dollar concentration account of the Canadian Borrower established pursuant to such arrangement (which for greater certainty may include one of the accounts identified above) will also be deemed to be a Canadian Prime Rate Loan outstanding to the Canadian Borrower from the Canadian Swingline Lender under the Canadian Revolving Facility. A Canadian Prime Rate Loan from the Canadian Swingline Lender as contemplated by this Section 2.02(2) is referred to as a "**Canadian Swingline Loan**".

(3) The outstanding Canadian Dollar amount of all Canadian Swingline Loans at any time may not exceed the lesser of:

(a) the Equivalent in Canadian Dollars of U.S. $25,000,000; and

(b) the amount, if any, by which the limit of the Canadian Revolving Facility at such time exceeds the Canadian Dollar amount of all Loans (including Canadian Swingline Loans) and the face amount of all Letters of Credit outstanding at such time under the Canadian Revolving Facility;

provided, however, that (i) the total amount outstanding under the U.S. Revolving Facility (including the U.S. Swingline Facility) and the Equivalent Amount in U.S. Dollars of the amount outstanding under the Canadian Revolving Facility (including the Canadian Swingline Facility) will not at any time exceed U.S. $227,500,000; and (ii) the total amount outstanding by way of Canadian Swingline Loans and U.S. Swingline Loans shall not at any time exceed U.S. $25,000,000 (or the Equivalent Amount in Canadian Dollars).

2.03 **U.S. Swingline Facility**

(1) Subject to the terms and conditions of this Agreement, the U.S. Swingline Lender establishes in favour of the U.S. Borrower a revolving facility that is part of the U.S. Revolving Facility on the terms set forth in this Section 2.03 (the "**U.S. Swingline Facility**") up to the amount specified in Section 2.03(3).

(2) At any time that the U.S. Borrower would be entitled to obtain U.S. Prime Rate Loans under the U.S. Revolving Facility, the U.S. Borrower will be entitled to request by way of notice (electronic or

otherwise) to the U.S. Swingline Lender and the U.S. Administrative Agent an advance of funds in United States Dollars up to the amount available at that time under the U.S. Swingline Facility from the U.S. Swingline Lender and the U.S. Swingline Lender will advance such funds to the U.S. Borrower by depositing such funds to the account of the U.S. Borrower at a bank in the United States selected by the U.S. Borrower (and notice of which has been given in writing to the U.S. Administrative Agent by the U.S. Borrower) on a same day basis so long as such request has been received prior to 10:00 a.m.(New York time) on such day. The amount advanced from time to time will be deemed for all purposes to be a U.S. Prime Rate Loan outstanding to the U.S. Borrower from the U.S. Swingline Lender under the U.S. Revolving Facility. A U.S. Prime Rate Loan from the U.S. Swingline Lender as contemplated by this Section 2.03(2) is referred to as a **"U.S. Swingline Loan"**.

(3) The outstanding U.S. Dollar amount of all U.S. Swingline Loans at any time may not exceed the lesser of:

(a) U.S. $25,000,000; and

(b) the amount, if any, by which the limit of the U.S. Revolving Facility at such time exceeds the U.S. Dollar amount of all Loans (including U.S. Swingline Loans) and the face amount of all Letters of Credit outstanding at such time under the U.S. Revolving Facility,

provided, however, that the total amount outstanding under the U.S. Revolving Facility (including the U.S. Swingline Facility) and the Equivalent Amount in U.S. Dollars of the amount outstanding under the Canadian Revolving Facility (including the Canadian Swingline Facility) will not at any time exceed U.S. $227,500,000.

2.04 **Maturity Dates of Credit Facilities**

(1) The Commitment of each Lender under the Canadian Revolving Facility and the U.S. Revolving Facility will expire on November 1, 2010 (the **"Revolving Facility Maturity Date"**).

(2) The Commitment of each Lender under the U.S. Non-Revolving Term Facility will expire on November 1, 2012 (the **"U.S. Non-Revolving Term Facility Maturity Date"**).

2.05 **Purpose of Credit Facilities**

(1) Loans and Letters of Credit under the Credit Facilities will only be used for the following respective purposes:

(a) under the Revolving Facilities, for working capital and general corporate requirements in the ordinary course of business of the Borrowers (and either of them), including to assist in financing the construction and operation of the Mills; and

(b) under the U.S. Non-Revolving Term Facility, to assist in financing the construction and operation of the Mills.

(2) For greater certainty, the Borrowers will not use the Loans and Letters of Credit under the Credit Facilities, directly or indirectly, on whole or in part, to fund or otherwise finance the Footner Buyout.

2.06 **Manner of Borrowing**

(1) The Canadian Borrower may under the Canadian Revolving Facility (a) in Canadian Dollars, make Drawdowns, Conversions and Rollovers of Canadian Prime Rate Loans, Bankers' Acceptances and BA Equivalent Notes, (b) in United States Dollars, make Drawdowns, Conversions and Rollovers of Base Rate Loans and LIBO Rate Loans, and (c) in either Canadian Dollars or United States Dollars, make Drawdowns by way of Letters of Credit, provided that the face amount of all outstanding Letters of Credit may not exceed U.S. $25,000,000 or the Equivalent Amount in Canadian Dollars.

(2) The U.S. Borrower may under the U.S. Revolving Facility, in United States Dollars, make Drawdowns, Conversions and Rollovers of U.S. Prime Rate Loans, Base Rate Loans and LIBO Rate Loans and make Drawdowns by way of Letters of Credit, provided that (i) the face amount of all outstanding Letters of Credit plus (ii) the face amount of those outstanding at the time under the Canadian Revolving Facility may not exceed U.S. $25,000,000 or the Equivalent Amount in Canadian Dollars.

(3) The U.S. Borrower may under the U.S. Non-Revolving Term Facility in United States Dollars make Drawdowns and may make Conversions and Rollovers of U.S. Prime Rate Loans and LIBO Rate Loans. The U.S. Non-Revolving Term Facility will not be available to the Canadian Borrower.

2.07 **Revolving Nature of Revolving Facilities**

Subject to the terms and conditions hereof, each Borrower may increase or decrease the amount of Obligations outstanding under its respective Revolving Facility by making Drawdowns, repayments and further Drawdowns.

2.08 **Drawdowns, Conversions and Rollovers under Credit Facilities**

(1) Subject to the provisions of this Agreement, the Canadian Borrower, under the Canadian Revolving Facility, and the U.S. Borrower, under the U.S. Revolving Facility and the U.S. Non-Revolving Term Facility each may (a) make Drawdowns, (b) convert the whole or any part of any type of Loan into any other type of Loan, or (c) rollover any Bankers' Acceptances, BA Equivalent Note or LIBO Rate Loan on the last day of the applicable Interest Period therefor, by giving both the U.S. Administrative Agent and the Canadian Administrative Agent a Drawdown Notice, Conversion Notice or Rollover Notice, as the case may be. Such conversions and rollovers (including Conversions and Rollovers) are made by the applicable Borrower to select from time to time its preferred pricing option and no such conversion or rollover (including any Conversion or Rollover) shall, despite any other provision hereof, constitute or be deemed to constitute a Drawdown, an advance or a repayment of any Loan or Credit Facility.

(2) A Borrower must give the Canadian Administrative Agent and the U.S. Administrative Agent, a Drawdown Notice, Conversion Notice or Rollover Notice, as the case may be, three Business Days (in the cases of LIBO Rate Loans) and two Business Days (in the case of all other Loans) prior to the proposed Drawdown Date, Conversion Date or Rollover Date, as the case may be. A Drawdown Date, Conversion Date and Rollover Date must be a Business Day.

(3) Each Drawdown Notice, Conversion Notice or Rollover Notice, as the case may be, must be delivered to the Canadian Administrative Agent and the U.S. Administrative Agent by the applicable Borrower on or prior to 1:00 p.m. (Local Time) on a Business Day.

(4) Each Drawdown, Conversion or Rollover must:

(a) in the case of Canadian Prime Rate Loans, be in a minimum principal amount of Cdn. $5,000,000 and increments of Cdn. $500,000;

(b) in the case of Base Rate Loans, be in a minimum principal amount of U.S. $5,000,000 and increments of U.S. $500,000;

(c) in the case of Banker's Acceptances, be in a minimum face amount of Cdn. $5,000,000 and increments of Cdn. $500,000;

(d) in the case of LIBO Rate Loans, be in a minimum principal amount of U.S. $5,000,000 and increments of U.S. $500,000; and

(e) in the case of U.S. Prime Rate Loans, be in a minimum principal amount of U.S. $5,000,000 and increments of U.S. $500,000.

(5) The provisions of Sections 2.08(1), (2), (3) and (4) do not apply to the Canadian Swingline Loans or the U.S. Swingline Loans.

(6) The U.S. Borrower shall not be entitled to obtain any Drawdown of the U.S. Non-Revolving Term Facility on or after the date which is five years prior to the U.S. Non-Revolving Term Facility Maturity Date. In the event any part of the U.S. Non-Revolving Term Facility remains undrawn on the date which is five years and two months prior to the U.S. Non-Revolving Term Facility Maturity Date, the U.S. Borrower shall be entitled, whether or not any requirements relating to Mills Costs, Costs to Complete and the construction of the Mills have been satisfied, to draw down the then remaining undrawn amount of the U.S. Non-Revolving Term Facility (or any part thereof), provided the U.S. Borrower deposits such amounts so drawn down to an interest bearing cash collateral account maintained exclusively for the purpose of receiving deposits of such amounts by the U.S. Borrower with an Administrative Agent pursuant to a cash collateral security agreement with respect thereto satisfactory to such Administrative Agent. Provided no Event of Default has then occurred and continues, and provided that the Borrowers do comply with all applicable conditions to an advance, the U.S. Borrower shall be entitled to withdraw from time to time all amounts in such cash collateral account in order to finance the construction and operation of the Mills in accordance with the provisions of this Agreement. If funds in such cash collateral account are seized in a realization, then the U.S. Non-Revolving Term Facility Lenders shall be entitled to a prior claim on such funds ahead of the claims on such funds of the Lenders of the Revolving Facilities.

2.09 **Administrative Agent's Obligations with Respect to Loans**

Upon receipt of a Drawdown Notice, Conversion Notice or Rollover Notice, as the case may be, the Administrative Agent will forthwith notify the Lenders of the proposed Drawdown Date, Conversion Date or Rollover Date, as the case may be, of each Lender's Applicable Percentage of such Loan or Letter of Credit, as the case may be, and, if applicable, the account of the Administrative Agent to which each Lender's Applicable Percentage is to be credited.

2.10 **Lenders' and Administrative Agent's Obligations with Respect to Loans**

Each Lender will, prior to 11:00 a.m. (Local Time) on the Drawdown Date, Conversion Date or Rollover Date, as the case may be, specified by any Borrower in a Drawdown Notice, Conversion Notice or Rollover Notice, as the case may be, credit the Administrative Agent's account specified in the Administrative Agent's notice given under Section 2.09 with such Lender's Applicable Percentage of any Loan to be advanced thereunder and by 11:00 a.m. (Local Time) on the same date the Administrative Agent will advance to such Borrower the full amount of the amounts so credited.

2.11 **Irrevocability**

Each Drawdown Notice, Conversion Notice and Rollover Notice given by a Borrower is irrevocable and will oblige such Borrower to take the action contemplated on the date specified therein.

2.12 **Cancellation or Reduction of Credit Facilities**

(1) The U.S. Borrower may, at any time, upon giving at least two Business Days' prior notice to the U.S. Administrative Agent, without payment of any fee, premium or penalty, irrevocably cancel in full or, from time to time, irrevocably reduce in part the U.S. Revolving Facility or the U.S. Non-Revolving Term Facility, any such reduction to be done *pro rata* within such reduced facility but not *pro rata* between Credit Facilities; provided, however, that any reduction will be in a minimum amount of U.S. $5,000,000 and increments of U.S. $1,000,000 (or the Equivalent Amount in Canadian Dollars). Each reduction will permanently reduce the Commitment of each Lender in respect of such facility, on a *pro rata* basis, by the amount of the Lender's Applicable Percentage of such reduction in relation to such facility.

(2) The Canadian Borrower may, at any time, upon giving at least two Business Days' prior notice to the Canadian Administrative Agent, without payment of any fee, premium or penalty, irrevocably cancel in full or, from time to time, irrevocably reduce in part the Canadian Revolving Facility. If the Canadian Revolving Facility is so reduced, the Commitment of each of the Lenders will be reduced *pro rata* in the same proportion that the amount of the reduction in the Canadian Revolving Facility bears to the then current Commitment in respect of the Canadian Revolving Facility, in effect immediately prior to such reduction; provided, however, that any reduction will be in a minimum amount of U.S. $5,000,000 and increments of U.S. $1,000,000 (or the Equivalent Amount in Canadian Dollars). Each reduction will permanently reduce the Commitment of each Lender in respect of the Canadian Revolving Facility by the amount of the Lender's Applicable Percentage of such reduction in relation to such facility.

(3) Subject to Section 6.04, each Borrower shall be entitled, from time to time, without payment of any prepayment, reduction or cancellation fee, premium or penalty, to prepay all or part of its Obligations hereunder.

2.13 **Account of Record**

The Administrative Agent will open and maintain books of account evidencing all Loans and all other amounts owing by each Borrower to the Lenders hereunder. The Administrative Agent will enter in the foregoing accounts details of all amounts from time to time owing, paid or repaid by each Borrower hereunder. The information entered in the foregoing accounts will constitute *prima facie* evidence of the obligations of each Borrower to the Lenders hereunder with respect to all Loans and all other amounts owing by such Borrower to the Lenders hereunder. After a request by any Borrower, the Administrative Agent will promptly advise such Borrower of such entries made in the Administrative Agent's books of account.

2.14 **Termination of LIBO Rate Loans**

(1) If at any time a Lender determines, acting reasonably, (which determination will be conclusive and binding on each Borrower) that

(a) the LIBO Rate for an existing LIBO Rate Loan does not adequately reflect the effective cost to the Lender of maintaining such LIBO Rate Loan, or

(b) it cannot readily retain funds in the London interbank market in order to maintain any LIBO Rate Loan for the balance of the applicable Interest Period or cannot otherwise perform its obligations hereunder with respect to any LIBO Rate Loan for the balance of the applicable Interest Period,

then the Lender will inform the Administrative Agent and upon at least four Business Days' written notice by the Administrative Agent to the Borrowers, the Borrowers will, at their option, either repay the LIBO Rate Loan to that Lender or convert the LIBO Rate Loan into one or more other forms of Loans that are permitted by this Agreement, and the Borrowers will not be responsible for any loss or expense that the Lender incurs as a result, including breakage costs, notwithstanding that such repayment or conversion does not occur on the last day of a Interest Period.

ARTICLE 3- DISBURSEMENT CONDITIONS

3.01 Conditions Precedent to First Advance

The obligation of each Lender to make the first advance hereunder by way of a Loan or the issuance of a Letter of Credit is subject to and conditional upon the restrictions in Section 2.01 and to the prior satisfaction of the following conditions precedent:

(a) the Administrative Agent will have received a Drawdown Notice by the time required under Section 2.08(2);

(b) there will not have occurred any material increase in the Mills Budget or any material change in the Mills Operating Projections or in the Mills Construction Schedule, or in the economics or feasibility of constructing and/or operating the Mills which, in the case of any of the foregoing, could reasonably be expected to cause or result in a Material Adverse Change;

(c) the Administrative Agent will have received satisfactory evidence of compliance with applicable builders and construction lien legislation in or applicable in South Carolina without any material adverse effect on the effectiveness and priority of the Security;

(d) a report from the Independent Engineer as to whether, in the professional opinion of the Independent Engineer, (A) the design on an "as built" basis of the Mills is functionally operational and is in line with the capacity expectations and (B) the Mills Budget, the Mills Construction Schedule, the construction methods proposed and the Material Contracts are realistic and reasonable in light of the design and the capacity expectations, and confirming that at least 45% of hard costs of the Mills Costs are subject to fixed-price contracts, which report is in a form and substance and reaches conclusions that are acceptable to all of the Lenders, acting reasonably;

(e) the Administrative Agent will have received certified copies of all shareholder, and all material regulatory, governmental and other approvals (including building permits, zoning and municipal approvals and environmental approval, all on an "as built" basis) required in order for an applicable Restricted Party to construct and operate the Mills and to enter into this Agreement and the Mills Construction Contracts and to perform its obligations under this Agreement and the Mills Construction Contracts;

(f) releases, discharges and postponements that are required in the discretion of the Administrative Agent (in registerable form where necessary) with respect to all Encumbrances affecting the collateral Encumbered by the Security that are not Permitted Encumbrances, if any, (or deliver discharge undertakings satisfactory to the Administrative Agent with respect thereto) will have been delivered to the Administrative Agent;

(g) repayment and cancellation of all existing credit or loan agreements and the release and discharge of all security therefor (or deliver discharge undertakings satisfactory to the Administrative Agent with respect thereto) of the Restricted Parties, including the BMO Credit Agreement;

(h) certified copies of (i) all Material Contracts, and (ii) all Material Licences with respect to the zoning, municipal and regulatory approval for the construction and operation of the Mills then granted to the Restricted Parties, will have been delivered to the Administrative Agent, all in form and substance satisfactory to the Administrative Agent;

(i) the Administrative Agent will have received on its own behalf or on behalf of the Lenders payment of all fees payable to the Administrative Agent or the Lenders that are due and payable at such time under the Loan Documents;

(j) duly executed copies of the Security will have been delivered to the Administrative Agent, certificates representing all shares or other securities pledged (along with stock powers duly executed in blank) by the Restricted Parties will have been delivered to the Administrative Agent and all such Security will have been duly registered, filed and recorded in all Relevant Jurisdictions where required by Applicable Law or where the Administrative Agent considers it necessary, in its sole discretion, to do so;

(k) a currently dated letter of opinion of Borrowers' Counsel, as to such matters and in such form as Lenders' Counsel may deem appropriate, addressed to the Lenders and to Lenders' Counsel will have been delivered to the Administrative Agent and appropriate corporate solvency certificates concerning the Restricted Parties;

(l) currently dated letters of opinion of local counsel to the Borrowers, as to such matters and in such form as Lenders' Counsel deems appropriate, addressed to the Lenders and to Lenders' Counsel will have been delivered to the Administrative Agent;

(m) a currently dated letter of opinion of Lenders' Counsel, as to such matters as the Administrative Agent or the Lenders may deem appropriate, addressed to the Administrative Agent and the Lenders will have been delivered to the Administrative Agent;

(n) the Administrative Agent will have received from each Borrower a currently dated Officers' Certificate to the effect set forth in Sections 3.02(b), 3.02(c), 3.02(d) and 3.02(e);

(o) the Restricted Parties will have delivered to the Administrative Agent certificates of insurance acceptable to the Administrative Agent that insure the assets to be secured by the Security, including course of construction and liability insurance in respect of the Mills;

(p) the Administrative Agent will have received an Officers' Certificate of the U.S. Borrower confirming that the Equity Contribution (on a consolidated basis) was made and that such Equity Contribution has been spent on budgeted costs for the construction of the Mills as set forth in the Mills Budget;

(q) no Material Adverse Change will have occurred;

(r) the Borrowers, the Hedging Parties and the Group Valuation Agent will have entered into the Aggregate Repricing Agreement; and

(s) a pledge of all outstanding shares in the capital of Grant Forest Products Sales Inc.;

provided, however, that all documents delivered pursuant to this Section 3.01 must be in full force and effect, and in form and substance satisfactory to each of the Lenders, acting reasonably.

3.02 **Conditions Precedent to all Advances**

The obligation of each Lender to make any advance hereunder by way of a Loan or the issuance of a Letter of Credit (including the first advance) is subject to and conditional upon the prior satisfaction of the following additional conditions precedent:

(a) the Administrative Agent will have received a Drawdown Notice by the time required under Section 2.08(2);

(b) the representations and warranties deemed to be repeated pursuant to Section 8.01 will continue to be true and correct as if made on and as of the Drawdown Date;

(c) no Event of Default or Default will have occurred and be continuing on the Drawdown Date, or would result from making the requested advance;

(d) a Material Adverse Change will not have occurred and be existing; and

(e) all other terms and conditions of this Agreement upon which each Borrower may obtain a Loan or require the issuance of a Letter of Credit that have not been waived will have been fulfilled.

3.03 **Waiver**

The conditions set forth in Sections 3.01 and 3.02 are for the sole benefit of the Lenders and may be waived by the Lenders, in whole or in part (with or without terms or conditions), in respect of any Drawdown without prejudicing the right of the Lenders at any time to assert such conditions in respect of any subsequent Drawdown.

ARTICLE 4 - PAYMENTS OF INTEREST AND STANDBY FEES

4.01 **Interest on Canadian Prime Rate Loans and U.S. Prime Rate Loans**

(1) The Canadian Borrower will pay interest on each Canadian Prime Rate Loan during each Interest Period applicable thereto in Canadian Dollars at a rate *per annum* equal to the sum of (a) the Canadian Prime Rate plus (b) the Canadian Prime Rate Margin in effect, in each case, from time to time during such Interest Period. Each determination by the Canadian Administrative Agent of the Canadian Prime Rate and the Canadian Prime Rate Margin applicable from time to time during an Interest Period will, in the absence of manifest error, be binding upon the Borrowers. Such interest will be payable in arrears on each Interest Payment Date for such Loan for the period from and including the Drawdown Date, Conversion Date or preceding Interest Payment Date, as the case may be, for such Loan to but excluding such Interest Payment Date (or, if such Interest Payment Date follows the repayment of such Loan or the Conversion of such Loan, to but excluding the date of such repayment or Conversion) and will be calculated on the principal amount of the Canadian Prime Rate Loan outstanding during such period and on the basis of the actual number of days elapsed in a year of 365 days or 366 days, as the case may be. Changes in the Canadian

Prime Rate and, subject to Section 4.05, the Canadian Prime Rate Margin will cause an immediate adjustment of the interest rate applicable to such Loan without the necessity of any notice to the Borrowers.

(2) The U.S. Borrower will pay interest on each U.S. Prime Rate Loan during each Interest Period applicable thereto in U.S. Dollars at a rate per annum equal to the sum of (a) the U.S. Prime Rate plus (b) the U.S. Prime Rate Margin in effect, in each case, from time to time during such Interest Period. Each determination by the U.S. Administrative Agent of the U.S. Prime Rate and the U.S. Prime Rate Margin applicable from time to time during an Interest Period will, in the absence of manifest error, be binding upon the Borrowers. Such interest will be payable in arrears on each Interest Payment Date for such Loan for the period from and including the Drawdown Date, Conversion Date or preceding Interest Payment Date, as the case may be, for such Loan to but excluding such Interest Payment Date (or, if such Interest Payment Date follows the repayment of such Loan or the Conversion of such Loan, to but excluding the date of such repayment or Conversion) and will be calculated on the principal amount of the U.S. Prime Rate Loan outstanding during such period and on the basis of the actual number of days elapsed divided by 360. Changes in the U.S. Prime Rate and, subject to Section 4.05, the U.S. Prime Rate Margin will cause an immediate adjustment of the interest rate applicable to such Loan without the necessity of any notice to the Borrowers.

4.02 **<u>Interest on Base Rate Loans</u>**

The Canadian Borrower will pay interest on each Base Rate Loan during each Interest Period applicable thereto in United States Dollars at a rate *per annum* (expressed on the basis of a year of 365 or 366 days, as the case may be) equal to the sum of (a) the Base Rate plus (b) the Base Rate Margin in effect, in each case, from time to time during such Interest Period. Each determination by the Administrative Agent of the Base Rate and the Base Rate Margin applicable from time to time during an Interest Period will, in the absence of manifest error, be binding upon the Borrowers. Such interest will be payable in arrears on each Interest Payment Date for such Loan for the period from and including the Drawdown Date, Conversion Date or preceding Interest Payment Date, as the case may be, for such Loan to but excluding such Interest Payment Date (or, if such Interest Payment Date follows the repayment of such Loan or the Conversion of such Loan, to but excluding the date of such repayment or Conversion) and will be calculated on the principal amount of the Base Rate Loan outstanding during such period and on the basis of the actual number of days elapsed in a year of 365 days, or 366 days, as the case may be. Changes in the Base Rate and, subject to Section 4.05, the Base Rate Margin will cause an immediate adjustment of the interest rate applicable to such Loan without the necessity of any notice to the Borrowers.

4.03 **<u>Interest on LIBO Rate Loans</u>**

The applicable Borrower will pay interest during each Interest Period applicable thereto in United States Dollars on each LIBO Rate Loan made to such Borrower at a rate *per annum* (expressed on the basis of a 360 day year) equal to the sum of (a) the LIBO Rate plus (b) the LIBO Rate Margin in effect, in each case, from time to time during such Interest Period. Each determination by the Administrative Agent of the LIBO Rate with respect to an Interest Period and the LIBO Rate Margin applicable from time to time during an Interest Period will, in the absence of manifest error, be binding upon the Borrowers. Such interest will be payable in arrears on each Interest Payment Date for such Loan for the period from and including the Drawdown Date, Conversion Date, Rollover Date or preceding Interest Payment Date, as the case may be, for such Loan to but excluding such Interest Payment Date and will be calculated on the principal amount of the LIBO Rate Loan outstanding during such period and on the basis of the actual number of days elapsed divided by 360. Changes in the LIBO Rate Margin will, subject to Section 4.05, result in an immediate adjustment of the interest rate applicable to such Loan without the necessity of any notice to the Borrowers. At no time will the number of outstanding LIBO Rate Loans exceed 10.

4.04 **Additional Interest on LIBO Rate Loans**

The applicable Borrower will pay to the Administrative Agent for the account of each Lender, so long as, and to the extent that, such Lender is actually required under regulations of the Board of Governors of the Federal Reserve System to maintain reserves with respect to liabilities or assets consisting of or including eurocurrency liabilities, additional interest on the unpaid principal amount of each LIBO Rate Loan of such Lender made to such Borrower, from the date of such LIBO Rate Loan until such principal amount is paid in full, at an interest rate *per annum* equal at all times to the remainder obtained by subtracting (a) the LIBO Rate for the applicable Interest Period for such LIBO Rate Loan from (b) the rate obtained by dividing such LIBO Rate by a percentage equal to 100% minus the Eurocurrency Reserve Percentage of such Lender for the applicable Interest Period, payable on each date on which interest is payable on such LIBO Rate Loan. Such additional interest will be determined by such Lender, who will deliver notice of the amount thereof to the Administrative Agent and the Borrowers. A certificate as to the amount of such additional interest, submitted to the Administrative Agent and the Borrowers, will be *prima facie* evidence for all purposes, absent manifest error.

4.05 **Adjustment of Applicable Margin**

(1) The Applicable Margin will be adjusted based on the Total Debt to Capitalization Ratio as at the end of the Canadian Borrower's most recently completed fiscal quarter (the "**Relevant Quarter**"). The Applicable Margin to be applied with respect to any Letter of Credit or any Loan (other than by way of a Bankers' Acceptance or BA Equivalent Note, which will be adjusted upon maturity of such Bankers' Acceptance or BA Equivalent Note) will be the Applicable Margin on the relevant date of the Drawdown, Conversion or Rollover, as the case may be. The Applicable Margin will change, if required, only once per fiscal quarter, on the third Business Day (the "**Applicable Margin Adjustment Date**") after the unaudited quarterly financial statements required to be delivered pursuant to Section 9.03(1) for the Relevant Quarter, and the related Compliance Certificate required to be delivered pursuant to Section 9.03(4) are delivered to the Administrative Agent. In accordance with Sections 4.01(1), 4.01(2), 4.02 and 4.03, the interest rate payable by a Borrower on Canadian Prime Rate Loans, U.S. Prime Rate Loans, Base Rate Loans and LIBO Rate Loans, respectively, will be subject to adjustment on such date. For the purpose of determining the Applicable Margin, (i) for the period from the Closing Date until the delivery of the first Compliance Certificate, the Total Debt to Capitalization Ratio will be deemed to be less than 0.30:1.0, and (ii) if a Borrower fails to deliver such financial statements and Compliance Certificate when required, the Total Debt to Capitalization Ratio will be deemed to be the highest rate set forth in the applicable table in the definition of Applicable Margin for the applicable type of Loan and Letter of Credit, until such financial statements and Compliance Certificate have been delivered.

(2) Upon the occurrence of, and during the continuance of, an Event of Default, to the full extent permitted by law, the Applicable Margin will be the highest rate set forth in the applicable table in the definition of Applicable Margin for the applicable type of Loan and Letter of Credit (regardless of the Total Debt to Capitalization Ratio) plus 2.00% *per annum*.

4.06 **Standby Fees**

The applicable Borrower will pay to the Administrative Agent for the account of the applicable Lenders a standby fee in U.S. Dollars calculated at the rate *per annum* specified as the applicable "Standby Fee Rate" in the table below on the daily unadvanced portion of the Revolving Facility and the U.S. Non-Revolving Term Facility made available by such Lenders during such fiscal quarter.

Utilization	Standby Fee Rate Expressed as a % of applicable LIBO Rate

	Margin in effect from time to time
≤33%	35%
33% < x ≤67%	30%
x > 67%	25%

The standby fee will be determined daily beginning on the Closing Date and will be calculated on the basis of a calendar year of 365 or 366 days, as the case may be, and will be payable by the applicable Borrower quarterly in arrears on the third Business Day following the end of each quarter.

4.07 **Agency Fees**

In consideration of the Administrative Agent acting as Administrative Agent under the Loan Documents, the applicable Borrower will pay to the applicable Administrative Agent an agency fee in an amount, and on the terms and conditions, agreed to in writing by such Administrative Agent and such Borrower. All such written arrangements will constitute Loan Documents.

ARTICLE 5- BANKERS' ACCEPTANCES AND LETTERS OF CREDIT

5.01 **Bankers' Acceptances**

(1) To facilitate the issuance of Bankers' Acceptances pursuant to this Agreement, the Canadian Borrower irrevocably appoints each Lender from time to time as the attorney-in-fact of such Borrower to execute, endorse and deliver on behalf of such Borrower drafts in the forms prescribed by such Lender (if such Lender is a BA Lender) for bankers' acceptances denominated in Canadian Dollars (each such executed draft that has not yet been accepted by a Lender being referred to as a "**Draft**") or non interest-bearing promissory notes of such Borrower in favour of such Lender (if such Lender is a Non BA Lender) (each such promissory note being referred to as a "**BA Equivalent Note**"). Each Bankers' Acceptance and BA Equivalent Note executed and delivered by a Lender on behalf of such Borrower as provided for in this Section 5.01 will be as binding upon such Borrower as if it had been executed and delivered by a duly authorized officer of such Borrower.

(2) Notwithstanding the provisions of Section 5.01(1), the Canadian Borrower will from time to time as required by the applicable Lender provide to (a) each BA Lender an appropriate number of Drafts drawn by such Borrower upon such BA Lender and either payable to a clearing service (if such BA Lender is a member thereof) or payable to such Borrower and endorsed in blank by such Borrower (if such BA Lender is not a member of such clearing service), and (b) each Non BA Lender an appropriate number of BA Equivalent Notes in favour of such Non BA Lender. The dates, maturity dates and principal amounts of all Drafts and BA Equivalent Notes delivered by the Canadian Borrower must be left blank, to be completed by the Lenders as required by this Agreement. Each Lender to which a Draft or BA Equivalent Note has been delivered by the Canadian Borrower will exercise the same degree of care in the custody of such Draft or BA Equivalent Note as such Lender would exercise with respect to its own property kept at the place at which the Drafts or BA Equivalent Notes are ordinarily kept by such Lender. Each Lender, upon the written request of the Canadian Borrower, will promptly advise such Borrower of the number and designation, if any, of the Drafts and BA Equivalent Notes then held by it. No Lender will be liable for its failure to accept a Draft or purchase a BA Equivalent Note as required by this Agreement if the cause of such failure is, in whole or in part, due to the failure of the Canadian Borrower to provide on a timely basis appropriate Drafts or BA Equivalent Notes to the applicable Lender as requested by such Lender on a timely basis.

(3) Promptly following receipt of a Drawdown Notice requesting Bankers' Acceptances, the Administrative Agent will (a) advise each BA Lender of the face amount and the term of the Draft to be accepted by it, and (b) advise each applicable Non BA Lender of the face amount and term of the BA Equivalent Note to be purchased by it. All Drafts to be accepted from time to time by each BA Lender that is a member of a clearing service will be payable to such clearing service. The term of all Bankers' Acceptances and BA Equivalent Notes issued pursuant to any Drawdown Notice must be identical. Each Bankers' Acceptance and BA Equivalent Note must be dated the Drawdown Date on which it is issued and will be for a term of one, two, three or six months, provided that in no event will the term of a Bankers' Acceptance or a BA Equivalent Note extend beyond the Final Maturity Date. The face amount of the Draft (or the aggregate face amount of the Drafts) to be accepted at any time by each Lender that is a BA Lender, and the face amount of the BA Equivalent Notes to be purchased at any time by each Lender that is a Non BA Lender, will be determined by the Administrative Agent based upon the amounts of their respective Commitments under the Credit Facilities.

(4) Each BA Lender will complete and accept on the applicable Drawdown Date a Draft having a face amount (or Drafts having the face amounts) and term advised by the Administrative Agent pursuant to Section 5.01(3). Each applicable BA Lender will purchase on the applicable Drawdown Date all Bankers' Acceptances accepted by it, for an aggregate price equal to the BA Discount Proceeds of such Bankers' Acceptances. The Canadian Borrower will ensure that there is delivered to each applicable BA Lender that is a member of a clearing service, and such BA Lender is hereby authorized to release, the Bankers' Acceptance accepted by it to such clearing service upon receipt of confirmation that such clearing service holds such Bankers' Acceptance for the account of such BA Lender.

(5) Each Non BA Lender, in lieu of accepting Drafts or purchasing Bankers' Acceptances on any Drawdown Date, will complete and purchase from the applicable Borrower on such Drawdown Date a BA Equivalent Note in a face amount and for a term identical to the face amount and term of the Drafts that such Non BA Lender would have been required to accept on such Drawdown Date if it were a BA Lender, for a price equal to the BA Discount Proceeds of such BA Equivalent Note (determined as if such BA Equivalent Note were a Bankers' Acceptance). Each Non BA Lender will be entitled, without charge, to exchange any BA Equivalent Note held by it for two or more BA Equivalent Notes of identical date and aggregate face amount, and the applicable Borrower will execute and deliver to such Non BA Lender such replacement BA Equivalent Notes and such Non BA Lender will return the original BA Equivalent Note to the applicable Borrower for cancellation.

(6) The Canadian Borrower will pay to each BA Lender in respect of each Draft tendered by such Borrower to and accepted by such BA Lender, and to each Non BA Lender in respect of each BA Equivalent Note tendered to and purchased by such Non BA Lender, as a condition of such acceptance or purchase, the BA Stamping Fee. A Lender is entitled to deduct and retain for its own account the amount of such fee from the amount to be transferred by such Lender to the Administrative Agent for the account of the Canadian Borrower pursuant to this Agreement in respect of the sale of the related Bankers' Acceptance or of such BA Equivalent Note.

(7) On the date of maturity of each Bankers' Acceptance or BA Equivalent Note, the applicable Borrower will pay to the Administrative Agent, for the account of the holder of such Bankers' Acceptance or BA Equivalent Note, in Canadian Dollars an amount equal to the face amount of such Bankers' Acceptance or BA Equivalent Note, as the case may be. The obligation of such Borrower to make such payment will not be prejudiced by the fact that the holder of such Bankers' Acceptance is the Lender that accepted such Bankers' Acceptances. No days of grace may be claimed by any Borrower for the payment at maturity of any Bankers' Acceptance or BA Equivalent Note. If the applicable Borrower does not make such payment from the proceeds of a Loan obtained under this Agreement or otherwise, the amount of such required payment will

be deemed to be a Canadian Prime Rate Loan to such Borrower from the Lender that accepted such Banker's Acceptance or purchased such BA Equivalent Note.

(8) The signature of any duly authorized officer of the Canadian Borrower on a Draft or a BA Equivalent Note may be mechanically reproduced in facsimile, and all Drafts and BA Equivalent Notes bearing such facsimile signature will be as binding upon such Borrower as if they had been manually signed by such officer, notwithstanding that such Person whose manual or facsimile signature appears on such Draft or BA Equivalent Note may no longer hold office at the date of such Draft or BA Equivalent Note or at the date of acceptance of such Draft by a BA Lender or at any time thereafter.

5.02 **Letters of Credit**

(1) If any Borrower wishes to request that a Letter of Credit be issued under the Revolving Facilities, such Borrower will, at the time it delivers a Drawdown Notice pursuant to Section 2.08, execute and deliver to the Issuing Bank the Issuing Bank's usual documentation relating to the issuance and administration of letters of credit. In the event of any inconsistency between the terms of such documentation and this Agreement, the terms of this Agreement will prevail to the extent of the inconsistency; provided, however, that unless otherwise expressly agreed by the Issuing Bank and the applicable Borrower when a Letter of Credit is issued (including any such agreement applicable to a BMO Letter of Credit), (i) the rules of the ISP shall apply to each standby Letter of Credit, and (ii) the rules of the Uniform Customs and Practice for Documentary Credits, as most recently published by the International Chamber of Commerce at the time of issuance shall apply to each documentary Letter of Credit. For the purposes hereof, "**ISP**" means, with respect to any Letter of Credit, the "International Standby Practices 1998" published by the Institute of International Banking Law & Practice (or such later version thereof as may be in effect at the time of issuance).

