EXECUTION VERSION

BANK OF MONTREAL

as the Lender

and

HARDWOODS SPECIALTY PRODUCTS LP

as the Borrower

CREDIT AGREEMENT

August 7, 2009

STIKEMAN ELLIOTT LLP

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CREDIT AGREEMENT

This Agreement is entered into as of August 7, 2009 between Bank of Montreal (the "**Bank**") and Hardwoods Specialty Products LP (the "**Borrower**").

WHEREAS the Borrower has requested and the Bank has agreed to extend a revolving credit facility on the terms and conditions of this Agreement.

NOW THEREFORE, in consideration of the mutual agreements contained herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

ARTICLE 1
DEFINED TERMS AND INTERPRETATION

Section 1.1 Definitions and Interpretation

Unless the context otherwise requires, all capitalized terms used herein shall have the same meanings herein as are ascribed to such terms in Schedule 1 attached hereto. The definitions are equally applicable to both the singular and plural forms of the terms defined. The words "**hereof**", "**herein**" and "**hereunder**" and words of like import when used in this Agreement shall refer to this Agreement as a whole and not to any particular provision of this Agreement. All references to time of day herein are references to Toronto, Ontario time unless otherwise specifically provided. All dollar amounts set out herein are in Canadian Dollars unless otherwise indicated. Where the character or amount of any asset or liability or item of income or expense is required to be determined or any consolidation or other accounting computation is required to be made for the purposes of this Agreement, it shall be done in accordance with GAAP except where such principles are inconsistent with the specific provisions of this Agreement. When used in this Agreement, the terms "**account**", "**chattel paper**", "**document of title**", "**goods**", "**intangible**", "**instrument**", "**money**", "**control**" and "**delivery**" shall, unless the context otherwise requires, have the meaning ascribed thereto, as of the date of this Agreement, in the *Personal Property Security Act* (British Columbia) or the *Securities Transfer Act* (British Columbia), as applicable.

ARTICLE 2
THE CREDITS

Section 2.1 Revolving Credit

(1) Subject to the terms and conditions hereof, the Bank agrees to extend a revolving credit (the "**Revolving Credit**") to the Borrower which may be availed from time to time by the Borrower during the period from and

including the date hereof to but not including the Termination Date, at which time the commitment of the Bank to extend credit under the Revolving Credit shall expire.

(2) The Revolving Credit may be availed by the Borrower in the form of Revolving Credit Loans, Bankers' Acceptances, MasterCard Advances, Letters of Credit and Hedging Agreements, all as more fully hereinafter set forth, provided that (a) the Canadian Dollar Equivalent of the aggregate principal amount of all Extensions of Credit under the Revolving Credit shall not exceed the Revolving Credit Limit, and (b) there shall not be more than four Bankers' Acceptances and LIBOR Loans, in aggregate, outstanding at any time. During the period from and including the date hereof to but not including the Termination Date, the Borrower may use the Revolving Credit in any one or more of the following ways: (i) by borrowing, repaying and reborrowing Revolving Credit Loans and, if applicable, MasterCard Advances, in whole or in part, (ii) by having the Bank accept Bankers' Acceptances, reimbursing the Bank therefor and having the Bank issue new Bankers' Acceptances, (iii) by having the Bank issue Letters of Credit, having such Letters of Credit expire or otherwise terminate without having been drawn upon or, if drawn upon, reimbursing the Bank for each such drawing, and having the Bank issue new Letters of Credit, and/or (iv) by entering into Hedging Agreements, all in accordance with the terms and conditions of this Agreement.

(3) Notwithstanding any other provision of this Agreement to the contrary, the Bank shall have the right at any time and from time to time to establish Reserves, and to adjust the amount of any existing Reserve, against the amount of Revolving Credit which the Borrower may otherwise request hereunder, in such amounts and with respect to such matters as the Bank shall deem necessary or appropriate in its reasonable judgment, including, without limitation, (i) Reserves in respect of dilution and Reserves in respect of amounts owing by any Collateral Party to holders of Liens that may have priority over the Liens of the Bank (regardless of whether such third party Liens are Permitted Liens), (ii) Reserves in respect of any accounts payable that are more than thirty (30) days past the date on which payment thereof is due, and (iii) the Reserves set forth on Schedule 2.1. In addition, the Bank may from time to time reduce the percentages applicable to Eligible Accounts and Eligible Inventory as they relate to the Borrowing Base, to the extent determined necessary or appropriate by the Bank in its reasonable judgment.

(4) For purposes of calculating the Borrowing Base and the amount of outstanding Extensions of Credit under the Revolving Credit at any particular time, (i) the amount of all Reserves established by the Bank shall be subtracted from the Borrowing Base when calculating the Revolving Credit

Limit, (ii) the amount of any Hedging Agreement shall be the Deemed Outstanding Amount of such Hedging Agreement at such time of determination, (iii) a MasterCard Advance equal to the aggregate credit limits of all MasterCards that have been issued and are outstanding at such time shall be deemed to have been advanced at such time of determination; (iv) an amount equal to the face amount of all outstanding Bankers' Acceptances shall be included in such calculation and deemed to be Extensions of Credit thereunder, and (v) the outstanding commitment under any Letter of Credit shall be deemed to be an amount equal to the maximum amount which could be drawn thereunder under any circumstances and over any period of time plus any unreimbursed drawings then outstanding with respect thereto.

Section 2.2 Revolving Credit Loans

Subject to the terms and conditions hereof, the Revolving Credit may be availed by the Borrower in the form of loans in Canadian Dollars ("**Canadian Revolving Credit Loan**") or in U.S. Dollars ("**U.S. Revolving Credit Loan**"). A Canadian Revolving Credit Loan is designated a "**Prime Rate Loan**" and a U.S. Revolving Credit Loan is designated a "**LIBOR Loan**" or a "**Base Rate Loan**", as applicable. Each LIBOR Loan shall be a minimum principal amount of US$1,000,000 and an integral multiple of US$100,000.

Section 2.3 Letters of Credit

(1) *General Terms.* Subject to the terms and conditions hereof, the Revolving Credit may be availed by the Borrower in the form of commercial letters of credit and letters of guarantee issued by the Bank for the account of the Borrower (the "**Letters of Credit**"), provided that the maximum aggregate face amount of Letters of Credit shall not at any time exceed the L/C Commitment. If and to the extent any Letter of Credit expires or otherwise terminates without having been drawn, the availability under the Revolving Credit Commitment shall to such extent be reinstated.