(2) Each Lender that has a Commitment under the Revolving Facility (each reference to a Lender in this Section 5.02 being to such a Lender only) will be deemed to have purchased, without recourse, a participation from the Issuing Bank, in each Letter of Credit issued by the Issuing Bank, in each case equal to such Lender's Applicable Percentage of each such Letter of Credit. Each such Lender will indemnify and save harmless the Issuing Bank based on its Applicable Percentage against all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses, payments or disbursements of any and every kind or nature whatsoever that may be imposed on, made or incurred by or asserted against the Issuing Bank in any way related to or arising out of any issuance of a Letter of Credit by the Issuing Bank (including any payment made under any such Letter of Credit and any Loan deemed to have been made available by the Issuing Bank pursuant to Section 5.02(6)), except for any such liabilities resulting from the gross negligence or wilful misconduct of the Issuing Bank.

(3) Each Letter of Credit issued by the Issuing Bank will be in a form and on such terms as determined by the Issuing Bank in its sole and unfettered discretion.

(4) No Letter of Credit may be issued for a period beyond the Revolving Facility Maturity Date.

(5) If, at any time, a demand for payment (the amount so demanded being herein referred to as a "**Relevant Amount**") is made under any Letter of Credit and notification thereof is given by the Issuing Bank to the Administrative Agent, then:

(a) the Administrative Agent will

(i) promptly notify the Borrowers and each of the Lenders of such demand, and

(ii) make demand on each Lender for an amount equal to its Applicable Percentage of the Relevant Amount;

(b) on the same Business Day as the date of the demand made by the Administrative Agent under (a) above, each Lender will pay to the Administrative Agent the amount demanded of it pursuant to (a)(ii) above; and

(c) the Administrative Agent will pay the Relevant Amount to the Issuing Bank and the Issuing Bank will pay the Relevant Amount together with the balance of the amount demanded to the Person entitled thereto on the date upon which the Relevant Amount becomes payable under the Letter of Credit or as soon as possible thereafter.

(6) The Canadian Borrower will be deemed to have requested a Canadian Prime Rate Loan in an amount equal to the sum of the Relevant Amount and all reasonable charges and expenses incurred by the Issuing Bank and the other Lenders in connection with payment under the Letter of Credit where it is a Letter of Credit that was issued as part of the Canadian Revolving Facility in Canadian Dollars. The Canadian Borrower will be deemed to have requested a U.S. Base Rate Loan in an amount equal to the sum of the Relevant Amount and all reasonable charges and expenses incurred by the Issuing Bank and the other Lenders in connection with payment under the Letter of Credit where it is a Letter of Credit that was issued as part of the Canadian Revolving Facility in United States Dollars. The U.S. Borrower will be deemed to have requested a U.S. Prime Rate Loan in an amount equal to the sum of the Relevant Amount and all reasonable charges and expenses incurred by the Issuing Bank and the other Lenders in connection with payment under the Letter of Credit where it is a Letter of Credit that was issued as part of the U.S. Revolving Facility in United States Dollars. The minimum Drawdown requirements set forth in Section 2.08(4) will not apply to the Loans made pursuant to this Section 5.02(6).

(7) The applicable Borrower will indemnify and hold harmless the Administrative Agent, the Issuing Bank and each of the Lenders from time to time on demand by the Administrative Agent from and against all liabilities and costs (including any costs incurred in funding any amount that falls due from the Issuing Bank or any other Lender under any Letter of Credit issued hereunder at the request of such Borrower) to the extent that such liabilities or costs are not satisfied or compensated by the payment of interest on sums due pursuant to this Agreement in connection with any Letter of Credit issued at the request of such Borrower as part of such Borrower's Revolving Facility except where such liabilities or costs result from the gross negligence or wilful misconduct of the Person claiming indemnification.

(8) The Issuing Bank will at all times be entitled, and is irrevocably authorized by each Borrower, to make any payment under a Letter of Credit for which a request or demand has been made in the required form without any further reference to any Borrower and any investigation or enquiry, need not concern itself with the propriety or validity of any claim made or purported to be made under the terms of such Letter of Credit (except as to compliance with the payment conditions of such Letters of Credit) and will be entitled to assume that any Person expressed in such Letter of Credit as being entitled to make demand or receive payments thereunder is so entitled. Accordingly, so long as a request or demand has been made as aforementioned, it will not be a defence to any demand made of any Borrower hereunder, nor will the obligations of such Borrower hereunder be impaired by the fact (if it be the case) that the Issuing Bank was or might have been justified in refusing payment, in whole or in part, of the amounts so claimed.

(9) A certificate of the Administrative Agent or the Issuing Bank or both of them as to the amounts paid by any Lender pursuant to this Section 5.02 or the amount paid under any Letter of Credit will, in the absence of manifest error, be *prima facie* evidence of the existence and amount of such payment in any legal action or proceeding arising out of or in connection herewith.

(10) While any Letter of Credit is outstanding, the applicable Borrower will pay quarterly in arrears to the Administrative Agent, for the benefit of the applicable Lenders, on the third Business Day following the end of each quarter, a fee at the Letter of Credit Fee Rate (as at the first day of such quarter) calculated on the average of the amounts of the Letter of Credit outstanding during each day of such quarter in the currency in which the Letter of Credit is issued on the basis of a calendar year for the number of days from the date of issuance or extension of the Letter of Credit until its expiry date.

(11) While any Letter of Credit is outstanding, the applicable Borrower will pay quarterly in arrears to the Administrative Agent, for the benefit of the Issuing Bank, on the third Business Day following the end of each quarter, a fronting fee at a rate of 12.5 basis points of the average of the amounts of the Letter of Credit outstanding during each day of such quarter, such fee to be calculated on the basis of a calendar year for the number of days that the Letter of Credit will be outstanding during such period. This fee will be paid in the currency in which the Letter of Credit is issued.

(12) If any Letter of Credit is outstanding upon the occurrence of an Event of Default or on the Revolving Facility Maturity Date, the applicable Borrower will forthwith pay to the Administrative Agent an amount (the **"Deposit Amount"**) equal to the undrawn amount of the outstanding Letter of Credit, which Deposit Amount will be held by the Administrative Agent for application against the indebtedness owing by such Borrower to the Issuing Bank in respect of any draw on the outstanding Letter of Credit. In the event that the Issuing Bank is not called upon to make full payment on the outstanding Letter of Credit prior to its expiry date, the Deposit Amount, or any part thereof that has not been paid out, will, so long as no Event of Default then exists, be returned to the applicable Borrower. The Administrative Agent will deposit the Deposit Amount to an interest bearing account and all interest earned on the Deposit Amount will be for the account of the applicable Borrower.

(13) The obligations of the Borrowers with respect to Letters of Credit will be unconditional and irrevocable, and must be paid or performed strictly in accordance with the terms of this Agreement under all circumstances, including the following circumstances:

(a) any lack of validity or enforceability of any Loan Document or the Letters of Credit;

(b) any amendment or waiver of or any consent to or actual departure from this Agreement;

(c) except for the Issuing Bank's failure to comply with the payment conditions under such Letter of Credit, the existence of any claim, set-off, compensation, counterclaim, defence or other right which any Borrower may have at any time against any beneficiary or any transferee of a Letter of Credit (or any Persons for which any such beneficiary or any such transferee may be acting), the Issuing Bank or any other Person or entity, whether in connection with this Agreement, the transactions contemplated herein or in any other agreements or any unrelated transactions;

(d) any document presented under a Letter of Credit proving to be forged, fraudulent, invalid or insufficient in any respect or any statement therein being untrue or inaccurate in any respect except for non-compliance with the payment conditions of such Letter of Credit; or

(e) any other circumstance whatsoever, whether or not similar to any of the foregoing.

The *Uniform Customs and Practice for Documentary Credits* of the International Chamber of Commerce current on the issue of each Letter of Credit will be binding on the Borrowers, the Lenders and the Issuing Bank with respect to such Letter of Credit. The applicable Borrower assumes all risks of the acts or omissions of the beneficiary of each Letter of Credit with respect to such Letter of Credit. In furtherance of, and not in limitation of, the Issuing Bank's rights and powers under such *Uniform Customs and Practice*, but subject to all other provisions of this Section 5.02 including the Issuing Bank's obligation to comply with the payment conditions of each Letter of Credit, it is understood that the Issuing Bank will not have any liability for, and that the applicable Borrower assumes all responsibility for: (i) the genuineness of any signature, (ii) the form, validity, genuineness, falsification and legal effect of any draft, certification or other document required by a Letter of Credit or the authority of the Person signing the same, (iii) the failure of any instrument to bear any reference or adequate reference to a Letter of Credit or the failure of any Person to note the amount of any instrument on the reverse of a Letter of Credit or to surrender a Letter of Credit, (iv) the good faith or acts of any Person other than the Issuing Bank and its agents and employees, (v) the existence, form or sufficiency or breach or default under any agreement or instrument of any nature whatsoever, (vi) any delay in giving or failure to give any notice, demand or protest, and (vii) any error, omission, delay in or non-delivery of any notice or other communication, however sent. The determination as to whether the required documents are presented prior to the expiration of a Letter of Credit and whether such other documents are in proper and sufficient form for compliance with a Letter of Credit will be made by the Issuing Bank in its sole discretion, which determination will be conclusive and binding upon the Borrowers absent manifest error. It is agreed that the Issuing Bank may honour, as complying with the terms of a Letter of Credit and this Agreement, any documents otherwise in order and signed or issued by the beneficiary thereof. Any action, inaction or omission on the part of the Issuing Bank under or in connection with any Letter of Credit or any related instrument or document, if in good faith and in conformity with such laws, regulations or commercial or banking customs as the Issuing Bank may reasonably deem to be applicable, will be binding upon the Borrowers, and will not affect, impair or prevent the vesting of any of the Issuing Bank's rights or powers hereunder or the applicable Borrower's obligations to make full reimbursement of amounts drawn under the Letters of Credit. Notwithstanding the provisions of this Section 5.02(13), the Borrowers will not be responsible, and no Person will be relieved of responsibility, for any gross negligence or wilful misconduct of such Person.

(14) Despite any other provision hereof, Bank of Montreal will be the Issuing Bank with respect to:

(a) all BMO Letters of Credit outstanding on the date of this Agreement; and

(b) all BMO Letters of Credit issued after the date of this Agreement to but excluding the date of the first advance under this Agreement,

provided that the total amount owing under all BMO Letters of Credit will not exceed Cdn. $5,000,000 and the total principal amount owing under the BMO Credit Agreement (including by way of Letters of Credit, but excluding all amounts owing under the BMO Hedge Agreements) will not exceed U.S. $10,000,000. Upon expiry of each BMO Letter of Credit on or after the date of the first advance under this Agreement, The Toronto-Dominion Bank will become the Issuing Bank with respect to what previously will have been the BMO Letters of Credit and will, subject to the provisions of this Agreement, issue Letters of Credit required to replace such expiring BMO Letters of Credit. For greater certainty, The Toronto-Dominion Bank will, subject to the provisions of this Agreement, be the Issuing Bank with respect to all Letters of Credit issued on or after the date of the first advance under this Agreement.

ARTICLE 6 - REPAYMENT

6.01 Mandatory Repayment - Revolving Facilities

The applicable Borrower will repay in full the outstanding principal amount of all Loans and other Obligations under its Revolving Facility on or before the Revolving Facility Maturity Date.

6.02 **Mandatory Repayment - U.S. Non-Revolving Term Facility**

The U.S. Borrower will repay in full the outstanding principal amount of all Loans and other Obligations under the U.S. Non-Revolving Term Facility on or before the U.S. Non-Revolving Term Facility Maturity Date.

6.03 **Additional Repayment and Commitment Reduction on Dispositions and Financings – Revolving Facilities and U.S. Non-Revolving Term Facility**

(1) (a) Except as otherwise provided in this Section 6.03, if a Restricted Party receives Net Proceeds in the form of Cash or Cash Equivalents from a Disposition that gives rise to a Disposition Trigger Event, or from insurance proceeds pursuant to Section 9.01(8) hereof, which, in accordance with this Agreement, are payable to the Lenders to repay the Credit Facilities, the applicable Borrower will have an obligation under this Section 6.03 to make a repayment under the Revolving Facilities and the U.S. Non-Revolving Term Facility, on a *pro rata* basis, in an amount equal to such Net Proceeds in the form of Cash or Cash Equivalent. The applicable Borrower will notify the Administrative Agent in writing of any such mandatory prepayment required to be made pursuant to this Section 6.03(1) at least five Business Days prior to the date of such prepayment. Each such notice will specify the date of such prepayment and the amount of such prepayment. The Administrative Agent will promptly notify each Lender of the contents of the Borrower's prepayment notice and of such Lender's *pro rata* share of the prepayment. Notwithstanding the foregoing and subject to paragraph (b), the U.S. Borrower will not be required to make any prepayment of the U.S. Non-Revolving Term Facility pursuant to this Section 6.03 on or prior to the fifth anniversary of the date of the last Drawdown of the U.S. Non-Revolving Term Facility (the "**Fifth Anniversary**") to the extent that the amount thereof, when aggregated with all prior mandatory prepayments of the U.S. Non-Revolving Term Facility, would exceed 25% of the total principal amount of the U.S. Non-Revolving Term Facility advanced; provided that such excess amount which relates exclusively to the insurance proceeds referred to in paragraph (b) of the definition of Net Proceeds which would have been applied to prepayment of the U.S. Non-Revolving Term Facility but for this sentence of Section 6.03(1) will be deposited by the applicable Borrower into a designated cash collateral account maintained with the Administrative Agent (or maintained with such other Person as otherwise directed by the Administrative Agent) until so applied on the Business Day immediately following the Fifth Anniversary.

(b) A Disposition Trigger Event will constitute an event requiring the U.S. Borrower to, within five Business Days following any Disposition Trigger Event, make an offer to the Lenders, by notice to the Administrative Agent, to prepay an aggregate principal amount of the U.S. Non-Revolving Term Facility equal to the applicable *pro rata* amount of Net Proceeds resulting from such Disposition Trigger Event, and such amount will be applied in the manner specified in Section 6.03(2). Any failure of the U.S. Borrower to make such offer or to effect such prepayment following acceptance of such offer will constitute an Event of Default under this Agreement. If any Lender declines such offer, the U.S. Borrower shall be entitled to retain the applicable amount.

(2) Subject to Section 6.03(1), each repayment under this Section 6.03 will be applied against the repayments of principal required under Section 6.03(1) without regard to the respective maturity dates of any Credit Facility, and each such repayment will be applied to, and will permanently reduce the Commitment of each Lender in respect of the Revolving Term Facilities and the U.S. Non-Revolving Term Facility, on a *pro rata* basis, by the amount of the Lender's Applicable Percentage of such repayment. If the applicable Borrower by reason of any such repayment, reduction or cancellation (a) pays any LIBO Rate Loans prior to the end of the applicable Interest Period, the Borrower will compensate the Lenders for any loss or expense that the Lenders incur as a result thereof, including any breakage costs, or (b) pays any Bankers' Acceptances or BA Equivalent Notes prior to their respective maturity dates or discharges its obligation to the Issuing Bank in respect of outstanding Letters of Credit, such amount will be paid as collateral to the Administrative

Agent in an amount equal to the full face amount at maturity of such Bankers' Acceptance or BA Equivalent Notes or the amount of such Letters of Credit then outstanding, as applicable. Once reduced in accordance with this Section 6.03, no Commitment may be increased or reinstated. The applicable Borrower will pay to the Administrative Agent all accrued fees and other amounts, and accrued and unpaid interest in respect of any of the Credit Facilities to, but excluding, the effective date of any repayment, reduction or cancellation of the Commitments in such Credit Facilities on the effective date of such repayment, reduction or cancellation.

(3) To the extent that any amount to be applied to the prepayment required under Section 6.03(1) exceeds the aggregate amount then outstanding under the Credit Facilities, the excess amount will automatically and permanently reduce the Commitment of each Lender in respect of the Revolving Facility and the Non-Revolving Term Loan, on a *pro rata* basis, in an amount equal to such excess amount.

(4) Section 6.03(1) will not apply upon the occurrence of and during the continuance of an Event of Default in which case all such Net Proceeds will forthwith be applied to pay down the Credit Facilities.

(5) The Lenders hereby consent to any payment that will be necessary for a Restricted Party to make to any Borrower in order for the repayments under this Section 6.03 to be made.

6.04 <u>Voluntary Prepayments and Reductions – BAs and LIBO Rate Loans</u>

If either Borrower by reason of any voluntary prepayment, reduction or cancellation (a) prepays any LIBO Rate Loan prior to the end of the applicable Interest Period, such Borrower will compensate the Lenders for any loss or expense that the Lenders incur as a result thereof, including any breakage costs, or (b) prepays any Bankers' Acceptances or BA Equivalent Notes prior to their respective maturity dates, such Borrower will deposit cash collateral with the Administrative Agent equal to the full face amount at maturity of such Bankers' Acceptances or BA Equivalent Notes, as applicable.

ARTICLE 7 - PLACE AND APPLICATION OF PAYMENTS

7.01 <u>Place of Payment of Principal, Interest and Fees</u>

All payments of principal, interest, fees and other amounts to be made by a Borrower to the Administrative Agent and the Lenders pursuant to this Agreement will be made in the currency in which a Loan is outstanding for value on the day such amount is due or, if such day is not a Business Day, on the Business Day next following with interest, by deposit or transfer thereof to the account, if applicable, of the Canadian Administrative Agent maintained at the Canadian Administrative Agent's Office or, if applicable, the U.S. Administrative Agent at the U.S. Administrative Agent's Office, or at such other place as such Borrower and the Administrative Agent may from time to time agree.

7.02 <u>Netting of Payments</u>

If, on any date, amounts would be due and payable under this Agreement in the same currency by a Restricted Party to any Lender, and by such Lender to a Restricted Party, then, on such date, upon the agreement of the applicable Restricted Party and the applicable Administrative Agent or such Lender that netting is to apply to such payments, the obligations of each such party to make payment of any such amount will be automatically satisfied and discharged if the amounts payable are the same. If, in such circumstances, the aggregate amount that would otherwise have been payable by a Restricted Party to such Lender exceeds the aggregate amount that would otherwise have been payable by such Lender to a Restricted Party or *vice versa*, such obligations will be replaced by an obligation upon whichever of the Restricted Party or such Lender would have had to pay the larger aggregate amount, to pay to the other the excess of the larger aggregate amount over the smaller aggregate amount. For greater certainty, prior to acceleration of repayment pursuant to Section 11.02, this Section 7.02 will not permit any Lender to exercise a right of set-off, combination or similar right against any amount which a Restricted Party may have on deposit with such Lender in respect of any amount to which netting is to apply pursuant to this Section 7.02, but will apply only to determine the net amount to be payable by the Lenders to a Restricted Party, or by a Restricted Party to the Lenders.

ARTICLE 8 - REPRESENTATIONS AND WARRANTIES

8.01 Representations and Warranties

Each Borrower represents and warrants to the Administrative Agent and to each of the Lenders as follows, and acknowledges and confirms that the Administrative Agent and each of the Lenders is relying upon such representations and warranties:

(1) Existence and Qualification. Each of the Restricted Parties (a) that is a corporation or company has been duly incorporated, amalgamated or continued, as the case may be, and is validly subsisting as a corporation or company under the laws of its jurisdiction of incorporation, amalgamation, or continuance, as the case may, (b) that is not a corporation or company has been duly created or established as a partnership or other entity and validly exists under the laws of the jurisdiction in which it has been created or established, and (c) is duly qualified, licensed and registered to carry on its business in all jurisdictions where it conducts business and has all Material Licences, all of which are in good standing.

(2) Power and Authority. Each of the Restricted Parties has the power, authority and right (a) to enter into and deliver, and to exercise its rights and perform its obligations under, the Loan Documents to which it is a party and all other instruments and agreements delivered by it pursuant to any of the Loan Documents, and the Material Contracts to which such Restricted Party is a party, and (b) to own its Property and carry on its business as currently conducted and as currently proposed to be conducted by it.

(3) Duly Licensed. Each of the Restricted Parties is duly licensed, registered or qualified in all jurisdictions where the character of its assets and Property owned or leased or the nature of the activities conducted by it make such licensing, registration or qualification necessary or desirable under Applicable Law, except where failure to do so would not, individually or in the aggregate, constitute, or be reasonably likely to cause or result in, a Material Adverse Change. Each of the Restricted Parties holds all licences, permits, orders, approvals, notices, registrations and all other prerequisites for conducting its business under Applicable Law, except where failure to do so would not, individually or in the aggregate, constitute, or be reasonably likely to cause or result in, a Material Adverse Change.

(4) Execution, Delivery, Performance and Enforceability of Documents. The execution, delivery and performance of each of the Loan Documents and the Material Contracts to which a Restricted Party is a party, and every other instrument or agreement delivered by it pursuant to any Loan Document or the Material Contracts, has been duly authorized by all actions, if any, required on its part and by its shareholders and directors (or where applicable partners, members or managers), and each of such documents has been duly executed and delivered.

(5) Loan Documents and Material Contracts Comply with Applicable Laws, Organizational Documents and Contractual Obligations. Provided that the Restricted Parties obtain the necessary consents to the assignment of certain Material Contracts, by way of security to the Administrative Agent, neither the entering into nor the delivery of, and neither the consummation of the transactions contemplated in nor performance of nor compliance with the terms, conditions and provisions of, the Loan Documents and the Material Contracts by any Restricted Party conflicts with or will conflict with, or results or will result in any breach of, or constitutes a default under or contravention of, any Requirements of Law applicable to it or any

of its Organizational Documents or any other agreement, guarantee, indenture or instrument to which it is a party or by which it is bound (except, in each case, where such conflict, breach, default, or contravention would not, individually or in the aggregate, constitute, or be reasonably likely to cause or result in, a Material Adverse Change), or results or will result in the creation or imposition of any Encumbrance upon any of its Property and no approval is required from any Governmental Authority in connection with the execution and performance by the Restricted Parties of any of the Loan Documents and each of the Loan Documents constitutes the legal, valid, binding and enforceable obligation of the Restricted Party to each such Loan Document subject to the customary legal qualifications to same.

(6) Taxes. Each of the Restricted Parties has filed or caused to be filed all federal, provincial, state and local returns, filings, elections and reports which to its knowledge are required to be filed by it in respect of all Taxes and has paid or caused to be paid all Taxes, including interest and penalties, as may be required by law and in accordance with any assessment or demand for payment received by it to the extent that Taxes have become due, except as may be diligently contested in good faith and by appropriate proceedings or as to which a *bona fide* dispute may exist and for which adequate reserves are being maintained. Each of the Restricted Parties has withheld and remitted all amounts required to be held by it, (including without limitation income tax, Canada Pension Plan and employment insurance) from all payments made to its officers and employees, to all non-residents and to all other Persons with respect to whom it is required to withhold any amounts and has paid these amounts, together with any interest and penalties due, to the appropriate authority on a timely basis and in the form required by the appropriate legislation, except as may be diligently contested in good faith and by appropriate proceedings or as to which a *bona fide* dispute may exist and for which adequate reserves are being maintained.

(7) Judgments, etc. None of the Restricted Parties is subject to any judgment, order, writ, injunction, decree or award (other than customary or ordinary course restrictions, rules and regulations consistent or similar with those imposed on other Persons engaged in similar businesses) that has not been stayed or of which enforcement has not been suspended and that, individually or in the aggregate, constitutes, or is reasonably likely to cause or result in, a Material Adverse Change.

(8) Absence of Litigation. There are no actions, suits or proceedings pending or, to the best of each Borrower's knowledge and belief, after due inquiry and all reasonable investigation, threatened against or affecting any Restricted Party that are reasonably likely to cause or result in, either separately or in the aggregate, a Material Adverse Change. None of the Restricted Parties is in default with respect to any Applicable Law in any manner or to any extent that could reasonably be expected to cause or result in, a Material Adverse Change.

(9) No Event of Default or Pending Event of Default. No Event of Default or Default has occurred and is continuing.

(10) Title to Assets. Subject only to the BMO Security in the period prior to the date of the first Drawdown, each of the Restricted Parties has good title to its Property, free and clear of all Encumbrances except Permitted Encumbrances and no Person has any agreement or right to acquire an interest in such Property other than in the ordinary course of the business of the applicable Restricted Party.

(11) No Liabilities. Each of the Restricted Parties has as at December 31, 2004 no liabilities (contingent or other) or other obligations of the type required to be disclosed in accordance with GAAP which are not fully disclosed on its financial statements provided to the Lenders for its fiscal year ended December 31, 2004, other than Permitted Debt and liabilities and obligations incurred in the ordinary course of its business.

(12) Non-Default Under Permitted Encumbrances. Each of the Restricted Parties is not in default under any of the Permitted Encumbrances relating to it, except to the extent that such defaults would not, in the aggregate, effect a Material Adverse Change.

(13) Use of Real Property. All real property owned or leased by each of the Restricted Parties may be used in all material respects by it pursuant to Applicable Law for the present use and operation of the material elements of the business conducted, or intended to be conducted, including the Mills, on such real property by it except where non compliance with any such Applicable Law could not constitute, or be reasonably be expected, individually or in the aggregate, to constitute, to cause or result in, a Material Adverse Change.

(14) Labour Relations. None of the Restricted Parties is engaged in any unfair labour practice that could reasonably be expected to cause or result in a Material Adverse Change. There is no unfair labour practice complaint pending against any of the Restricted Parties, or threatened against any of them, before any Governmental Authority that if adversely determined could reasonably be expected to cause or result in a Material Adverse Change. No grievance or arbitration arising out of or under any collective bargaining agreement is pending against any of the Restricted Parties or threatened against any of them that, if adversely determined, could reasonably be expected to cause or result in a Material Adverse Change. No strike, labour dispute, slowdown or stoppage is pending against any of the Restricted Parties or threatened against any of them and no union representation proceeding is pending with respect to any employees of the Restricted Parties, except (with respect to any matter specified in this sentence, either individually or in the aggregate) such as could not reasonably be expected to cause or result in, a Material Adverse Change.

(15) Compliance with Laws. None of the Restricted Parties (i) is in default under any Applicable Law where such default could reasonably be expected to cause or result in a Material Adverse Change or affect its ability to perform any of its material obligations under any Material Contract to which it is a party or (ii) without limiting clause (i) above, is or shall be (x) listed on the Specially Designated Nationals and Blocked Person List maintained by the Office of Foreign Assets Control ("OFAC"), Department of the Treasury, and/or any other similar lists maintained by OFAC pursuant to any authorizing statute, Executive Order or regulation or (y) a person designated under Section 1(b), (c) or (d) of Executive Order No. 13224 (September 23, 2001), any related enabling legislation or any other similar Executive Orders.

(16) No Default.

(a) No Event of Default has occurred and is continuing.

(b) None of the Restricted Parties is in default under any agreement, guarantee, indenture or instrument to which it is a party or by which it is bound, the breach of which could reasonably be expected to cause or result in a Material Adverse Change and no Default has occurred.

(17) Ownership Structure. The ownership structure of each Restricted Party and its Subsidiaries is as set forth in Schedule 8.01(17), which contains:

(a) a list of each Borrower and all other Restricted Parties, including their Subsidiaries (except any additional entities of which the Administrative Agent has received written notice from a Borrower which shall be deemed to be included in Schedule 8.01(17) for purposes of Section 8.02 hereof);

(b) a complete and accurate list of the following:

(i) each such Person's full and correct name (including any French and English forms of name) and the jurisdiction in which each such Person was formed, and

(ii) the full address (including postal code or zip code) of each Restricted Party's chief executive office and chief place of business and, if the same is different, the address at which the books and records of such Restricted Party are located, the address at which senior management of such Restricted Party are located and conduct their deliberations and make their decisions with respect to the business of such Restricted Party and the address from which the invoices and accounts of such Restricted Party are issued.

(18) Relevant Jurisdictions. The Relevant Jurisdictions for each Restricted Party and its Subsidiaries are set forth on Schedule 1.01(g).

(19) Real Property. Attached hereto as Schedule 8.01(19) is a true and correct list of all material real Property owned or leased by the Borrowers (excluding Bush Lots).

(20) Computer Software. Each of the Restricted Parties owns or has licensed for use all of the material Software necessary to conduct its businesses. All Computer Equipment owned or used by each of the Restricted Parties has been properly maintained and is in good working order for the purposes of on-going operation, subject to ordinary wear and tear for Computer Equipment of comparable age.

(21) Intellectual Property Rights. Each of the Restricted Parties has rights sufficient for it to use all the Intellectual Property reasonably necessary for the conduct of its businesses. To each of the Borrowers' knowledge, none of the Restricted Parties is infringing or is alleged to be infringing the Intellectual Property rights of any other Person in a manner that could reasonably be expected to cause, or if any allegation is determined adversely, that could reasonably be expected to cause or result in, a Material Adverse Change other than as disclosed in Schedule 8.01(21).

(22) Material Contracts and Material Licences. No event has occurred and is continuing that would constitute a breach of or a default under any Material Contract or Material Licence, the result of which would effect a Material Adverse Change, and each Material Contract to which a Restricted Party is a party is binding upon it and, to the Borrowers' knowledge, is a binding agreement of each other Person who is a party thereto.

(23) Financial Statements. All of the quarterly and annual financial statements that have been furnished to the Lenders in connection with this Agreement are complete in all material respects and such financial statements fairly present the financial position of each of the Borrowers or other Restricted Parties, as the case maybe, as of the dates referred to therein and have been prepared in accordance with GAAP. None of the Restricted Parties has any liabilities (contingent or other) or other obligations of the type required to be disclosed in accordance with GAAP that are not fully disclosed on the consolidated financial statements of the Canadian Borrower provided to the Lenders for the fiscal period ended June 30, 2005, other than liabilities and obligations eliminated by such consolidation or incurred in the ordinary course of business, and the Obligations.

(24) No Material Adverse Change. Since the date of each of the Borrower's most recent annual audited financial statements provided to the Administrative Agent, there has been no Material Adverse Change.

(25) Environmental Matters.

(a) The Property and assets (including those to be acquired for construction and operation of the Mills) of each Restricted Party and its operations are in full compliance in all respects with and no liability as arisen under all Environmental Laws, except to the extent that the non-compliance would not or could not reasonably be expected to cause or result in, a Material Adverse Change. Each Borrower is not aware of, nor has it received notice of, any past, present or future condition, event, activity, practice or incident that may interfere with or prevent the compliance or continued compliance of it or any other Restricted Party in all respects with all Environmental Laws except to the extent that the non-compliance would not or could not reasonably be expected to cause or result in a Material Adverse Change. Each Restricted Party has obtained all licences, permits and approvals that are currently required under all Environmental Laws and is in full compliance with the provisions of such licences, permits and approvals, in each case except to the extent that the non-compliance would not or could not reasonably be expected to cause or result in, a Material Adverse Change.

(b) Each Borrower is not aware that any Hazardous Substances exist on, about or within or have been used, generated, stored, transported, disposed of on, or released from any of its Property or the Property of any other Restricted Party or the Property to be acquired for constructing and operating the Mills, other than in material accordance and compliance with all Environmental Laws, except to the extent that the non-compliance would not or could not reasonably be expected to cause or result in, a Material Adverse Change.

(c) The use which each Restricted Party has made and intends to make of its Property (including the Property to be acquired for constructing and operating the Mills) will not result in the use, generation, storage, transportation, accumulation, disposal, or release of any Hazardous Substances on, in or from any such Property except in accordance and compliance with all Environmental Laws, except to the extent that the non-compliance would not or could not reasonably be expected to cause or result in, a Material Adverse Change.

(d) There is no action, suit or proceeding, or, to the knowledge of each Restricted Party, any investigation or inquiry, before any Governmental Authority pending or, to its knowledge, threatened against any Restricted Party relating in any way to any Environmental Law that would or could reasonably be expected to cause or result in, a Material Adverse Change.

(e) No Restricted Party has (i) incurred any current and outstanding liability for any clean-up or remedial action under any Environmental Law with respect to current or past operations, events, activities, practices, incidents or the condition or use of any Property owned currently or in the past, (ii) received any outstanding written request for information (other than information to be provided in the normal course in connection with applications for licences, permits or approvals) by any Person under any Environmental Law with respect to the condition, use or operation of its Property, or (iii) received any Environmental Claim that in any of subsections (i), (ii) or (iii) would or could reasonably be expected to cause or result in a Material Adverse Change.

(26) <u>CERCLA</u>. No portion of any Property of any Restricted Party has been listed, designated or identified or proposed for such listing, designation or identification in the National Priorities List or the CERCLA Information System both as published by the United States Environmental Protection Agency, or any similar list of sites published by any federal, state or local authority proposed for clean up or remedial or corrective action under any requirements of Environmental Laws.

(27) <u>Pension Plans.</u> With respect to Pension Plans, except as disclosed on Schedule 8.01(27), (a) no steps have been taken to terminate any Pension Plan (wholly or in part) that could result in any of the

Restricted Parties being required to make an additional contribution to the Pension Plan in excess of U.S. $500,000 (or the Equivalent Amount in Canadian Dollars), (b) no contribution failure has occurred with respect to any Pension Plan of a Restricted Party (for this purpose as provided in clause (ii) of the definition of "Pension Plan") sufficient to give rise to a lien or charge under Section 302(f) of ERISA or any applicable pension benefits laws of any other jurisdiction, (c) no condition exists and no event or transaction has occurred with respect to any Pension Plan that is reasonably likely to result in any Restricted Party incurring any material liability, fine or penalty, and (d) no Restricted Party has any contingent liability with respect to any post-retirement benefit under a Welfare Plan that is material to any Borrower on a consolidated basis. Except as disclosed on Schedule 8.01(27), (i) each Pension Plan of each Restricted Party is in compliance in all material respects with all Applicable Laws, (ii) all contributions (including employee contributions made by authorized payroll deductions or other withholdings) required to be made to the appropriate funding agency in accordance with all Applicable Laws and the terms of each such Pension Plan have been made in accordance with all Applicable Laws and the terms of each such Pension Plan, (iii) all liabilities under each such Pension Plan are funded, on a going concern and solvency basis, in accordance with the terms of the respective Pension Plans, the requirements of applicable pension benefits laws and of applicable regulatory authorities and the most recent actuarial report filed with respect to the Pension Plan, and (iv) no event has occurred and no conditions exist with respect to any Pension Plan that have resulted or could reasonably be expected to result in any Pension Plan having its registration revoked or refused for the purposes of any administration of any relevant pension benefits regulatory authority or being required to pay any Taxes under any Applicable Laws, except for any exceptions to clauses (ii) through (iv) above that, individually or in the aggregate, could not reasonably be expected to cause or result in, a Material Adverse Change. Without limiting any of the foregoing in this paragraph, no ERISA Event has occurred or is reasonably expected to occur that, when taken together with all other such ERISA Events for which liability is reasonably expected to occur, would reasonably be expected to result in a Material Adverse Change.

(28) Compliance with Regulations T, U and X. No Borrower nor any of its Subsidiaries is engaged principally in or has as one of its important activities the business of extending credit for the purpose of purchasing or carrying any "margin security" or "margin stock" as defined in Regulations T, U, and X (12 C.F.R. Parts 221 and 224) of the Board of Governors of the Federal Reserve System (herein called "Margin Stock"). Neither the making of the Loans nor the use of proceeds thereof will violate the provisions of Regulation T, U, or X of said Board of Governors.

(29) Representations and Warranties in Loan Documents. All representations and warranties set forth in the other then existing Loan Documents were (with respect to the representations and warranties of Restricted Parties other than the Borrowers, to the knowledge of each of the Borrowers) true and correct in all material respects as of the time such representations and warranties were made and are true and correct in all material respects as of the Closing Date as if such representations and warranties were made on and as of such date.

(30) Broker's Fees. No broker's or finder's fees or commission will be payable with respect to this Agreement or any of the transactions contemplated hereby, and the Borrowers will indemnify the Administrative Agent and the Lenders against, and will hold the Administrative Agent and the Lenders harmless from, any claim, demand or liability for any such broker's or finder's fees alleged to have been incurred in connection herewith or therewith and any expenses (including fees, expense and disbursements or counsel) arising in connection with any such claim, demand or liability.

(31) Full Disclosure. All information provided or to be provided to the Administrative Agent and the Lenders in connection with the Credit Facilities is, to each of the Borrowers' knowledge, true and correct in all material respects and none of the documentation furnished to the Administrative Agent and the Lenders by or on behalf of it, to its knowledge, omits or will omit as of such time, a material fact necessary to make the statements contained therein not misleading in any material way, and all expressions of expectation,

intention, belief and opinion contained therein were honestly made on reasonable grounds after due and careful inquiry by it (and any other Person who furnished such material on behalf of it).

(32) Mills. Attached as Schedules 1.01(k), 1.01(l) and 1.01(m) are the Mills Budget, the Mills Operating Projections and the Mills Construction Schedule, all of which are to the best of the knowledge of the Borrowers complete in all material respects and are reasonable budgets, projections and schedules that are based on reasonable assumptions.

(33) Conditions Precedent. All of the conditions precedent to signing this Agreement set forth on Schedule 8.01(33) hereto have been met.

(34) Investment and Holding Company Status. None of the Restricted Parties is (a) an "investment company" as defined in, or subject to regulation under, the Investment Company Act of 1940 or (b) a "holding company" as defined in, or subject to regulation under, the Public Utility Holding Company Act of 1935.

8.02 **Survival and Repetition of Representations and Warranties**

The representations and warranties set forth in Section 8.01 survive the execution and delivery of this Agreement and all other Loan Documents and, except for the representations and warranties set forth in Sections 8.01(3), (10), (12), (13), (14), (15), (16)(b), (17)(b), (19), (20), (21), (25), (26), (27) and (29), all other representations set forth in Section 8.01 will be, and will be deemed to be, repeated by each Borrower as of each Drawdown Date after the first advance hereunder; provided, however, that notwithstanding the foregoing, for purposes of the first advance, all of the representations and warranties set forth in Section 8.01 will be, and will be deemed to be, repeated as of the date of the first advance.

ARTICLE 9 - COVENANTS

9.01 **Positive Covenants**

So long as this Agreement is in force and except as otherwise permitted by the prior written consent of the Required Lenders, each Borrower will, and will cause each of the other Restricted Parties to:

(1) Timely payment. Make due and timely payment of the Obligations required to be paid by it hereunder or under the Loan Documents.

(2) Conduct of Business and Maintenance of Existence. Engage in business of the same general type as now conducted by it; carry on and conduct its business and operations in a proper, efficient and businesslike manner, in accordance with good business practice; preserve, renew and keep in full force and effect its existence; and, except to the extent that the failure to comply therewith would not individually or in the aggregate have, or be reasonably likely to cause or result in, a Material Adverse Change, take all reasonable action to maintain all rights, privileges and franchises necessary or desirable in the normal conduct of its business and comply with all Material Licences and Requirements of Law.

(3) Further Assurances. Use reasonable efforts to provide the Administrative Agent and the Lenders with such other documents, opinions, consents, acknowledgments and agreements as are reasonably necessary to implement this Agreement and the other Loan Documents from time to time.

(4) Access to Information. Promptly provide the Administrative Agent with all information reasonably requested by the Administrative Agent from time to time concerning its financial condition and Property, and during normal business hours and from time to time upon reasonable notice, permit

representatives of the Administrative Agent and the Lenders to inspect any of its Property and to examine and take extracts from its financial records, including records stored in computer data banks and computer software systems, and to discuss its financial condition with its senior officers and (in the presence of such of its representatives as it may designate) its auditors, the reasonable expense of all of which will be paid by the Borrowers.

(5) Obligations and Taxes. Pay or discharge, or cause to be paid or discharged, before the same will become delinquent (i) all Taxes imposed upon it or upon its income or profits or in respect of its business or Property and file all tax returns in respect thereof, (ii) all lawful claims for labour, materials and supplies, (iii) all required payments under any of its Debt, and (iv) all other obligations; provided, however that it will not be required to pay or discharge or to cause to be paid or discharged any such amount so long as the validity or amount thereof is being contested in good faith by appropriate proceedings and an appropriate financial reserve in accordance with GAAP and satisfactory to the Administrative Agent has been established.

(6) Use of Credit Facilities. Use the proceeds of the Credit Facilities only for the purposes specified in Section 2.05.

(7) Insurance. Maintain insurance on all its Property (showing the Administrative Agents as the loss payees as their interests may appear) with financially sound and reputable insurance companies or associations including all-risk property insurance, comprehensive general liability insurance and business interruption insurance, including course of construction and liability insurance in respect of the Mills, in amounts and against risks that are determined by the Borrowers to be appropriate and that are prudent in the circumstances and that are customary in its industry; furnish to the Administrative Agent, on written request, but in any event annually, satisfactory evidence of the insurance carried and notify the Administrative Agent of any claim it makes under the foregoing insurance policies that is in excess of U.S. $1,000,000.

(8) Application of Insurance Proceeds. With respect to all proceeds of insurance where the amount of such proceeds is greater than or equal to U.S. $25,000,000, the Restricted Party will consult with the Lenders about the use of all such proceeds and provide information to the Lenders about the proposed application of all such proceeds and, if the Specified Criteria are met, the Restricted Party will reinvest all such proceeds in the business to repair or restore the damaged assets commencing within 180 days after the proceeds are received; provided, however, if the Specified Criteria are not met, then all such proceeds will be repaid to the Lenders pursuant to Section 6.03(1); and provided further that with respect to all proceeds of insurance of less than U.S. $25,000,000, the Restricted Party will reinvest such proceeds in the business to repair or restore the damaged assets from which such proceeds are derived commencing within 180 days after the proceeds are received. For the purposes hereof, **"Specified Criteria"** means the following conditions which must be satisfied for the applicable Restricted Party, without the consent of the Lenders or Administrative Agent, to use the proceeds from insurance to repair or restore damaged assets or rebuild a facility in respect of which such proceeds have been derived:

(i) the Restricted Party and the Independent Engineer certify, and the Administrative Agent (on instructions of the Required Lenders, in their reasonable judgment) determines that repair or restoration of the Property is technically feasible within an 18 month period (or such shorter period during which insurance proceeds are available under the business interruption insurance maintained by or on behalf of the Restricted Party), and that a sufficient amount of funds is or will be available to the Restricted Party to make such repairs and restorations;

(ii) the Required Lenders, acting reasonably, determine that after repair and restoration the Property, the Borrowers will be able to repay the Loans and other amounts due to the Lenders as and when due;

(iii) no material federal, state, local or other governmental licence, registration, recording, filing, consent, permit, order, authorization, certificate, approval, exemption or declaration is necessary to proceed with the repair and restoration and no material amendment to this Agreement and no other instrument, is necessary for the purpose of effecting the repairs or restorations or, if any such governmental licence, registration, recording, filing, consent, permit, order, authorization, certificate, approval, exemption or declaration or amendment or instrument is necessary, the Restricted Party will be reasonably likely to be able to obtain such as and when required;

(iv) Administrative Agent shall receive an opinion of counsel acceptable to Administrative Agent opining that property subject to such repairs or restoration will be subject to the Security at the same ranking as provided by the applicable legal opinion delivered with respect to the existing Security; and

(v) Administrative Agent shall receive such additional title insurance, title insurance endorsements, mechanics' lien waivers, certificates, opinions or other matters as Administrative Agent may reasonably request as necessary or appropriate in connection with such repairs or restoration to preserve or protect the Administrative Agents' and the Lenders' interests hereunder and in the assets of the Restricted Party.

(9) Notice of Default. Promptly notify the Administrative Agent of any Event of Default or Default of which it becomes aware.

(10) Notice of Material Adverse Change. Promptly notify the Administrative Agent of any Material Adverse Change of which it becomes aware.

(11) Notice of Litigation. Promptly notify the Administrative Agent on becoming aware of the occurrence of any litigation, dispute, arbitration or other proceeding the result of which if determined adversely would be a judgement or award against it (a) in excess of U.S. $5,000,000, or (b) would cause or result in a Material Adverse Change to it, and from time to time provide the Administrative Agent with all reasonable information requested by the Administrative Agent concerning the status of any such proceeding.

(12) Environmental Compliance. Operate all Property owned, leased or otherwise used by it in a manner such that no obligation, including a clean-up or remedial obligation, will arise under any Environmental Law, which obligations individually or in the aggregate would have, or would be reasonably likely to cause or result in, a Material Adverse Change; provided, however, that if any such claim is made or any such obligation arises, will or will cause the applicable Restricted Party to immediately satisfy or contest such claim or obligation at its own cost and expense, and promptly notify the Administrative Agent upon learning of (a) the existence of Hazardous Substances located on, above or below the surface of any land that it occupies or controls (except those being stored, used or otherwise handled in compliance with Environmental Law), or contained in the soil or water constituting such land, or (b) the occurrence of any reportable release of Hazardous Substances into the air, land surface water or ground water that has occurred on or from such land that, as to either (a) or (b), would be reasonably likely to cause or result in a Material Adverse Change.

(13) Security. Provide the Administrative Agent with the Security required from time to time pursuant to Article 10 in accordance with the provisions of Article 10, accompanied by supporting resolutions, certificates and opinions in form and substance satisfactory to the Administrative Agent, acting reasonably, and do all such further acts and execute and deliver all such documents and instruments as may

from time to time be requested by the Administrative Agent, acting reasonably, to ensure that the Security constitutes at all times valid, enforceable, and perfected (to the extent provided for in the Security) Encumbrances that are prior to all other Encumbrances, other than those Permitted Encumbrance that are *pari passu* or prior thereto.

(14) Maintenance of Property. Keep all Property useful and necessary for its business in good working order and condition, normal wear and tear excepted, except to the extent that the failure to do so would not individually or in the aggregate be reasonably likely to cause or result in a Material Adverse Change.

(15) Hedge Arrangements. At the request of the Administrative Agent and at least on an annual basis, review its hedging program with the Lenders and provide satisfactory evidence that it has entered into and is maintaining a sound and fiscally responsible hedging program for interest risk management, commodity price risk management and foreign exchange fluctuations, and in each case not for speculative purposes.

(16) Pension and ERISA Matters. Promptly notify the Administrative Agent on becoming aware of (a) the institution of any steps by any Person to terminate or effect a partial wind-up of any Pension Plan, (b) the failure to make a required contribution to any Pension Plan if such failure is sufficient to give rise to an Encumbrance under Section 302(f) of ERISA or under any other Applicable Law, (c) the taking of any action with respect to a Pension Plan that is reasonably likely to result in the requirement that any Restricted Party furnish a bond or other security to such Pension Plan or the Pension Benefit Guaranty Corporation under ERISA or any other applicable Governmental Authority, or (d) the occurrence of any event with respect to any Pension Plan that has not been disclosed on Schedule 8.01(27) and that is reasonably likely to result in the incurrence by any Restricted Party of any material liability, fine or penalty, and in the notice to the Administrative Agent thereof, provide copies of all documentation relating thereto, or (e) the occurrence of any ERISA Event.

(17) Builders Lien Legislation. Comply in all respects with all relevant builders lien and construction lien legislation in the State of South Carolina, so as to ensure the full effectiveness and priority of the Security.

9.02 Financial Covenants

So long as this Agreement is in force and except as otherwise permitted by the prior written consent of the Required Lenders, the Borrowers will, at all times but tested as at the end of each fiscal quarter (including at the end of the fourth quarter) of the Canadian Borrower, comply with the following financial covenants:

(1) Senior Debt to Capitalization Ratio. The Senior Debt to Capitalization Ratio is not greater than 0.55:1.00 during the period commencing on the Closing Date and ending on the Mills Completion Date, and thereafter not greater than 0.50:1.00.

(2) Total Debt to Capitalization Ratio. The Total Debt to Capitalization Ratio is not greater than 0.60:1.00.

(3) EBITDA to Total Interest Expense Ratio. The EBITDA to Total Interest Expense Ratio is to be greater than or equal to 2.00:1.00 for so long as any amount is outstanding under this Agreement; provided, however, that the EBITDA to Total Interest Expense Ratio may be less than 2.00:1.00 but shall be greater than or equal to 1.00:1.00 for any four quarters during the period commencing with any quarter beginning after the date of this Agreement and ending no later than the second quarter after the quarter in which the

Mills Completion Date occurs; provided, further, that after the last of such four quarters the EBITDA to Total Interest Expense Ratio is equal to or greater than 2.00:1.00.

(4) Shareholders Equity. The Shareholders' Equity of the Canadian Borrower calculated on a consolidated basis is not less than Cdn. $425,000,000.

The financial covenants of the Borrowers under this Section 9.02 will be calculated as of the last day of each fiscal quarter (including at the end of the fourth quarter) of the Canadian Borrower on the basis of the consolidated financial statements of the Canadian Borrower as reported to the Lenders under Sections 9.03(1) and 9.03(2).

9.03 **Reporting Requirements**

So long as this Agreement is in force and except as otherwise permitted by the prior written consent of the Required Lenders, the Canadian Borrower will deliver to the Administrative Agent (with one copy in electronic format and one copy in printed form), with all such material to be distributed to each of the Lenders by the secure website referred to in Section 12.07 hereof or such other means as the Administrative Agent may from time to time choose:

(1) Quarterly Reports. As soon as available and in any event within 45 days of the end of each of its fiscal quarters (excluding the fourth quarter), the interim unaudited consolidated financial statements of the Canadian Borrower, including, in each case, balance sheet, statement of income and retained earnings and statement of cash flow, which will be prepared in accordance with GAAP. Despite any other provision hereof, for the purpose of preparing quarterly statements, deferred taxes shall not be adjusted quarterly but shall only be adjusted annually based on annual tax returns filed.

(2) Annual Reports. As soon as available and in any event within 90 days after the end of each of its fiscal years, the annual consolidated audited financial statements of the Canadian Borrower, including balance sheet, statement of income and retained earnings, and statement of cash flow for such fiscal year, which will be reviewed by an internationally recognized accounting firm, and will be prepared in accordance with GAAP and certified by an officer of the Canadian Borrower (and to the extent requested by the Administrative Agent, the unaudited non-consolidated financial statements of any Restricted Party), with the audit opinion thereon to be unqualified except for such qualifications as would not constitute a Material Adverse Change.

(3) Construction Reports. As soon as available but in any event within 45 days of the end of each of its fiscal quarters (including the fourth quarter) until the Mills Completion Date, a progress report with respect to the construction of the Mills, including the cost-in-place and Costs to Complete with reference to the Mills Budget and Construction Schedule. Except as otherwise instructed by the Administrative Agent at the direction of the Required Lenders, the Independent Engineer will semi-annually until the Mills Completion Date review the most recent construction reports and prepare a report (with a certificate included therewith) to the Administrative Agent, setting forth therein its views, comments and recommendations concerning the matters covered in such construction reports including certifying the Costs to Complete and costs incurred to date with respect to the construction of each of the Mills and such certifications and reports of the Independent Engineer shall be consistent with those of the Canadian Borrower (within a margin of 1% of the applicable amount or such greater amount as may be acceptable to the Administrative Agent on the instruction of the Required Lenders), and shall be acceptable to the Administrative Agent, acting reasonably, or, if not, the Canadian Borrower shall take remedial action in relation thereto that is acceptable to the Administrative Agent within 10 days of the Canadian Borrower first becoming aware either that there is a discrepancy or that the results are unacceptable to the Administrative Agent.

(4) Compliance Certificate. A Compliance Certificate in the form of Schedule 1.01(a) concurrently with the delivery of the financial statements referred to in Sections 9.03(1) and (2), commencing with the first fiscal quarter end after the date hereof.

(5) Business Plan. As soon as available and in any event within 60 days after the end of its fiscal year, provide the Administrative Agent with a consolidated detailed business plan for the Canadian Borrower for the following five years (the "**Business Plan**"), detailed financial projections and capital budgets from the date of delivery of such financial projections and capital budgets to the Credit Facilities, with a description of all assumptions used in respect of the preparation of the Business Plan, including the financial projections, capital budgets and all other future oriented financial information; provided, however, at no time will such financial projections and capital budgets be less than five years, in each case consisting of a balance sheet, statement of income and retained earnings and statement of changes of cash flow for such year.

(6) Notification Respecting Debt. Promptly notice of any amendment to, or waiver of, any material provisions of any agreement respecting Debt of the Borrowers or of any of their Subsidiaries, including any provision relating to the rate of interest payable on such Debt, the amount of Debt that may be incurred under such agreement, the term of such Debt, the security therefor or events of default or the maintenance of financial ratios thereunder.

(7) Notification of Actions. Promptly notice of any legal action taken by any creditor (other than the Lenders) to recover amounts outstanding respecting Debt of any Borrower or any Guarantor.

(8) Other Information. Promptly such other information as it may reasonably request respecting any Borrower or any Guarantor, or, to the extent that the Borrowers are not prevented from providing such information by contract or undertaking entered into with or provided to any other Person, respectively, any other corporation, partnership, limited partnership or other entity in which any Borrower or any Guarantor has any financial interest provided that the Administrative Agent will maintain the confidentiality of all information it receives in accordance with usual requirements of banker/customer confidentiality and does not disclose or use it except for the purposes of this Agreement.

(9) Notice of Change. Without limiting the generality of Section 9.03(8), promptly (i) notice of any additional Relevant Jurisdiction in respect of any Borrower or any Guarantor, and (ii) notice of any change (financial or otherwise) in the business, operations or condition (financial or otherwise) of any Borrower or any Guarantor that has caused or may cause a Material Adverse Change.

(10) Hedge Reporting. The Borrowers on their own behalf and on behalf of other Restricted Parties shall deliver to the Administrative Agent (or such other person designated by the Administrative Agent) a certificate setting out the details of each Hedge Arrangement forthwith upon entering into a Hedge Arrangement, with each such certificate also setting out the details of all then outstanding Hedge Arrangements and also certifying in relation to all Hedge Arrangements that they comply with the limitations set forth in Section 9.04(13).

9.04 Negative Covenants

So long as this Agreement is in force and except as otherwise permitted by the prior written consent of the Required Lenders, each Borrower will not, and will ensure that each Restricted Party will not:

(1) Disposition of Property. Dispose of, in one transaction or in a series of transactions, all or any part of its Property, whether now or hereinafter acquired, except for:

(a) the Bush Lots;

(b) Property sold by one Restricted Party to another Restricted Party;

(c) Property sold for fair market value, provided that the total amount of the gross proceeds derived from all such Dispositions made in any single fiscal year of the Canadian Borrower does not in the aggregate exceed U.S. $10,000,000; and

(d) Dispositions made in accordance with customary trade terms of tangible personal property that would reasonably be considered to be the subject matter of Dispositions by it in the normal course of its business for the purposes of carrying on the same or Dispositions of tangible personal property that is worn out, obsolete or no longer useful for the purpose of carrying on its business.

(2) No Consolidation, Amalgamation, etc. Except with a Borrower or Borrowers or with or as between Guarantors, consolidate, amalgamate or merge with any other Person, enter into any corporate reorganization or other transaction or series of transactions intended to effect or otherwise permit a change in its existing corporate or capital structure, in each case whereby all or substantially all of its undertaking or assets would become the property of another Person, liquidate, wind-up or dissolve itself, or permit any liquidation, winding-up or dissolution of any other Guarantor; provided that with respect to any such transaction with a Borrower or Borrowers or with or as between Guarantors no such transaction is permitted if (i) such event may result in the assets of the Borrower or a Guarantor becoming subject to an Encumbrance (other than a Permitted Encumbrance), (ii) such event may result in the occurrence of a Default or Event of Default, (iii) a Default or an Event of Default has or will have occurred and be continuing, (iv) the Person resulting from such transaction is not incorporated or organized under the laws of Canada or a province or territory thereof or the laws of any State of the United States, (v) the Person resulting therefrom is not bound by the Obligations of the Borrowers or Guarantors, and (vi) the Borrowers are unable to deliver to the Administrative Agent an opinion of Borrowers' counsel, acceptable to the Administrative Agent, acting reasonably, that such transaction complies with applicable Requirements of Law.

(3) No Change of Name. Change its name without providing the Administrative Agent with 30 days' prior written notice thereof.

(4) No Financings. Create, incur, assume or permit any Debt (including Debt of the Footner Joint Venture) to remain outstanding, other than Permitted Debt or complete any Financings (other than the Footner Buyout Financing).

(5) No Investments. Other than a Permitted Investment, make, directly or indirectly, any Investment except the Borrower or any Guarantor may make an Investment if:

(a) no Event of Default or Default has occurred and is continuing at the time such Investment is made or would result from the making of such Investment; and

(b) such Investment is consistent in all material respects with the Business Plan for the fiscal year of the Canadian Borrower in which such Investment is made and is made using cash resulting from the operations of the Borrowers or a Guarantor;

provided that if the Investment is in a Person that is not a wholly-owned Subsidiary of any Borrower or a Guarantor, the aggregate of all such Investments will not exceed Cdn. $10,000,000;

(6) No Change in Business. Other than the construction and operation of the Mills, engage, directly or indirectly, in a line of business that would be material and substantially different from those lines

of business carried on by it as of the Closing Date, except that it may engage in any reasonable extension, development or expansion thereof or in any business ancillary thereto.

(7) No Financial Assistance. Give any Financial Assistance (other than to other Restricted Parties).

(8) No Distributions. Make any Distribution if (i) the Total Debt to Capitalization Ratio, based on the most recently completed fiscal quarter is, or would be after giving effect to the proposed Distribution, equal to or greater than 50%, or (ii) the Borrowers would not be entitled to make a Drawdown of U.S. $1.00 under Credit Facilities after giving effect to the proposed Distribution, or (iii) if an Event of Default or Default has occurred and is continuing at the time such proposed Distribution is to be made or would result from the making of such Distribution; provided, however, that where the requirements of subparagraph (i), (ii) or (iii) do not prevent a Distribution from being made, the amount of the proposed Distribution will not exceed an amount determined in accordance with the following:

Free Cash Flow	Debt: Capitalization 40 to 50%	Debt: Capitalization <40%
<Cdn. $30 million	nil	nil
Cdn. $30 to Cdn. $75 million	50% of Free Cash Flow	60% of Free Cash Flow
>Cdn. $75 million	60% of Free Cash Flow	75% of Free Cash Flow

The foregoing restrictions on Distributions will not apply to any payments by the Canadian Borrower by way of dividends on its existing outstanding Preferred Shares in an aggregate dividend amount not exceeding Cdn. $6,000,000 for each fiscal year so long as no Event of Default or Default has occurred and is continuing at the time any such Preferred Shares dividend Distribution is made or would result from the making of such Preferred Shares dividend Distribution.

(9) No Encumbrances. Create, incur, assume or permit to exist or permit any Restricted Party to create, incur, assume or permit to exist any Encumbrance upon any of its Property (including upon any of the Property of the Footner Joint Venture) except Permitted Encumbrances.

(10) Capital Expenditures. In any fiscal year of the Canadian Borrower beginning on or after January 1, 2006 make, or enter into any agreement which would require it to make, any Capital Expenditures in excess of the Permitted Capital Expenditures.

(11) No Change to Year End. Make any change to its fiscal year end from December 31 in each year.

(12) No Continuance. Continue into any other jurisdiction.

(13) Hedge Arrangements. Enter into or permit to be outstanding at any time any Hedge Arrangement unless it meets the requirements of paragraphs (a) and (b) below:

(a) such Hedge Arrangement is either (i) a rate swap, interest rate option, forward rate transaction, forward foreign exchange transaction or cross currency rate swap transaction entered into with a Lender or (ii) a Commodity Hedge Arrangement; and

(b) such Hedge Arrangement is designed to protect the Restricted Party against fluctuations in currency exchange rates, interest rates or commodity prices and such Hedge Arrangement has been entered into by the Restricted Party *bona fide* and in good faith in the ordinary course of its business for the purpose of carrying on the same and not for speculative purposes.

(14) Location of Assets in Other Jurisdictions. Except for any Property being delivered to a customer in the ordinary course of business of such Restricted Party as part of the performance of its obligations or the provision of its services to such customer under a contract entered into with such customer in the ordinary course of business of such Restricted Party, and except for Property delivered to or stored in locations for reloading or storing to facilitate the sale and delivery thereof to a customer in the ordinary course of business, move any Property from a jurisdiction in which the Encumbrance of the Security over such Property is perfected to a jurisdiction where such Encumbrance is not perfected or where, after a temporary period allowing for registration in such other jurisdiction, such Encumbrance could become unperfected, or suffer or permit in any other manner any of its Property to not be subject to the Encumbrance of the Security or to be or become located in a jurisdiction in which the Encumbrance of the Security over such Property is not perfected, unless the applicable Restricted Party has first (a) given prior written notice thereof to the Administrative Agent, and (b) executed and delivered to the Administrative Agent all Security and all financing or registration statements in form and substance satisfactory to the Administrative Agent that the Administrative Agent or its counsel, acting reasonably, from time to time deem necessary or advisable to ensure that the Security at all times constitutes a perfected Encumbrance (subject only to Permitted Encumbrances), prior to all other Encumbrances of such Property other than Permitted Encumbrances that are *pari passu* or prior thereto, in such jurisdiction together with such supporting certificates, resolutions, opinions and other documents as the Administrative Agent, acting reasonably, may deem necessary or desirable in connection with such security and registrations.

(15) Non-Arm's Length Transactions. Except with a Restricted Party, enter into any Material Contract or material transaction between non-arm's length parties which is not entered into for fair market value and has not been approved by an independent committee of the board of directors of the Borrower or the Guarantor, as the case may be.

(16) Amendments to Organizational Documents. Amend any of its Organizational Documents in a manner that would be prejudicial to the interests of any of the Lenders under the Loan Documents.

(17) Amendments to Material Contracts. Amend, vary or alter in any way, consent to any assignment or transfer of, or waive or surrender any of its rights or entitlements under, any Material Contracts.

(18) No New Subsidiaries. Create any Subsidiary after the date of this Agreement unless the Administrative Agent is provided with the acknowledgement of such Subsidiary that it has become a party to this Agreement as a Guarantor as if it had executed this Agreement on the Closing Date and such new Subsidiary provides security on the same basis as if it were providing Security on the date of this Agreement.

(19) No Disposition of Subsidiaries. Dispose of, in one transaction or a series of transactions, all or any part of its Subsidiaries.

ARTICLE 10- SECURITY

10.01 Security

As general and continuing security for the payment and performance of the Obligations, including indemnification for Environmental Claims and the obligations of the Borrowers under all Hedge Arrangements with the Lenders, the security described below will be granted to the Canadian Administrative Agent as a security agent on behalf of the Lenders, with respect to Property (as collateral for the Obligations) situated in Canada, and the U.S. Administrative Agent as a security agent on behalf of the Lenders, with respect to Property (as collateral for the Obligations) situated in the United States, as follows:

(a) a general security agreement and charge from each Restricted Party creating a first priority ranking security interest (subject only to Permitted Encumbrances) over all of the present and future Property of such Restricted Party;

(b) a demand debenture of the Canadian Borrower in the principal amount of U.S. $600,000,000 secured by a fixed and specific mortgage and charge of all present and after acquired real and immoveable property described in the schedule thereto and the equipment and a floating charge over all Property not subject to such fixed and specific mortgages and charges;

(c) a pledge by the shareholder of all shares of each Restricted Party other than the Canadian Borrower;

(d) an assignment by each Restricted Party of all policies of insurance and all proceeds thereunder with respect to all Property that is subject to the security under this Section 10.01 and all other security hereafter granted by a Restricted Party pursuant to this Agreement, including any policies providing business interruption insurance, with the Administrative Agent named as first loss payee, with a standard mortgage clause endorsement relative to realty, and certificates evidencing all such insurance;

(e) an assignment by the applicable Restricted Party of all Material Contracts that are listed on Part II of Schedule 1.01(d) and that relate to the Mills, with consents and acknowledgments from all parties to such Material Contracts, together with assignments to the extent assignable (with, to the extent available, consents and acknowledgements) with respect to any Material Contracts listed on Part I of Schedule 1.01(d) or added to Schedule 1.01(d) after the date hereof;

(f) a postponement of any and all Shareholder Loans; and

(g) if the Canadian Borrower consents to the granting by Ainsworth Lumber Co. Ltd. or any of its Subsidiaries or Affiliates of security on its interests in the Footner Joint Venture as security for any financing, the Canadian Borrower will obtain, in consideration for its consent, the consent of Ainsworth Lumber Co. Ltd. or its applicable Subsidiary or Affiliate to the granting by the Canadian Borrower of an Encumbrance of its interest in the Footner Joint Venture to the Administrative Agent and, upon receipt of such consent, the Canadian Borrower will concurrently with such secured financing of Ainsworth Lumber Co. Ltd. or any of its Subsidiaries or Affiliates, pledge the Canadian Borrower's interests in, or otherwise grants a security on, the Footner Joint Venture on an equal basis with such secured financing of Ainsworth Lumber Co. Ltd. or any of its Subsidiaries or Affiliates.

10.02 **After Acquired Property and Further Assurances**

Each Restricted Party will from time to time execute and deliver all such further deeds or other instruments of conveyance, assignment, transfer, mortgage, pledge or charge in connection with all Property acquired by any Restricted Party after the Closing Date.

10.03 **Form of Security**

The Security will be in form satisfactory to the Lenders, acting reasonably.

10.04 **Discharge of Certain Security**

The Lenders authorize the Administrative Agent to discharge the Encumbrances created by the Security in respect of any Property sold in compliance with Section 9.04(1) and the Administrative Agent shall, from time to time at the request of the Canadian Borrower, deliver such discharges to the Canadian Borrower in relation thereto.

10.05 **Timmins Property Road and Easement**

The Lenders acknowledge that the Canadian Borrower is in the process of arranging with the Government of Ontario:

(a) the transfer by the Canadian Borrower to the Government of Ontario of lands comprising an existing road located on, and

(b) the grant by the Canadian Borrower of an easement for public utility purposes over,

parts of Parcel 1736, Section LC, Part Location AL937 Ogden being Part 1, Plan 6R1692, City of Timmins. The Administrative Agent shall, from time to time, at the request of the Canadian Borrower, without the further consent of any Lenders or Lender, deliver to the Canadian Borrower or as it may direct, at the time of such transfer, a partial discharge of the Security to the extent the Security charges the lands referred to in subsection (a) and, at the time of such grant of the easement, a postponement of the Security to postpone the Security in favour of the easement referred to in subsection (b), in each case without payment by the Canadian Borrower of any amount other than reasonable legal fees and expenses with respect to such partial discharge and postponement.

10.06 **Non-Assignable Collateral**

Despite any other provision of any Loan Document, the Security shall not include an assignment or Encumbrance of any agreement or other collateral which, by its terms or by operation of law, is not assignable or may not be Encumbered. The Restricted Parties shall use their commercially reasonable efforts to exclude from Material Contracts entered into after the date hereof any restriction against the assignability or Encumbering thereof to the Administrative Agent pursuant to Security. In the event any existing or future Material Contract (including the Material Contract listed in Part I of Schedule 1.01(d)) contains a restriction on such assignment or Encumbering, the Canadian Borrower shall, promptly at the request of the Administrative Agent, use commercially reasonable efforts, to obtain the consent of the other parties thereto required to permit the assignment or Encumbering of such Material Contract to the Administrative Agent pursuant to Security. Nothing in this Section 10.06 shall derogate from the obligations of the Borrower to obtain assignments, together with consents and acknowledgement, in form and substance acceptable to the Administrative Agent, in relation to the two Material Contracts listed at the date hereof on Part II of Schedule 1.01(d).

ARTICLE 11 - DEFAULT

11.01 **Events of Default**

The occurrence of any one or more of the following events (each such event being referred to as an **"Event of Default"**) will constitute a default under this Agreement:

(a) if any Borrower fails to pay any amount of principal of any Loan when due;

(b) if any Borrower fails to pay any interest, fees or other Obligations (other than any principal amount) when due and such default continues for five Business Days;

(c) if any Borrower breaches any of the covenants in Section 9.02 as at the end of any fiscal quarter of the Canadian Borrower and such breach is either not capable of being remedied or, if it is capable of being remedied, has not been cured within 30 days after the end of such fiscal quarter of the Canadian Borrower;

(d) if any Restricted Party neglects to observe or perform any covenant or obligation herein contained or in any Loan Document on its part to be observed or performed including without limitation any covenant the Borrowers have undertaken to cause the Restricted Party to perform (other than a covenant or condition whose breach or default in performance is specifically dealt with elsewhere in this Section 11.01) and such Restricted Party fails to remedy such default within 15 Business Days from the earlier of (i) the date such Restricted Party becomes aware of such default, and (ii) the date the Administrative Agent delivers written notice of the default to such Restricted Party, unless the Required Lenders (having regard to the subject matter of the default) have agreed to a longer period, and in such event, within the period agreed to by the Required Lenders;

(e) if any representation or warranty made by any Restricted Party in this Agreement, any Loan Document or in any certificate or other document at any time delivered hereunder to the Administrative Agent or the Lenders proves to have been incorrect or misleading in any material respect on and as of the date that it was made or was deemed to have been made and such Restricted Party fails to remedy such default within 30 days after the earlier of (i) the date such Restricted Party becomes aware of such default; and (ii) the date on which such Restricted Party received written notice of such default;

(f) if any Restricted Party ceases or threatens to cease to carry on business generally or admits its inability to pay, or fails to pay, its Debts generally;

(g) if any Restricted Party:

(i) fails to make any payment when such payment is due and payable to any Person in relation to any Debt (other than Obligations) that in the aggregate principal amount then outstanding is in excess of U.S. $10,000,000 and any applicable grace period in relation thereto has expired, or

(ii) defaults in the observance or performance of any other agreement or condition in relation to any Debt (other than Obligations) to any Person that in the aggregate principal amount then outstanding is in excess of U.S. $10,000,000 or contained in any instrument or agreement evidencing, securing or relating thereto, or any other event occurs or condition exists, the effect of which default or other condition, if not remedied within any applicable grace period, would be to cause, or to permit the holder of such Debt then to declare such Debt to become due prior to its stated maturity date and such declaration is made or deemed to have been made;

(h) if any Restricted Party denies, to any material extent, its obligations under any Loan Document or claims any of the Loan Documents to be invalid or withdrawn in whole or in part;

(i) any of the Loan Documents or any material provision of any of them becomes unlawful or is changed by virtue of legislation or by a Governmental Authority, if any Restricted Party does not, within 15 Business Days of receipt of notice of such Loan Document or material provision becoming unlawful or being changed, replace such Loan Document with a new agreement that is in form and substance satisfactory to the Required Lenders acting reasonably, or amend such Loan Document to the satisfaction of the Required Lenders acting reasonably;

(j) if a decree or order of a court of competent jurisdiction is entered adjudging a Restricted Party a bankrupt or insolvent or approving as properly filed a petition seeking the winding up of a Restricted Party under the *Companies' Creditors Arrangement Act* (Canada), the *Bankruptcy and Insolvency Act* (Canada), the *United States Bankruptcy Code* or the *Winding-up and Restructuring Act* (Canada) or any other bankruptcy, insolvency or analogous laws or issuing sequestration or process of execution against any substantial part of the assets of a Restricted Party or ordering the winding up or liquidation of its affairs, and any such decree or order continues unstayed and in effect for a period of 10 Business Days;

(k) if any Restricted Party becomes insolvent, makes any assignment in bankruptcy or makes any other assignment for the benefit of creditors, makes any proposal under the *Bankruptcy and Insolvency Act* (Canada) or any comparable law, seeks relief under the *Companies' Creditors Arrangement Act* (Canada), the *United States Bankruptcy Code*, the *Winding-up and Restructuring Act* (Canada) or any other bankruptcy, insolvency or analogous law, is adjudged bankrupt, files a petition or proposal to take advantage of any act of insolvency, consents to or acquiesces in the appointment of a trustee, receiver, receiver and manager, interim receiver, custodian, sequestrator or other Person with similar powers of itself or of all or any substantial portion of its assets, or files a petition or otherwise commences any proceeding seeking any reorganization, arrangement, composition or readjustment under any applicable bankruptcy, insolvency, moratorium, reorganization or other similar law affecting creditors' rights or consents to, or acquiesces in, the filing of such a petition;

(l) if an Encumbrancer takes possession, by appointment of a receiver, receiver and manager or otherwise, of all or a substantial portion of the Property of any Restricted Party;

(m) if proceedings are commenced for the dissolution, liquidation or voluntary winding up of any Restricted Party, or for the suspension of the operations of any Restricted Party unless such proceedings are being actively and diligently contested in good faith;

(n) if a final judgment or decree for the payment of money due has been obtained or entered against any Borrower in an amount in excess of U.S. $10,000,000, or against any other Restricted Party in an amount that, in the reasonable opinion of the Required Lenders, would effect a Material Adverse Change and such judgment or decree has not been and remained vacated, discharged or stayed pending appeal within the applicable appeal period;

(o) if any Security ceases in any material manner to constitute a valid security interest (perfected to the extent required by the Security and prior to all other Encumbrances except for Permitted Encumbrances that are *pari passu* or prior thereto) and the applicable Restricted Party has failed to remedy such default within 10 Business Days of becoming aware of such fact;

(p) if a Change of Control occurs;

(q) if an event of default occurs under any Material Contract of any Restricted Party (other than an event of default specifically dealt with in this Section 11.01) resulting in, or which is likely to cause or result in, a Material Adverse Change and such event of default is not remedied within 15 Business Days after such Restricted Party becomes aware of such event of default;

(r) if any of the Borrowers' progress reports or certificates or any of the Independent Engineer's reports or certificates show that the Costs to Complete exceeds by U.S. $100,000 the amount of Cash and Cash Equivalents of the Restricted Parties plus the total undrawn amounts of the Credit Facilities, and such default is not cured within 15 Business Days after the Canadian Borrower gives or receives such report or certificate;

(s) if the Borrowers (or any of the Borrowers) abandon the construction of the Mills or take any action to effect or authorize the abandonment of the construction of the Mills or if the Mills or the Property on which the Mills are to be located is seized or expropriated by or pursuant to Government Authority; or

(t) if there is a failure on the part of the U.S. Borrower to make an offer to prepay required to be made under Section 6.03(1)(b) hereof.

11.02 **Acceleration and Enforcement**

(1) If any Event of Default occurs, the Lenders will have no further obligation to make Loans or issue Letters of Credit hereunder, whereupon the Commitments of the Lenders will terminate, and all Obligations will, at the option of the Administrative Agent or upon the request of the Required Lenders, become immediately due and payable with interest thereon, at the rate or rates determined as herein provided, to the date of actual payment thereof, all without notice, presentment, protest, demand, notice of dishonour or any other demand or notice whatsoever, all of which are hereby expressly waived by each Restricted Party. In such event either the Lenders or the Administrative Agent on their behalf may, in their discretion, exercise any right or recourse and proceed by any action, suit, remedy or proceeding against any Restricted Party authorized or permitted by law for the recovery of all the Obligations of the Restricted Parties to the Lenders and proceed to exercise any and all rights hereunder and, subject to Section 11.02(3), under the Security.

(2) The Administrative Agent and Lenders are not under any obligation to the Restricted Parties or any other Person to realize upon any collateral or enforce the Security or any part thereof or to allow any of the collateral to be sold, dealt with or otherwise disposed of. Neither the Administrative Agent nor the Lenders are responsible or liable to the Restricted Parties or any other Person for any loss or damage arising from such realization or enforcement or the failure to do so or for any act or omission on their respective parts or on the part of any director, officer, employee, agent or adviser of any of them in connection with any of the foregoing.