(2) *Term.* Each Letter of Credit issued hereunder shall expire not later than the earlier of (i) twelve (12) months after the date of issuance or the most recent renewal thereof, as applicable, or (ii) the Termination Date.

(3) *General Characteristics.* Each Letter of Credit issued hereunder shall be payable in Canadian Dollars or U.S. Dollars, conform to the general requirements of the Bank for the issuance of commercial letters of credit as to form and substance, and be a letter of credit which the Bank may lawfully issue.

(4) *Applications.* At the time at which the Borrower requests a Letter of Credit (or prior to the first issuance of a Letter of Credit in the case of a continuing

application), the Borrower shall execute and deliver to the Bank an application for such Letter of Credit in the form then customarily prescribed by the Bank (an "**Application**"). Subject to the other provisions of this Section 2.3(4) and Section 10.11 hereof, the obligation of the Borrower to reimburse the Bank for drawings under a Letter of Credit shall be governed by the applicable Application. Notwithstanding anything in any Application to the contrary, (i) if the Bank is not reimbursed by the Borrower for the amount the Bank pays on or in respect of any draft drawn or demand made under a Letter of Credit by the close of the Bank's business hours at its main Toronto branch on the date when such amount is paid, the obligation of the Borrower to reimburse the Bank for the amount so paid shall bear interest (which the Borrower hereby promises to pay on demand) from and after the date on which such amount is paid until the Bank receives payment in full thereof at the rate per annum equal to the Prime Rate plus 2.00% (or the U.S. Base Rate plus 2.00%, in the case of U.S. Dollar amounts) from time to time in effect during such period, and (ii) the Borrower shall pay all fees owing in connection with each Letter of Credit, as set forth in Article 3 hereof.

Section 2.4 Bankers' Acceptances and Drafts

(1) The Bank agrees, subject to and on the terms and conditions of this Agreement and from time to time on any Business Day prior to the Termination Date, to purchase Bankers' Acceptances.

(2) Each Draft presented by the Borrower shall (i) be in a minimum amount of Cdn$1,000,000 and in an integral multiple of Cdn$100,000, (ii) be dated the date of the Drawing, and (iii) mature and be payable by the Borrower on a Business Day which occurs, at the election of the Borrower, approximately 30, 60, 90, 120, 150 or 180 days after the Drawing Date, but in any event, on or prior to the Termination Date.

(3) Each Drawing shall be made on notice (a **"Drawing Notice"**) given by the Borrower to the Bank in accordance with Section 2.7(1). Each Drawing Notice shall be irrevocable and binding on the Borrower and shall specify the Drawing Date, the face amount of the Draft to be accepted and purchased by the Bank, and the maturity date for such Draft.

(4) Not later than 2:00 p.m. (Toronto time) on an applicable Drawing Date, the Bank shall complete the applicable Draft in accordance with the Drawing Notice and either accept the Drafts and purchase the Bankers' Acceptances so created for the Drawing Price, or purchase the Drafts for the Drawing Price. In each case, upon fulfilment of the applicable conditions set forth in this Section 2.4 and Article 7, the Bank shall make funds available to the Borrower in accordance with Section 2.7.

(5) Bankers' Acceptances purchased by the Bank may, in the Bank's sole discretion, be held by the Bank for its own account until the contract maturity date or sold by the Bank at any time prior to the maturity date in any relevant Canadian market.

(6) To enable the Bank to create Bankers' Acceptances or complete Drafts in the manner specified in this Section 2.4, the Borrower shall, at the request of the Bank, supply the Bank with such number of Drafts as it may reasonably request, duly endorsed and executed on behalf of the Borrower. The Bank will exercise such care in the custody and safekeeping of Drafts as it would exercise in the custody and safekeeping of similar property owned by it and will, upon request by the Borrower, promptly advise the Borrower of the number and designations, if any, of uncompleted Drafts held by it for the Borrower. The signature of any officer of the Borrower on a Draft may be mechanically reproduced and Bankers' Acceptances bearing facsimile signature shall be binding upon the Borrower as if they had been manually signed. Notwithstanding that the individuals whose manual or facsimile signature appears on any Bankers' Acceptance no longer hold office at the date of signature, at the date of its acceptance by the Bank or at any time after such date, any Bankers' Acceptance so signed shall be valid and binding upon the Borrower.

(7) Upon the maturity of a Bankers' Acceptance, the Borrower may (i) elect to issue a replacement Bankers' Acceptance by giving a Drawing Notice in accordance with Section 2.7(1), (ii) elect to have all or a portion of the face amount of the Bankers' Acceptance converted to another type of Revolving Credit Loan by giving a Borrowing Notice in accordance with Section 2.7(1) , or (iii) pay, on or before 11:00 a.m. (Toronto time) on the maturity date for the Bankers' Acceptance, an amount in Canadian Dollars equal to the face amount of such Bankers' Acceptance (notwithstanding that the Bank may not be the holder of such Bankers' Acceptance at maturity). Any such payment shall satisfy the Borrower's obligations under such Bankers' Acceptance and the Bank shall then be solely responsible for the payment thereof.

(8) If the Borrower fails to pay any Bankers' Acceptance when due or to issue a replacement Bankers' Acceptance in an amount equal to the face amount of such Bankers' Acceptance pursuant to Section 2.7(1), the unpaid amount due and payable shall be converted to a Prime Rate Loan made by the Bank under the Revolving Credit and shall bear interest calculated and payable as provided in Section 3.1(1). This conversion shall occur as of the due date and without any necessity for the Borrower to give a Borrowing Notice.

(9) If the Bank determines that, for any reason, a market for Bankers' Acceptances does not exist at any time or the Bank cannot for other reasons,

after reasonable efforts, readily sell Bankers' Acceptances or perform its other obligations under this Agreement with respect to Bankers' Acceptances, the Bank will promptly notify the Borrower and, thereafter, the Borrower's right to request the acceptance of Drafts shall be suspended until the Bank determines, and the Bank notifies the Borrower of its determination, that the condition causing such suspension no longer exists.