(3) Each of the Lenders acknowledges that the Administrative Agent holds the Security to secure all of the Obligations and, upon the occurrence of an Event of Default, the Administrative Agent will act on the written instructions of the Required Lenders as provided in this Agreement and will distribute the net sale proceeds of realization of the Security to the Lenders in accordance with their Applicable Percentage of the Obligations and in accordance with Section 11.07.

(4) Upon the occurrence of an Event of Default, and for so long as it may continue, in addition to any other rights the Administrative Agent and the Lenders may have under the Loan Documents or at law, the Canadian Borrower agrees that the Administrative Agent at the direction from time to time of the Required

Lenders, shall have the right to direct the Canadian Borrower in relation to all material dealings under the Footner Joint Venture Agreement, and, without derogating from the foregoing, in particular:

(a) the Canadian Borrower shall report no less frequently than monthly to the Administrative Agent as to the affairs of the Footner Joint Venture, and otherwise from time to time as material matters arise;

(b) the Canadian Borrower will provide a copy forthwith following receipt to the Administrative Agent of all notices received from Ainsworth Lumber Co. Ltd. in relation to the Footner Joint Venture;

(c) the Canadian Borrower will first have all notices or communications to be sent by it in relation to the Footner Joint Venture or the Footner Joint Venture Agreement approved by the Administrative Agent;

(d) all material dealings in the affairs of the Footner Joint Venture (including without limitation any material dealings with respect to the ownership thereof, or the selling of the Canadian Borrower's interest therein, or exercise of rights of first refusal or other rights or obligations under the Footner Joint Venture Agreement) will be at the direction of the Administrative Agent; and

(e) if at any time following the occurrence of an Event of Default and for so long as it may continue the Administrative Agent wishes to act directly on behalf of the Canadian Borrower (as opposed to through the Canadian Borrower as set forth above) in relation to the material affairs of the Footner Joint Venture or the provisions of the Footner Joint Venture Agreement as set forth above in this section 11.02(4), the Administrative Agent may give written notice of same to the Canadian Borrower, and forthwith upon delivery of such notice, the Administrative Agent shall have the good and sufficient irrevocable power of attorney to so act in the stead of the Canadian Borrower in relation thereto, with full power and authority to act in respect thereof and the Canadian Borrower hereby grants such irrevocable power of attorney to the Administrative Agent to be available to the Administrative Agent in such circumstances.

11.03 **Payment of Bankers' Acceptances and Letters of Credit**

If any Borrower does not pay to the Administrative Agent for the account of the Lenders the principal amount of any unmatured Bankers' Acceptance or BA Equivalent Note or the face amount of any unexpired Letter of Credit required to be paid pursuant to Section 11.02, the Administrative Agent on behalf of the Lenders may at its option at any time without notice to any Borrower give notice to the Lenders to make a Loan to such Borrower equal to the principal amount of all unmatured Bankers' Acceptances and the face amount of all unexpired Letters of Credit, such Loan not to bear interest. The proceeds of such Loan will be held by each Lender in a non-interest bearing cash collateral account for the benefit of such Borrower and will be applied in payment of such Bankers' Acceptances as they mature and such Letters of Credit if payment is required thereunder or otherwise as the Lender may require. Each Borrower will execute and deliver as security for such Loan all such security as the Lender may deem necessary or advisable including an assignment of the credit balance in respect of such cash collateral account.

11.04 **Remedies Cumulative and Waivers**

The respective rights and remedies of the Lenders and the Administrative Agent under this Agreement or under any other Loan Document or instrument executed pursuant to this Agreement or other

Loan Document are cumulative and are in addition to and not in substitution for any rights or remedies provided by law or by equity; and any single or partial exercise by the Lenders or any of them or by the Administrative Agent of any right or remedy for a default or breach of any term, covenant, condition or agreement contained in this Agreement or other Loan Document or instrument executed pursuant to this Agreement or other Loan Document will not be deemed to be a waiver of or to alter, affect or prejudice any other right or remedy or other rights or remedies to which any one or more of the Lenders or any of them and the Administrative Agent may be lawfully entitled for such default or breach. Any waiver by the Lenders or any of them or the Administrative Agent of the strict observance, performance or compliance with any term, covenant, condition or other matter contained herein and any indulgence granted, either expressly or by course of conduct, by the Lenders or any of them or the Administrative Agent will be effective only in the specific instance and for the purpose for which it was given and will be deemed not to be a waiver of any rights and remedies of the Lenders or any of them or the Administrative Agent under this Agreement or any other Loan Document or instrument executed pursuant to this Agreement as a result of any other default or breach hereunder or thereunder.

11.05 **Perform Obligations**

If an Event of Default has occurred and is continuing and if any Restricted Party has failed to perform any of its covenants or agreements in the Loan Documents, the Required Lenders, may, but will be under no obligation to, instruct the Administrative Agent on behalf of the Lenders to perform any such covenants or agreements in any manner deemed fit by the Required Lenders without thereby waiving any rights to enforce the Loan Documents. The reasonable expenses (including any legal costs) paid by the Administrative Agent and the Lenders in respect of the foregoing will be an Obligation and will be secured by the Security.

11.06 **Third Parties**

It is not necessary for any Person dealing with the Lenders, the Administrative Agent or any other agent of the Lenders to inquire whether the Security has become enforceable, or whether the powers that the Lenders or the Administrative Agent are purporting to exercise may be exercised, or whether any Obligations remain outstanding upon the security thereof, or as to the necessity or expediency of the stipulations and conditions subject to which any sale is to be made, or otherwise as to the propriety or regularity of any sale or other disposition or any other dealing with the collateral charged by such Security or any part thereof.

11.07 **Application of Payments**

All payments made by any Borrower or Guarantor hereunder or received from proceeds of realization of any Security (except as otherwise set forth in Section 2.08(6)) will be applied to amounts due under the Obligations, all as determined by the Administrative Agent in the following order:

(a) first, to pay Obligations in respect of any expense reimbursements or indemnities then due to the Administrative Agent;

(b) second, to pay Obligations in respect of any expense reimbursements or indemnities then due to the Lenders;

(c) third, to pay Obligations in respect of any fees then due to the Administrative Agent and the Lenders;

(d) fourth, to pay Obligations in respect of interest then due and payable on the Loans and Letters of Credit;

(e) fifth, to rateable payment of all Obligations in respect of principal amounts of the Loans, Letters of Credit and Obligations constituting Aggregate Exposure up to an aggregate amount of US $15,000,000 in respect of Hedge Arrangements with Lenders;

(f) sixth, to rateable payment of all other Obligations, except for those Obligations constituting Aggregate Exposure that arise under Hedge Arrangements with Lenders but which are in excess of the US $15,000,000 limit set forth in Section 11.07(e); and

(g) seventh, to rateable payment of all Obligations constituting Aggregate Exposure that arise under Hedge Agreements with Lenders which have the benefit of the Security but which are in excess of the U.S. $15,000,000 limit set forth in Section 11.07(e);

provided, however, that if sufficient funds are not available to fund all payments to be made in respect of any Obligation described in any of clauses (a) to (g) above, the available funds being applied with respect to any such Obligation will be allocated to the payment of such Obligations rateably, based on the proportion of the Administrative Agent's and each Lender's interest in the aggregate outstanding Obligations described in such clause. The order of priority set forth in clauses (a) to (g) above may at any time and from time to time be changed by the agreement of the Lenders, without necessity of notice to or consent of or approval by the Borrowers or any other Person that is not a Lender pursuant to Section 12.03(3)(f). The order of priority set forth in clauses (a) and (c) above may be changed only with the prior written consent of the Administrative Agent in addition to that of the Lenders pursuant to Section 12.03(3)(f).

11.08 **Saving**

The Lenders will not be under any obligation to the Borrowers or any other Person to realize any collateral or enforce the Security or any part thereof or to allow any of the collateral to be sold, dealt with or otherwise disposed of. The Lenders will not be responsible or liable to the Borrowers or any other person for any loss or damage upon the realization or enforcement of, the failure to realize or enforce the collateral or any part thereof or the failure to allow any of the collateral to be sold, dealt with or otherwise disposed of or for any act or omission on their respective parts or on the part of any director, officer, agent or adviser in connection with any of the foregoing, except that a Lender may be responsible or liable for any loss or damage arising from the wilful misconduct or negligence of that Lender or any of its directors, officers, agents or advisors.

ARTICLE 12- THE ADMINISTRATIVE AGENT AND THE LENDERS

12.01 **Payments by the Borrowers**

(1) Prior to an Event of Default that is continuing, all payments made by or on behalf of any Borrower pursuant to this Agreement will be made to and received by the Administrative Agent on behalf of the Lenders and will be distributed by the Administrative Agent to the Lenders as soon as possible upon receipt by the Administrative Agent. Subject to Sections 7.02 and 12.02, the Administrative Agent will distribute to the Lenders in accordance with each Lender's Applicable Percentage:

(a) payments of interest, Letter of Credit fees and standby fees;

(b) costs and expenses;

(c) repayments of principal;

(d) prepayments of principal;

(e) amounts received by the exercise of any right of set-off, compensation, consolidation of accounts, or by counterclaim or cross-action; and

(f) all other payments received by the Administrative Agent.

(2) Notwithstanding the foregoing, any such distribution that would otherwise be made pursuant to Section 12.01(1)(c) or (d) on account of any outstanding Bankers' Acceptances, BA Equivalent Notes or Letters of Credit will be set aside in a separate collateral account for the primary benefit of the Lenders who have issued such Bankers' Acceptances, BA Equivalent Notes or Letters of Credit (and for the secondary benefit of the Lenders in respect of other Obligations) until and to the extent that such Obligations become matured and not contingent, at which time such distributions will be made to the Lenders for whose primary benefit such amounts are held, at which time such application will be made in accordance with Section 12.01(1)(c) or (d).

(3) Subject to Section 12.02, if the Administrative Agent does not distribute a Lender's Applicable Percentage of a payment made by any Borrower to or for the benefit of a Lender for value on the day that payment is made to the Administrative Agent, provided that such payment is received by the Administrative Agent no later than 1:00 p.m. (Local Time) on such day, the Administrative Agent will pay to such Lender on demand an amount equal to the product of (x) the Interbank Reference Rate *per annum* and (y) the amount received by the Administrative Agent from such Borrower and not so distributed to such Lender, with the result thereof multiplied by (z) a fraction, the numerator of which is the number of days that have elapsed from and including the date of receipt of the payment by the Administrative Agent to but excluding the date on which the payment is made by the Administrative Agent to such Lender, and the denominator of which is 365 or 366, as the case may be. The Borrowers will not be required to reimburse the Administrative Agent for any such amount.

12.02 **Payments by Administrative Agent**

(1) For greater certainty, the following provisions will apply to all payments made by the Administrative Agent to the Lenders hereunder:

(a) the Administrative Agent will be under no obligation to make any payment (whether in respect of principal, interest, fees or otherwise) to any Lender until an amount in respect of such payment has been received by the Administrative Agent from a Borrower;

(b) if the Administrative Agent receives less than the full amount of any payment of principal, interest, fees or other amount owing by any Borrower under this Agreement, then, subject to Section 7.02, the Administrative Agent will have no obligation to remit to each Lender any amount other than such Lender's Applicable Percentage of the amount actually received by the Administrative Agent;

(c) if any Lender advances more or less than its Applicable Percentage of the Credit Facilities, such Lender's entitlement to such payment will be increased or reduced, as the case may be, in proportion to the amount actually advanced by such Lender;

(d) the Administrative Agent acting reasonably and in good faith will, after consultation with the Lenders in the case of any dispute, determine in all cases the amount of all payments to which each Lender is entitled and such determination will, in the absence of manifest error, be binding and conclusive;

(e) upon request, the Administrative Agent will deliver a statement detailing any of the payments to the Lenders referred to herein; and

(f) all payments by the Administrative Agent to a Lender hereunder will be made to such Lender at its address set forth on the signature pages on this Agreement or on the applicable Assignment and Assumption unless notice to the contrary is received by the Administrative Agent from such Lender.

(2) Unless the Administrative Agent will have received notice from any Borrower prior to the date on which any payment is due to the Administrative Agent for the account of any Lender hereunder that such Borrower will not make such payment, the Administrative Agent may assume that such Borrower has made such payment on such date in accordance herewith and may, in reliance upon such assumption, distribute the amount due to the Lenders. If the payment by such Borrower is in fact not received by the Administrative Agent on the required date and the Administrative Agent has made available corresponding amounts to the Lenders, such Borrower will, without limiting its other obligations under this Agreement, indemnify the Administrative Agent against any and all liabilities, obligations, losses (other than loss of profit), damages, penalties, costs, expenses or disbursements of any kind or nature whatsoever that may be imposed on or incurred by the Administrative Agent as a result. A certificate of the Administrative Agent with respect to any amount owing by any Borrower under this Section 12.02(2) will be *prima facie* evidence of the amount owing in the absence of manifest error.

12.03 **Administration of the Credits**

(1) Except as otherwise provided for herein, the Administrative Agent will perform the following duties under this Agreement:

(a) prior to an advance to any Borrower hereunder, ensure that all conditions precedent have been fulfilled in accordance with the terms of this Agreement;

(b) take delivery of each Lender's Applicable Percentage of a Loan and make all Loans hereunder in accordance with the provisions set forth herein;

(c) use reasonable efforts to collect promptly all sums due and payable by any Borrower pursuant to this Agreement;

(d) make all payments to the Lenders in accordance with the provisions hereof;

(e) hold all legal documents relating to the Credit Facilities, maintain complete and accurate records showing all Loans made by, and all Letters of Credit issued on behalf of, the Lenders, all remittances and payments made by any Borrower to the Administrative Agent, all remittances and payments made by the Administrative Agent to the Lenders and all fees or any other sums received by the Administrative Agent and allow each Lender and their respective advisors to examine such accounts, records and documents at their own expense, and provide any Lender, upon reasonable notice, with such copies thereof as such Lender may reasonably require from time to time at its expense;

(f) except as otherwise provided for in this Agreement, promptly advise each Lender upon receipt of each notice and deliver to each Lender, promptly upon receipt, all other written communications furnished by any Borrower to the Administrative Agent pursuant to this Agreement, including copies of financial reports and certificates which are to be furnished to the Administrative Agent;

(g) forward to each of the Lenders, one copy each of this Agreement and other Loan Documents;

(h) promptly forward to each Lender, upon request, an up-to-date loan status report and any other information respecting the Restricted Parties reasonably requested by such Lender; and

(i) upon learning of same, promptly advise each Lender in writing of the occurrence of a Default or the occurrence of any event, condition or circumstance which would cause or result in a Material Adverse Change to a Restricted Party or of any material adverse information relative to a Restricted Party or of the occurrence of any change which would cause or result in a Material Adverse Change.

(2) Except as otherwise provided for in this Agreement, the Administrative Agent may take the following actions only with the prior consent of the Required Lenders:

(a) subject to Section 12.03(3), exercise any and all rights of approval conferred upon the Lenders by this Agreement;

(b) amend, modify or waive any of the terms of this Agreement (including waiver of a Default or Event of Default) if such amendment, modification or waiver would not have a material adverse effect on the rights of the Lenders thereunder and if such action is not otherwise provided for in Section 12.03(3);

(c) engage professionals, experts and agents as permitted by Section 12.04(1); and

(d) declare an Event of Default, take action to enforce performance of the Obligations and realize on collateral subject to the Security and pursue any other legal remedy necessary or advisable to protect the interests of the Lenders hereunder.

(3) Except as otherwise provided for in this Agreement, the Administrative Agent may take the following actions only with the prior unanimous consent of the Lenders:

(a) amend, modify, discharge, terminate or waive any of the terms of this Agreement if such amendment, modification, discharge, termination or waiver would increase the amount of the Credit Facilities, reduce the interest rate applicable to either of the Credit Facilities, reduce the fees payable with respect to the Credit Facilities, extend any date fixed for payment of principal or interest relating to the Credit Facilities or change the definition of Required Lenders;

(b) amend, modify or waive any terms of the Security or discharge or terminate the Security (or any portion thereof), otherwise than pursuant to the terms hereof or thereof;

(c) amend this Section 12.03(3);

(d) amend any provision of Article 6;

(e) amend Section 9.01(1);

(f) amend Section 11.07 or Section 12.01; and

(g) amend any provision of Schedule A.

(4) As between the Restricted Parties, on the one hand, and the Administrative Agent and the Lenders, on the other hand:

(a) all statements, certificates, consents and other documents which the Administrative Agent purports to deliver on behalf of the Lenders or the Required Lenders will be binding on each of the Lenders, and the Restricted Parties will not be required to ascertain or confirm the authority of the Administrative Agent in delivering such documents;

(b) all certificates, statements, notices and other documents which are delivered by the Restricted Parties to the Administrative Agent in accordance with this Agreement will be deemed to have been delivered to each of the Lenders; and

(c) all payments which are made by the Restricted Parties to the Administrative Agent in accordance with this Agreement will be deemed to have been duly made to each of the Lenders.

12.04 **Rights of Administrative Agent**

(1) In administering the Credit Facilities, the Administrative Agent may retain, at the expense of the Lenders if such expenses are not recoverable from any Borrower, such counsel, auditors and other experts as the Administrative Agent may select, in its sole discretion, acting reasonably, and is entitled to rely upon the advice of such counsel, auditors and other experts in the performance of its duties hereunder.

(2) Except in its own right as a Lender, the Administrative Agent will not be required to advance its own funds for any purpose hereunder.

(3) The Administrative Agent may round the amount of a Loan that a Lender is obliged to advance hereunder to the nearest $1,000 in Canadian Dollars or United States Dollars, as the case may be.

12.05 **Representations, Acknowledgements and Covenants of Lenders**

(1) Each Lender (other than The Prudential Insurance Company of America and Pruco Life Insurance Company) represents and warrants to each Borrower and the Administrative Agent that it has the legal capacity, power and authority to enter into this Agreement and has not contravened its constating documents or any Applicable Law by so doing.

(2) Each of the Lenders acknowledges that in the event that the Administrative Agent does not receive payment in accordance with this Agreement, it will not be the obligation of the Administrative Agent to maintain the Credit Facilities in good standing nor will any Lender have recourse to the Administrative Agent in respect of any obligations or amounts owing to such Lender under this Agreement.

(3) Each Lender acknowledges that its obligation to advance its Applicable Percentage of Loans and to participate in any Letter of Credit in accordance with the terms of this Agreement is independent and in no way related to the obligation of any other Lender hereunder.

(4) Each Lender agrees that it will notify the Administrative Agent of any Default of which it becomes aware.

(5) Each Lender hereby acknowledges receipt of a copy of this Agreement and the Loan Documents and acknowledges that it is satisfied with the form and content of such documents.

(6) Each Lender will respond promptly to each request by the Administrative Agent for the consent of such Lender required hereunder.

(7) Each Lender that assigns all or a portion of its rights and obligations under this Agreement will pay to the Administrative Agent a processing and recordation fee of U.S. $3,500 with respect to each such assignment in accordance with Section 10(b)(vi) of Schedule A; provided, however, that where one Lender is assigning at the same time to more than one assignee there will only be one fee of U.S. $3,500. The Restricted Parties shall have no obligation to reimburse any Lender for such fees.

12.06 **Provisions Operative Between Lenders and Administrative Agent Only**

Except for the provisions of Sections 12.03(2), (3) and (4), Sections 12.05(1), (3) and (6), the first sentence of Section 12.01(1) and the last sentence of Section 12.01(3), the provisions of this Article 12 relating to the rights and obligations of the Lenders and the Administrative Agent between themselves will be operative and have effect as between the Lenders and the Administrative Agent only, and each Borrower will not have any rights or obligations under or be entitled to rely for any purpose upon such provisions.

12.07 **Distributions By Secure Website**

The Administrative Agent may satisfy its obligations under this Agreement to deliver to the Lenders copies of the information, notices and reports received by it from the Borrowers for distribution to the Lenders pursuant to this Agreement, by posting this information onto an electronic website designated by the Administrative Agent to which the Lenders have access. The Administrative Agent will supply the Lenders with the address of and any relevant password specifications for that designated website.

ARTICLE 13 - GUARANTEE

13.01 **Guarantees and Indemnity**

(1) Each of the Guarantors hereby jointly and severally, unconditionally and irrevocably, guarantees payment of the Guaranteed Obligations.

(2) If any or all of the Guaranteed Obligations are not duly paid and are not recoverable under Section 13.01(1) for any reason whatsoever, each of the Guarantors hereby jointly and severally, unconditionally and irrevocably, will, as a separate and distinct obligation, indemnify and save harmless the Administrative Agent and the Lenders and each of them from and against any losses resulting from the failure of any Borrower to pay its Obligations.

(3) If any or all of the Guaranteed Obligations are not duly paid and are not recoverable under Section 13.01(1) or the Administrative Agent and the Lenders and each of them is not indemnified under Section 13.01(2), in each case, for any reason whatsoever, to the full extent permitted by law, the Guaranteed Obligations will be recoverable jointly and severally from each of the Guarantors as primary obligor.

13.02 **Obligations Absolute**

The liability of each Guarantor under this Agreement is absolute and unconditional and is not affected by:

(a) any lack of validity or enforceability of this Agreement or any other Loan Document;

(b) any impossibility, impracticability, frustration of purpose, illegality, *force majeure* or act of Governmental Authority;

(c) the bankruptcy, winding up, liquidation, dissolution, arrangement, insolvency or other similar proceeding affecting any Restricted Party or any other Person, the amalgamation of or any change in the status, function, control or ownership of any Restricted Party, any Guarantor or any other Person;

(d) any lack or limitation of power, incapacity or disability on the part of any Restricted Party or of the directors, officers, partners, agents or other representatives thereof or any other irregularity, defect or informality on the part of any Restricted Party in its Guaranteed Obligations; or

(e) any other law, regulation or other circumstance that might otherwise constitute a defence available to, or a discharge of, any Restricted Party in respect of any or all of the Guarantee Obligations.

13.03 **No Release**

To the extent permitted by law, the liability of each Guarantor under this Agreement is not released, discharged, limited or in any way affected by anything done, suffered or permitted by the Administrative Agent, Lenders, or any of them or any other Person in connection with any duties or liabilities of any Restricted Party to the Administrative Agent, Lenders, or any of them or any Security, including any loss of or in respect of any Security. Without limiting the generality of the foregoing and without releasing, discharging, limiting or otherwise affecting in whole or in part the liability of any Guarantor under this Agreement, without obtaining the consent of or giving notice to any Guarantor, the Administrative Agent, the Lenders and each of them may, subject to the terms of this Agreement and specifically the relationship between the Lenders and the Administrative Agent but subject to the obligations of the Lenders and the Administrative Agents to the Borrowers under this Agreement or any of the other Loan Documents:

(a) discontinue, reduce, increase or otherwise vary the credit of each Restricted Party in any manner whatsoever;

(b) make any change in the time, manner or place of payment under, or in any other term of, any Loan Document or the failure on the part of any Restricted Party to perform or otherwise carry out any of its obligations under any Loan Document;

(c) grant time, renewals, extensions, indulgences, releases and discharges to any Restricted Party;

(d) take or abstain from taking or enforcing the Security or from perfecting Security;

(e) accept compromises from any Restricted Party;

(f) apply all money at any time received from any Restricted Party or from the Security upon such part of the Obligations as the Administrative Agent, Lenders or each of them may see fit or change any such application in whole or in part from time to time as each of them may see fit; and

(g) otherwise deal with each Restricted Party and all other Persons and the Security as the Administrative Agent, Lenders and each of them may see fit.

13.04 **No Exhaustion of Remedies**

None of the Administrative Agent or the Lenders is bound or obligated to exhaust its or their recourse against any Restricted Party or other Person or any Security it or they may hold, or take any other action before being entitled to demand payment from any Guarantor hereunder.

13.05 **Evidence of Balance or Amount**

Any account settled or stated in writing by or between the Administrative Agent or any Lender and each Restricted Party will be *prima facie* evidence that the balance or amount thereof appearing due to the Administrative Agent and each Lender is so due.

13.06 **No Set-Off**

In any claim by the Administrative Agent, the Lenders or any of them against any Guarantor, such Guarantor may not assert any set-off, compensation or counterclaim that either such Guarantor or any Restricted Party may have against the Administrative Agent, the Lenders or any of them.

13.07 **Continuing Guarantee**

The Obligations of each Guarantor under this Agreement will constitute and be continuing obligations and will apply to and secure any ultimate balance due or remaining due to the Lenders, and each of them and will not be considered as wholly or partially satisfied by the payment or liquidation at any time of any sum of money for the time being due or remaining unpaid to any such Person. The Obligations of each Guarantor hereunder will continue to be effective even if at any time any payment of any of the Guaranteed Obligations is rendered unenforceable or is rescinded or must otherwise be returned by the recipient of such payment upon the occurrence of any action or event including the insolvency, bankruptcy or reorganization of any Restricted Party or otherwise, all as though such payment had not been made.

13.08 **Waivers by Guarantors**

Each Guarantor hereby irrevocably waives acceptance hereof, presentation, demand, protest and any notice, as well as any requirement that at any time any action be taken by any Person against such Guarantor, any other Restricted Party or any other Person.

13.09 **Demand**

Each Guarantor will make payment to the Administrative Agent for the rateable benefit of the Lenders of the full amount of the Guaranteed Obligations and all other amounts payable by it under this Agreement forthwith after demand therefor is made to it. Each Guarantor will also make payment to the Administrative Agent of all reasonable costs and expenses incurred by the Administrative Agent, the Lenders or any of them in enforcing the provisions of this Article 13.

13.10 **Interest**

Each Guarantor will pay, without duplication, interest to the Administrative Agent for the rateable benefit of the Lenders and each of them at the Canadian Prime Rate plus 2% *per annum* for amounts payable in Canadian Dollars and at the Base Rate plus 2% *per annum* for amounts payable in United States

Dollars on the unpaid portion of all amounts payable by such Guarantor hereunder, such interest to accrue from and including the date of demand on the Guarantor, and will be compounded monthly, not in advance.

13.11 **Subrogation; Contribution**

No Guarantor will be entitled to subrogation or to contribution from any Borrower or other Guarantor by reason of any payment hereunder until indefeasible payment in full of all Guaranteed Obligations, and the termination of the Commitments. Thereafter, the Administrative Agent, on its own behalf and on behalf of the Lenders will, at a Guarantor's request and expense, execute and deliver to such Guarantor appropriate documents, without recourse and without representation and warranty, except as to the amount owing, necessary to evidence the transfer by subrogation to such Guarantor of an interest in the Guaranteed Obligations, any Security held therefor and the other Loan Documents resulting from such payment by such Guarantors.

13.12 **Stay of Acceleration**

If acceleration of the payment of any Guaranteed Obligations payable by any Guarantor is stayed upon the insolvency, bankruptcy or reorganization of such Guarantor or otherwise, all such Guaranteed Obligations otherwise subject to acceleration under the laws of any Loan Document will nonetheless be payable by each other Guarantor herewith in accordance with the terms hereof.

13.13 **Limitation on Obligations of Subsidiary Guarantors**

The Obligation of each Guarantor that is a Subsidiary of a Borrower and that is subject to the provisions of the *United States Bankruptcy Code* will be limited to an aggregate amount that is equal to the largest amount that would not render the obligations of such Guarantor subject to avoidance under Section 548 of the *United States Bankruptcy Code* or any comparable provisions of Applicable Law.

13.14 **Mutual Guarantee of Borrowers**

(1) Each Borrower hereby, unconditionally and irrevocably, guarantees payment of the Obligations of the other Borrower.

(2) The provisions of Sections 13.01 to 13.13 apply, with such modifications as the circumstances require, in respect of the mutual guarantee of the Borrowers under this Section 13.14.

ARTICLE 14 - GENERAL

14.01 **Addresses, Etc. for Notices**

The addresses and telecopier numbers for the purposes of notices and other communications to the Borrowers and the Administrative Agent are set forth on the signature pages of this Agreement.

14.02 **Governing Law and Submission to Jurisdiction**

Ontario is the Province for the purposes of Sections 11(a) and (b) of Schedule A.

14.03 **Judgment Currency**

(1) If for the purpose of obtaining or enforcing judgement against any Borrower in any court in any jurisdiction, it becomes necessary to convert into any other currency (such other currency being hereinafter in this Section 14.03 referred to as the "**Judgment Currency**") an amount due in Canadian

Dollars or United States Dollars under this Agreement, the conversion will be made at the rate of exchange prevailing on the Business Day immediately preceding:

(a) the date of actual payment of the amount due, in the case of any proceeding in the courts of the Province of Ontario or in the courts of any other jurisdiction that will give effect to such conversion being made on such date; or

(b) the date on which the judgement is given, in the case of any proceeding in the courts of any other jurisdiction (the date as of which such conversion is made pursuant to this Section 14.03(1)(b) being hereinafter in this Section 14.03 referred to as the "**Judgment Conversion Date**").

(2) If, in the case of any proceeding in the court of any jurisdiction referred to in Section 14.03(1)(b), there is a change in the rate of exchange prevailing between the Judgment Conversion Date and the date of actual payment of the amount due, the applicable Borrower will pay such additional amount (if any, but in any event not a lesser amount) as may be necessary to ensure that the amount paid in the Judgment Currency, when converted at the rate of exchange prevailing on the date of payment, will produce the amount of Canadian Dollars or United States Dollars, as the case may be, which could have been purchased with the amount of Judgment Currency stipulated in the judgement or judicial order at the rate of exchange prevailing on the Judgment Conversion Date.

(3) Any amount due from the Borrowers under the provisions of Section 14.03(2) will be due as a separate debt and will not be affected by judgement being obtained for any other amounts due under or in respect of this Agreement.

(4) The term "rate of exchange" in this Section 14.03 means:

(a) for a conversion of Canadian Dollars to the Judgment Currency, the reciprocal of the official noon rate of exchange published by the Bank of Canada for the date in question for the conversion of the Judgment Currency to Canadian Dollars;

(b) for a conversion of United States Dollars to the Judgment Currency when the Judgment Currency is Canadian Dollars, the official noon rate of exchange published by the Bank of Canada for the date in question for the conversion of United States Dollars to Canadian Dollars;

(c) for a conversion of United States Dollars to the Judgment Currency when the Judgment Currency is not Canadian Dollars, the effective rate obtained when a given amount of United States Dollars is converted to Canadian Dollars at the rate determined pursuant to Section 14.03(4)(b) and the result thereof is then converted to the Judgment Currency pursuant to Section 14.03(4)(a); or

(d) if a required rate is not so published by the Bank of Canada for any such date, the spot rate quoted by the Administrative Agent at the Administrative Agent's Office at approximately noon (Toronto time) on that date in accordance with its normal practice for the applicable currency conversion in the wholesale market.

14.04 <u>**Survival**</u>

The provisions of Section 9 of Schedule A will survive the repayment of all Loans and all obligations with respect to Letters of Credit, whether on account of principal, interest or fees, and the termination of this Agreement, unless a specific release of such provisions executed by the Administrative Agent, on behalf of the Lenders, is delivered to the Borrowers.

14.05 **Severability**

Any provision of this Agreement which is prohibited or unenforceable in any jurisdiction will not invalidate the remaining provisions hereof and any such prohibition or unenforceability in any jurisdiction will not invalidate or render unenforceable such provision in any other jurisdiction.

14.06 **Further Assurances**

Each Restricted Party, each Lender and the Administrative Agent will promptly cure any default by it in the execution and delivery of this Agreement, the Loan Documents or of any the agreements provided for hereunder to which it is a party. Each Restricted Party, at its expense, will promptly execute and deliver to the Administrative Agent, upon request by the Administrative Agent, all such other and further documents, agreements, opinions, certificates and instruments in compliance with, or accomplishment of the covenants and agreements of such Restricted Party hereunder or more fully to state or otherwise evidence the obligations of such Restricted Party as set forth herein or to make any recording, file any notice or obtain any consent, all as may be reasonably necessary or appropriate in connection therewith.

14.07 **Amendments and Waivers**

No amendment to this Agreement will be valid or binding unless set forth in writing and duly executed by the Borrowers and the Administrative Agent for and on behalf of the Lenders or the Required Lenders, as the case may be, and in the case of Article 13, also by the Guarantors. No waiver of any breach of any provision of this Agreement and no consent required hereunder will be effective or binding unless made in writing and signed by the party purporting to give the same. Unless otherwise provided, any waiver or consent given hereunder will be limited to the specific breach waived or matter consented to, as the case may be, and may be subject to such conditions as the party giving such waiver or consent considers appropriate.

14.08 **Grant of Security in Quebec**

It is acknowledged and agreed by the parties to this Agreement that in the event any Restricted Party acquires material Property in Québec and is required by this Agreement to grant security charging such Property, it will, at the request of the Administrative Agent, for the purposes of the grant of security by a Restricted Party in the Province of Québec, designate a trust company ("**Attorney**") to act as the holder of a power of attorney (*fondé de pouvoir*) of the Lenders for all purposes of Article 2692 of the *Civil Code of Québec*. Any Person who becomes a Lender or provides a Hedge Arrangement under this Agreement will be deemed to have consented to and affirmed the Attorney as *fondé de pouvoir* and to have ratified as of the date it becomes a Lender all such actions taken by the *fondé de pouvoir*.

14.09 **Time of the Essence**

Time is of the essence of this Agreement.

14.10 **USA Patriot Act**

Each Lender that is subject to the requirements of the *USA Patriot Act* (Title III of Pub. L. 107-56 (signed into law October 26, 2001) hereby notifies the Borrowers that, pursuant to the requirements of the Act, it is required to obtain, verify and record information that identifies the Restricted Parties, which information includes the name and address of the Restricted Parties and other information that will allow such Lender to identify the Restricted Parties in accordance with such Act.

14.11 **Applicable Borrower**

Any reference in this Agreement to any payment obligation or other obligation of the applicable Borrower refers to the Canadian Borrower wherever such obligation relates to the Canadian Revolving Facility and refers to the U.S. Borrower wherever such obligation relates to the U.S. Revolving Facility or the U.S. Non-Revolving Term Facility. The foregoing shall not affect any liability of either Borrower pursuant to any guarantee delivered by it with respect to Obligations of the other Borrower.

14.12 **Hedge Arrangements Prior to First Advance**

Prior to the date of the first advance under this Agreement, each of the Lenders (including Bank of Montreal) may enter into Hedge Arrangements with a Borrower and, in respect thereof, have the benefit of that portion of the Security that has then been granted by the Restricted Parties to the Administrative Agent on behalf of Lenders. Bank of Montreal will also have the right to do so under the BMO Hedge Agreements (and the existing security therefor which will remain in place up to the date of the first advance under this Agreement). It is acknowledged that all such Hedge Arrangements will be subject to the restrictions relating thereto set forth in Sections 9.04(13)(a) and (b) of this Agreement and that prior to the date of the first advance hereunder will be secured by the Security but that the Security will, until the date of the first advance hereunder, rank subordinate in priority to the BMO Security, which BMO Security will not be discharged until the date of first advance hereunder.

[Signature pages follow]

Execution Copy

FIRST AMENDMENT TO CREDIT AGREEMENT

This First Amendment to the Credit Agreement (this "Agreement") is made as of March 21, 2007 between Grant Forest Products Inc. (the "Canadian Borrower"), Grant U.S. Holdings LLP (the "U.S. Borrower" and together with the Canadian Borrower, the "Borrowers"), The Toronto-Dominion Bank, as Canadian Administrative Agent (the "Canadian Administrative Agent"), Toronto Dominion (Texas) LLC, as U.S. Administrative Agent (the "U.S. Administrative Agent" and together with the Canadian Administrative Agent, the "Agents") and the Guarantors;

WHEREAS the parties hereto entered into a credit agreement made as of October 26, 2005, between, *inter alia*, the Borrowers, the Canadian Administrative Agent, the U.S. Administrative Agent, and the lenders party thereto (the "Credit Agreement");

AND WHEREAS the parties hereto now wish to amend the Credit Agreement in the manner set forth below;

NOW THEREFORE THIS AGREEMENT WITNESSETH THAT for good and valuable consideration (the receipt and sufficiency of which are hereby acknowledged), the parties hereby agree as follows:

1. **Interpretation.** Capitalized terms used in this Agreement and not otherwise defined herein shall have the meanings ascribed to them in the Credit Agreement.

2. **Amendments to Definitions.** Section 1.01 of the Credit Agreement is hereby amended as follows:

   (a) the following definition is hereby added to the Credit Agreement as the first definition in Section 1.01:

   "Adjusted Working Capital" means the remainder of (a) the consolidated current assets of the Canadian Borrower minus the amount of Cash and Cash Equivalents included in such consolidated current assets, minus (b) the consolidated current liabilities of the Canadian Borrower minus the amount of consolidated short-term Debt (including current maturities of long-term Debt) of any Restricted Party included in such consolidated current liabilities.

   (b) the definition of "Applicable Margin" is hereby deleted in its entirety and replaced with the following:

   "Applicable Margin" means the percentage rate *per annum*, in the case of Loans and Letters of Credit other than LIBO Rate Loans and U.S. Prime Rate Loans, or a rate for a period of 360 days, in the case of LIBO Rate Loans and U.S. Prime Rate Loans, determined in accordance with the applicable table below and adjusted in accordance with Section 4.05:

Revolving Facilities

Total Debt to Capitalization Ratio or Applicable Time Period	Canadian Prime Rate Margin	BA Stamping Fee Rate	Letter of Credit Fee Rate	Base Rate Margin and U.S. Prime Rate Margin	LIBO Rate Margin
< 0.30:1.0	0.625%	1.625%	1.625%	0.625%	1.625%
0.30:1.0 ≤ x < 0.40:1.0	0.875%	1.875%	1.875%	0.875%	1.875%
0.40:1.0 ≤ x < 0.45:1.0	1.125%	2.125%	2.125%	1.125%	2.125%
0.45:1.0 ≤ x < 0.50:1.0	1.50%	2.50%	2.50%	1.50%	2.50%
From March 21, 2007 to and including December 31, 2008 (regardless of the Total Debt to Capitalization Ratio during such period) and when Total Debt to Capitalization Ratio is ≥.50:1.0	2.00%	3.00%	3.00%	2.00%	3.00%

U.S. Non-Revolving Term Facility

Total Debt to Capitalization Ratio or Applicable Time Period	U.S. Prime Rate Margin	LIBO Rate Margin
< 0.30:1.0	0.875%	1.875%
0.30:1.0 ≤ x < 0.45:1.0	1.125%	2.125%
.45:1.0 ≤ x < .50:1.0	1.625%	2.625%
From March 21, 2007 to and including December 31, 2008 (regardless of the Total Debt to Capitalization Ratio during such period) and when Total Debt to Capitalization Ratio is ≥.50:1.0	2.125%	3.125%

(c) the definition of "EBITDA" will remain the same as the definition in the Credit Agreement except that the following proviso shall be added to the end of such definition as follows:

"provided, however, that any and all foreign exchange adjustments related to the translation of foreign currency debt on the balance sheet shall be excluded from any of the above calculations;"

(d) the definition of "EBITDA to Total Interest Expense Ratio" is hereby deleted in its entirety and replaced with the following:

"**EBITDA to Total Interest Expense Ratio**" means, at any time with respect to the Canadian Borrower on a consolidated basis, the ratio obtained by dividing (i) the EBITDA of the Canadian Borrower, by (ii) the Total Interest Expense of the Canadian Borrower, in each case consolidated with respect to all Restricted Parties, whether or not such consolidation complies with GAAP.

(e) the following definitions are hereby added to the Credit Agreement immediately after the definition of "Event of Default":

"**Excess Cash Flow**" means, with respect to the Canadian Borrower at any time on a consolidated basis, EBITDA for its most recently completed annual fiscal period less all taxes paid or payable in respect of such annual earnings (other than deferred taxes) and all taxes required to be paid in respect of earnings of any prior fiscal period), Total Interest Expense and Capital Expenditures, incurred or made during such annual fiscal period, and plus any reduction in, and less any increase in, Adjusted Working Capital during such annual fiscal period; provided, however, that before the Mills Completion Date, Capital Expenditures in respect of the Mills will not be included for purposes of calculating Excess Cash Flow.

"**Excess Cash Flow Prepayment**" means an amount equal to the percentage as determined in the table set forth below multiplied by the Excess Cash Flow for the fiscal year most recently completed:

Ratio of Total Debt as of the most recent fiscal year end to EBITDA for the fiscal year most recently completed	Percentage
Greater than or equal to 4.00:1.00	75%
Greater than or equal to 3.00:1.00 but less than 4.00:1.00	50%
Greater than or equal to 2.00:1.00 but less than 3.00:1.00	25%
Less than 2.00:1.00	0%

(f) the following definition is hereby added to the Credit Agreement immediately following the definition of "Interbank Reference Rate":

"**Intercreditor Agreement**" means that certain Intercreditor Agreement dated as of March 21, 2007 by and among, the Canadian Borrower, the U.S. Borrower, the Grantors signatory thereto, the Canadian Administrative Agent, and Toronto Dominion (Texas) LLC as an agent under the Second Lien Credit Agreement (as such document may be amended, restated or otherwise modified in accordance with its terms).

(g) the following definition is hereby added to the Credit Agreement immediately after the definition of "Interest Period":

"**Interest Reserve Account**" has the meaning set forth in Section 2.15.

(h) the following definition is hereby added to the Credit Agreement immediately following the definition of "LIBO Rate Margin":

"**Liquidity**" means the sum of (i) the balance in the Interest Reserve Account, (ii) Cash and Cash Equivalents of the Canadian Borrower and its Subsidiaries, (iii) the amount undrawn under the U.S. Swingline Facility, (iv) the amount undrawn under the Canadian Swingline Facility, and (v) after Mills Completion, the amount undrawn under the U.S. Revolving Facility and Canadian Revolving Facility.

(i) the definition of "Loan Documents" is deleted in its entirety and replaced with the following:

"**Loan Documents**" means (a) this Agreement, (b) the Security, (c) the Aggregate Repricing Agreement, (d) the agreements relating to each Hedge Arrangement entered into by a Restricted Party with a Lender, (e) the Intercreditor Agreement, and (f) all present and future agreements, documents, certificates and instruments delivered by any Restricted Party to the Administrative Agent or the Lenders pursuant to or in respect of this Agreement or the Security, in each case as the same may from time to time be amended, and "**Loan Document**" means any one of the Loan Documents.

(j) the definition of "Material Contracts" is hereby amended by adding the following proviso thereto immediately at the end of such definition: "provided that the Second Lien Credit Agreement shall not be considered a Material Contract for the purpose of Section 9.04(17)".

(k) the following definition is hereby added to the Credit Agreement immediately following the definition of "Peter Grant Family Trust":

"**PIK Interest Election**" means the election which may be made by the Borrower under section 4.02 of the Second Lien Credit Agreement (as in effect on March 21, 2007) to have all interest due on loans outstanding thereunder to be payable in kind.

(l) the definition of "Permitted Debt" is hereby amended by renumbering the existing clause (xi) as (xii) and by adding the following as a new subsection (xi) as follows:

"(xi) Debt under the Second Lien Credit Agreement provided that the principal amount under the Second Lien Credit Agreement does not exceed $150,000,000; and"

(m) the definition of "Permitted Encumbrances" is hereby amended by adding a new subsection (xvii) as follows:

"(xvii) Encumbrances securing the obligations under the Second Lien Credit Agreement provided the Intercreditor Agreement is executed, delivered and in full force and effect unless terminated pursuant to the terms thereof or by agreement of the parties thereto."

(n) the following definitions are hereby added to the Credit Agreement immediately following the definition of "Schedule II Reference Lenders":

"**Second Lien Credit Agreement**" means the second lien credit agreement between the U.S. Borrower, certain entities as Guarantors and TD Securities (USA) LLC, as Lead Arranger and Sole Bookrunner, Toronto Dominion (Texas) LLC, as Administrative Agent and the financial institutions from time to time parties thereto as lenders made as of March 21, 2007 (as amended, restated, refinanced or otherwise modified as permitted by the Intercreditor Agreement).

"**Second Lien Credit Facility**" means the $150,000,000 non-amortizing term loan available pursuant to the Second Lien Credit Agreement in an original principal amount of $150,000,000 and which provides for accrued interest to be paid in kind pursuant to a PIK Interest Election.

(o) the definition of "Senior Debt" is hereby deleted in its entirety and replaced with the following:

"**Senior Debt**" means, with respect to the Borrowers on a consolidated basis, without duplication, the total of all amounts outstanding, from time to time, under the Credit Facilities, plus the following amounts: (i) the total of all amounts owing by Restricted Parties and secured by Permitted Encumbrances that rank *pari passu* with or in priority to the Security; and (ii) the Aggregate Exposure on all Hedge Arrangements (excluding Third Party Commodity Hedge Arrangements); less the following: (i) the minimum amount of Cash and Cash Equivalents balances during the most recent quarter not exceeding U.S. $50 million; and (ii) the total potential value of all Hedge Arrangements (excluding Third Party Commodity Hedge Arrangements) of the Restricted Parties that are in-the-money calculated on a mark-to-market basis up to a maximum value of U.S. $15,000,000; but excluding (i) current trade payables, accrued liabilities, minority interest, income taxes payable and deferred income taxes; (ii) Subordinated Debt and (iii) Debt incurred in respect of the Second Lien Credit Facility.

(p) the definition of "Total Debt" is hereby deleted in its entirety and replaced with the following:

"**Total Debt**" means, without duplication, with respect to any Person on a consolidated basis, the total of all amounts of obligations in respect of borrowed money, plus, without duplication, the following: (i) the total of all amounts payable in respect of the Capital Leases, (ii) the Aggregate Exposure on all Hedge Arrangements, (iii) the total of all amounts under Letters of Credit, (iv) all amounts payable pursuant to the Second Lien Credit Agreement; and (v) the total of all amounts in respect of guarantees, less the following: (i) the minimum amount of Cash and Cash Equivalents balances and all amounts in the Interest Reserve Account during the most recent quarter not exceeding U.S. $50 million in the aggregate, (ii) the total potential value of all Hedge Arrangements (excluding Third Party Commodity Hedge Arrangements) of the Restricted Parties that are in-the-money calculated on a mark-to-market basis up to a maximum value of U.S. $15,000,000; and (iii) the amount of any Shareholder Loans.

(q) the definition of "Total Interest Expense" is hereby amended by adding the following words in the second line after "... aggregate amount of interest":

"(other than interest payable in kind pursuant to the exercise of the PIK Interest Election)"

3. **Amendment to Section 2.01(1).** Section 2.01(1) of the Credit Agreement is hereby amended by deleting the existing clause (C)(y) and replacing it with the following:

"(y) the Costs to Complete would at such time exceed the sum of the remaining availability under the Revolving Facility (other than the remaining availability under the Canadian Swingline Facility and the U.S. Swingline Facility), the U.S. Non-Revolving Term Facility and Cash and Cash Equivalents but excluding amounts in the Interest Reserve Account;"

4. **Amendment to Article 2.** Article 2 is amended by adding a new Section 2.12(4) as follows:

"(4) From and after the date of this Agreement, and except with the prior written consent of the Agents, the Borrowers shall not have the right to voluntarily repay any portion of the Credit Facilities such that after any such voluntary repayment is made the aggregate of (i) the amount outstanding (including, without limitation, any amounts outstanding by way of Letters of Credit) at such time under the Credit Facilities, and (ii) the undrawn amounts available to be drawn under the Credit Facilities (such aggregate amount being referred to as "Senior Exposure") would be less than 15% of the sum of the Senior Exposure at such time plus the total amount outstanding at such time under the Second Lien Credit Agreement, unless all Senior Exposure at such time is repaid in full and permanently cancelled."

5. **Amendment to Article 2.** Article 2 is amended by adding a new Section 2.15 and a new Section 2.16 as follows:

"2.15 **Interest Reserve Account**

(1) The Borrowers shall establish with the Canadian Agent, with effect as of March 21, 2007, an account titled "Grant - Debt Service Reserve Account" (the "**Interest Reserve Account**"). The Borrowers shall cause to be deposited Cdn.$50,000,000 into the Interest Reserve Account. The Borrowers shall be entitled, from time to time, to invest in Cash Equivalents, the amounts in the Interest Reserve Account and such Cash Equivalents shall, where applicable, be physically held by the Canadian Agent. The applicable Borrower shall be entitled to all interest and other amounts earned thereon and such earned interest and other amounts shall, at the option of the Borrowers, be paid to the applicable Borrower or deposited in the Interest Reserve Account.

(2) Prior to termination of the Interest Reserve Account, the Borrowers shall only be permitted to withdraw amounts from the Interest Reserve Account to pay interest and fees when due to the Lenders on the Credit Facilities. The Borrowers shall be permitted to withdraw all amounts from the Interest Reserve Account and terminate the Interest Reserve Account permanently if the Borrowers have provided evidence reasonably satisfactory to the Lenders that the Canadian Borrower has achieved an EBITDA to Total Interest Expense Ratio of greater than 1.5:1.0 for two consecutive fiscal quarters.

(3) The Borrowers shall not be required to replenish amounts withdrawn from the Interest Reserve Account in accordance with the terms hereof.

2.16 **Excess Cash Flow Prepayments**

Within 145 days after each fiscal year end of the Canadian Borrower, the Borrowers will prepay the Loans in an amount equal to the Excess Cash Flow Prepayment for such year, such amount to be paid pro rata, as between the Revolving Facilities and the U.S. Non-Revolving Term Facility, provided, however, that the requirement to make such Excess Cash Flow Prepayment in each year shall apply only if: (i) the Second Lien Credit Facility (or a refinancing thereof) remains outstanding and the terms of the Second Lien Credit Agreement (or the terms of a refinancing thereof) require that the Excess Cash Flow Prepayment (or similar prepayment) be made to the Lenders under this Agreement, or (ii) the Total Debt to Capitalization Ratio for the then most recently completed fiscal quarter of the Canadian Borrower is equal to or greater than 0.55:1.0. If the Excess Cash Flow Prepayment to the Lenders has been waived by the Lenders, or if all Obligations under the Credit Agreement have been paid in full (excluding contingent indemnification obligations not yet due and payable) and all Commitments thereunder have been reduced to zero, the Borrowers may pay such Excess Cash Flow Prepayment to reduce amounts owing under the Second Lien Credit Facility. Commitments under the Revolving Facility will be permanently reduced by an amount equal to the amount of Loans under the Revolving Facility that are prepaid by the Excess Cash Flow Prepayments. The Borrower will notify the Administrative Agent in writing of any such mandatory prepayment required to be made pursuant to this Section 2.16 at least five Business Days prior to the date of such prepayment. Each such notice will specify the date of such prepayment and the amount of such prepayment. The Administrative Agent will promptly notify each Lender of the contents of the Borrower's prepayment notice and of such Lender's pro rata share of the prepayment. Notwithstanding the foregoing, the U.S. Borrower will not be required to make any part of any such Excess Cash Flow Prepayment of either the U.S. Non-Revolving Term Facility or the Revolving Facilities pursuant to this Section 2.16 on or prior to the fifth anniversary of the date of the last Drawdown hereafter made of the U.S. Non-Revolving Term Facility (the "Fifth Anniversary") to the extent that the amount thereof that is payable to the Lenders under the U.S. Non-Revolving Term Facility, when aggregated with all prior mandatory prepayments (or repayments) of the U.S. Non-Revolving Term Facility on or prior to the Fifth Anniversary, would exceed 25% of the total principal amount of the U.S. Non-Revolving Term Facility now or hereafter advanced; provided that such excess amount which relates exclusively to the Excess Cash Flow Prepayment which would have been applied to prepayment of the U.S. Non-Revolving Term Facility and the Revolving Facilities but for this sentence of Section 2.16 will be paid on the Business Day immediately following the Fifth Anniversary."

6. **Amendment to Section 3.02(d).** Section 3.02(d) is hereby deleted and replaced with the following:

"(d) no Material Adverse Change (other than the Material Adverse Changes referred to in Section 8.01(24)) will have occurred since December 31, 2005 and be existing; and"

7. **Amendment to Section 8.01(24).** Section 8.01(24) is hereby amended deleted and replaced with the following:

"(24) No Material Adverse Change. Since December 31, 2005, there has been no Material Adverse Change except for cost overruns with respect to the Mills Budget and the need to obtain the Second Lien Credit Facility to address *inter alia* such overruns and except for the current strike/lockout at the Canadian Borrower's Timmins plant that commenced on September 9, 2006."

8. **Amendment to Section 9.02.** Section 9.02 of the Credit Agreement is hereby amended by deleting subsections (3) and (4) thereof in its entirety and replacing them with the following:

"(3) EBITDA to Total Interest Expense Ratio. For so long as any amount is outstanding under this Agreement, EBITDA is to be equal to or greater than zero for the period April 1, 2008 to and including December 31, 2008 calculated on a building quarterly basis, beginning with the fiscal quarter commencing April 1, 2008, and the EBITDA to Total Interest Expense Ratio is to be greater than or equal to (i) 1.5:1.0 for the period from January 1, 2009 to and including December 31, 2009, calculated on a building quarterly basis, beginning with the fiscal quarter commencing January 1, 2009, and (ii) 2.0:1.0 thereafter, on a trailing four quarter basis. Notwithstanding the foregoing sentence, there shall be no requirement to maintain a minimum EBITDA or EBITDA to Total Interest Expense Ratio at any time that the Borrower has exercised its right to make a PIK Interest Election under the Second Lien Credit Agreement.

(4) Shareholders Equity. The Shareholders' Equity of the Canadian Borrower, calculated on a consolidated basis, is not less than Cdn. $375,000,000."

9. **Amendment to Section 9.02.** Section 9.02 of the Credit Agreement is hereby amended by adding subsection (5) as follows:

"(5) Liquidity. At no time will Liquidity be less than the following in respect of the last day of the applicable quarterly fiscal periods of the Canadian Borrower below:

Second Fiscal Quarter of 2007	-	Cdn. $85,000,000
Third Fiscal Quarter of 2007	-	Cdn. $85,000,000
Fourth Fiscal Quarter of 2007	-	Cdn. $70,000,000
First Fiscal Quarter of 2008	-	Cdn. $60,000,000
Second Fiscal Quarter of 2008	-	Cdn. $60,000,000
Third Fiscal Quarter of 2008	-	Cdn. $60,000,000
Fourth Fiscal Quarter of 2008	-	Cdn. $60,000,000
First Fiscal Quarter of 2009	-	Cdn. $60,000,000
Second Fiscal Quarter of 2009 and thereafter	-	Cdn. $75,000,000

If at any time Liquidity on the last day of any month is less than $61,000,000, the Borrower shall, as soon as practicable thereafter, but in any event no later than 4 Business Days after month end, exercise its right to make a PIK Interest Election under the Second Lien Credit Agreement."

10. **Amendment to Section 9.04.** Section 9.04 of the Credit Agreement is hereby amended by:

(a) deleting subsection (4) in its entirety and replacing it with the following:

"(4) No Financings. Create, incur, assume or permit any Debt (including Debt of the Footner Joint Venture) to remain outstanding, other than Permitted Debt or complete any Financings (other than the Footner Buyout Financing and the financing effected pursuant to the Second Lien Credit Facility);"

(b) by deleting the existing subsection (8) and replacing it with the following:

"(8) Distributions. Make any Distribution, provided that if no Event of Default or Default has occurred and is continuing at the time a proposed Distribution is to be made (or an Event of Default or Default would result from the making of such Distribution), then the Distribution can be made, provided further that aggregate Distributions that can be made in any fiscal year of the Canadian Borrower may not exceed an amount determined in accordance with the following:

Ratio of Total Debt as at the last day of the most recently ended fiscal quarter to EBITDA for the most recently ended four fiscal quarters	Maximum Distribution
Greater than or equal to 4.00:1.00	nil
Greater than or equal to 3.00:1.00 but less than 4.00:1.00	Cdn. $6,000,000
Greater than or equal to 2.00:1.00 but less than 3.00:1.00	25% of Excess Cash Flow for the most recently completed annual fiscal period
Less than 2.00:1.00	50% of Excess Cash Flow for the most recently completed annual fiscal period.

(c) adding the following immediately following subsection (19):

"(20) Proceeds of Second Lien Credit Facilities. Use the proceeds of the Second Lien Credit Facility to repay any amounts outstanding under any of the Credit Facilities, except at the Borrowers' option to repay outstanding amounts under the Canadian Swingline Facility and the U.S. Swingline Facility and except to pay the amount required to be deposited to the Interest Reserve Account.

(21) Payments to Shareholders and Management. Except as otherwise permitted in Section 9.04(8) in respect of Distributions, make a payment or series of payments to any holder of shares of any class of the Canadian Borrower or to any member of management of any Borrower or of any other Restricted Party, that is in excess, of $1,000,000 per fiscal year of the Canadian Borrower unless such payments are in respect of transactions made as if on an arm's length basis, provided that the foregoing shall not prohibit or restrict payments made by one Restricted Party to another Restricted Party.

(22) Prepayments under Second Lien Credit Agreement. The Borrowers shall not prepay, prior to the maturity thereof, principal amounts or PIK Interest Amounts (as defined in the Second Lien Credit Agreement) outstanding under the Second Lien Credit Agreement except with the prior written consent of the Required Lenders, provided, however, that, (i) if a Borrower is permitted hereunder to make a Distribution, then, such amount as is permitted to be paid by

the Borrower may, in the discretion of the Borrower, be used to pay down outstanding principal amounts and PIK Interest Amounts under the Second Lien Credit Agreement, and (ii) the Borrower may do so in the circumstances contemplated in Section 2.16 above."

11. **Amendment to Schedule B – Lenders and Commitments.** Schedule B of the Credit Agreement is replaced with Schedule B attached hereto.

12. **Amendment to Schedule 1.01(k) – Mills Budget.** Schedule 1.01(k) of the Credit Agreement is replaced with Schedule 1.01(k) attached hereto.

13. **Amendment to Schedule 1.01(l) – Mills Operating Projections.** Schedule 1.01(l) of the Credit Agreement is replaced with Schedule 1.01(l) attached hereto.

14. **Amendment to Schedule 1.01(m) – Mills Construction Schedule.** Schedule 1.01(m) of the Credit Agreement is replaced with Schedule 1.01(m) attached hereto.

15. **Effectiveness of this Agreement.** The effectiveness of this Agreement is subject to the satisfaction of each of the following conditions:

(a) receipt by the Agents of counterparts of this Agreement duly executed by the parties hereto;

(b) payment of all fees, costs and expenses of the Agents and the Lenders, including all fees payable in connection with this amendment, and the fees of Lenders' Counsel incurred through to the date hereof;

(c) the Second Lien Credit Agreement shall have been executed and delivered by all parties thereto, in form and substance satisfactory to the Agents;

(d) the Intercreditor Agreement shall have been executed and delivered by all parties thereto, in form and substance satisfactory to the Agents;

(e) the Interest Reserve Account shall have been established and funded as required by this Agreement;

(f) security documentation to be granted by and in respect of Grant US Sales Inc. shall have been executed and delivered as required under the terms of the Credit Agreement;

(g) legal opinions in form and substance satisfactory to the Agents; and

(h) such other documents, agreements, instruments, certificates or other confirmations as the Agents may reasonably request.

16. **Representations of the Borrower.** Each Borrower represents and warrants to the Agents and the Lenders that, as at the date of this Agreement:

(a) Corporate Power and Authority. The execution, delivery and performance of this Agreement and the transactions contemplated hereby: (i) are within the corporate or partnership authority of such Borrower; (ii) have been duly authorized by all necessary corporate or partnership proceedings, if any; (iii) do not and will not violate any provision of law, statute, rule or regulation to which such Borrower is subject or any judgment, order, writ, injunction, license or permit applicable to such Borrower; and (iv) do not violate or breach any provision of the constating documents of, or any agreement or other instrument binding upon, such Borrower or its Subsidiaries. The Loan Documents constitute the legal, valid and binding obligations of each of the Obligors who is a party thereto, enforceable in accordance with their respective terms, except to the extent that the enforceability thereof may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws generally affecting creditors' rights and by equitable principles (regardless of whether enforcement is sought in equity or at law).

(b) Governmental Approvals. No order, consent, approval, license, authorization or validation of, or filing, recording or registration with (except for those that have otherwise been obtained or made on or prior to the date of the effectiveness of this Agreement and which remain in full force and effect on such date), or exemption by, any Governmental Authority, is required to authorize, or is required in connection with, the execution, delivery and performance of this Agreement by the Borrower.

(c) Compliance with Covenants. Following the effectiveness hereof, the Restricted Parties are in compliance with all covenants set forth in the Credit Agreement.

(d) No Default. No Event of Default or Default exists or would occur immediately after giving effect to this Agreement.

(e) Construction Costs. From and after the funding the Second Lien Credit Facility the amount undrawn under the Credit Agreement and the amount of the Cash and Cash Equivalents of the Restricted Parties are sufficient to fund completion of the Mills and to fund any current shortfalls in respect thereof and to allow the Borrowers and their Affiliates to continue in the ordinary course without interruption.

17. **Borrower Certification.** From and after the funding of the Second Lien Credit Facility and without limiting Section 16 hereof, by executing this Agreement, each Borrower hereby repeats and reaffirms all representations and warranties set forth in Section 8.01 (as amended) of the Credit Agreement and the other Loan Documents to which it is a party on and as of the date hereof (after giving effect to this Agreement) other than representations and warranties that are date specific, with the same force and effect as if such representations and warranties were set

forth in this Agreement in full (except to the extent that such representations and warranties relate expressly to an earlier date).

18. **Continuing Availability.** For greater certainty, the Material Adverse Changes referred to in Section 8.01(24) will, upon the advance of the Second Lien Credit Facility, have been addressed to the satisfaction of the Lenders and, notwithstanding such Material Adverse Changes, the Borrowers shall, after the Second Lien Credit Facility has been advanced, continue to be entitled to draw down the unadvanced portion of the U.S. Non-Revolving Term Facility and the Revolving Facilities under the Credit Agreement in accordance with the provisions of the Credit Agreement and by satisfying the requirements for subsequent drawdowns contained therein.

19. **Consent to Second Lien Loan Documents.** The Lenders and Administrative Agents consent to the execution and delivery by the Restricted Parties of the Loan Documents (as defined by the Second Lien Credit Agreement) and, subject to the provisions of the Intercreditor Agreement, consent to the performance by the Restricted Parties of their obligations thereunder.

20. **Other Amendments.** Except as expressly amended, modified and supplemented hereby, the provisions of the Credit Agreement are and shall remain in full force and effect. The Credit Agreement, together with this Agreement, shall be read and interpreted together as one and the same agreement.

21. **Governing Law.** This Agreement shall be governed by and construed in accordance with the laws of the Province of Ontario and the laws of Canada applicable therein.

22. **Counterparts.** This Agreement may be executed by the parties hereto by facsimile signature in one or more counterparts, each of which shall be deemed to be an original and all of which will constitute together the one and the same agreement.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF the parties hereto have caused this Agreement to be duly executed and delivered by the proper duly authorized officers as of the day and the year first above written.

THE TORONTO-DOMINION BANK
as Canadian Administrative Agent

By: ______________________________
Name: Ronald J. Kowpak
Title: Vice President, Loan Syndications - Agency

TORONTO DOMINION (TEXAS), LLC,
as U.S. Administrative Agent

By: ______________________________
Name: IAN MURRAY
Title: AUTHORIZED SIGNATORY

GRANT FOREST PRODUCTS INC., as Borrower

By:

Name:
Title: PETER M. LYNCH
EXECUTIVE VICE PRESIDENT

GRANT U.S. HOLDINGS LLP, as Borrower, by its Partners,

GRANT FOREST PRODUCTS INC.

By:

Name: PETER M. LYNCH
Title: EXECUTIVE VICE PRESIDENT

GRANT ALBERTA INC.

By:

Name: Peter M. Lynch
Title: Vice-President

GRANT FOREST PRODUCT SALES INC.

By:

Name: Peter M. Lynch
Title: President

GRANT ALBERTA INC.

By:

Name: Peter M. Lynch
Title: Vice-President

SOUTHEAST PROPERTIES INC.

By: ______________________

Name: Peter M. Lynch
Title: Vice - President

GRANT ALLENDALE INC.

By: ______________________

Name: Peter M. Lynch
Title: vice - President

GRANT CLARENDON INC.

By: ______________________

Name: Peter M. Lynch
Title: Vice - President

GRANT US SALES INC.

By: ______________________

Name: Peter M. Lynch
Title: President

REAFFIRMATION OF OBLIGATIONS UNDER LOAN DOCUMENTS

Each of the undersigned hereby reaffirms its continuing obligations owing to the Agents and each Lender under the Loan Documents to which such Person is a party and agrees that the foregoing Agreement shall not in any way affect the validity and enforceability of any such Loan Document, or reduce, impair or discharge the obligations of such Person thereunder, as amended by the foregoing Agreement.

This reaffirmation shall be construed in accordance with and be governed by the laws (without giving effect to the conflict of law principles thereof) of the Province of Ontario and the laws of Canada applicable therein.

IN WITNESS WHEREOF, each of the undersigned has duly executed and delivered this Reaffirmation of Obligations under Loan Documents as of March 21, 2007.

GRANT FOREST PRODUCTS INC., as Borrower

By: ________________________

Name: Peter M. Lynch
Title: Executive Vice-President

GRANT U.S. HOLDINGS LLP, as Borrower, by its Partners,

GRANT FOREST PRODUCTS INC.

By: ________________________

Name: Peter M. Lynch
Title: Executive Vice-President

GRANT ALBERTA INC.

By: ________________________

Name: Peter M. Lynch
Title: Vice-President

GRANT FOREST PRODUCTS SALES INC.

By: ______________________

Name: Peter M. Lynch
Title: President

GRANT ALBERTA INC.

By: ______________________

Name: Peter M. Lynch
Title: Vice-President

SOUTHEAST PROPERTIES INC.

By: ______________________

Name: Peter M. Lynch
Title: Vice-President

GRANT ALLENDALE INC.

By: ______________________

Name: Peter M. Lynch
Title: Vice-President

GRANT CLARENDON INC.

By: ______________________

Name: Peter M. Lynch
Title: Vice-President

GRANT US SALES INC.

By: ______________________

Name: Peter M. Lynch
Title: President

OFFICER'S CERTIFICATE

TO: THE TORONTO-DOMINION BANK, as administrative agent (the "**Canadian Administrative Agent**")

AND TO: TORONTO DOMINION (TEXAS) LLC, as administrative agent (the "**U.S. Administrative Agent** ")

RE: Credit agreement dated as of October 26, 2005 among Grant Forest Products Inc., Grant U.S. Holdings LLP, Grant Forest Products Sales Inc., Grant Alberta Inc., Southeast Properties Inc., Grant Allendale Inc., Grant Clarendon Inc., the Canadian Administrative Agent for the Canadian Revolving Lenders, the U.S. Administrative Agent for the U.S. Revolving Facility Lenders and the U.S. Non-Revolving Term Facility Lenders, and the Lenders (as it may be supplemented, amended or otherwise modified or restated from time to time, the "**Credit Agreement**")

The undersigned officer of Grant Forest Products Inc. (the "**Corporation**") hereby certifies, on behalf of the Corporation and without personal liability, that, attached hereto is a true and complete copy of the credit agreement signed by the Restricted Parties referred to therein and dated as of March 21, 2007 among Grant U.S. Holdings LLP, as borrower (the "**Borrower**"), Grant Forest Products Inc., Grant Forest Products Sales Inc., Grant Alberta Inc., Southeast Properties Inc., Grant Allendale Inc., Grant Clarendon Inc. and Grant US Sales Inc., as guarantors, the Administrative Agent and U.S. Collateral Agent, the ~~Canadian Collateral~~ Agent, and the Lenders (as it may be supplemented, amended or otherwise modified or restated from time ~~to time~~ (the "**Second Lien Credit Agreement**").

DATED as of the 21st day of March, 2007.

Name: Peter Lynch
Title: Executive Vice-President and Secretary

This is Exhibit "C" referred to in the affidavit of Ben Montgomery sworn before me, this 11th day of May 20 11

A COMMISSIONER FOR TAKING AFFIDAVITS

ANDREW PILLIAR
Barrister & Solicitor
McCarthy Tétrault LLP
1300 - 777 DUNSMUIR STREET
VANCOUVER, B.C. V7Y 1K2
DIRECT 604-643-5875

EXECUTION COPY

U.S. $150,000,000

SECOND LIEN CREDIT AGREEMENT

AMONG

GRANT U.S. HOLDINGS LLP
as Borrower

AND

GRANT FOREST PRODUCTS INC.,
GRANT FOREST PRODUCTS SALES INC.,
GRANT ALBERTA INC.,
SOUTHEAST PROPERTIES INC.,
GRANT ALLENDALE INC.,
GRANT CLARENDON INC.
and
GRANT US SALES INC.
as Guarantors

AND

TD SECURITIES (USA) LLC
as Sole Lead Arranger and Sole Bookrunner

AND

TORONTO DOMINION (TEXAS) LLC
as Administrative Agent and U.S. Collateral Agent

AND

THE TORONTO-DOMINION BANK
as Canadian Collateral Agent

AND

THE FINANCIAL INSTITUTIONS
from time to time parties hereto
as Lenders

Made as of March 21, 2007

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SECOND LIEN CREDIT AGREEMENT

THIS AGREEMENT is made as of March 21, 2007, among **GRANT U.S. HOLDINGS LLP**, a limited liability partnership formed under the laws of Delaware (the "**Borrower**"), **GRANT FOREST PRODUCTS INC.**, a corporation incorporated under the laws of Ontario ("**GFP**"), **GRANT FOREST PRODUCTS SALES INC.**, a corporation incorporated under the laws of Ontario, **GRANT ALBERTA INC.**, a corporation incorporated under the laws of Alberta, **SOUTHEAST PROPERTIES INC.**, a corporation incorporated under the laws of Delaware, **GRANT ALLENDALE INC.**, a corporation incorporated under the laws of Delaware, **GRANT CLARENDON INC.**, a corporation incorporated under the laws of Delaware, **GRANT US SALES INC.**, a corporation incorporated under the laws of Delaware (each, a "**Guarantor**" and, collectively, the "**Guarantors**"), **THE TORONTO-DOMINION BANK**, in its capacity as collateral agent with respect to Property located in Canada (the "**Canadian Collateral Agent**"), **TORONTO DOMINION (TEXAS) LLC**, in its capacity as administrative agent for the Lenders (the "**Administrative Agent**") and in its capacity as collateral agent with respect to Property not located in Canada (the "**U.S. Collateral Agent**") and **THE FINANCIAL INSTITUTIONS** from time to time parties to this Agreement and designated as Lenders on the signatures pages of this Agreement (each, a "**Lender**" and, collectively, the "**Lenders**").

WHEREAS, the Borrower has requested the Credit Facility and the Lenders have agreed to provide the Credit Facility to the Borrower upon and subject to the terms and conditions set forth in this Agreement;

NOW THEREFORE, in consideration of the covenants and agreements herein contained, the parties agree as follows:

ARTICLE 1 – INTERPRETATION

1.01 Definitions

In this Agreement, unless something in the subject matter or context is inconsistent therewith:

"**Adjusted LIBO Rate**" means, for each Interest Period for a LIBO Rate Obligation, a rate *per annum* (rounded upwards, if necessary, to the next 1/16 of 1%) equal to (a) the LIBO Rate for such Interest Period multiplied by (b) the Eurocurrency Reserve Rate.

"**Adjusted Working Capital**" means the remainder of (a) the consolidated current assets of GFP minus the amount of Cash and Cash Equivalents included in such consolidated current assets, minus (b) the consolidated current liabilities of GFP minus the amount of consolidated short-term Debt (including current maturities of long-term Debt) of any Restricted Party included in such consolidated current liabilities.

"**Administrative Agent**" means Toronto Dominion (Texas) LLC and its permitted successors and assigns.

"**Administrative Questionnaire**" means an Administrative Questionnaire in a form supplied by the Administrative Agent.

"**Affiliate**" means, with respect to a specified Person, another Person that directly, or indirectly through one or more intermediaries, Controls or is Controlled by or is under common Control with the Person specified.

"**Aggregate Exposure**" means, at any time, the sum of all positive Exposures for each Hedging Party under all Hedging Arrangements as determined, where applicable, by the Group Valuation Agent under the

Aggregate Repricing Agreement, or, otherwise (and prior to the first advance under this Agreement), as determined in accordance with the applicable Hedging Arrangement agreements.

"Aggregate Repricing Agreement" means the Aggregate Repricing Agreement dated as of October 26, 2005 among the Borrower, GFP, each relevant Hedging Party and The Toronto-Dominion Bank, as Group Valuation Agent.

"Agreement" means this Second Lien Credit Agreement, including its recitals and schedules.

"Alternate Base Rate" means for any day a fluctuating rate *per annum* equal to the greater of (i) the rate in effect for such day as announced by the New York office of The Toronto-Dominion Bank from time to time and used by it as a reference rate for commercial loans made by it in the United States and denominated in United States Dollars and (ii) the sum of the Federal Funds Effective Rate plus 0.50% *per annum*.

"Alternate Base Rate Obligation" means a Loan made by the Lenders or PIK Interest Amount with respect to which the Borrower has specified that interest is to be calculated by reference to the Alternate Base Rate.

"Applicable Law" means (a) any domestic or foreign statute, law (including common and civil law), treaty, code, ordinance, rule, regulation, restriction or by-law (zoning or otherwise); (b) any judgement, order, writ, injunction, decision, ruling, decree or award; (c) any regulatory policy, practice, guideline or directive; or (d) any franchise, licence, qualification, authorization, consent, exemption, waiver, right, permit or other approval of any Governmental Authority, binding on or affecting the Person referred to in the context in which the term is used or binding on or affecting the property of such Person, in each case whether or not having the force of law.

"Applicable Margin" means the percentage rate *per annum*, in the case of Alternate Base Rate Obligations bearing interest at the rate described in clause (i) of the definition of Alternate Base Rate, or a rate for a period of 360 days, in the case of all other Obligations, equal to 5.50% for Alternate Base Rate Obligations and 6.50% for LIBO Rate Obligations, as adjusted in accordance with Section 4.02 or 4.05.

"Applicable Percentage" means with respect to any Lender:

(a) when referring to the total Commitment, such Lender's applicable percentage of the total Commitment represented by such Lender's Commitment (or if the Commitments have terminated or expired, such Lender's applicable percentage of the total outstanding Loans and PIK Interest Amounts); and

(b) when referring to any other amount, such Lender's applicable percentage of the total of such other amount as provided by this Agreement.

"Approved Fund" means any Fund that is administered or managed by (a) a Lender, (b) an Affiliate of a Lender or (c) an entity or an Affiliate of an entity that administers or manages a Lender.

"Assignment and Assumption" means an assignment and assumption entered into by a Lender and an Eligible Assignee and accepted by the Administrative Agent, in substantially the form of Exhibit A or any other form approved by the Administrative Agent.

"Borrower" means Grant U.S. Holdings LLP.

"**Bush Lots**" means vacant parcels of real property leased or owned by a Restricted Party which in the aggregate have a value of less than Cdn. $1,000,000 acquired or held by a Restricted Party solely for purposes of harvesting the trees located thereon.