Section 2.5 MasterCard Advances

Subject to the terms and conditions hereof, the Revolving Credit may be availed by the Borrower through the use of corporate MasterCards issued by the Bank to or at the request of the Borrower. The Bank shall issue such MasterCards as are requested by the Borrower upon the completion of, and in accordance with, the credit card agreements and other documents customarily required by the Bank in connection with the issuance of corporate MasterCards, and loans and advances ("**MasterCard Advances**") pursuant to such MasterCards shall be disbursed and otherwise dealt with in accordance with and subject to the provisions of such credit card agreements and other documents. The aggregate amount of all MasterCard Advances shall not at any time exceed the MasterCard Limit. For the purposes of determining, at any time, (a) the amount available to the Borrower or outstanding under the Revolving Credit, (b) the amount of any unused line fee payable by the Borrower pursuant to Section 3.4 hereof, or (c) whether any mandatory prepayment is required pursuant to Section 4.3 hereof, an amount equal to the MasterCard Limit shall be deemed to have been advanced by way of MasterCard Advances, without regard to the aggregate outstanding amount of all MasterCard Advances. For greater certainty, the Borrower agrees that an amount equal to the MasterCard Limit shall be subtracted from the Borrowing Base when determining the Revolving Credit available to the Borrower at any time.

Section 2.6 Hedging Agreements

Subject to the terms and conditions hereof, the Revolving Credit may be availed by the Borrower in the form of Hedging Agreements. The aggregate Deemed Outstanding Amount payable under all outstanding Hedging Agreements shall not exceed Cdn$500,000 (or the U.S. Dollar Equivalent thereof) at any time. The term of each Hedging Agreement shall expire on the earlier of (i) the Termination Date, and (ii) if such Hedging Agreement is a Forward Contract, a date that is not more than twelve (12) months after the date on which the Borrower entered into such Forward Contract, and if such Hedging Agreement is an Interest Rate Agreement, a date that is not more than three (3) years after the date on which the Borrower entered into such Interest Rate Agreement. The Borrower agrees to complete such Hedging Agreements and other documents as the Bank may require each time the Borrower wishes to avail itself of the Revolving Credit by way of a Hedging Agreement.

Section 2.7 Manner and Disbursement of Loans and Bankers' Acceptances

(1) The Borrower shall give written or telephonic notice to the Bank (which notice shall be irrevocable once given) by no later than 1:00 p.m. (Toronto time) not less than: (a) one Business Day prior to the date on which the Borrower requests a Prime Rate Loan or a Base Rate Loan or that the Bank effect a Conversion of a Prime Rate Loan into a Base Rate Loan, a Base Rate Loan into a Prime Rate Loan or a LIBOR Loan or a Draft into a Prime Rate Loan or a Base Rate Loan, and (b) two Business Days prior to the date on which the Borrower requests that the Bank accept a Draft or effect a Rollover of a Bankers' Acceptance or a Conversion of (i) any Prime Rate Loan or Base Rate Loan into a Draft, or (ii) a LIBOR Loan into a Draft, and (c) three Business Days prior to the date on which the Borrower requests a LIBOR Loan, or that the Bank effect a Rollover of a LIBOR Loan or a Conversion of (i) any Prime Rate Loan or Base Rate Loan into a LIBOR Loan or (ii) any Draft into a LIBOR Loan. Each notice shall specify the date (which must be a Business Day), type and the amount of such requested Loan, Draft, Rollover or Conversion and, in the case of a LIBOR Loan or Draft, the LIBOR Interest Period or maturity date, respectively. The Borrower agrees that the Bank may rely upon any written or telephonic notice given by any Person that the Bank in good faith believes is an Authorized Representative without the necessity of independent investigation.

(2) The Borrower hereby irrevocably authorizes the Bank to make Revolving Credit Loans from time to time hereunder for payment of any Obligation then due and payable (whether such Obligation is for interest then due on a Loan, reimbursement under an Application or Hedging Agreement, payment of a Bankers' Acceptance, or otherwise), and any such Revolving Credit Loan may be made without regard to the provisions of Article 7 hereof. The Borrower acknowledges and agrees, however, that the Bank shall not be under any obligation to make a Revolving Credit Loan under this Section 2.7(2), and the Bank shall incur no liability to the Borrower or any other Person for refusing to make a Revolving Credit Loan under this Section 2.7(2), except that the Bank agrees to make a Revolving Credit Loan in respect of (i) payment of a reimbursement under an Application, or (ii) payment of a Bankers' Acceptance or (iii) the involuntary conversion of a LIBOR Loan to a Base Rate Loan, in each case to the extent that the advance of any such Revolving Credit Loan would not exceed the then applicable Revolving Credit Limit and would otherwise be permitted at such time pursuant to the terms hereof.

(3) Subject to the provisions of Article 7 hereof, the proceeds of each Revolving Credit Loan made under Section 2.7(2) hereof shall be made available to the Borrower at the principal office of the Bank in Vancouver, British Columbia, in immediately available funds, by deposit to the following accounts:

Account Number 0004-1743-732 for Revolving Credit Loans made in Canadian Dollars and Account Number 0004-4622-150 for Revolving Credit Loans made in U.S. Dollars. The proceeds of each Revolving Credit Loan made under Section 2.7(2) hereof shall be disbursed by the Bank by way of direct payment of the relevant Obligation.

Section 2.8 Conversions and Elections Regarding Loans

(1) Each Revolving Credit Loan shall initially be the type of Loan specified in the applicable notice and shall bear interest at the rate applicable to that type of Loan until (i) in the case of a LIBOR Loan, the end of the applicable LIBOR Interest Period specified in the notice, (ii) in the case of a Prime Rate Loan or a Base Rate Loan, the date on which the Loan is repaid in full, or (iii) in the case of any Loan, it is converted to another type of Loan pursuant to Section 2.8(2).

(2) The Borrower may elect to convert any type of Revolving Credit Loan to another type of Revolving Credit Loan, (a) in the case of a Prime Rate Loan or a Base Rate Loan, as of any Business Day, and (b) in the case of a LIBOR Loan, as of the last day of the LIBOR Interest Period applicable to such LIBOR Loan and in a principal amount equal to its Canadian Dollar Equivalent or U.S. Dollar Equivalent, as applicable (as determined by the Bank as of the date of the applicable notice), or continue any LIBOR Loan for a further LIBOR Interest Period beginning on the last day of the then current LIBOR Interest Period in accordance with this Section 2.8(2). Each election to convert one type of Loan to another type of Loan or to continue a LIBOR Loan for a further LIBOR Interest Period shall be made on the number of days prior notice specified in Section 2.7(1) given, in each case, not later than 10:00 a.m. (Vancouver time) by the Borrower to the Bank. Each such notice (an **"Election Notice"**) shall be irrevocable and binding upon the Borrower. If the Borrower fails to deliver an Election Notice to the Bank for any LIBOR Loan as provided in this Section 2.8(2), the LIBOR Loan shall be converted (as of the last day of the applicable LIBOR Interest Period) to and be outstanding as a Base Rate Loan. The Borrower shall not select a LIBOR Interest Period which conflicts with the definition of LIBOR Interest Period or, in the opinion of the Bank, with the Termination Date.