"**Business Day**" means a day of the year, other than a Saturday, Sunday or statutory holiday, on which the Administrative Agent is open for business at its offices in New York, New York, and, in respect of LIBO Rate Obligations, at is principal office in London, England.

"**Business Plan**" has the meaning set forth in Section 9.03(5).

"**Canadian Collateral Agent**" means The Toronto-Dominion Bank and its successors and permitted assigns in such capacity.

"**Canadian Dollars**" and "**Cdn. $**" means the lawful money of Canada.

"**Capital Expenditures**" means any expenditure made by any Person for the purchase or acquisition, repair or replacement of capital assets, net of proceeds of disposition of capital assets (other than proceeds received on a sale-leaseback transaction), and any expenditure related to a Capital Lease, but excluding the amount expended on repair or replacement of Property to the extent of insurance proceeds or third party funding received by such Person on account of damage or destruction, all as determined in accordance with GAAP.

"**Capital Lease**" means a capital lease or a lease that is accounted for as a capital lease under GAAP.

"**Capitalization**" means, with respect to a Person, the sum of the Debt and Equity of such Person (including postponed Shareholder Loans) as shown on the balance sheet forming part of the most recent consolidated financial statements of such Person.

"**Cash**" means money, currency or credit balance in a deposit account.

"**Cash Equivalents**" means (i) securities issued or fully guaranteed by the government of Canada or the United States or any agency or instrumentality thereof, (ii) term deposits, certificates of deposit or bankers' acceptances of any Lender, or any bank that is not a Lender but is referred to in either Schedule I or II of the *Bank Act* (Canada) the short-term debt or deposits of which have been rated at least A-1 or the equivalent thereof by Standard & Poors Ratings Group or at least P-1 or the equivalent thereof by Moodys Investor Service, Inc. or which have been rated at least A-1 or the equivalent thereof by CBRS Inc. or at least R-1 or the equivalent thereof by Dominion Bond Rating Service Limited, and (iii) commercial paper rated at least A1 or the equivalent thereof by CBRS Inc. and R1 by Dominion Bond Rating Service Limited, in each case provided for in clauses (i), (ii) and (iii) above, maturing within 90 days after the date of acquisition.

"**Change in Law**" means the occurrence, after the date of this Agreement, of any of the following: (a) the adoption or taking effect of any Applicable Law, (b) any change in any Applicable Law or in the administration, interpretation or application thereof by any Governmental Authority or (c) the making or issuance of any Applicable Law by any Governmental Authority.

"**Change of Control**" means an event or series of events whereby Grant ceases to own beneficially, directly or indirectly, more than 75% of the outstanding Voting Shares of GFP, or GFP ceases to own beneficially 99.99% of the outstanding equity voting interest in the Borrower.

"**Closing Date**" means the date of the advance of the Loans hereunder, being March 21, 2007.

"**Code**" means the *Internal Revenue Code of 1986* of the United States, together with the regulations thereunder, as the same may be amended from time to time.

"**Commodity Hedge Arrangement**" means a swap or forward agreement between a Restricted Party and another Person relating to energy, fuel, raw material or oriented strand board contracts that is designed to protect the Restricted Party that is party thereto against fluctuation in the price of such commodity and that are entered into *bona fide* and in good faith in the ordinary course of business for the purpose of carrying on same and not for speculative purposes.

"**Commitment**" means, in respect of each Lender, the amount specified with respect to such Lender in Schedule B, as such amount may be reduced from time to time by such Lender's Applicable Percentage of the amount of any permanent repayments, reductions or prepayments required or made hereunder or increased or reduced from time to time by assignment.

"**Compliance Certificate**" means the certificate required pursuant to Section 9.03(4), substantially in the form attached as Schedule 1.01(a), signed by any one of the President, a Senior Vice-President or the Chief Financial Officer of GFP.

"**Computer Equipment**" means all computers, software or other equipment that includes computing technology or embedded logic such as microchips and sensors, whether owned or leased.

"**Contingent Obligation**" means, with respect to any Person, any obligation, whether secured or unsecured, of such Person guaranteeing or indemnifying, or in effect guaranteeing or indemnifying, any indebtedness, leases, dividends, letters of credit or other monetary obligations (the "primary obligations") of any other Person (the "primary obligor") in any manner, whether directly or indirectly, including any obligation of such Person as an account party in respect of a letter of credit or letter of guarantee issued to assure payment by the primary obligor of any such primary obligation and any obligations of such Person, whether or not contingent, (i) to purchase any such primary obligation or any Property constituting direct or indirect security therefor, (ii) to advance or supply funds for the purchase or payment of any such primary obligation or to maintain working capital or equity capital of the primary obligor or otherwise to maintain the net worth or solvency of the primary obligor, (iii) to purchase Property, securities or services primarily for the purpose of assuring the obligee under any such primary obligation of the ability of the primary obligor to make payment of such primary obligation, or (iv) otherwise to assure or hold harmless the obligee under such primary obligation against loss in respect of such primary obligation; provided, however, that the term Contingent Obligation does not include endorsements of instruments for deposit or collection in the ordinary course of business.

"**Control**" means the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of a Person, whether through the ability to exercise voting power, by contract or otherwise. "**Controlling**" and "**Controlled**" have corresponding meanings.

"**Conversion**" means a conversion of a Loan or PIK Interest Amount pursuant to Section 2.08.

"**Conversion Date**" means the Business Day specified by the Borrower in a Conversion Notice as being the date on which the Borrower has elected to convert one type of Loan or PIK Interest Amount into another type of Loan or PIK Interest Amount.

"**Conversion Notice**" means a notice, substantially in the form set forth in Schedule 1.01(b), to be given to the Administrative Agent by the Borrower pursuant to Section 2.08.

"**Costs to Complete**" means, at any given time, the costs to complete the construction of the Mills with reference to the Mills Budget and the Mills Construction Schedule, as confirmed twice each year to the

Administrative Agent by a certificate from the Independent Engineer, in form and substance satisfactory to the Administrative Agent.

"Credit Facility" means the Loans advanced and PIK Interest Amounts accrued under this Agreement.

"Debt" means, without duplication, with respect to any Person, all obligations that, in accordance with GAAP, would then be classified as a liability of such Person, and, without duplication, includes, with respect to such Person,

(i) an obligation in respect of borrowed money or for the deferred purchase price of Property or services or an obligation that is evidenced by a note, bond, debenture or any other similar instrument;

(ii) a transfer with recourse or with an obligation to repurchase, to the extent of the liability of such Person with respect thereto;

(iii) an obligation under a Capital Lease;

(iv) a reimbursement obligation or other obligation in connection with a bankers' acceptance or any similar instrument, or letter of credit or letter of guarantee issued by or for the account of such Person;

(v) a Contingent Obligation to the extent that the primary obligation so guaranteed would be classified as "Debt" (within the meaning of this definition) of such Person;

(vi) the aggregate amount at which any shares of such Person that are redeemable or retractable at the option of the holder of such shares (except where the holder is such Person) may be redeemed or retracted prior to the Maturity Date for cash or obligations constituting Debt or any combination thereof; and

(vii) the Aggregate Exposure of such Person;

provided, however, that there will not be included for the purpose of this definition any obligation that is on account of (A) reserves for deferred income taxes or general contingencies, (B) minority interests in Subsidiaries, or (C) trade accounts payable and accrued liabilities (including contract loans and income taxes payable) incurred in the ordinary course of business.

"Default" means any event or condition that constitutes an Event of Default or that would constitute an Event of Default except for satisfaction of any condition subsequent required to make the event or condition an Event of Default, including giving of any notice, passage of time, or both.

"Depreciation Expense" means, for any period with respect to any Person, depreciation, amortization, depletion and other like reductions to income of such Person for such period not involving any outlay of cash.

"Disposition" means, with respect to a Person, any sale, assignment, transfer, conveyance, lease, licence or other disposition of any nature or kind whatsoever of any Property or of any right, title or interest in or to any Property that is out of the ordinary course of business of such Person, and the verb "Dispose" has a corresponding meaning.

"Disposition Trigger Event" means any Disposition by a Restricted Party (other than a Disposition to another Restricted Party), provided, however, that (i) any such Disposition in respect of Net Proceeds up to an aggregate amount not to exceed $25,000,000 for each financial year of GFP will not constitute a Disposition

Trigger Event, and (ii) any such Disposition will not constitute a Disposition Trigger Event if the relevant Restricted Party notifies the Administrative Agent within 30 days after such Disposition that it plans to reinvest the Net Proceeds of such Disposition in Capital Expenditures as promptly as practicable, but in any event within 180 days after such Disposition; provided further that, if a Restricted Party delivers a notice with respect to a Disposition as contemplated by clause (ii) above, and if, on the expiration of the 180-day period less than all the Net Proceeds of such Disposition have been reinvested or applied as provided above, then a Disposition Trigger Event will be deemed to have occurred at the expiration of such 180-day period with Net Proceeds equal to the Net Proceeds of such Disposition that have not been reinvested or applied.

"**Distribution**" means (i) any payment, declaration of dividend or other distribution, whether in cash or Property, (but expressly excluding any distribution by way of the payment of dividends by the issuance of equity securities of an issuer) to any holder of shares of any class of the Borrower or any other Restricted Party, (ii) any repurchase, redemption, retraction or other retirement or purchase for cancellation of shares of the Borrower or any other Restricted Party, or of any options, warrants or other rights to acquire any of such shares, or (iii) any payment or repayment of any advance, loan, extension of credit, capital contribution to, or guarantee of any obligation of, any Person that holds Equity of the Borrower or any other Restricted Party; but, in each case, excludes any such payments made by a Restricted Party to any other Restricted Party and amounts prepaid to employees of a Restricted Party for ordinary course employee expenses.

"**Documentation**" means all systems, user, technical or other documentation or information (including any input or output formats, program listings, narrative descriptions, operating instructions or manuals, specifications, user guides and systems, user or technical manuals) that have been, are or may be provided in connection with Software and includes any corrections, replacements, modifications or releases thereof or thereto, whether distributed in print, magnetic, electronic, video or other format.

"**EBITDA**" means, with respect to any Person for any period, the Net Income of such Person for such period plus, without duplication and to the extent reflected as a charge in the statement of net income included in the financial statements of such Person:

(i) all amounts deducted in the calculation thereof in respect of Depreciation Expense, and current and deferred taxes, net losses of Subsidiaries and any other losses incurred in respect of investments that are accounted for on an equity basis;

(ii) Total Interest Expense;

(iii) any extraordinary, non-recurring or unusual expenses or losses (including, whether or not otherwise includable as a separate item in such statement of net income, losses on sales outside of the ordinary course of business or on sales of Property of a Restricted Party which is leased back to any Restricted Party); and

(iv) unrealized losses from Hedge Arrangements to the extent that they have been used in determining Net Income as a matter of GAAP;

less, without duplication and to the extent reflected as a credit in such statement of net income,

(v) any reduction of deferred taxes;

(vi) amounts included in the calculation thereof in respect of net profits of Subsidiaries and any other profits in respect of investments that are accounted for on an equity basis;

(vii) any extraordinary, non-recurring or unusual income or gains (including, whether or not otherwise includable as a separate item in such statement of net income, gains on sales outside of the ordinary course of business or on sales of Property by a Restricted Party that are leased back to any Restricted Party); and

(viii) unrealized gains from Hedge Arrangements to the extent that they have been used in determining Net Income as a matter of GAAP;

provided, that any and all foreign exchange adjustments related to the translation of foreign currency debt on the balance sheet shall be excluded from any of the above calculations.

"EBITDA to Total Interest Expense Ratio" means, at any time with respect to GFP on a consolidated basis, the ratio obtained by dividing (i) the EBITDA of GFP by (ii) the Total Interest Expense of GFP, in each case consolidated with respect to all Restricted Parties, whether or not such consolidation complies with GAAP.

"Election of PIK Interest Notice" means a written notice delivered by the Borrower to the Administrative Agent specifying the commencement date and termination date (which termination date shall be prior to the second anniversary of the Closing Date) for the PIK Interest Period in the form attached hereto as Schedule 4.02 (an "Election of PIK Interest Notice").

"Eligible Assignee" means any Person (other than a natural person, any Restricted Party or any Affiliate of a Restricted Party), in respect of which any consent that is required by Section 14.12 has been obtained.

"Encumbrance" means, with respect to any Person, any mortgage, debenture, pledge, hypothec, lien, charge, assignment by way of security, hypothecation or security interest granted or permitted by such Person or arising by operation of law, in respect of any of such Person's Property, or any consignment by way of security or Capital Lease of Property by such Person as consignee or lessee, as the case may be, or any other security agreement, trust or arrangement having the effect of security for the payment of any debt, liability or other obligation, and "Encumbrances", "Encumbrancer", "Encumber" and "Encumbered" have corresponding meanings.

"Environmental Claim" means any and all obligations, liabilities, losses, administrative, regulatory or judicial action, suits, demands, decrees, claims, liens, judgments, warning notices, notices of non-compliance or violation, investigation, proceedings, removal or remedial actions or orders, or damages (foreseeable and unforeseeable, including consequential and punitive damages), penalties, fees, out-of-pocket costs, expenses, disbursements, attorneys' or consultants' fees, relating in any way to any Environmental Law or any permit or licence issued under any such violation or alleged violation of any Environmental Law (hereinafter "Claims"), including (a) any and all Claims by Governmental Authorities for enforcement, cleanup, removal, response, remedial or other actions in damages pursuant to any applicable Environmental Law and (b) any and all Claims by any third party seeking damages, contribution, indemnification, cost recovery, compensation or injunctive relief resulting from Hazardous Substances or arising from alleged injury or threat or injury to health, safety or the environment.

"Environmental Law" means any Applicable Law and the common law relating to the environment or human health and safety including those pertaining to the following:

(i) reporting, licensing, permitting, investigating, remediating and cleaning up in connection with any presence or Release, or the threat of the same, of Hazardous Substances, and

(ii) the manufacture, generation processing, distribution, use, treatment, storage, disposal, transport, handling and the like of Hazardous Substances, including those pertaining to occupational health and safety.

"Equity" means, with respect to any Person at any time, the aggregate of all common, preferred and other share capital interests, partnership contributions, participations or other equivalents (however designated, whether voting or non-voting or whether certificated or not certificated) (other than all shares of, or partnership interests or units in, the Person that are redeemable or retractable at the option of any Person (other than the Person in respect of whom a determination of the Equity of such Person is being made)) in, and all warrants of, that Person that would be reflected as equity on the balance sheet of that Person at that time, together with retained earnings and contributed surplus of that Person, that would be reflected on the balance sheet of that Person at that time.

"ERISA" means the *Employee Retirement Income Security Act of 1974* of the United States, together with the regulations thereunder, as the same may be amended from time to time.

"ERISA Affiliate" means any trade or business (whether or not incorporated) that, together with the Borrower or GFP, is treated as a single employer under Section 414(b) or (c) of the Code or, solely for purposes of Section 302 of ERISA and Section 412 of the Code, is treated as a single employer under Section 414 of the Code.

"ERISA Event" means (a) any "reportable event", as defined in Section 4043 of ERISA or the regulations issued thereunder with respect to a Pension Plan (other than an event for which the 30 day notice period is waived); (b) the existence with respect to any Pension Plan of an "accumulated funding deficiency" (as defined in Section 412 of the Code or Section 302 of ERISA), whether or not waived; (c) the filing pursuant to Section 412(d) of the Code or Section 303(d) of ERISA of an application for a waiver of the minimum funding standard with respect to any Pension Plan; (d) the incurrence by the Borrower, GFP or any of their ERISA Affiliates of any liability under Title IV of ERISA with respect to the termination of any Pension Plan; (e) the receipt by the Borrower, GFP or any ERISA Affiliate from the PBGC or a plan administrator of any notice relating to an intention to terminate any Pension Plan or to appoint a trustee to administer any Pension Plan; (f) the incurrence by the Borrower, GFP or any of their ERISA Affiliates of any liability with respect to the withdrawal or partial withdrawal from any Pension Plan or Multiemployer Pension Plan; or (g) the receipt by the Borrower, GFP or any ERISA Affiliate of any notice, or the receipt by any Multiemployer Pension Plan from the Borrower, GFP or any ERISA Affiliate of any notice, concerning the imposition of Withdrawal Liability or a determination that a Multiemployer Pension Plan is, or is expected to be, insolvent or in reorganization, within the meaning of Title IV of ERISA.

"Eurocurrency Reserve Rate" means a fraction (expressed as a decimal), the numerator of which is the number one and the denominator of which is the number one minus the aggregate of the maximum reserve percentages (including any marginal, special, emergency or supplemental reserves) expressed as a decimal established by the Board of Governors of the Federal Reserve System of the United States (the "Board") to which the Administrative Agent is subject, with respect to the Adjusted LIBO Rate, for eurocurrency funding (currently referred to as "Eurocurrency Liabilities" in Regulation D of the Board). Such reserve percentages shall include those imposed pursuant to such Regulation D of the Board. LIBO Rate Obligations shall be deemed to constitute eurocurrency funding and to be subject to such reserve requirements without benefit of or credit for proration, exemptions or offsets that may be available from time to time to any Lender under such Regulation D or any comparable regulation. The Eurocurrency Reserve Rate shall be adjusted automatically on and as of the effective date of any change in any reserve percentage.

"Event of Default" has the meaning set forth in Section 11.01.

"Excess Cash Flow" means, with respect to GFP at any time on a consolidated basis, EBITDA for its then most recently completed annual fiscal period less (i) all taxes paid or payable in respect of such annual earnings (other than deferred taxes) and all taxes required to be paid in respect of earnings of any prior fiscal period, (ii) Total Interest Expense and (iii) Capital Expenditures, incurred or made during such most recently completed annual fiscal period, and plus any reduction in, and less any increase in, Adjusted Working Capital during such most recently completed annual fiscal period; provided, however, that before the Mills Completion Date, Capital Expenditures in respect of the Mills will not be included for purposes of calculating Excess Cash Flow.

"Excess Cash Flow Prepayment" means an amount equal to the percentage as determined in the table set forth below multiplied by the Excess Cash Flow for the fiscal year most recently completed:

Ratio of Total Debt as of the most recent fiscal year end to EBITDA for the fiscal year most recently completed	Percentage
Greater than or equal to 4.00:1.00	75%
Greater than or equal to 3.00:1.00 but less than 4.00:1.00	50%
Greater than or equal to 2.00:1.00 but less than 3.00:1.00	25%
Less than 2.00:1.00	0%

"Excluded Subsidiary" means the entity described on Schedule 9.04(2) as the "Excluded GP" and formed by the Restricted Parties in connection with the Permitted Restructuring provided that such entity shall (a) at no time incur Debt other than Debt owed to a Restricted Party in connection with the Permitted Restructuring, (b) conduct no operations other than operations directly related to the Permitted Restructuring and (c) hold no assets other than assets held by it in connection with the Permitted Restructuring and, in each case, as consented to in writing by the Administrative Agent and as permitted under the First Lien Credit Agreement; provided, for purposes of clarification, the "Excluded GP" shall be required to become a Restricted Subsidiary hereunder to the extent required by the terms of the First Lien Credit Agreement to be a "Restricted Subsidiary" or "Guarantor" as defined in the First Lien Credit Agreement and upon becoming a Restricted Subsidiary hereunder, the provisions of this Agreement and the other Loan Documents with respect to Restricted Subsidiaries shall govern and control.

"Excluded Taxes" means, with respect to the U.S. Collateral Agent, Canadian Collateral Agent, Administrative Agent, any Lender or any other recipient of any payment to be made by or on account of any obligation of any Restricted Party hereunder or under any other Loan Document, (a) Taxes imposed in or measured by overall net income, net profit or net worth (however denominated), franchise taxes (imposed in lieu of net income taxes) by the jurisdiction (or any political subdivision thereof) under the laws of which such recipient is organized or in which its principal office is located or, in the case of any Lender, in which its applicable lending office is located or in which it is otherwise doing business; (b) any Taxes that would not have been imposed on a recipient but for a present or former connection of such recipient with the jurisdiction imposing such Tax (other than a connection arising from such recipient's having executed, delivered or performed the obligations or received payments under, or enforced by court appointed receiver, the Loan Documents); (c) any branch profits taxes imposed by the United States of America or any similar tax imposed by Canada; and (d) in the case of a Lender (other than an assignee pursuant to a request by the Borrower under Section 5.03(2)), (x) any United States withholding tax unless such withholding taxes would not have been imposed but for a change in law, rule, regulation or treaty or in the published and official administration, interpretation or application thereof by any Governmental Authority occurring after such Lender becomes a party hereto (or designates a new lending office) (such taxes, "Statutory Change Withholding Tax" and such changes, "Statutory Change in Law"), except to the extent that such Lender (or its assignor, if any) was entitled, at the time of designation of a new lending office (or assignment), to receive additional amounts from the Borrower with respect to such Statutory Change Withholding Tax pursuant to Section 5.02, and (y) any withholding tax that is attributable to such Lender's failure (other than as a result of a Statutory Change in Law) to comply with Section 5.02(6).

"**Exposure**" has the meaning set forth in the Aggregate Repricing Agreement and, where applicable, is calculated in the manner specified by the Aggregate Repricing Agreement.

"**Federal Funds Effective Rate**" means, for any day, a fluctuating rate of interest expressed as a percentage rate *per annum* equal to the weighted average of the rates on overnight federal funds transactions with members of the Federal Reserve System arranged by federal funds brokers as published for such day (or, if such day is not a Business Day, for the preceding Business Day) by the Federal Reserve Bank of New York or, for any day on which that rate is not published for that day by the Federal Reserve Bank of New York, the simple average of the quotations for that day for such transactions received by the Administrative Agent from three federal funds brokers of recognized standing selected by it.

"**Financial Assistance**" means, without duplication and with respect to any Person, all loans granted by that Person and guarantees or Contingent Obligations incurred by that Person for the purpose of or having the effect of providing financial assistance to another Person or Persons, including letters of guarantee, letters of credit, legally binding comfort letters or indemnities issued in connection therewith, endorsements of bills of exchange (other than for collection or deposit in the ordinary course of business), obligations to purchase assets regardless of the delivery or non-delivery thereof and obligations to make advances or otherwise provide financial assistance to any other Person; provided that "Financial Assistance" shall not include amounts prepaid to employees of a Person for ordinary course employee expenses, or amount loaned to employees to finance their purchases of houses up to the principal amount of $150,000 per loan and up to an aggregate principal amount of $500,000 for all such housing loans.

"**Financing**" means, with respect to any Person, the raising of funds by issuing debt obligations, including convertible or exchangeable debt obligations (but excluding Subordinated Debt) or by borrowing from a lender or other financial institution, or by issuing securities (however designated, whether voting or non-voting or whether certificated or non-certificated) of capital of such Person and any other interest or participation that confers on a Person the right to receive a share of the profits and losses of, or distributions of assets of, such Person.

"**First Lien Credit Agreement**" means the Credit Agreement (as amended as of the date hereof and as further amended, restated, refinanced, supplemented or otherwise modified from time to time in accordance with the Intercreditor Agreement) dated as of October 26, 2005 among GFP, the Borrower, the other Guarantors party thereto, Toronto-Dominion Bank, as administrative agent for certain lenders, Toronto Dominion (Texas) LLC, as administrative agent for certain lenders, and the other parties thereto.

"**Footner Buyout**" means the acquisition by GFP (or any of the other Restricted Parties) of all or any portion of the 50% equity interest in the Footner Joint Venture currently owned by Ainsworth Lumber Co. Ltd. or one or more of its Subsidiaries or Affiliates, and the shares, currently owned by Ainsworth Lumber Co. Ltd. or one or more of its Subsidiaries or Affiliates, of Footner Forest Products Ltd., the owner of the assets comprising the Footner Mills located in High Level, Alberta.

"Footner Buyout Financing" has the meaning set forth in clause (xiii) of the definition of Permitted Encumbrances.

"Footner Joint Venture" means the unincorporated joint venture in the oriented strand board mill, in High Level, Alberta, also known as the "Footner Mill", owned equally by GFP and Ainsworth Lumber Co. Ltd. or one or more of its Subsidiaries established pursuant to the Footner Joint Venture Agreement.

"Footner Joint Venture Agreement" means the memorandum of agreement dated December 9, 1999 between Ainsworth Lumber Co. Ltd. and Grant Forest Products Corp. together with the assignment agreement relating thereto made as of December 9, 1999 between Grant Forest Products Corp. and GFP by which all rights and obligations of Grant Forest Products Corp. under such memorandum of agreement were assigned to, and assumed by, GFP.

"Fund" means any Person (other than a natural person) that is (or will be) engaged in making, purchasing, holding or otherwise investing in commercial loans and similar extensions of credit in the ordinary course of its business.

"GAAP" means generally accepted accounting principles that are from time to time approved by the Canadian Institute of Chartered Accountants, or any successor institute.

"Governmental Authority" means the government of the United States or any other nation, or of any political subdivision thereof, whether state or local, and any agency, authority, instrumentality, regulatory body, court, central bank or other entity exercising executive, legislative, judicial, taxing, regulatory or administrative powers or functions of or pertaining to government, including any supra-national bodies such as the European Union or the European Central Bank and including a Minister of the Crown, Superintendent of Financial Institutions or other comparable authority or agency.

"GFP" has the meaning set forth in the Preamble hereto.

"Grant" means, collectively, the Peter Grant Family and the Peter Grant Family Trust.

"Grant Equipment Transaction" means the sale by GFP to Grant Equipment Corp. of equipment pursuant to an agreement dated as of August 31, 2005 between them as described in Schedule 1.01(p) hereto.

"Group Valuation Agent" means The Toronto-Dominion Bank in its capacity as group valuation agent under the Aggregate Repricing Agreement, and its successors and permitted assigns in such capacity.

"Guaranteed Obligations" means, with respect to each Guarantor, without duplication, the Obligations of each Restricted Party (other than such Guarantor).

"Guarantors" means each Person identified on the signature pages hereto as a Guarantor (including GFP) and each other Subsidiary of the Borrower or GFP that may from time to time become a party hereto in accordance with Section 9.04(18) and their successors and assigns, and "Guarantor" means any one of them.

"Hazardous Substance" means any substance or material that is prohibited, controlled or regulated by any Governmental Authority pursuant to Environmental Laws, including pollutants, contaminants, dangerous goods or substances, toxic or hazardous substances or materials and wastes (including solid non-hazardous wastes and subject wastes), all as defined in or pursuant to any Environmental Law and further including petroleum and its derivatives and by-products and other hydrocarbons.

"Hedge Arrangement" means, with respect to any Restricted Party, any arrangement or transaction between such Restricted Party and any other Person (other than another Restricted Party) that is a rate swap transaction, basis swap, forward rate transaction, equity or equity index swap or option, Commodity Hedge Arrangement, interest rate option, forward foreign exchange transaction, cap transaction, floor transaction, collar transaction, currency swap transaction, cross-currency rate swap transaction, currency option or any other similar transaction (including any option with respect to any of such transactions or arrangements) designed to protect or mitigate against risks in interest, currency exchange or commodity price fluctuations.

"Hedging Party" has the meaning set forth in the Aggregate Repricing Agreement.

"Heritage Trust Easement" means an easement to be granted by GFP in favour of Ontario Heritage Trust for heritage conservation easement purposes over a Part of Lots 114, 115 and 116 and Part of Lawlor Street Plan M-30 (NB) being approximately 8,765 square feet in area and Part of Lots 34, 83 and 84 on Plan M-58 (NB) being approximately 3,890 square feet in area.

"Independent Engineer" means CPM Project Management Inc., or such other recognized independent engineering firm selected by the Administrative Agent.

"Indemnified Taxes" means Taxes other than Excluded Taxes.

"Intellectual Property" means intellectual property of whatever nature and kind including all domestic and foreign trade-marks, business names, trade names, domain names, trading styles, patents, trade secrets, Software, industrial designs and copyrights, whether registered or unregistered, and all applications for registration thereof, and inventions, formulae, recipes, product formulations, processes and processing methods, technology and techniques, know-how and manuals.

"Intercreditor Agreement" means that certain Intercreditor Agreement dated as of the Closing Date among the Borrower, the Guarantors, the Administrative Agent and the administrative agent under the First Lien Credit Agreement.

"Interest Payment Date" means

(i) with respect to each Alternate Base Rate Obligation, the last day of each March, June, September and December, and

(ii) with respect to each LIBO Rate Obligation, the last Business Day of each applicable Interest Period, and, if any Interest Period is longer than three months, the last Business Day of each successive three month period during such Interest Period.

"Interest Period" means, with respect to each LIBO Rate Obligation, the period selected by the Borrower and being of one, two, three or six months (or, if available to all Lenders, nine or twelve months) duration commencing on the Closing Date or each Interest Payment Date during the PIK Interest Period or the applicable Rollover Date or Conversion Date, as the case may be; provided that in any case the last day of each Interest Period will be also the first day of the next Interest Period and further provided that the last day of each Interest Period will be a Business Day. If the last day of an Interest Period selected by the Borrower is not a Business Day the Borrower will be deemed to have selected an Interest Period the last day of which is the Business Day next following the last day of the Interest Period otherwise selected unless such next following Business Day falls in the next calendar month in which event the Borrower will be deemed to have selected an Interest Period the last day of which is the Business Day next preceding the last day of the Interest Period otherwise selected and further provided that the last Interest Period hereunder must expire on or prior to the Maturity Date.

"**Investment**" in any Person means any direct or indirect (i) acquisition of any shares, partnership interests, participation interests in any arrangement, options or warrants, or any indebtedness, whether or not evidenced by any bond, debenture or other written evidence of such Person, or (ii) acquisition, by purchase or otherwise, of all or substantially all of the business, assets or stock or other evidence of beneficial ownership of such Person. The amount of any Investment will be the original cost of such Investment, plus the cost of all additions thereto and minus the amount of any portion of such Investment repaid to such Person in cash as a return of capital, but without any other adjustments for increases or decreases in value, or write-ups, write-downs or write-offs with respect to such Investment. In determining the amount of any Investment involving a transfer of any Property other than cash, such Property will be valued at its fair market value at the time of such transfer.

"**Judgment Conversion Date**" has the meaning set forth in Section 14.03(1)(b).

"**Judgment Currency**" has the meaning set forth in Section 14.03(1).

"**Lenders**" means, collectively the Persons from time to time party to this Agreement and identified as Lenders, and, as the context may require, "Lender" means any one of the Lenders.

"**LIBO Rate**" means, for each Interest Period for a LIBO Rate Obligation, the interest rate expressed as a percentage rate *per annum* calculated on the basis of a 360 day year, equal to:

(i) the rate for deposits in U.S. Dollars in the London, England inter-bank market, for a period comparable to such Interest Period, which appears on the "LIBOROI Page" of the Reuters Money Rates Service (or any successor source from time to time for such rate) as of 11:00 a.m. (London, England time) on the second Business Day preceding the first day of such Interest Period, or

(ii) if a rate is not determinable pursuant to clause (i) of this definition at the relevant time, the average (rounded upward, if necessary, to the nearest whole multiple of 625/10,000 of 1%) of the rates of interest, expressed as rates of interest *per annum* on the basis of a year of 360 days, at which deposits in U.S. Dollars are offered by the principal lending offices in London, England of the Administrative Agent and two other banks selected by it to prime banks in the London inter-bank market at approximately 11:00 a.m. (London, England time) on the second Business Day preceding the first day of such Interest Period for a period comparable to the Interest Period and in an amount comparable to the amount of the LIBO Rate Obligation to be outstanding during such Interest Period.

"**LIBO Rate Obligation**" means a Loan made by the Lenders or PIK Interest Amount with respect to which the Borrower has specified that interest is to be calculated by reference to the Adjusted LIBO Rate.

"**Liquidity**" means, at any time, the sum of (i) the balance in the Interest Reserve Account (as defined in the First Lien Credit Agreement), (ii) Cash and Cash Equivalents of GFP and its Subsidiaries, (iii) the amount undrawn under the U.S. Swingline Facility and undrawn under the Canadian Swingline Facility (each as defined in the First Lien Credit Agreement) and (iv) after the Mills Completion Date, the amount undrawn under the U.S. Revolving Facility and the Canadian Revolving Facility (each as defined in the First Lien Credit Agreement), in each case at such time.

"**Loan**" means any extension of credit by a Lender under this Agreement.

"**Loan Documents**" means (a) this Agreement, (b) the Security, (c) the Intercreditor Agreement and (d) all present and future agreements, documents, certificates and instruments delivered by any Restricted Party to the Administrative Agent or the Lenders pursuant to or in respect of this Agreement or the Security, in each case as the same may from time to time be amended, and "Loan Document" means any one of the Loan Documents.

"**Material Adverse Change**" means any change after the date of this Agreement (unless otherwise specified) having a material adverse effect on the business, operations or condition (financial or otherwise) of the Borrower, GFP and the other Restricted Parties, taken as a whole, or on the ability of such parties taken as a whole to carry on their business or a significant part of their business, which would reasonably be expected to cause or result in, or has resulted in, an impairment of the ability of the Borrower or GFP to perform any of its Obligations, as determined by the Required Lenders, acting reasonably.

"**Material Contracts**" means, with respect to a particular Restricted Party, the contracts set forth under such Restricted Party's name in Schedule 1.01(d) and all other contracts to which such Person is a party or by which it is bound or may hereafter become a party or be bound, (i) the breach or default of which would cause or result in a Material Adverse Change, and (ii) which is designated by the Administrative Agent, acting reasonably, as a Material Contract provided that the Administrative Agent has notified the Borrower of such designation, and "**Material Contract**" means any one thereof.

"**Material Licences**" means all licences, permits or approvals issued by any Governmental Authority, or any applicable stock exchange or securities commission, to any Restricted Party, and which are at any time on or after the date of this Agreement:

(i) necessary or material to the business and operations of such Restricted Party, the breach or default of which would cause or result in a Material Adverse Change, and

(ii) designated by the Administrative Agent, acting reasonably, as a Material Licence, provided that the Administrative Agent has notified the Borrower of such designation;

which as at the date hereof are as set forth on Schedule 1.01(e) hereto.

"**Maturity Date**" means the earlier of (i) September 20, 2013 and (ii) the date that all Loans and PIK Interest Amounts shall become due and payable in full hereunder, whether by acceleration or otherwise.

"**Mills**" means the two oriented strand board manufacturing facilities situated in Allendale County and Clarendon County, South Carolina, each of which will have an expected capacity of at least 800 million square feet (on a 3/8 inch basis) per annum at full operating level, to be constructed for Grant Allendale Inc. or Grant Clarendon Inc. pursuant to the Mills Construction Contracts, together with all buildings, structures and improvements, all alterations thereto or replacement thereof, all fixtures, attachments, appliances, equipment, machinery and other articles attached thereto or used in connection therewith and all Parts which may from time to time be incorporated or installed in or attached thereto, all contracts and agreements for the purchase or sale of commodities or other property related thereto, all leases of real or personal property related thereto, and all other real and tangible and intangible personal property leased or owned by Grant Allendale Inc. or Grant Clarendon Inc. and placed upon or used in connection with the manufacturing of oriented strand board.

"**Mills Budget**" means a budget in the form set forth in Schedule 1.01(k) for all anticipated Mills Costs, together with a statement of sources and uses of proceeds (and any other funds necessary to complete the construction, including starting-up and testing, of the Mills), which describes construction phases, costs and components.

"**Mills Completion**" means, with respect to the Mills, that "Substantial Completion" as defined in the Mills Construction Contracts will have occurred, that the Mills are operating at 60% (or more) of their respective rated capacity for a period of 30 days (or more) and that the output of the Mills is APA certified, all as satisfactorily confirmed by the Independent Engineer in a certificate to the Administrative Agent.

"**Mills Completion Date**" means, with respect to the Mills, the date on which the Mills Completion is effective and specified as such in a certificate of the Independent Engineer to the Administrative Agent.

"**Mills Construction Contracts**" means, collectively, the Engineering Services Contract dated as of April 28, 2005 with UMA/AECOM and the Installation Services Contract dated as of July 1, 2005 with Wabi America, Inc., in each case, with a Restricted Party, and separately, each a "**Mills Construction Contract**".

"**Mills Construction Period**" means, with respect to the Mill at Allendale County, South Carolina, the period from February 1, 2005 to and including March 31, 2007, and, with respect to the Mill at Clarendon County, South Carolina, the period from February 1, 2005 to and including December 31, 2007.

"**Mills Construction Schedule**" means the schedule for the construction and completion of the Mills as set forth in Schedule 1.01(m).

"**Mills Costs**" means (a) the cost of designing, engineering, equipping, procuring, constructing, starting up and testing the Mills; (b) the cost of acquiring any lease and any other necessary interest in the Property with respect to the Mills; (c) real and personal property taxes, *ad valorem* taxes, sales, use and excise taxes and insurance (including title insurance) premiums payable with respect to the Mills during the Mills Construction Period; (d) the costs of acquiring Material Licences for the Mills during the Mills Construction Period; (e) the cost of establishing a spare parts inventory for the Mills; and (f) other fees, costs and expenses relating to the development, construction and closing of the financing for the Mills, including financial, legal and consulting fees, costs and expenses.

"**Mills Operating Projections**" means a projection of operating results, expenses and cash flows for the Mills in the form set forth in Schedule 1.01(l).

"**Multiemployer Plan**" means a multiemployer plan as defined in Section 4001(a)(3) of ERISA.

"**Net Income**" means, with respect to any Person for any period, the net revenue of such Person for such period on a consolidated basis, less all expenses and other charges not otherwise deducted in computing such net revenue for such period, determined in accordance with GAAP, but excluding extraordinary items as determined in accordance with GAAP, earnings resulting from any reappraisal, revaluation or other write-up of assets and gains arising from the repurchase of any equity security of such Person or any Subsidiary.

"**Net Proceeds**" means, (a) with respect to any Disposition, the aggregate fair market value of proceeds of such Disposition (whether such proceeds are in the form of cash or other Property or part cash and part other Property) net of reasonable, *bona fide* direct transaction costs and expenses incurred in connection with such Disposition, including (i) reasonable legal fees and disbursements, the customary fees of agents or brokers payable in connection with such Disposition within one year of such Disposition and title and recording expenses payable in connection with such Disposition, and (ii) payment of the outstanding principal amount of, premium or penalty, if any, and interest on any Debt that is secured by a Permitted Encumbrance, if any, on any of the Property that is the subject matter of such Disposition ranking in priority to the Encumbrance of the Security and that is required to be repaid under the terms of such Debt as a result of such Disposition; or (b) with respect to insurance, the aggregate insurance proceeds in respect of Property, net of reasonable, *bona fide* direct recovery costs, provided that such amounts have not been or are not being applied to restore or rebuild the Property or acquire other Property as permitted or required by Section 9.01(8) of this Agreement; or (c) with respect to the issuance of Equity or Debt, the aggregate amount of cash received pursuant to such issuance, net of reasonable, *bona fide* direct transaction costs and expenses incurred in connection with such issuance.

"Obligations" means, without duplication, all obligations of each Restricted Party to the Administrative Agent, the Lenders, or any of them, under or in connection with this Agreement or the other Loan Documents, including all debts and liabilities, present or future, direct or indirect, absolute or contingent, matured or not, at any time owing by the Borrower to the Administrative Agent or the Lenders, or any of them, in any currency or remaining unpaid by the Borrower to the Administrative Agent or the Lenders, or any of them, under or in connection with this Agreement or the other Loan Documents whether arising from dealings between the Administrative Agent or the Lenders, or any of them, and the Borrower or from any other dealings or proceedings by which the Administrative Agent or the Lenders, or any of them, may be or become in any manner whatever a creditor of the Borrower pursuant to this Agreement or the other Loan Documents, and wherever incurred, and whether incurred by the Borrower alone or with another or others and whether as principal or surety, and all interest (including without limitation all PIK Interest Amounts), fees, legal and other costs, charges and expenses relating thereto.

"Organizational Documents" means, with respect to any Person, such Person's articles, memorandum or other charter documents, partnership agreement, joint venture agreement, declaration of trust, trust agreement, by-laws, unanimous shareholder agreement, or any and all other similar agreements, documents and instruments pursuant to which such Person is constituted, organized or governed.

"Other Taxes" means all present or future stamp or documentary taxes or any other excise or property taxes, similar charges or similar levies arising from any payment made hereunder or under any other Loan Document or from the execution, delivery or enforcement of, or otherwise with respect to, this Agreement or any other Loan Document.

"Participant" has the meaning assigned to such term in Section 14.12(4).

"Parts" means any part, appliance, instrument, appurtenance, accessory or other personal property of any nature necessary or useful to the operation, maintenance, service or repair of the Mills.

"Pension Plan" means (i) a "pension plan" or "plan" which is a "registered pension plan" as defined in the *Income Tax Act* (Canada) or is subject to the funding requirements of applicable pension benefits legislation in any Canadian jurisdiction and is applicable to employees resident in Canada of a Restricted Party, (ii) a "pension plan", as such term is defined in Section 3(2) of ERISA, which is subject to Title IV of ERISA (other than a multiemployer plan as defined in Section 4001(a)(3) of ERISA), and to which a Restricted Party may reasonably be expected to have liability, including any liability by reason of having been a substantial employer within the meaning of Section 4063 of ERISA at any time during the preceding five years, or by reason of being deemed to be a contributing sponsor under Section 4069 of ERISA, or (iii) any other pension benefit plan or similar arrangement applicable to employees of a Restricted Party.

"Permitted Capital Expenditures" means Capital Expenditures made by Restricted Parties in any fiscal year of GFP not in excess of the aggregate of:

(i) $30,000,000;

(ii) if the total amount of Capital Expenditures made by Restricted Parties after the date of this Agreement but in the then next preceding fiscal year of GFP was less than $30,000,000, an amount equivalent to such difference; and

(iii) if the total amount of Distributions made after the date of this Agreement but in such fiscal year (and all preceding fiscal years) of GFP was less than the total amount of the Distributions permitted to be made during such period pursuant to this Agreement, an amount (without duplication) equivalent to such difference; and

(iv) in addition to the foregoing, all Mills Costs.

"Permitted Debt" means:

(i) Debt under this Agreement;

(ii) Debt owing by a Restricted Party to any other Restricted Party so long as any security for such Debt is subordinated to and in favour of the Security, in a manner that is acceptable to the Administrative Agent;

(iii) Debt in respect of Purchase Money Security Interests (including by way of Capital Leases) granted by a Restricted Party provided the total principal amount thereof does not exceed $10,000,000;

(iv) Debt in respect of the Footner Buyout Financing by a Restricted Party provided the total principal amount thereof does not exceed Cdn. $50,000,000 (and including Debt pursuant to guarantees by other Restricted Parties with respect thereto);

(v) Debt under Hedge Arrangements;

(vi) Debt of the Footner Joint Venture provided the total principal amount thereof does not exceed Cdn. $5,000,000 in respect of the acquisition or development of the Property of the Footner Joint Venture;

(vii) Subordinated Debt;

(viii) Shareholder Loans;

(ix) Debt under the First Lien Credit Agreement;

(x) other Debt in a total amount not exceeding $1,000,000; and

(xi) Debt owing by any Restricted Subsidiary to the Excluded Subsidiary or by the Excluded Subsidiary to a Restricted Subsidiary in connection with the Permitted Restructuring provided that such Debt is subordinated to the Obligations, is pledged to the U.S. Collateral Agent as Security for the Obligations and is in all cases in amounts and on terms satisfactory to the Administrative Agent.

"Permitted Encumbrances" means, with respect to any Person, the following:

(i) liens for Taxes, rates, assessments or other governmental charges or levies not yet due, or for which instalments have been paid based on reasonable estimates pending final assessments, or if due, the validity of which is being contested diligently and in good faith by appropriate proceedings by that Person;

(ii) undetermined or inchoate liens, statutory liens, rights of distress and charges incidental to current operations that have not at such time been filed or exercised and of which none of the Lenders has been given notice, or that relate to obligations not due or payable, or if due, the validity of which is being contested diligently and in good faith by appropriate proceedings by that Person;

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

(iv) licences, easements, rights-of-way and rights in the nature of easements (including licences, easements, rights-of-way and rights in the nature of easements for railways, sidewalks, public ways, sewers, drains, gas, steam and water mains or electric light and power, or telephone and telegraph conduits, poles, wires and cables) that do not materially impair the use of the affected land for the purpose for which it is used by that Person;

(v) title defects, irregularities or other matters relating to title that are of a minor nature and that in the aggregate do not materially impair the use of the affected property for the purpose for which it is used by that Person;

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

(vii) the Encumbrance resulting from the deposit of cash or securities in connection with contracts, tenders or expropriation proceedings, or to secure workmen's compensation, unemployment insurance, surety or appeal bonds, costs of litigation when required by law not to exceed $2,000,000 in aggregate outstanding at any time, liens and claims incidental to current construction, mechanics', warehousemen's, carriers' and other similar liens, and public, statutory and other like obligations incurred in the ordinary course of business;

(viii) security given to a public utility or any Governmental Authority when required by such utility or authority in connection with the operations of that Person in the ordinary course of its business;

(ix) the Encumbrance created by a judgement of a court of competent jurisdiction, as long as the judgement is being contested diligently and in good faith by appropriate proceedings by that Person and does not result in an Event of Default;

(x) the Security;

(xi) any Encumbrance securing Permitted Debt (other than Subordinated Debt), provided that the Encumbrance (and all rights relating thereto) conforms to the requirements of this Agreement;

(xii) any Encumbrance described in Schedule 1.01(f);

(xiii) security interests in all the undertakings and existing and after-acquired assets of all Restricted Parties securing Debts incurred by the Borrower or GFP (or any of their Subsidiaries) for the purpose of financing all or part of the cost of acquiring the remaining 50% interest in the Footner Joint Venture and the remaining 50% of the shares of Footner Forest Products Ltd. currently owned by Ainsworth Lumber Co. Ltd. or one or more of its Subsidiaries or Affiliates; provided, however, that (a) the principal amount of the Debt secured thereby does not exceed 100% of the fair market value of the 50% interest in the Footner Joint Venture and the remaining 50% of the shares of Footner Forest Products Ltd. at the time of the incurrence of such Debt, (b) the aggregate principal amount of all Debt secured thereby will not at any time exceed Cdn. $50,000,000 and will rank *pari passu* with the Obligations, (c) the Borrower will confirm full compliance on a *pro forma* basis of all covenants hereunder in form and substance satisfactory to the Required Lenders, (d) the documentation with respect to such acquisition will be subject to the prior written approval of the Required Lenders, and (e) if such financing is made, in whole or in part, by Subordinated Debt, or other form of debt financing (whether subordinated or not), provided by lenders, the lenders in respect of such debt financing will enter into an intercreditor agreement with the Lenders, on terms and conditions satisfactory to the Required Lenders (the **"Footner Buyout Financing"**);

(xiv) an Encumbrance resulting from the deposit of cash or the issue of bonds in order to effect the discharge of construction liens, mechanics' liens or other similar liens from title to the real property on which either of the Mills is located;

(xv) security granted by Grant Allandale Inc. or Grant Clarendon Inc. to Southeast Properties Inc. as security for indebtedness owing by Grant Allandale Inc. or Grant Clarendon Inc., respectively, to Southeast Properties Inc. so long as it is subordinated to the applicable Security in a manner that is acceptable to the Administrative Agent;

(xvi) Encumbrances arising under the First Lien Loan Documents and securing the "Obligations" as defined under the First Lien Credit Agreement; and

(xvii) Encumbrances referred to in subsection (xvi) of the definition of Permitted Encumbrances under the First Lien Credit Agreement which are to be discharged.

"Permitted Investments" means: (i) the current 50% interest of GFP in the Footner Joint Venture and its shares of Footner Forest Products Ltd.; (ii) the investment contemplated by the Footner Buyout; (iii) the preferred shares of Grant Equipment Corp. acquired or to be acquired by GFP in respect of the Grant Equipment Transaction; (iv) capital contributions and loans by one Restricted Party to another Restricted Party; and (v) shares and partnership interests in a Restricted Party.

"Permitted Restructuring" means the restructuring substantially similar to the restructuring described on Schedule 9.04(2); provided that the Administrative Agent has received documents, including opinions of counsel, reasonably requested by it in connection with such restructuring, and such documents and the terms and conditions of such restructuring are reasonably satisfactory to the Administrative Agent, and such restructuring is permitted under the First Lien Credit Agreement or consented to by the lenders or their agent thereunder to the extent such consent is required by the First Lien Credit Agreement.

"Person" means any natural person, corporation, limited liability company, trust, joint venture, association, company, partnership, Governmental Authority or other entity.

"Peter Grant Family" means Peter Grant Sr. and his direct or indirect descendants.

"Peter Grant Family Trust" means Twin Lakes Trust created by a Declaration of Trust dated June 10, 1998.

"PIK Interest Amounts" has the meaning set forth in Section 4.02.

"PIK Interest Election" means the delivery by the Borrower to Administrative Agent of an Election of PIK Interest Notice.

"PIK Interest Period" means the period commencing on the commencement date specified in the Election of PIK Interest Notice and ending on the earlier of (i) the termination date specified in the Election of PIK Interest Notice (which date shall not be later than the second anniversary of the Closing Date) and (ii) the day immediately following the Interest Payment Date on which the Borrower again begins to pay interest in cash in full on the Loans and on the PIK Interest Amounts.

"Preferred Shares" means 112,000 preferred shares issued and outstanding in the capital of GFP and currently held by Grant Forest Products Corp.

"Property" means, with respect to any Person, all or any portion of that Person's undertaking and property, both real and personal, including immovable and movable property.

"Purchase Money Security Interest" means an Encumbrance created or incurred by a Restricted Party securing Debt incurred to finance the acquisition of Property (including the cost of installation thereof), provided that (i) such Encumbrance is created substantially simultaneously with the acquisition of such Property, (ii) such Encumbrance does not at any time encumber any Property other than the Property financed by such Debt, (iii) the amount of Debt secured thereby is not increased subsequent to such acquisition, (iv) the principal amount of Debt secured thereby at no time exceeds 100% of the original purchase price of such Property and the cost of installation thereof, and (v) the aggregate of all Debts secured thereby will not at any time exceed $10,000,000; and for the purposes of this definition the term "acquisition" includes a Capital Lease.

"Register" has the meaning set forth in Section 14.12(3).

"Related Parties" means, with respect to any Person, such Person's Affiliates and the directors, officers, employees, agents and advisors of such Person and of such Person's Affiliates.

"Release" means any release or discharge of any Hazardous Substance including any discharge, spray, injection, inoculation, abandonment, deposit, spillage, leakage, seepage, pouring, emission, emptying, throwing, dumping, placing, exhausting, escape, leach, migration, dispersal, dispensing or disposal.

"Relevant Jurisdiction" means, from time to time, with respect to a Person that is granting Security hereunder, any province or territory of Canada, any state of the United States or any other country or political subdivision thereof in which such Person has its chief executive office or chief place of business or has Property and, for greater certainty, includes the provinces and states set forth in Schedule 1.01(g).

"Repayment Notice" means the notice substantially in the form set forth in Schedule 1.01(h).

"Required Lenders" means (i) prior to the making of the Loans, the Lenders holding at least 51% of the aggregate amount of Commitments, and (ii) after the making of the Loans, the Lenders holding at least 51% of the sum of the outstanding Loans and the outstanding PIK Interest Amounts.

"Requirements of Law" means, with respect to any Person, the Organizational Documents of such Person and any Applicable Law or any determination of a Governmental Authority, in each case applicable to or binding upon such Person or any of its business or Property or to which such Person or any of its business or Property is subject.

"Restricted Parties" means the Borrower, GFP and the other Guarantors and their respective successors and assigns permitted by this Agreement, and "Restricted Party" means any one of them.

"Rollover" means the extension of a LIBO Rate Obligation for an additional Interest Period.

"Rollover Date" means the date of commencement of a new Interest Period applicable to a LIBO Rate Obligation that is being rolled over.

"Rollover Notice" means the notice, substantially in the form set forth in Schedule 1.01(i), to be given to the Administrative Agent by the Borrower in connection with the Rollover of a LIBO Rate Obligation.

"Security" means the documents creating an Encumbrance of any collateral held from time to time by, the Lenders or on behalf of the Lenders by the U.S. Collateral Agent or Canadian Collateral Agent, in each case securing or intended to secure payment and performance of the Obligations, including without limitation all security described in Article 10.

"Shareholders' Equity" means from time to time the consolidated equity of GFP as determined in accordance with GAAP as shown on the most recent consolidated balance sheet of GFP plus an amount equal to any and all outstanding loans (including Shareholder Loans) made to GFP by its direct or indirect shareholders provided that, by agreement or by its or their terms, payment of interest thereon and principal thereof is postponed and subordinated in right of payment to the Obligations and the Security on terms satisfactory to the Required Lenders.

"Shareholder Loans" means amounts owing in respect of any loan made to GFP by 1308406 Ontario Inc. provided that, by agreement or by its terms, payment of interest thereon and principal thereof is postponed and subordinated in right of payment to the Obligations and the Security on terms satisfactory to the Administrative Agent.

"Software" means, with respect to any Restricted Party, all software of such Restricted Party including the computer programs known by the names as set forth in Schedule 1.01(j), including all versions thereof, and all related documentation, manuals, source code and object code, program files, data files, computer related data, field and data definitions and relationships, data definition specifications, data models, program and system logic, interfaces, program modules, routines, sub-routines, algorithms, program architecture, design concepts, system designs, program structure, sequence and organization, screen displays and report layouts, and all other material related to such software.

"Software Products" means, individually or collectively, as appropriate, all Software and Documentation that have been, are or may be provided to a Restricted Party.

"Subordinated Debt" means any unsecured Debt of any Person that has been subordinated in right to payment to the Obligations on terms satisfactory to the Required Lenders and includes the current Shareholder Loans.

"Subsidiary" means, at any time, with respect to any Person, any other Person, if at such time the first mentioned Person (i) owns, directly or indirectly, securities or other ownership interests in such other Person, having ordinary voting power to elect a majority of the board of directors or persons performing similar

1.07 Conflicts

In the event of a conflict between the provisions of this Agreement and the provisions of any other Loan Document, then, unless such Loan Document or an acknowledgement from the Restricted Party and the Administrative Agent relative to such Loan Document expressly states that this Section 1.07 is not applicable to such Loan Document, notwithstanding anything else contained in such other Loan Document, the provisions of this Agreement will prevail and the provisions of such other Loan Document will be deemed to be amended to the extent necessary to eliminate such conflict.

1.08 Terms Generally

The definitions of terms herein shall apply equally to the singular and plural forms of the terms defined. Whenever the context may require, any pronoun shall include the corresponding masculine, feminine and neuter forms. The words "include", "includes" and "including" shall be deemed to be followed by the phrase "without limitation". The word "will" shall be construed to have the same meaning and effect as the word "shall". Unless the context requires otherwise (a) any definition of or reference to any agreement, instrument or other document herein (including this Agreement) shall be construed as referring to such agreement, instrument or other document as from time to time amended, supplemented, restated or otherwise modified (subject to any restrictions on such amendments, supplements, restatements or modifications set forth herein), (b) any reference herein to any Person shall be construed to include such Person's successors and permitted assigns, (c) the words "herein", "hereof" and "hereunder", and words of similar import, shall be construed to refer to this Agreement in its entirety and not to any particular provision hereof, (d) unless otherwise expressly stated, all references in this Agreement to Articles, Sections, Exhibits and Schedules shall be construed to refer to Articles and Sections of, and Exhibits and Schedules to, this Agreement, (e) any reference to any law or regulation herein shall, unless otherwise specified, refer to such law or regulation as amended, modified or supplemented from time to time and (f) the words "asset" and "property" shall be construed to have the same meaning and effect and to refer to any and all tangible and intangible assets and properties, including cash, securities, accounts and contract rights.

1.09 Schedules

The following are the Schedules attached hereto and incorporated by reference and deemed to be part hereof:

Schedule A	-	Assignment and Assumption
Schedule B	-	Lenders and Commitments
Schedule 1.01(a)	-	Compliance Certificate
Schedule 1.01(b)	-	Conversion Notice
Schedule 1.01(c)	-	[Reserved]
Schedule 1.01(d)	-	Material Contracts
Schedule 1.01(e)	-	Material Licences
Schedule 1.01(f)	-	Additional Permitted Encumbrances
Schedule 1.01(g)	-	Relevant Jurisdictions
Schedule 1.01(h)	-	Repayment Notice
Schedule 1.01(i)	-	Rollover Notice
Schedule 1.01(j)	-	Software
Schedule 1.01(k)	-	Mills Budget
Schedule 1.01(l)	-	Mills Projections of Operating Results, Expenses and Cash Flow
Schedule 1.01(m)	-	Mills Construction Schedule
Schedule 1.01(n)	-	[Reserved]

Schedule 1.01(o)	-	[Reserved]
Schedule 1.01(p)	-	Grant Equipment Transaction
Schedule 4.02	-	Election of PIK Interest Notice
Schedule 8.01(17)	-	Ownership Structure
Schedule 8.01(19)	-	Real Property
Schedule 8.01(21)	-	Intellectual Property Rights
Schedule 8.01(27)	-	Pension Plan Disclosure
Schedule 9.04(2)	-	Description of Permitted Restructuring
Schedule 14.14.(3)	-	Loan Pricing Corporation Information

ARTICLE 2 - THE CREDIT FACILITY

2.01 Borrower Facility

Subject to the terms and conditions of this Agreement, each Lender agrees to make a term loan in U.S. Dollars to the Borrower on the Closing Date in the applicable principal amount set forth on Schedule B that will not result in such Lender's Loan exceeding such Lender's Commitment or the sum of the Loans exceeding the total Commitments. No amount of the Loans which are repaid or prepaid by the Borrower may be reborrowed hereunder. A Conversion or Rollover of a Loan shall be deemed for all purposes not to be a repayment or a reborrowing of a Loan. The Commitments shall expire upon the making of the Loans on the Closing Date. The Borrower shall have given the Administrative Agent written notice at least three Business Days (if any portion of the Loans are to be LIBO Rate Obligations) or two Business Days (for any portion of the Loans which are to be Alternate Base Rate Obligations) prior to the Closing Date, specifying the type and Interest Period, if applicable, with respect to the Loans.

2.02 [Reserved]

2.03 [Reserved]

2.04 [Reserved]

2.05 Purpose of Credit Facility

(1) Loans under the Credit Facility will only be used for working capital and general corporate requirements in the ordinary course of business of the Borrower, including to assist in financing the construction and operation of the Mills and to repay existing indebtedness under the swingline facilities of the First Lien Credit Agreement and to deposit funds to the Interest Reserve Account (as defined in the First Lien Credit Agreement).

(2) For greater certainty, the Borrower will not use the Loans under the Credit Facility, directly or indirectly, on whole or in part, to fund or otherwise finance the Footner Buyout.

2.06 [Reserved]

2.07 [Reserved]

2.08 Conversions and Rollovers under Credit Facility

(1) Subject to the provisions of this Agreement, the Borrower may convert the whole or any part of any type of Loan or PIK Interest Amount (whether an Alternate Base Rate Obligation or a LIBO Rate

functions for such other Person, and (ii) directly or indirectly, through the operation of any agreement or otherwise, the ability to elect or cause the election of a majority of the board of directors or other persons performing similar functions for such other Person or otherwise exercise control over the management and policies of such other Person, and in either case will include any other Person in like relationship to a Subsidiary of such first mentioned Person.

"Taxes" means all present or future taxes, levies, imposts, duties, deductions, withholdings, assessments, fees or other charges imposed by any Governmental Authority, including any interest, additions to tax or penalties applicable thereto.

"Total Debt" means, without duplication, with respect to any Person on a consolidated basis, the total of all amounts of obligations in respect of borrowed money, plus, without duplication, the following: (i) the total of all amounts payable in respect of the Capital Leases, (ii) the Aggregate Exposure on all Hedge Arrangements, (iii) the total of all amounts under letters of credit issued under the First Lien Credit Agreement, (iv) all amounts payable pursuant to the First Lien Credit Agreement, and (v) the total of all amounts in respect of guarantees, less the following: (i) the minimum amount of Cash and Cash Equivalents balances and all amounts in the Interest Reserve Account (as defined in the First Lien Credit Agreement) during the most recent quarter not exceeding $50 million in the aggregate, and (ii) the total potential value of all Hedge Arrangements (excluding Commodity Hedge Arrangements) of the Restricted Parties that are in-the-money calculated on a mark-to-market basis up to a maximum value of $15,000,000; and (iii) the amount of any Shareholder Loans.

"Total Debt to Capitalization Ratio" means, with respect to GFP on a consolidated basis, the ratio calculated at the end of a fiscal quarter obtained by dividing (i) the Total Debt of GFP as at such time, by (ii) the Capitalization of GFP as at such time, in each case consolidated with respect to all Restricted Parties, whether or not such consolidation complies with GAAP.

"Total Interest Expense" means, with respect to any Person for any period, without duplication, the aggregate amount of interest (other than interest payable in kind pursuant to Section 4.02) and other financing charges (other than up-front commitment fees paid in respect of this Agreement or the commitments relating thereto) expensed by such Person on account of such period with respect to Debt, including distributions in respect of the Preferred Shares outstanding on the Closing Date, any distribution on other shares of GFP and any repayment of principal or payment of interest on any Shareholder Loans, existing now or hereafter created, interest, discount financing fees, commissions, discounts, the interest or time value of money component of costs related to factoring or securitizing receivables or monetizing inventory and other fees and charges payable with respect to letters of credit, letters of guarantee and bankers' acceptance financings, standby fees, the interest component of Capital Leases and net payments (if any) pursuant to Hedge Arrangements involving interest (but excluding any amount, such as amortization of debt discount and expenses, that would qualify as Depreciation Expense and the amount reflected in Net Income for such period in respect of gains (or losses) attributable to translation of Debt from one currency to another currency) and less all interest income earned during such period, all as determined on a consolidated basis in accordance with GAAP.

"United States Dollars", **"U.S. Dollars"** and **"U.S. $"** means the lawful money of the United States of America.

"U.S. Collateral Agent" means Toronto Dominion (Texas) LLC and its successors and permitted assigns in such capacity.

"Voting Shares" means shares of any class of a corporation or company carrying a voting right under all circumstances.

"**Welfare Plan**" means a "welfare plan" as such term is defined in Section 3(1) of ERISA.

"**Withdrawal Liability**" means liability to a Multiemployer Plan as a result of a complete or partial withdrawal from such Multiemployer Plan, as such terms are defined in Part I of Subtitle E of Title IV of ERISA.

1.02 Accounting Principles

All accounting terms not defined herein will be construed, and all financial computations required under this Agreement, including calculations for the purpose of determining compliance with the financial ratios and financial covenants in this Agreement, will be made, in accordance with GAAP, consistently applied; provided, however, that if the Borrower notifies the Administrative Agent that the Borrower wishes to amend the financial ratios or financial covenants in this Agreement to eliminate the effects of any change in GAAP on the operation of such financial ratios or financial covenants (or if the Administrative Agent notifies the Borrower that the Required Lenders wish to amend the financial ratios or financial covenants in this Agreement for such purpose), then the Borrower's compliance with such financial ratios or financial covenants in this Agreement will be determined on the basis of GAAP in effect immediately before the relevant change in GAAP became effective, until other such notice is withdrawn or such financial ratios or financial covenants are amended in a manner reasonably satisfactory to the Borrower and the Required Lenders.

1.03 Interest Calculations and Payments

Unless otherwise stated, wherever in this Agreement reference is made to a rate of interest "*per annum*" or a similar expression is used, such interest will be calculated on the basis of a calendar year of 365 days or 366 days, as the case may be, and using the nominal rate method of calculation and not the effective rate method of calculation or on any other basis that gives effect to the principle of deemed reinvestment of interest. Interest will continue to accrue after maturity and default and/or judgment, if any, until payment in full thereof, and interest will accrue on overdue interest, if any.

1.04 Interest Act (Canada)

For the purposes of disclosure under the Interest Act (Canada) and for this Agreement, whenever interest to be paid hereunder is to be calculated on the basis of 360 days or any other period of time that is less than a calendar year, the yearly rate of interest to which the rate determined pursuant to such calculation is equivalent is the rate so determined multiplied by the actual number of days in the calendar year in which the same is to be ascertained and divided by 360 or such other number of days in such period, as the case may be.

1.05 Permitted Encumbrances

The inclusion of reference to Permitted Encumbrances in any Loan Document is not intended to subordinate and will not subordinate, any Encumbrance created by any of the Security to any Permitted Encumbrance.

1.06 Currency

Unless otherwise specified in this Agreement, all references to currency (without further description) are to lawful money of the United States of America.

Obligation) into the other type of Loan or PIK Interest Amount or rollover any LIBO Rate Obligation on the last day of the applicable Interest Period therefor, by giving the Administrative Agent a Conversion Notice or Rollover Notice, as the case may be. Such conversions and rollovers (including Conversions and Rollovers) are made by the Borrower to select from time to time its preferred pricing option and no such conversion or rollover (including any Conversion or Rollover) shall, despite any other provision hereof, constitute or be deemed to constitute an advance or a repayment of any Loan or PIK Interest Amount or the Credit Facility. If the Borrower fails to rollover a LIBO Rate Obligation at the end of its Interest Period, such Loan will be converted into an Alternate Base Rate Obligation.

(2) The Borrower must give the Administrative Agent a Conversion Notice or Rollover Notice, as the case may be, three Business Days (in the cases of LIBO Rate Obligations) and two Business Days (in the case of all other Loans and PIK Interest Amounts) prior to the proposed Conversion Date or Rollover Date, as the case may be. Any Conversion Date or Rollover Date must be a Business Day.

(3) Each Conversion Notice or Rollover Notice, as the case may be, must be delivered to the Administrative Agent by the Borrower on or prior to 1:00 p.m. (New York time) on a Business Day.

(4) Each Conversion or Rollover, except for Conversions and Rollovers of PIK Interest Amounts, must be in a minimum principal amount of $5,000,000 and increments of $500,000.

(5) Prior to each Interest Payment Date during the PIK Interest Period (with notice to the Administrative Agent in compliance with the provisions of Section 2.08(2) as if such event were a Conversion or a Rollover) the Borrower shall select whether the amount of interest then due (whether due with respect to the Loans or the PIK Interest Amount) shall bear interest with respect to the Alternate Base Rate or the Adjusted LIBO Rate, and, if the Adjusted LIBO Rate, the Interest Period with respect thereto.

2.09 Administrative Agent's Obligations with Respect to Loans

Upon receipt of a Conversion Notice or Rollover Notice, as the case may be, the Administrative Agent will forthwith notify the Lenders of the proposed Conversion Date or Rollover Date, as the case may be, and of each Lender's Applicable Percentage of such Loan or PIK Interest Amount, as the case may be.

2.10 [Reserved]

2.11 Irrevocability

Each Conversion Notice and Rollover Notice given by the Borrower is irrevocable and will oblige the Borrower to take the action contemplated on the date specified therein.

2.12 [Reserved]

2.13 Account of Record

The Administrative Agent will open and maintain books of account evidencing all Loans and all other amounts owing by the Borrower to the Lenders hereunder. The Administrative Agent will enter in the foregoing accounts details of all amounts from time to time owing, paid or repaid by the Borrower hereunder. The information entered in the foregoing accounts will constitute *prima facie* evidence of the obligations of the Borrower to the Lenders hereunder with respect to all Loans and all other amounts owing by the Borrower to the Lenders hereunder. After a request by the Borrower, the Administrative Agent will promptly advise the Borrower of such entries made in the Administrative Agent's books of account.

ARTICLE 3 - DISBURSEMENT CONDITIONS

3.01 Conditions Precedent to Advance

The obligation of each Lender to make its Loan on the Closing Date is subject to and conditional upon the restrictions in Section 2.01 and to the prior satisfaction of the following conditions precedent:

(a) there will not have occurred any material increase in the Mills Budget or any material change in the Mills Operating Projections or in the Mills Construction Schedule, or in the economics or feasibility of constructing and/or operating the Mills which, in the case of any of the foregoing, could reasonably be expected to cause or result in a Material Adverse Change;

(b) the Administrative Agent will have received satisfactory evidence of compliance with applicable builders and construction lien legislation in or applicable in South Carolina without any material adverse effect on the effectiveness and priority of the Security;

(c) a report from the Independent Engineer as to whether, in the professional opinion of the Independent Engineer, the Costs to Complete are not more than $570,000,000, which report is in a form and substance and reaches conclusions that are acceptable to the Administrative Agent, acting reasonably;

(d) the Administrative Agent will have received such documents and certificates as the Administrative Agent may reasonably request relating to the organization, existence and good standing of the Restricted Parties, the authorization of the transactions contemplated hereby and any other legal matters relating to the Restricted Parties, this Agreement or the transactions contemplated hereby, all in form and substance satisfactory to the Administrative Agent;

(e) releases, discharges and postponements that are required in the discretion of the Administrative Agent (in registerable form where necessary) with respect to all Encumbrances affecting the collateral Encumbered by the Security that are not Permitted Encumbrances, if any, (or deliver discharge undertakings satisfactory to the Administrative Agent with respect thereto) will have been delivered to the Administrative Agent;

(f) the Administrative Agent will have received an executed amendment in form and substance satisfactory to it of the First Lien Credit Agreement and any related documents, if applicable;

(g) the Administrative Agent will have received an intercreditor agreement in form and substance satisfactory to it, executed by the Borrower, GFP and the administrative agents under the First Lien Credit Agreement;

(h) the Administrative Agent will have received on its own behalf or on behalf of the Lenders payment of all fees payable to the Administrative Agent or the Lenders that are due and payable at such time under the Loan Documents;

(i) copies of all lien search reports requested by the Administrative Agent and duly executed copies of the Security will have been delivered to the Administrative Agent and all such

Security will have been duly registered, filed and recorded in all Relevant Jurisdictions where required by Applicable Law or where the Administrative Agent considers it necessary, in its sole discretion, to do so;

(j) the Administrative Agent will have received evidence that as of the Closing Date the amount of (i) the Borrower's Cash, plus (ii) funds undrawn under the First Lien Credit Agreement, plus (iii) the Loans, less (iv) the Costs to Complete is at least $100,000,000;

(k) the Administrative Agent will have received evidence that EBITDA of GFP on a consolidated basis for the fiscal year ended December 31, 2006 is at least $50,000,000, based on financial statements prepared by the Borrower's management in accordance with GAAP or audited financial statements, if available;

(l) the Administrative Agent and each Lender will have received five-year financial projections, reasonably satisfactory to them, taking into account the Credit Facility and the amendment to the First Lien Credit Agreement;

(m) a currently dated letter of opinion of Borrower's counsel, as to such matters and in such form as the Administrative Agent's counsel may deem appropriate, addressed to the Lenders and the Administrative Agent will have been delivered to the Administrative Agent and appropriate corporate solvency certificates concerning the Restricted Parties;

(n) currently dated letters of opinion of local counsel to the Borrower, as to such matters and in such form as the Administrative Agent's counsel deems appropriate, addressed to the Lenders and to the Administrative Agent will have been delivered to the Administrative Agent;

(o) the Administrative Agent will have received from the Borrower a currently dated officer's certificate to the effect set forth in clauses (s) and (t) of this Section 3.01;

(p) the Restricted Parties will have delivered to the Administrative Agent certificates of insurance acceptable to the Administrative Agent that insure the assets to be secured by the Security, including course of construction and liability insurance in respect of the Mills;

(q) Administrative Agent will have received an ALTA Form 1992 Lender's Policy of Title Insurance for each Property located in the United States considered to be real estate (the "Real Property") encumbered by the Security issued by Fidelity National Title Insurance Company (the "Title Company") insuring Administrative Agent in the amount at least equal to the Loans, insuring each Security to be a valid lien, prior and paramount to all Encumbrances except for Permitted Encumbrances, upon the fee interest in each Real Property subject only to the Permitted Encumbrances and to customary exceptions for completion of improvements (the "Title Insurance Policies"). The Title Insurance Policies must specifically insure against claims and questions related to claims for mechanics' or materialmen's liens, provide extended coverage and contain the following endorsements: (i) ALTA Endorsement Form 3.0 endorsement which must specifically state that the intended use of the Real Property is a "permitted use" under the governing zoning ordinance; (ii) location endorsement; (iii) usury and violations of consumer credit laws endorsement; (iv) access endorsement; (v) tax parcel endorsement; (vi) if the Real Property consists of more than one subparcel, contiguity endorsement; (vii) environmental lien endorsement; (viii) creditor's rights endorsement; (ix) revolving credit endorsement; (x) variable rate endorsement; (xi) future advance endorsement; (xii) doing business endorsement; (xiii) same as survey endorsement; (xiv) first loss endorsement; (xv) lender's comprehensive endorsement; (xvi) deletion of arbitration clause endorsement; (xvii) subdivision endorsement; and (xviii) such other endorsements as Administrative Agent may require. Additionally, the Title Insurance Policies must insure that the Title Insurance Company is prepared to issue its ALTA Zoning Endorsement Form 3.1 (including compliance with parking requirements) and its unconditional Comprehensive Endorsement ALTA Form 9, or its customary form of like "conformity" endorsement upon completion of the construction of the Real Property;

(r) Title Company will have received all affidavits, indemnities, organizational documents and authority documents as it may reasonably request in order to issue the Title Insurance Policies;

(s) the representations and warranties of the Borrower set forth in this Agreement are true and correct as of the Closing Date;

(t) no Event of Default or Default will have occurred and be continuing on the Closing Date, or would result from making the Loans; and

(u) all other terms and conditions of this Agreement upon which the Borrower may obtain a Loan that have not been waived will have been fulfilled;

provided, however, that all documents delivered pursuant to this Section 3.01 must be in full force and effect, and in form and substance satisfactory to each of the Lenders, acting reasonably.

3.02 Waiver

The conditions set forth in Section 3.01 are for the sole benefit of the Lenders and may be waived by the Lenders, in whole or in part (with or without terms or conditions), subject to Section 14.07.

ARTICLE 4 - PAYMENTS OF INTEREST

4.01 Interest

(1) The Borrower will pay interest on each Alternate Base Rate Obligation at a rate *per annum* equal to the sum of (a) the Alternate Base Rate plus (b) the Applicable Margin with respect to Alternate Base Rate Obligations; plus (c) any additional amounts due pursuant to Section 4.02 hereof. Each determination by the Administrative Agent of the Alternate Base Rate applicable from time to time will, in the absence of manifest error, be binding upon the Borrower. Such interest will be calculated and payable in cash in arrears on each Interest Payment Date for such Loan and such PIK Interest Amounts bearing interest with respect to the Alternate Base Rate and will be calculated on the principal amount of such Loans and such amount of the PIK Interest Amounts outstanding during such period and on the basis of the actual number of days elapsed divided by 360, except that the rate described in clause (i) of the definition of Alternate Base Rate will be calculated on the basis of the actual number of days elapsed divided by 365 or 366, as applicable. Changes in the Alternate Base Rate will cause an immediate adjustment of the interest rate applicable to such Loan and PIK Interest Amounts bearing interest with respect to the Alternate Base Rate without the necessity of any notice to the Borrower.