Section 2.9 U.S. Dollar Extensions of Credit

The Borrower acknowledges that the ability of the Bank to provide Extensions of Credit in U.S. Dollars is subject to any statute, law, regulation, rule or direction by any Governmental Authority having jurisdiction to prohibit or restrict the supply of U.S. Dollars to or by the Bank, and the Borrower agrees that the Bank shall incur no liability hereunder if it does not provide any Extension of Credit in U.S. Dollars as a result of any such prohibition or restriction.

ARTICLE 3
INTEREST, FEES, CAPITAL ADEQUACY, TERM AND TERMINATION

Section 3.1 Interest Rates, Interest Payment Dates

(1) *Canadian Revolving Credit Loans / Prime Rate Loans.* The outstanding principal balance of Canadian Revolving Credit Loans, together with any accrued and unpaid interest on such loans, shall bear interest at the rate per annum determined by adding 2.00% to the Prime Rate as in effect from time to time, and the Borrower hereby promises to pay such interest at the rates and at the times set forth herein.

(2) *Bankers' Acceptances.* All amounts payable in respect of Bankers' Acceptances shall be made in accordance with Section 2.4.

(3) *U.S. Revolving Credit Loans / Base Rate Loans.* The outstanding principal balance of U.S. Revolving Credit Loans, together with any accrued and unpaid interest on such loans, shall bear interest at the rate per annum determined by adding 2.00% to the U.S. Base Rate as in effect from time to time, and the Borrower hereby promises to pay at the rates and at the times set forth herein.

(4) *LIBOR Loans.* The Borrower shall pay interest on the unpaid principal amount of each LIBOR Loan, together with any accrued and unpaid interest on such loans, at the times set forth herein, from the date on which such LIBOR Loan is advanced until the principal amount of such LIBOR Loan is repaid in full, at a rate per annum equal at all times during each LIBOR Interest Period for such LIBOR Loan to the sum of LIBOR for such LIBOR Interest Period plus 3.50%.

(5) *MasterCard Advances.* Interest and fees in connection with the MasterCard Advances shall be calculated and paid at the rates and at the times set out in the credit card agreements and other documents referred to in Section 2.5 hereof.

(6) *Default Rate.* Notwithstanding the foregoing, upon the occurrence and during the continuation of any Event of Default hereunder, the Borrower hereby promises to pay interest on the outstanding principal balance of each Revolving Credit Loan at a rate per annum that is 2.00% greater than the rate of interest specified in Section 3.1(1) or Section 3.1(3), above, as applicable.

(7) *Due Dates.* Interest on all Revolving Credit Loans shall be payable both before and after maturity, default and judgment, and shall be calculated and payable monthly in arrears on the last Business Day of each month during the term of this Agreement and on the Termination Date. Interest shall accrue on

all principal and interest amounts on the Revolving Credit Loans (whether by lapse of time, acceleration, or otherwise) and shall be due and payable on demand.

(8) *Interest Act (Canada).* For purposes of the *Interest Act* (Canada), (i) whenever any interest or fee under this Agreement is calculated using a rate based on a year of 365 days, the rate determined pursuant to such calculation, when expressed as an annual rate, is equivalent to (x) the applicable rate based on a year of 365 days, (y) multiplied by the actual number of days in the calendar year in which the period for which such interest or fee is payable (or compounded) ends, and (z) divided by 365, (ii) the principle of deemed reinvestment of interest does not apply to any interest calculation under this Agreement, and (iii) the rates of interest stipulated in this Agreement are intended to be nominal rates and not effective rates or yields.

Section 3.2 Inability to Determine Rates

If the Bank determines that, for any reason, adequate and reasonable means do not exist for determining LIBOR for any requested LIBOR Interest Period with respect to a proposed LIBOR Loan, or that LIBOR for any requested LIBOR Interest Period with respect to a proposed LIBOR Loan does not adequately and fairly reflect the cost to the Bank of funding such LIBOR Loan, the Bank will promptly notify the Borrower. Thereafter, the obligation of the Bank to make or maintain LIBOR Loans shall be suspended until the Bank revokes such notice. Upon receipt of such notice, the Borrower may revoke any pending request for a borrowing, conversion or continuation of LIBOR Loans or, failing that, will be deemed to have converted such request into a request for a borrowing of Base Rate Loans in the amount specified therein.

Section 3.3 Facility Fee

The Borrower shall pay to the Bank on or before the Closing Date, a non-refundable facility fee in the amount of Cdn$75,000.

Section 3.4 Unused Line Fee

For the period from and including the date hereof to but not including the Termination Date, the Borrower shall pay to the Bank a fee at the rate of one-half of one percent (0.50%) per annum calculated daily on the amount by which the Revolving Credit Commitment on any particular day exceeds the Canadian Dollar Equivalent of the closing balance of aggregate outstanding Extensions of Credit under the Revolving Credit on such day, and taking into account the number of days in the applicable month. Such fee shall be payable monthly in arrears on the first day of each month during the term of this Agreement and on the Termination Date.

Section 3.5 Field Examination Fees

The Borrower shall pay to the Bank charges for field examinations of the Collateral performed by the Bank or its agents or representatives in such amounts as the Bank may from time to time request. The Bank acknowledges and agrees that such charges shall be computed in the same manner as it customarily uses at the applicable time for the assessment of charges for similar collateral audits, and the Borrower acknowledges and agrees that, as of the date hereof, such charges are calculated at a rate of Cdn$1,000 per person per day, plus out-of-pocket expenses.

Section 3.6 Letter of Credit Fee

On the date of issuance, or renewal, or increase in the amount, of any Letter of Credit, and at the end of each three month period following such date, the Borrower shall pay to the Bank a fee equal to 1.5% per annum (based on the number of days in the next three month period) of the face amount of (or of the increase in the face amount of) such Letter of Credit. In addition, the Borrower shall pay to the Bank the Bank's standard drawing, negotiation, amendment, and other processing, transaction and administrative fees in effect from time to time for each Letter of Credit issued.

Section 3.7 Hedging Agreement Fees

The Borrower shall pay to the Bank any and all fees customarily charged by the Bank in connection with the issuance of Hedging Agreements.

Section 3.8 Monthly Administration Fee

The Borrower shall pay to the Bank the amount of Cdn.$1,250 on the first Business Day of each calendar month as an administration fee (provided that the monthly administration fee for the calendar month during which the initial advance is made hereunder shall be prorated based on the day on which such initial advance is made and the number of days in such calendar month) and such fee shall be paid by the Borrower so long as any Obligations remain owing to the Bank by, or the Bank has any obligation to make Extensions of Credit, to the Borrower.