(2) The Borrower will pay interest during each Interest Period applicable thereto on each LIBO Rate Obligation at a rate *per annum* equal to the sum of (a) the Adjusted LIBO Rate plus (b) the Applicable

Margin with respect to LIBO Rate Obligations plus (c) any additional amounts due pursuant to Section 4.02 hereof. Each determination by the Administrative Agent of the Adjusted LIBO Rate with respect to an Interest Period will, in the absence of manifest error, be binding upon the Borrower. Such interest will be calculated and payable in cash in arrears on each Interest Payment Date for such Loan and for such PIK Interest Amounts bearing interest with respect to the Adjusted LIBO Rate for the period from and including the Closing Date, Conversion Date, Rollover Date or preceding Interest Payment Date, as the case may be, for such Loan or such PIK Interest Amounts bearing interest with respect to the Adjusted LIBO Rate to but excluding such Interest Payment Date and will be calculated on the principal amount of the Loan and such PIK Interest Amounts in each case bearing interest with respect to the Adjusted LIBO Rate outstanding during such period and on the basis of the actual number of days elapsed divided by 360. At no time will the number of Interest Periods with respect to outstanding LIBO Rate Obligations exceed 10.

4.02 PIK Interest

(1) Notwithstanding anything herein to the contrary, during the period from the Closing Date until the second anniversary of the Closing Date, the Borrower may make a PIK Interest Election thereby electing to have interest on Alternate Base Rate Obligations and Adjusted LIBO Rate Obligations due during the PIK Interest Period payable in kind. During the PIK Interest Period, on each Interest Payment Date the amount of interest otherwise due and payable with respect to Alternate Base Rate Obligations and Adjusted LIBO Rate Obligations on such Interest Payment Date to each Lender (such interest amount with respect to any Lender, the "PIK Interest Amount" and collectively with respect to all Lenders the "PIK Interest Amounts") will not then be paid in cash but will instead continue to accrue and itself bear interest (which interest during the PIK Interest Period will be added on the next succeeding Interest Payment Date to the then outstanding PIK Interest Amount) at the then applicable rate set out herein for Alternate Base Rate Obligations or LIBO Rate Obligations, as the Borrower shall select plus the increased interest rate amount set forth in the next sentence. If the Borrower makes a PIK Interest Election, the Applicable Margin otherwise applicable to each outstanding Loan and PIK Interest Amount will increase by 1.50% per annum until the day immediately following the Interest Payment Date on which the Borrower again begins to pay interest then due on the Loans and on the PIK Interest Amounts in full in cash whereupon the Applicable Margin will decrease by such increased rate of 1.50% per annum whether or not any PIK Interest Amounts then remain outstanding. All accrued and unpaid PIK Interest Amounts will be due and payable in cash on the Maturity Date. For purposes of clarification (a) following the PIK Interest Period, interest on all Loans and PIK Interest Amounts will be due in cash as otherwise set forth in this Agreement and (b) if the Borrower fails to pay in full the interest then due on the Loans and PIK Interest Amounts in cash on the first Interest Payment Date following the last day of the PIK Interest Period, such failure will constitute an Event of Default. Borrower may only deliver one Election of PIK Interest Notice hereunder.

(2) If the Loans would otherwise constitute "applicable high yield discount obligations" within the meaning of Section 163(i)(1) of the Code, prior to the end of the first Interest Period ending after the fifth anniversary of the date of the advance of the Loan, notwithstanding anything to the contrary in any Loan Document, the Borrower shall pay and shall be permitted to pay in cash all or a portion of the PIK Interest Amounts then outstanding and other accrued and unpaid interest in an amount sufficient to prevent such Loans from being treated as an "applicable high yield discount obligation" within the meaning of Section 163(i)(1) of the Code.

(3) The Loans were made with Original Issue Discount within the meaning of Section 1273(a)(1) of the Code. The information regarding the issue price of the Loans, the amount of the original issue discount, the issue date and the yield to maturity can be obtained from the Chief Financial Officer of GFP in accordance with Section 14.01.

4.03 **[Reserved]**

4.04 **[Reserved]**

4.05 **Default**

Upon the occurrence of, and during the continuance of, an Event of Default, to the full extent permitted by law, principal and overdue interest in respect of the Loans and PIK Interest Amounts shall, in each case, bear interest, payable on demand in cash, at a rate 2% per annum higher than the rate of interest otherwise applicable hereunder, compounded quarterly not in advance.

4.06 **[Reserved]**

4.07 **Agency Fees**

In consideration of the Administrative Agent acting as Administrative Agent under the Loan Documents, the Borrower will pay to the Administrative Agent an agency fee in an amount, and on the terms and conditions, agreed to in writing by the Administrative Agent and the Borrower. All such written arrangements, as well as the fee letter dated as of January 19, 2007 between GFP and Toronto Dominion (Texas) LLC, will constitute Loan Documents.

ARTICLE 5 – YIELD PROTECTION; TAXES

5.01 **Increased Costs**

(1) Increased Costs Generally. If any Change in Law shall:

(a) impose, modify or deem applicable any reserve, special deposit, compulsory loan, insurance charge or similar requirement (except any such reserve requirement reflected in the Adjusted LIBO Rate) against assets of, deposits with or for the account of, or credit extended by, any Lender;

(b) subject any Lender to any Tax of any kind whatsoever with respect to this Agreement or any Loan made by it or any PIK Interest Amount of such Lender, or change the basis of taxation of payments to such Lender in respect thereof, except for Indemnified Taxes or Other Taxes covered by Section 5.02 and the imposition, or any change in the rate, of any Excluded Tax payable by such Lender; or

(c) impose on any Lender or any applicable interbank market any other condition, cost or expense affecting this Agreement or Loans made by such Lender or such Lender's PIK Interest Amount;

and the result of any of the foregoing shall be to increase the cost to such Lender of making or maintaining any Loan or PIK Interest Amount (or of maintaining its obligation to make any such Loan), or to reduce the amount of any sum received or receivable by such Lender hereunder (whether of principal, interest or any other amount), then upon request of such Lender the Borrower will pay to such Lender such additional amount or amounts as will compensate such Lender for such additional costs incurred or reduction suffered.

(2) Capital Requirements. If any Lender determines that any Change in Law affecting such Lender or any lending office of such Lender or such Lender's holding company, if any, regarding capital requirements has or would have the effect of reducing the rate of return on such Lender's capital or on the

capital of such Lender's holding company, if any, as a consequence of this Agreement, the Commitments of such Lender or the Loans made by such Lender or the PIK Interest Amount of such Lender to a level below that which such Lender or its holding company could have achieved but for such Change in Law (taking into consideration such Lender's policies and the policies of its holding company with respect to capital adequacy), then from time to time the Borrower will pay to such Lender such additional amount or amounts as will compensate such Lender or its holding company for any such reduction suffered.

(3) Certificates for Reimbursement. A certificate of a Lender describing the Change in Law and setting forth the amount or amounts necessary to compensate such Lender or its holding company, as the case may be, as specified in paragraph (1) or (2) of this Section, including reasonable detail of the basis of calculation of the amount or amounts, and delivered to the Borrower shall be *prima facie* evidence thereof absent manifest error. The Borrower shall pay such Lender the amount shown as due on any such certificate within 10 days after receipt thereof.

(4) Delay in Requests. Failure or delay on the part of any Lender to demand compensation pursuant to this Section shall not constitute a waiver of such Lender's right to demand such compensation, except that the Borrower shall not be required to compensate a Lender pursuant to this Section for any increased costs incurred or reductions suffered more than nine months prior to the date that such Lender notifies the Borrower of the Change in Law giving rise to such increased costs or reductions and of such Lender's intention to claim compensation therefore, unless the Change in Law giving rise to such increased costs or reductions is retroactive, in which case the nine-month period referred to above shall be extended to include the period of retroactive effect thereof.

5.02 Taxes.

(1) Payments Subject to Taxes. If any Restricted Party, the Administrative Agent, or any Lender is required by Applicable Law to deduct or pay any Indemnified Taxes (including any Other Taxes) in respect of any payment by or on account of any obligation of a Restricted Party hereunder or under any other Loan Document, then (i) the sum payable shall be increased by that Restricted Party as necessary so that after making or allowing for all required deductions and payments of such Indemnified Taxes or Other Taxes (including deductions and payments applicable to additional sums payable under this Section) the Administrative Agent or Lender, as the case may be, receives an amount equal to the sum it would have received had no such deductions or payments been required, (ii) the Restricted Party shall make any such deductions required to be made by it under Applicable Law and (iii) the Restricted Party shall timely pay the full amount so required to be deducted to the relevant Governmental Authority in accordance with Applicable Law.

(2) Payment of Other Taxes by the Borrower. Without limiting the provisions of paragraph (a) above, the Borrower shall timely pay any Other Taxes to the relevant Governmental Authority in accordance with Applicable Law.

(3) Indemnification by the Borrower. The Borrower shall indemnify the Administrative Agent, the U.S. Collateral Agent, the Canadian Collateral Agent and each Lender, within 10 days after demand therefor, for the full amount of any Indemnified Taxes or Other Taxes (including Indemnified Taxes or Other Taxes imposed or asserted on or attributable to amounts payable under this Section) paid by the Administrative Agent, the U.S. Collateral Agent, the Canadian Collateral Agent or such Lender in respect of any payment by or on account of any obligation of a Restricted Party hereunder or under any Loan Document, or as a result of its Commitment(s), any Loans made by it or otherwise in connection with its participation in any Loan Document, and any penalties, interest and reasonable expenses arising therefrom or with respect thereto, whether or not such Indemnified Taxes or Other Taxes were correctly or legally imposed or asserted by the relevant Governmental Authority except to the extent such Indemnified Taxes or Other Taxes arise

from any gross negligence or wilful misconduct on the part of such Administrative Agent or such Lender. A certificate as to the amount of such payment or liability together with a description (in reasonable detail) of the reasons for such payment or liability delivered to the Borrower by a Lender (with a copy to the Administrative Agent), or by the Administrative Agent on its own behalf or on behalf of a Lender, shall be *prima facie* evidence thereof absent manifest error.

(4) Evidence of Payments. As soon as practicable after any payment of Indemnified Taxes or Other Taxes by a Restricted Party to a Governmental Authority, such Restricted Party shall deliver to the Administrative Agent the original or a certified copy of a receipt issued by such Governmental Authority evidencing such payment, a copy of the return reporting such payment or other evidence of such payment reasonably satisfactory to the Administrative Agent.

(5) Treatment of Certain Refunds and Tax Reductions. If the Administrative Agent or a Lender determines that it has received a refund of any Taxes or Other Taxes as to which it has been indemnified by the Borrower or with respect to which a Restricted Party has paid additional amounts pursuant to this Section, it shall pay to the Borrower or Restricted Party, as applicable, an amount equal to such refund or reduction (but only to the extent of indemnity payments made, or additional amounts paid, by the Borrower or Restricted Party under this Section with respect to the Taxes or Other Taxes giving rise to such refund), net of all out-of-pocket expenses of the Administrative Agent or such Lender, as the case may be, and without interest (other than any net after-Tax interest paid by the relevant Governmental Authority with respect to such refund). The Borrower or Restricted Party as applicable, upon the request of the Administrative Agent or such Lender, agrees to repay the amount paid over to the Borrower or Restricted Party (plus any penalties, interest or other charges imposed by the relevant Governmental Authority) to the Administrative Agent or such Lender if the Administrative Agent or such Lender is required to repay such refund or reduction to such Governmental Authority except to the extent such repayment arises as a result of any gross negligence or wilful misconduct on the part of the Administrative Agent or such Lender. This paragraph shall not be construed to require the Administrative Agent or any Lender to make available its tax returns (or any other information relating to its taxes that it deems confidential) to the Borrower or any other Person, to arrange its affairs in any particular manner or to claim any available refund.

(6) Each Lender shall, to the extent such Lender is legally entitled to do so, deliver to the Borrower and the Administrative Agent (in such number of copies as shall be required by the recipient) on or prior to the date on which such Lender becomes a Lender under this Agreement (and from time to time thereafter upon the request of the Borrower or the Administrative Agent, but only if such Lender is legally entitled to do so), whichever of the following is applicable:

(a) duly completed copies of Internal Revenue Service Form W-8BEN claiming eligibility for benefits of an income tax treaty to which the United States of America is a party,

(b) duly completed copies of Internal Revenue Service Form W-8ECI,

(c) in the case of a Lender claiming the benefits of the exemption for portfolio interest under section 881(c) of the Code, (x) a certificate to the effect that such Lender is not (A) a "bank" within the meaning of section 881(c)(3)(A) of the Code, (B) a "10 percent shareholder" of the Borrower within the meaning of section 881(c)(3)(B) of the Code, or (C) a "controlled foreign corporation" described in section 881(c)(3)(C) of the Code and (y) duly completed copies of Internal Revenue Service Form W-8BEN,

(d) duly completed copies of Internal Revenue Service Form W-9 orW-8IMY (together with other documentation prescribed by applicable law), or

(e) any other form or statement requested by the Borrower in writing and prescribed by applicable law as a basis for claiming exemption from or reduction of any withholding tax duly completed together with such supplementary documentation as may be prescribed by applicable law to permit the Borrower, other Restricted Party or the Administrative Agent to determine the withholding or deduction required to be made provided that the Lender determines that providing such form, statement or documentation will not disadvantage or prejudice such Lender in any manner.

5.03 Mitigation Obligations: Replacement of Lenders.

(1) Designation of a Different Lending Office. If any Lender requests compensation under Section 5.01, or requires the Borrower to pay any additional amount to any Lender or any Governmental Authority for the account of any Lender pursuant to Section 5.02 , then such Lender shall use reasonable efforts to designate a different lending office for funding or booking its Loans hereunder or to assign its rights and obligations hereunder to another of its offices, branches or affiliates, if, in the judgment of such Lender, such designation or assignment (i) would eliminate or reduce amounts payable pursuant to Section 5.01 or 5.02 . as the case may be, in the future and (ii) would not subject such Lender to any unreimbursed cost or expense and would not otherwise be disadvantageous to such Lender. The Borrower hereby agrees to pay all reasonable costs and expenses incurred by any Lender in connection with any such designation or assignment.

(2) Replacement of Lenders. If any Lender requests compensation under Section 5.01, if the Borrower is required to pay any additional amount to any Lender or any Governmental Authority for the account of any Lender pursuant to Section 5.02, if any Lender's obligations are suspended pursuant to Section 5.04 or if any Lender defaults in its obligation to fund Loans hereunder, then the Borrower may, at its sole expense and effort, upon 10 days' notice to such Lender and the Administrative Agent, require such Lender to assign and delegate, without recourse (in accordance with and subject to the restrictions contained in, and consents required by, Section 14.12), all of its interests, rights and obligations under this Agreement and the related Loan Documents to an assignee that shall assume such obligations (which assignee may be another Lender, if a Lender accepts such assignment), provided that:

(a) the Borrower pays the Administrative Agent the assignment fee specified in Section 12.05(7);

(b) the assigning Lender receives payment of an amount equal to the outstanding principal of its Loans, accrued interest thereon (including without limitation such Lender's PIK Interest Amount), accrued fees and all other amounts payable to it hereunder and under the other Loan Documents (including any breakage costs and amounts required to be paid under this Agreement as a result of prepayment to a Lender) from the assignee (to the extent of such outstanding principal and accrued interest and fees) or the Borrower (in the case of all other amounts);

(c) in the case of any such assignment resulting from a claim for compensation under Section 5.01 or payments required to be made pursuant to Section 5.02, such assignment will result in a reduction in such compensation or payments thereafter; and

(d) such assignment does not conflict with Applicable Law.

A Lender shall not be required to make any such assignment or delegation if, prior thereto, as a result of a waiver by such Lender or otherwise, the circumstances entitling the Borrower to require such assignment and delegation cease to apply.

5.04 **Illegality.**

If any Lender determines that any Applicable Law has made it unlawful, or that any Governmental Authority has asserted that it is unlawful, for any Lender or its applicable Lending Office to make or maintain any Loan or PIK Interest Amount (or to maintain its obligation to make any Loan), or to determine or charge interest rates based upon any particular rate, then, on notice thereof by such Lender to the Borrower through the Administrative Agent, any obligation of such Lender with respect to the activity that is unlawful shall be suspended until such Lender notifies the Administrative Agent and the Borrower that the circumstances giving rise to such determination no longer exist. Upon receipt of such notice, the Borrower shall, upon demand from such Lender (with a copy to the Administrative Agent), prepay or, if conversion would avoid the activity that is unlawful, convert any Loans and PIK Interest Amounts in order to avoid the activity that is unlawful. Upon any such prepayment or conversion, the Borrower shall also pay accrued interest (provided that if such prepayment or conversion occurs during the PIK Interest Period, such accrued interest shall not be payable but shall be added to the PIK Interest Amounts) on the amount so prepaid or converted. Each Lender agrees to designate a different lending office if such designation will avoid the need for such notice and will not, in the good faith judgment of such Lender, otherwise be materially disadvantageous to such Lender.

5.05 **Inability to Determine Rates Etc.**

If the Required Lenders determine that for any reason adequate and reasonable means do not exist for determining the Adjusted LIBO Rate for any requested Interest Period with respect to a proposed LIBO Rate Obligation, or that the Adjusted LIBO Rate for any requested Interest Period with respect to a proposed LIBO Rate Obligation does not adequately and fairly reflect the cost to such Lenders of funding such Loan or PIK Interest Amount (if such PIK Interest Amount were a Loan), the Administrative Agent will promptly so notify the Borrower and each Lender. Thereafter, the obligation of the Lenders to make or maintain LIBO Rate Obligations shall be suspended until the Administrative Agent (upon the instruction of the Required Lenders) revokes such notice. Upon receipt of such notice, the Borrower may revoke any pending request for a borrowing, conversion or continuation of LIBO Rate Obligations or, failing that, will be deemed to have converted such request into a request for a borrowing of Alternate Base Rate Obligations in the amount specified therein.

ARTICLE 6 - REPAYMENT

6.01 **Mandatory Repayment**

The Borrower will repay in full the outstanding principal amount of all Loans and other Obligations under the Credit Facility on or before the Maturity Date.

6.02 **Voluntary Prepayment**

Subject to Section 6.04, the Borrower shall be entitled, from time to time, to prepay all or part of its Obligations hereunder. The Borrower will notify the Administrative Agent in writing of any such voluntary prepayment at least three Business Days prior to the date of such prepayment. Each such notice will specify the date of such prepayment and the amount of such prepayment. The Administrative Agent will promptly notify each Lender of the contents of the Borrower's prepayment notice and of such Lender's *pro rata* share of the prepayment. Each voluntary prepayment shall be in a minimum amount of $500,000 and shall be accompanied by a premium on the amount so prepaid of 2% if the prepayment is made before the first anniversary of the Closing Date and 1% if the prepayment is made after the first anniversary but before the second anniversary of the Closing Date. Notwithstanding the foregoing, no voluntary prepayment shall be permitted unless such prepayment is permitted by the terms of the First Lien Credit Agreement (or the applicable lenders thereunder consent to such prepayment) or all obligations under the First Lien Credit Agreement have been paid in full (excluding contingent indemnification obligations not yet due and payable).

6.03 **Mandatory Prepayments**

(1) (a) Except as otherwise provided in this Section 6.03, if a Restricted Party receives Net Proceeds in the form of Cash or Cash Equivalents from (i) a Disposition that gives rise to a Disposition Trigger Event, or from insurance proceeds pursuant to Section 9.01(8) hereof, or (ii) the issuance of Equity (other than Equity contributions to provide required liquidity or fund construction of the Mills and Equity issuances to a Restricted Party or as part of the Permitted Restructuring) or Debt (other than Subordinated Debt, Debt issued under the First Lien Credit Agreement and Debt issued to a Restricted Party or as part of the Permitted Restructuring), the Borrower will have an obligation under this Section 6.03 to make a prepayment of the Loans and PIK Interest Amounts in an amount equal to such Net Proceeds in the form of Cash or Cash Equivalent. In addition, except as provided in Section 6.03(6), within 145 days after each fiscal year end, the Borrower will prepay the Loans and PIK Interest Amounts in an amount equal to the Excess Cash Flow Prepayment for such fiscal year. All such prepayments will be applied *pro rata* to the outstanding Loans and PIK Interest Amounts. The Borrower will notify the Administrative Agent in writing of any such mandatory prepayment required to be made pursuant to this Section 6.03(1) at least five Business Days prior to the date of such prepayment. Each such notice will specify the date of such prepayment and the amount of such prepayment. The Administrative Agent will promptly notify each Lender of the contents of the Borrower's prepayment notice and of such Lender's *pro rata* share of the prepayment. Notwithstanding the foregoing and subject to paragraph (b), the Borrower will not be required to make any prepayment pursuant to this Section 6.03 on or prior to the fifth anniversary of the date of the advance of the Loans (the "**Fifth Anniversary**") to the extent that the amount thereof, when aggregated with all prior mandatory prepayments pursuant to this Section 6.03 and all other prior mandatory repayments and prepayments of PIK Interest Amounts and principal of the Loans, would exceed 25% of the principal amount of the Credit Facility advanced; provided that the excess amount which relates exclusively to the insurance proceeds referred to in paragraph (b) of the definition of Net Proceeds which would have been applied to prepayment of the Loans and PIK Interest Amounts but for this sentence of Section 6.03(1) will be deposited by the Borrower into a designated cash collateral account maintained with the U.S. Collateral Agent until so applied on the Business Day immediately following the Fifth Anniversary and all other amounts which would have been applied to prepayment of the Loans and PIK Interest Amounts but for this sentence of Section 6.03(1) will, subject to Section 6.03(1)(b), be paid on the Business Day immediately following the Fifth Anniversary without being required to be deposited in a cash collateral account.

(b) A Disposition Trigger Event will constitute an event requiring the Borrower to, within five Business Days following such event, make an offer to the Lenders, by notice to the Administrative Agent, to prepay the Loans and PIK Interest Amounts in the amount of such prepayment, and such amount will be applied in the manner specified in Section 6.03(2). Any failure of the Borrower to make such offer or to effect such prepayment following acceptance of such offer will constitute an Event of Default under this Agreement. If any Lender declines such offer, the Borrower shall be entitled to retain the applicable amount.

(2) The Borrower will pay to the Administrative Agent all accrued fees and other amounts, and accrued and unpaid interest in respect of the Loans (except for the PIK Interest Amounts other than as required by Section 6.03(1)(a)) to, but excluding, the effective date of any repayment or prepayment on the date of such repayment or prepayment.

(3) Section 6.03(1) will not apply upon the occurrence of and during the continuance of an Event of Default in which case all such Net Proceeds will forthwith be applied to pay down the Loans and PIK Interest Amounts, subject to Sections 6.03(5) and (6).

(4) The Lenders hereby consent to any payment that will be necessary for a Restricted Party to make to the Borrower in order for the repayments under this Section 6.03 to be made.

(5) Notwithstanding anything herein to the contrary except Section 6.03(6) and except with respect to Excess Cash Flow Prepayments, no prepayment or deposit pursuant to this Section 6.03 will be required or permitted unless the prepayment or deposit under the First Lien Credit Agreement has been waived by the lenders thereunder (or, in the case of prepayments pursuant to Section 6.03(1)(a)(ii), the lenders thereunder have not elected to require such a prepayment) in accordance with the terms thereof or all obligations under the First Lien Credit Agreement have been paid in full (excluding contingent indemnification obligations not yet due and payable).

(6) In the event that any Excess Cash Flow Prepayment is due hereunder, the Borrower shall make the "Excess Cash Flow Prepayment" (as defined in the First Lien Credit Agreement) due to the lenders under the First Lien Credit Agreement (unless such payment is waived by the lenders under the First Lien Credit Agreement) and the amount of Excess Cash Flow Prepayment then due hereunder shall be reduced by the amount of such "Excess Cash Flow Prepayment" actually paid to or deposited with the lenders under the First Lien Credit agreement at such time and by the amount, if any, of such "Excess Cash Flow Prepayment" required to be paid to the lenders under the First Lien Credit Agreement pursuant to the last sentence of Section 2.16 of the First Lien Credit Agreement on the business day following the "Fifth Anniversary" as defined in the First Lien Credit Agreement.

For purpose of this Section 6.03, any payment required to be made under Section 4.02(2) shall be governed by and made in accordance with Section 4.02(2) instead of this Section 6.03 and shall, to the extent paid in accordance with such Section, reduce (without duplication) any prepayment due under this Section 6.03.

6.04 <u>Breakage Costs</u>

If the Borrower prepays any LIBO Rate Obligation by reason of any voluntary or mandatory prepayment or an assignment pursuant to Section 5.03(2) or makes a Conversion or Rollover of any LIBO Rate Obligation, in each case prior to the end of the applicable Interest Period, or fails to Convert or Rollover any LIBO Rate Obligation the date specified in the related notice, the Borrower will compensate the Lenders for any loss or expense that the Lenders incur as a result thereof, including any breakage costs.

<u>ARTICLE 7 - PLACE AND APPLICATION OF PAYMENTS</u>

7.01 <u>Place of Payment of Principal, Interest and Fees</u>

All payments of principal, interest, fees and other amounts to be made by the Borrower to the Administrative Agent and the Lenders pursuant to this Agreement will be made in U.S. Dollars for value on the day such amount is due or, if such day is not a Business Day, on the Business Day next following with interest, by deposit or transfer thereof to the account of the Administrative Agent maintained at the Administrative Agent's office or at such other place as the Borrower and the Administrative Agent may from time to time agree.

7.02 <u>Netting of Payments</u>

If, on any date, amounts would be due and payable under this Agreement in the same currency by a Restricted Party to any Lender, and by such Lender to a Restricted Party, then, on such date, upon the agreement of the applicable Restricted Party and the applicable Administrative Agent or such Lender that netting is to apply to such payments, the obligations of each such party to make payment of any such amount will be automatically satisfied and discharged if the amounts payable are the same. If, in such circumstances, the aggregate amount that would otherwise have been payable by a Restricted Party to such Lender exceeds the aggregate amount that would otherwise have been payable by such Lender to a Restricted Party or *vice versa*, such obligations will be replaced by an obligation upon whichever of the Restricted Party or such Lender would have had to pay the larger aggregate amount, to pay to the other the excess of the larger aggregate amount over the smaller aggregate amount. For greater certainty, prior to acceleration of repayment pursuant to Section 11.02, this Section 7.02 will not permit any Lender to exercise a right of set-off, combination or similar right against any amount which a Restricted Party may have on deposit with such Lender in respect of any amount to which netting is to apply pursuant to this Section 7.02, but will apply only to determine the net amount to be payable by the Lenders to a Restricted Party, or by a Restricted Party to the Lenders.

ARTICLE 8- REPRESENTATIONS AND WARRANTIES

8.01 Representations and Warranties

Each of the Borrower and GFP represents and warrants to the Administrative Agent and to each of the Lenders as follows, and acknowledges and confirms that the Administrative Agent and each of the Lenders is relying upon such representations and warranties:

(1) Existence and Qualification. Each of the Restricted Parties (a) that is a corporation or company has been duly incorporated, amalgamated or continued, as the case may be, and is validly subsisting as a corporation or company under the laws of its jurisdiction of incorporation, amalgamation, or continuance, as the case may, (b) that is not a corporation or company has been duly created or established as a partnership or other entity and validly exists under the laws of the jurisdiction in which it has been created or established, and (c) is duly qualified, licensed and registered to carry on its business in all jurisdictions where it conducts business and has all Material Licences, all of which are in good standing.

(2) Power and Authority. Each of the Restricted Parties has the power, authority and right (a) to enter into and deliver, and to exercise its rights and perform its obligations under, the Loan Documents to which it is a party and all other instruments and agreements delivered by it pursuant to any of the Loan Documents, and the Material Contracts to which such Restricted Party is a party, and (b) to own its Property and carry on its business as currently conducted and as currently proposed to be conducted by it.

(3) Duly Licensed. Each of the Restricted Parties is duly licensed, registered or qualified in all jurisdictions where the character of its assets and Property owned or leased or the nature of the activities conducted by it make such licensing, registration or qualification necessary or desirable under Applicable Law, except where failure to do so would not, individually or in the aggregate, constitute, or be reasonably likely to cause or result in, a Material Adverse Change. Each of the Restricted Parties holds all licences, permits, orders, approvals, notices, registrations and all other prerequisites for conducting its business under Applicable Law, except where failure to do so would not, individually or in the aggregate, constitute, or be reasonably likely to cause or result in, a Material Adverse Change.

(4) Execution, Delivery, Performance and Enforceability of Documents. The execution, delivery and performance of each of the Loan Documents and the Material Contracts to which a Restricted Party is a party, and every other instrument or agreement delivered by it pursuant to any Loan Document or the Material Contracts, has been duly authorized by all actions, if any, required on its part and by its shareholders and directors (or where applicable partners, members or managers), and each of such documents has been duly executed and delivered.

(5) Loan Documents and Material Contracts Comply with Applicable Laws, Organizational Documents and Contractual Obligations. Provided that the Restricted Parties obtain the necessary consents to the assignment of certain Material Contracts, by way of security to the Administrative Agent, neither the entering into nor the delivery of, and neither the consummation of the transactions contemplated in nor performance of nor compliance with the terms, conditions and provisions of, the Loan Documents and the Material Contracts by any Restricted Party conflicts with or will conflict with, or results or will result in any breach of, or constitutes a default under or contravention of, any Requirements of Law applicable to it or any of its Organizational Documents or any other agreement, guarantee, indenture or instrument to which it is a party or by which it is bound (except, in each case, where such conflict, breach, default, or contravention would not, individually or in the aggregate, constitute, or be reasonably likely to cause or result in, a Material Adverse Change), or results or will result in the creation or imposition of any Encumbrance upon any of its Property and no approval is required from any Governmental Authority in connection with the execution and performance by the Restricted Parties of any of the Loan Documents and each of the Loan Documents constitutes the legal, valid, binding and enforceable obligation of the Restricted Party to each such Loan Document subject to the customary legal qualifications to same.

(6) Taxes. Each of the Restricted Parties has filed or caused to be filed all federal, provincial, state and local returns, filings, elections and reports which to its knowledge are required to be filed by it in respect of all Taxes and has paid or caused to be paid all Taxes, including interest and penalties, as may be required by law and in accordance with any assessment or demand for payment received by it to the extent that Taxes have become due, except as may be diligently contested in good faith and by appropriate proceedings or as to which a *bona fide* dispute may exist and for which adequate reserves are being maintained. Each of the Restricted Parties has withheld and remitted all amounts required to be held by it, (including without limitation income tax, Canada Pension Plan and employment insurance) from all payments made to its officers and employees, to all non-residents and to all other Persons with respect to whom it is required to withhold any amounts and has paid these amounts, together with any interest and penalties due, to the appropriate authority on a timely basis and in the form required by the appropriate legislation, except as may be diligently contested in good faith and by appropriate proceedings or as to which a *bona fide* dispute may exist and for which adequate reserves are being maintained.

(7) Judgments, etc. None of the Restricted Parties is subject to any judgment, order, writ, injunction, decree or award (other than customary or ordinary course restrictions, rules and regulations consistent or similar with those imposed on other Persons engaged in similar businesses) that has not been stayed or of which enforcement has not been suspended and that, individually or in the aggregate, constitutes, or is reasonably likely to cause or result in, a Material Adverse Change.

(8) Absence of Litigation. There are no actions, suits or proceedings pending or, to the best of the Borrower's and GFP's knowledge and belief, after due inquiry and all reasonable investigation, threatened against or affecting any Restricted Party that are reasonably likely to cause or result in, either separately or in the aggregate, a Material Adverse Change. None of the Restricted Parties is in default with respect to any Applicable Law in any manner or to any extent that could reasonably be expected to cause or result in, a Material Adverse Change.

(9) No Event of Default or Pending Event of Default. No Event of Default or Default has occurred and is continuing.

(10) Title to Assets. Each of the Restricted Parties has good title to its Property, free and clear of all Encumbrances except Permitted Encumbrances and no Person has any agreement or right to acquire an interest in such Property other than in the ordinary course of the business of the applicable Restricted Party.

(11) No Liabilities. Each of the Restricted Parties has as at December 31, 2005 no liabilities (contingent or other) or other obligations of the type required to be disclosed in accordance with GAAP which are not fully disclosed on its financial statements provided to the Lenders for its fiscal year ended December 31, 2005, other than Permitted Debt and liabilities and obligations incurred in the ordinary course of its business.

(12) Non-Default Under Permitted Encumbrances. Each of the Restricted Parties is not in default under any of the Permitted Encumbrances relating to it, except to the extent that such defaults would not, in the aggregate, effect a Material Adverse Change.

(13) Use of Real Property. All real property owned or leased by each of the Restricted Parties may be used in all material respects by it pursuant to Applicable Law for the present use and operation of the material elements of the business conducted, or intended to be conducted, including the Mills, on such real property by it except where non compliance with any such Applicable Law could not constitute, or be reasonably be expected, individually or in the aggregate, to constitute, to cause or result in, a Material Adverse Change.

(14) Labour Relations. None of the Restricted Parties is engaged in any unfair labour practice that could reasonably be expected to cause or result in a Material Adverse Change. There is no unfair labour practice complaint pending against any of the Restricted Parties, or threatened against any of them, before any Governmental Authority that if adversely determined could reasonably be expected to cause or result in a Material Adverse Change. No grievance or arbitration arising out of or under any collective bargaining agreement is pending against any of the Restricted Parties or threatened against any of them that, if adversely determined, could reasonably be expected to cause or result in a Material Adverse Change. Except for the strike/lockout in existence on the Closing Date at GFP's Timmins plant which commenced on September 9, 2006, no strike, labour dispute, slowdown or stoppage is pending against any of the Restricted Parties or threatened against any of them and no union representation proceeding is pending with respect to any employees of the Restricted Parties, except (with respect to any matter specified in this sentence, either individually or in the aggregate) such as could not reasonably be expected to cause or result in, a Material Adverse Change.

(15) Compliance with Laws. None of the Restricted Parties (i) is in default under any Applicable Law where such default could reasonably be expected to cause or result in a Material Adverse Change or affect its ability to perform any of its material obligations under any Material Contract to which it is a party or (ii) without limiting clause (i) above, is or shall be (x) listed on the Specially Designated Nationals and Blocked Person List maintained by the Office of Foreign Assets Control ("OFAC"), Department of the Treasury, and/or any other similar lists maintained by OFAC pursuant to any authorizing statute, Executive Order or regulation or (y) a person designated under Section 1(b), (c) or (d) of Executive Order No. 13224 (September 23, 2001), any related enabling legislation or any other similar Executive Orders.

(16) No Default.

(a) No Event of Default has occurred and is continuing.

(b) None of the Restricted Parties is in default under any agreement, guarantee, indenture or instrument to which it is a party or by which it is bound, the breach of which could reasonably be expected to cause or result in a Material Adverse Change and no Default has occurred.

(17) Ownership Structure. The ownership structure of each Restricted Party and its Subsidiaries is as set forth in Schedule 8.01(17), which contains:

(a) a list of the Borrower, GFP and all other Restricted Parties, including their Subsidiaries (except any additional entities of which the Administrative Agent has received written notice from the Borrower which shall be deemed to be included in Schedule 8.01(17) for purposes of Section 8.02 hereof);

(b) a complete and accurate list of the following:

(i) each such Person's full and correct name (including any French and English forms of name) and the jurisdiction in which each such Person was formed, and

(ii) the full address (including postal code or zip code) of each Restricted Party's chief executive office and chief place of business and, if the same is different, the address at which the books and records of such Restricted Party are located, the address at which senior management of such Restricted Party are located and conduct their deliberations and make their decisions with respect to the business of such Restricted Party and the address from which the invoices and accounts of such Restricted Party are issued.

(18) Relevant Jurisdictions. The Relevant Jurisdictions for each Restricted Party and its Subsidiaries are set forth on Schedule 1.01(g).

(19) Real Property. Attached hereto as Schedule 8.01(19) is a true and correct list of all material real Property owned or leased by the Borrower and GFP (excluding Bush Lots).

(20) Computer Software. Each of the Restricted Parties owns or has licensed for use all of the material Software necessary to conduct its businesses. All Computer Equipment owned or used by each of the Restricted Parties has been properly maintained and is in good working order for the purposes of on-going operation, subject to ordinary wear and tear for Computer Equipment of comparable age.

(21) Intellectual Property Rights. Each of the Restricted Parties has rights sufficient for it to use all the Intellectual Property reasonably necessary for the conduct of its businesses. To the Borrower's and GFP's knowledge, none of the Restricted Parties is infringing or is alleged to be infringing the Intellectual Property rights of any other Person in a manner that could reasonably be expected to cause, or if any allegation is determined adversely, that could reasonably be expected to cause or result in, a Material Adverse Change other than as disclosed in Schedule 8.01(21).

(22) Material Contracts and Material Licences. No event has occurred and is continuing that would constitute a breach of or a default under any Material Contract or Material Licence, the result of which would effect a Material Adverse Change, and each Material Contract to which a Restricted Party is a party is binding upon it and, to the Borrower's and GFP's knowledge, is a binding agreement of each other Person who is a party thereto.

(23) Financial Statements. All of the quarterly and annual financial statements that have been furnished to the Lenders in connection with this Agreement are complete in all material respects and such financial statements fairly present the financial position of the Borrower, GFP or other Restricted Parties, as the case maybe, as of the dates referred to therein and have been prepared in accordance with GAAP. None of the Restricted Parties has any liabilities (contingent or other) or other obligations of the type required to be disclosed in accordance with GAAP that are not fully disclosed on the consolidated financial statements of GFP provided to the Lenders for the fiscal period ended December 31, 2006, other than liabilities and obligations eliminated by such consolidation or incurred in the ordinary course of business, and the Obligations.