Section 3.9 Computation of Interest and Fees

(1) All interest on the Loans (other than LIBOR Loans) and on the reimbursement and other obligations with respect to all Applications and Hedging Agreements and all fees due hereunder shall be calculated on the basis of a year of 365 (366 in leap years) days in respect of Canadian Dollar Obligations of the Borrower and in respect of U.S. Dollar Obligations of the Borrower, and all interest on LIBOR Loans shall be calculated on the basis of a year of 360 days, in each case for the actual number of days elapsed in the period for which such interest is payable.

(2) Any change in the interest rate applicable to the Obligations resulting from a change in the Prime Rate or the Base Rate shall be effective on the date of the relevant change in such rate. Notwithstanding anything herein to the contrary, in no event shall any interest rate or rates referred to herein (together with other amounts payable hereunder which are construed by a court of competent jurisdiction to be interest or in the nature of interest) exceed the maximum interest rate permitted by applicable law. If such maximum interest rate would be exceeded by the terms hereof, the rates of interest payable hereunder shall be reduced to the extent necessary so that such rates of interest (together with amounts which are construed by a court of competent jurisdiction to be interest or in the nature of interest) equal the maximum interest rate permitted by applicable law, and any overpayment of interest received by Bank shall be applied, upon determination of such overpayment, to pay all then outstanding interest, and thereafter to pay outstanding principal, as if the same were a prepayment of principal and treated accordingly hereunder.

Section 3.10 Change in Capital Adequacy Requirements

If the Bank shall determine that the adoption after the date hereof of any applicable law, rule or regulation regarding capital adequacy, or any change in any existing law, rule or regulation, or any change in the interpretation or administration thereof by any Governmental Authority, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by the Bank (or any of its branches) with any request or directive regarding capital adequacy (whether or not having the force of law) of any such authority, central bank or comparable agency, has or would have the effect of reducing the rate of return on the Bank's capital as a consequence of its obligations hereunder or for the credit which is the subject matter hereof to a level below that which the Bank could have achieved but for such adoption, change or compliance (taking into consideration the Bank's policies with respect to liquidity and capital adequacy) by an amount deemed by the Bank to be material, then from time to time, within fifteen (15) days after demand by the Bank, the Borrower shall pay to the Bank such additional amount or amounts reasonably determined by the Bank as will compensate the Bank for such reduction.

Section 3.11 Term and Termination of the Revolving Credit

(1) The term of the Revolving Credit shall be the period commencing on the date hereof and ending on the Termination Date.

(2) The Borrower may terminate the Revolving Credit, in whole, at any time upon (i) at least thirty (30) days' prior written notice to the Bank and (ii) the payment in full of all outstanding Obligations, including, without limitation, all accrued and unpaid interest on the Revolving Credit and all accrued and unpaid unused line fees and other fees due hereunder (including any

prepayment fee required pursuant to Section 3.11(3)) to the date of termination and (iii) the expiration or termination of all Bankers' Acceptances, Letters of Credit and Hedging Agreements and, to the extent any such Bankers' Acceptances, Letter of Credit or Hedging Agreement has not expired in accordance with its terms or otherwise been terminated to the satisfaction of the Bank, accompanied by collateral security in such form and in such amounts as shall be satisfactory to the Bank.

(3) At the effective date of any termination of the Revolving Credit by the Borrower which occurs prior to the end of the three year term, or upon the Obligations or any of them being declared or becoming due and payable pursuant to Section 9.2 or Section 9.3 (an "**Acceleration**"), the Borrower shall pay a prepayment fee to the Bank, as liquidated damages for the loss of bargain and not as a penalty, in an amount equal to 1.5% of the aggregate amount of the Revolving Credit Commitment if termination or Acceleration occurs during the first 12 month period of the term hereof, commencing on the date hereof, 1.00% of the aggregate amount of the Revolving Credit Commitment if termination or Acceleration occurs during the second 12 month period of the term hereof, and 0.5% of the aggregate amount of the Revolving Credit Commitment if termination or Acceleration occurs thereafter.

(4) Notwithstanding the forgoing, the Borrower shall not be obligated to pay any prepayment fee that would otherwise be payable hereunder if the Borrower terminates the Revolving Credit as a result of the transfer of such Revolving Credit to another division of the Bank.

ARTICLE 4
MATURITY OF OBLIGATIONS, APPLICATION OF PAYMENTS AND COLLECTIONS, PREPAYMENTS, COMPUTATION OF OBLIGATIONS OUTSTANDING, AND NOTATIONS

Section 4.1 Maturity of Revolving Credit Loans

All amounts owing under the Revolving Credit, including the outstanding principal amount of all Revolving Credit Loans, all outstanding MasterCard Advances, all accrued and unpaid interest thereon, all amounts payable under the Hedging Agreements, Bankers' Acceptances and Letters of Credit shall mature and become due and payable in full by the Borrower on the Termination Date.

Section 4.2 Place and Application of Payments and Collections

(1) All payments of principal, interest, fees and all other Obligations payable hereunder and under the other Loan Documents shall be made to the Bank at its office at the address set out on the signature page hereof (or at such other

place as the Bank may specify). All such payments shall be made in the currency in which such Obligations are denominated, in immediately available funds at the place of payment, without set off or counterclaim and without reduction for, and free from, any and all present or future Taxes, levies, imposts, duties, fees, charges, deductions, withholdings, restrictions or conditions of any nature imposed by any government or any political subdivision or taxing authority thereof (but excluding any Taxes imposed on or measured by the net income of the Bank).

(2) All payments made by the Borrower and all proceeds of Collateral shall, upon receipt by the Bank, be applied by the Bank to the Obligations then due and payable, with any balance of such proceeds not applied to the Obligations to be held by the Bank as collateral security for the Obligations. Prior to the occurrence of a Default or Event of Default, except as otherwise specifically provided for herein or directed by the Borrower, all payments made by the Borrower and all proceeds of Collateral shall be applied by the Bank against the outstanding Obligations as follows:

(a) first, to any outstanding fees, charges and expenses then due the Bank;

(b) second, to outstanding interest charges then due in respect of the Obligations;

(c) third, to the outstanding principal balance of the Revolving Credit Loans, reimbursement obligations in respect of claims under Bankers' Acceptances, Letters of Credit and satisfaction of all Obligations under the Hedging Agreements, all in such proportions as the Bank may determine; and

(d) finally, to be applied to, or held as collateral security for, any remaining unpaid or unsatisfied Obligations including MasterCard Advances.

Except as otherwise specifically provided for herein, the Borrower hereby irrevocably waives the right to direct the application of payments and collections at any time received by the Bank from or on behalf of the Borrower, and the Borrower hereby irrevocably agrees that the Bank shall have the continuing exclusive right to apply and reapply any and all such payments and collections received at any time by the Bank against the Obligations in such manner as the Bank may deem advisable.

(3) The Borrower hereby irrevocably authorizes the Bank to charge any of the deposit accounts maintained by the Borrower with the Bank for the amounts from time to time necessary to pay any then due Obligations; provided that

the Borrower acknowledges and agrees that the Bank shall be under no obligation to do so and the Bank shall incur no liability to the Borrower or any other Person for the Bank's failure to do so.

Section 4.3 Mandatory Prepayments

The Borrower covenants and agrees that if at any time the Canadian Dollar Equivalent of the aggregate principal amount of all outstanding Extensions of Credit under the Revolving Credit exceeds the Revolving Credit Limit, or any other limit set out in Article 2 hereof is exceeded at any time (whether or not as a result of any change in the exchange rate between Canadian Dollars and U.S. Dollars), the Borrower shall immediately and without notice or demand forthwith pay the amount of the excess to the Bank as and for a mandatory prepayment of the Obligations, with each such prepayment to be applied, as determined by the Bank, until payment in full thereof with any remaining balance to be held by the Bank as collateral security for the Obligations or, at the Bank's option, applied to reduce the Obligations.

Section 4.4 Optional Prepayments and Breakage Costs

Subject to Section 3.11, the Borrower may repay in full or in part any Revolving Credit Loan (other than a LIBOR Loan) at any time without premium or penalty provided that written notice of the amount and intended date of such repayment has been delivered to the Bank not less than one Business Day prior to the intended date of such repayment (if the aggregate principal amount of such repayment will be less than Cdn$1,000,000) and not less than two Business Days prior to the intended date of such repayment (if the aggregate principal amount of such repayment will be more than Cdn$1,000,000). The Borrower shall only be entitled to repay (i) a LIBOR Loan on the last day of the applicable LIBOR Interest Period, and (ii) the amount of any Drawing on the maturity date for the relevant Bankers' Acceptance. Repayments are not permitted in respect of Hedging Agreements prior to the scheduled maturity thereof. If any Hedging Agreement, LIBOR Loan or Bankers' Acceptance is repaid prior to the scheduled maturity date thereof (whether as result of Acceleration or otherwise), the Borrower agrees to pay to the Bank, upon demand, all losses, damages, costs and expenses that the Bank has incurred or may incur as a result of such repayment or Conversion prior to such scheduled maturity date.

Section 4.5 Computation of Obligations Outstanding

For the purpose of calculating the aggregate principal balance of Obligations outstanding hereunder, Obligations shall be deemed to be paid on the date payments or collections, as the case may be, are applied by the Bank to such Obligations. Notwithstanding the foregoing, if any item presented for collection by the Bank is not honoured, the Bank may reverse any provisional credit that has been given for such item, and make appropriate adjustments to the amount of interest and principal otherwise due hereunder.

Section 4.6 Notations

The amount and date of each Revolving Credit Loan and the amount and date of each payment of principal and interest thereon shall be recorded by the Bank on its books and records and the amount of principal and interest shown on such books and records as owing on such Revolving Credit Loan from time to time shall be *prima facie* evidence of the principal amount remaining unpaid thereon and the interest applicable thereto in any court or other proceeding brought to collect such Revolving Credit Loan; provided that the failure of the Bank to record any of the foregoing shall not limit or otherwise affect the obligation of the Borrower to repay the principal amount owing on such Revolving Credit Loan together with accrued interest thereon.

ARTICLE 5
COLLATERAL

Section 5.1 Collateral

The payment and performance of the Obligations shall at all times be secured by, among other things, all of the Borrower's Receivables, chattel paper, documents of title, instruments, intangibles, Inventory, Equipment and certain other assets and property of the Borrower, and all of the outstanding units of the Borrower in each case whether now owned or held or hereafter acquired or arising, pursuant to Collateral Documents required by the Bank, including, without limitation, all of the Collateral Documents listed on Schedule 7.2 attached hereto.

Section 5.2 Collateral Proceeds

The Borrower agrees to make such arrangements as shall be necessary or appropriate to assure (through the use of one or more blocked accounts under the sole control of the Bank) that all proceeds of the Collateral are deposited (in the same form as received) in one or more blocked accounts maintained with and under the control of the Bank. Any proceeds of Collateral received by any Loan Party shall be held in trust for the Bank in the same form in which received, shall not be commingled with any assets of such Loan Party, and shall be delivered immediately to the Bank (together with any necessary endorsements thereto) for deposit into such account. The Borrower, for itself and each of the Loan Parties, acknowledges that all funds in such accounts are held in trust for the Bank, and that, to the extent of any interest of the Loan Parties therein, the Bank has (and is hereby granted to the extent it does not already have) a Lien on such accounts and all funds contained therein to secure the Obligations. No amounts deposited in such accounts shall be released to the Loan Parties, but shall instead be applied to, or otherwise held for application to, or as collateral security for, the outstanding Obligations as set forth in Article 4 hereof and (to the extent so provided in any other Loan Document) any and all other indebtedness, liabilities and obligations, present or future, of each of the Loan Parties to the Bank, it being understood and agreed that the Borrower notwithstanding such application shall have the right to obtain additional Revolving Credit Loans under this Agreement subject to the terms and conditions hereof.

Section 5.3 Further Assurances

The Borrower covenants and agrees that it shall comply with all terms and conditions of each of the Loan Documents and that it shall, at any time and from time to time as requested by the Bank, execute and deliver or cause to be executed and delivered such further instruments and documents and do or cause to be done such other acts and things as the Bank may deem necessary or desirable to ensure that all such terms and conditions are complied with and to provide for or protect or perfect the Lien of the Bank in the Collateral in accordance with the terms of this Agreement.

ARTICLE 6
REPRESENTATIONS AND WARRANTIES

The Borrower represents and warrants to the Bank as follows:

Section 6.1 Qualification

The Borrower has been formed and is existing as a limited partnership under the *Partnership Act* (Manitoba). Hardwoods GP is the sole general partner of the Borrower. The Borrower has full and adequate power to own its Property and conduct its business as now conducted, and is duly licensed or qualified and in good standing in each jurisdiction in which the nature of the business conducted by it or the nature of the Property owned or leased by it requires such licensing or qualifying. The LPA grants to Hardwoods GP all necessary power and authority to enter into and perform the obligations of the Borrower under this Agreement and each other Loan Document to which the Borrower is or will be a party. The chief executive office of each Loan Party is at the location set out under Item 1 on Schedule 6.1 hereto, and the Loan Parties have no other places of business except those listed under Item 2 on Schedule 6.1. No Loan Party uses or transacts business using any trade name other than those trade names listed under Item 3 in Schedule 6.1 hereto and other than its proper legal name.

Section 6.2 Loan Parties

Each Loan Party (other than the Borrower) that is not a natural person is duly organized, validly existing and in good standing under the laws of the jurisdiction in which it is incorporated or otherwise created or formed, as the case may be, has full and adequate power to own its Property and conduct its business as now conducted, and is duly licensed or qualified and in good standing in each jurisdiction in which the nature of the business conducted by it or the nature of the Property owned or leased by it requires such licensing or qualifying. Schedule 6.2 hereto identifies each Loan Party, the jurisdiction of its incorporation or organization, as the case may be, the percentage of issued and outstanding shares of each class of its capital stock or other equity interests owned by the Borrower, any other Loan Party and any other Person, a description of each class of its authorized capital stock and other equity interests and the number of shares of each class issued and outstanding. All of the outstanding units, shares of capital stock and other equity interests of each Loan Party are validly issued and outstanding and fully paid and non-assessable and all such shares and other equity interests indicated on Schedule 6.2 as owned by the Borrower or another Person are owned, beneficially and of record, by the Borrower or such other Person, as applicable, free and clear of all Liens. There are no outstanding commitments or other obligations of the Borrower, any Loan Party or any of its Subsidiaries to issue, and no rights of any Person to acquire, any units, shares, options or warrants or other rights to acquire shares, of any class of capital or other equity interests of the Borrower or any other Loan Party or Subsidiary of the Borrower, other than pursuant to the Exchange Agreement.

Section 6.3 Authority and Validity of Obligations

The Borrower has full right and authority to enter into this Agreement and the other Loan Documents to which it is a party, to make the borrowings herein provided for, to grant to the Bank the Liens described in the Collateral Documents to which it is a party, and to exercise all of its rights and perform all of its obligations hereunder and under the other Loan Documents to which it is a party. Each of the other Loan Parties has full right and authority to enter into the Loan Documents to which it is party and to exercise all of its rights and perform all of its obligations thereunder. The Loan Documents have been duly authorized, executed and delivered by the Loan Parties which are party thereto and constitute valid and binding obligations of such Loan Parties enforceable in accordance with their respective terms except as enforceability may be limited by bankruptcy, insolvency, fraudulent conveyance or similar laws affecting creditors' rights generally and general principles of equity (regardless of whether the application of such principles is considered in a proceeding in equity or at law); and this Agreement and the other Loan Documents do not, nor does the performance or observance by the Loan Parties of any of the matters and things herein or therein provided for, contravene or constitute a default under any provision of law or any judgment, injunction, order or decree binding upon the Loan Parties or any provision of the charter, articles of incorporation or by laws of the Loan Parties (or any of them) or any covenant, indenture or agreement of or affecting any of the Loan Parties or any of their

Properties, or result in the creation or imposition of any Lien on any Property of the Loan Parties.

Section 6.4 Use of Proceeds

The Borrower shall use the proceeds of the Revolving Credit Loans and other Extensions of Credit made available hereunder solely for general working capital purposes of the Borrower, including the financing of accounts receivable and fixed assets, for repaying existing revolving facilities and for such other legal and proper purposes as are consistent with all applicable laws and the terms of this Agreement.

Section 6.5 Financial Reports

The audited balance sheet of the Borrower as at December 31, 2008, and the related audited statements of income, retained earnings and cash flows of the Borrower for the fiscal year then ended, and accompanying notes thereto, which financial statements are accompanied by the audit report of KPMG LLP, independent chartered accountants, and the unaudited interim balance sheet of the Borrower as at June 30, 2009, and the related unaudited statements of income, retained earnings and cash flows of the Borrower for the six (6) months then ended, heretofore furnished to the Bank, fairly present the financial condition of the Borrower, as at said dates and the results of its operations and cash flows for the periods then ended, in conformity with GAAP. Neither the Borrower nor any Subsidiary or Affiliate of the Borrower has contingent liabilities that are material to the Borrower, other than as indicated on the financial statements referenced above.

Section 6.6 No Material Adverse Change

Since December 31, 2008, there has been no change in the condition (financial or otherwise) or business prospects of any of the Loan Parties except those occurring in the ordinary course of business, none of which individually or in the aggregate constitute a Material Adverse Change.

Section 6.7 Full Disclosure

The statements and information furnished to the Bank by or on behalf of any Loan Party in connection with the negotiation of this Agreement and the other Loan Documents and the commitment by the Bank to provide all or part of the financing contemplated hereby do not contain any untrue statements of a material fact or omit a material fact necessary to make the material statements contained herein or therein not misleading.

Section 6.8 Good Title

Each Loan Party has good and defensible title to its assets as reflected (in respect of the Borrower) on the most recent balance sheet of the Borrower furnished to the Bank (except for sales of assets by the Borrower in the ordinary course of business), subject to no Liens other than Liens permitted by Section 8.9 hereof.

Section 6.9 Ownership of Assets

The Borrower or Hardwoods GP (for and on behalf of the Borrower with respect to partnership assets) legally and beneficially own or lease (as lessee) all assets and property (real or personal, tangible or intangible) necessary to conduct the Hardwoods Business, including the Collateral. As of the Closing Date, the only Persons that own, lease or have an interest in any material assets of the Hardwoods Business are the Borrower and Hardwoods GP.

Section 6.10 Hardwoods USLP Credit Agreement

The credit agreement between Hardwoods USLP and its senior lender does not include a provision whereby the occurrence of a Default or an Event of Default under this Agreement will constitute an event of default under, or will otherwise entitle that lender to accelerate the required repayments under, that credit agreement.

Section 6.11 Litigation

There is no litigation or governmental proceeding or labour controversy pending, nor to the knowledge of the Borrower threatened, against any of the Loan Parties, except as disclosed on Schedule 6.11.

Section 6.12 Taxes

All Tax returns required to be filed by the Borrower or any Subsidiary in any jurisdiction have, in fact, been filed, and all Taxes, assessments, fees and other governmental charges upon the Borrower or any Subsidiary or upon any of their respective Properties, income or franchises, which are shown to be due and payable in such returns, have been paid. The Borrower does not know of any proposed additional tax assessment against it or its Subsidiaries for which adequate provision in accordance with GAAP has not been made on its accounts, or against any other Loan Party. Adequate provisions in accordance with GAAP for Taxes on the books of the Borrower and each Subsidiary have been made for all open years, and for its current fiscal period. As of the Closing Date, except as disclosed on Schedule 6.10, all Tax returns required to be filed by the Borrower or any Subsidiary in any jurisdiction have, in fact, been filed, and all Taxes, assessments, fees and other governmental charges upon the Borrower or any Subsidiary or upon any of their respective Properties, income or franchises, which are shown to be due and payable in such returns, have been paid.

Section 6.13 Approvals

No authorization, consent, license, or exemption from, or filing or registration with, any court or Governmental Authority, nor any approval or consent of the stockholders of the Borrower or any other Person, is or will be necessary to the valid execution, delivery or performance of this Agreement or any other Loan Document.

Section 6.14 Affiliate Transactions

Neither the Borrower nor any other Loan Party is a party to any contracts or agreements with any of its Affiliates, other than agreements listed in Schedule 6.14, the agreements approved by the Bank in respect of Allowed Subordinated Indebtedness and any other agreements disclosed in writing to, and approved by, the Bank.

Section 6.15 Pensions

All employee pension benefit plans are registered under, and in compliance with, all requirements of law, all payments, reports, returns and filings required to be made thereunder have been made and there is no obligation on the part of any Loan Party under any such plan that is in arrears. All such plans have been administered in accordance with their terms and the provisions of applicable law. There are no unfunded liabilities under any such plans and, without limiting the generality of the foregoing, there is no going concern unfunded actuarial liability, past service unfunded actuarial liability or solvency deficiency.

Section 6.16 Compliance with Laws

The Loan Parties are in compliance with the requirements of all federal, provincial and local laws, rules and regulations applicable to or pertaining to their Properties or business operations (including, without limitation, laws, rules and regulations pertaining to taxes, employee contributions, withholdings and remittances, employee pensions, retirement benefits and other benefits, and employee health and safety, and laws and regulations establishing quality criteria and standards for air, water, land and toxic or hazardous wastes and substances), non-compliance with which, individually or taken as a whole, could have a Material Adverse Effect. None of the Loan Parties has received notice to the effect that its operations are not in compliance with any of the requirements of applicable federal, provincial or local environmental or health and safety statutes and regulations or are the subject of any governmental investigation evaluating whether any remedial action is needed to respond to a release of any toxic or hazardous waste or substance into the environment, which non-compliance or remedial action, individually or taken as a whole, could have a Material Adverse Effect.

Section 6.17 Material Contracts and Other Agreements

All Material Contracts are listed on Schedule 6.17. None of the Loan Parties is in default under the terms of any covenant, indenture or agreement of or affecting it or any of its Properties, which default, if uncured, would have a Material Adverse Effect.

Section 6.18 No Default

No Default or Event of Default has occurred and is continuing.

Section 6.19 Eligible Accounts

As of the time any Eligible Account becomes subject to any security interest in favour of the Bank, and at all times thereafter, the Borrower shall be deemed to have represented and warranted as to each and all of such Eligible Accounts:

(a) that each Eligible Account is valid and subsisting and, if such Eligible Account is an account, arises out of a *bona fide* sale of goods sold and delivered by the applicable Loan Party to, or in the process of being delivered to, or out of and for services theretofore actually rendered by it to, the account debtor named therein;

(b) that no such Eligible Account is evidenced by any instrument or chattel paper unless such instrument or chattel paper has been endorsed by the owner thereof and delivered to the Bank (except to the extent the Bank specifically requests the owner thereof not to do so with respect to any such instrument or chattel paper);

(c) that no surety bond was required or given in connection with such Eligible Account or the contracts or purchase orders out of which the same arose;

(d) that the amount of the Eligible Account represented as owing is the correct amount actually and unconditionally owing, except for normal cash discounts on normal trade terms in the ordinary course of business;

(e) that the amount of such Eligible Account represented as owing is not disputed and is not subject to any setoffs, credits, deductions or counter charges other than those arising in the ordinary course of the applicable Loan Party's business which are disclosed to the Bank in writing promptly upon the applicable Loan Party becoming aware thereof; and

(f) that such Eligible Account is not owing from any government, province or state, or any political subdivision, department, agency or instrumentality of any of the foregoing.

ARTICLE 7
CONDITIONS PRECEDENT

The obligation of the Bank to make any Extensions of Credit under this Agreement is subject to the satisfaction of following conditions precedent, unless such conditions have been waived, in whole or in part, by the Bank in its sole discretion:

Section 7.1 All Advances

As of the time of the making of any Extension of Credit hereunder:

(a) each of the representations and warranties set forth in Article 6 hereof and in the other Loan Documents shall be true and complete as of such time, except to the extent the same expressly relate to an earlier date;

(b) each Loan Party shall be in full compliance with all of the terms and conditions of the Loan Documents to which it is a party, and no Default or Event of Default shall have occurred and be continuing or would occur as a result of making any such Extension of Credit;

(c) in the case of any request for an Extension of Credit under the Revolving Credit, after giving effect to such Extension of Credit, the Canadian Dollar Equivalent of the aggregate principal amount of all Extensions of Credit under the Revolving Credit shall not exceed the Revolving Credit Limit;

(d) the Bank shall have received any and all fees and properly completed Loan Documents required pursuant to the terms hereof, or of any other Loan Document, in connection with such Extension of Credit;

(e) such Extension of Credit shall not violate any order, judgment or decree of any court or other authority or any provision of law or regulation applicable to the Bank as then in effect; and

(f) no request of the Customs and Revenue Agency or any similar authority for payment pursuant to Section 224(1.1), or any successor section, of the *Income Tax Act* (Canada) shall have been received by the Bank in respect of the Borrower.

The Borrower's request for any Extension of Credit shall constitute its warranty as to the facts set forth in Section 7.1(a) through Section 7.1(d), both inclusive, above.

Section 7.2 Initial Advance

In addition to the conditions precedent set forth in Section 7.1, at or prior to the making of the initial Extension of Credit, the following conditions precedent shall have been satisfied as of the time of such initial Extension of Credit, or waived, in whole or in part, by the Bank in its sole discretion:

(a) the Bank shall have received the following (each to be properly executed and completed and, unless otherwise expressly indicated, dated as of the Closing Date), all in form and substance satisfactory to the Bank:

(i) the other Loan Documents, including all blocked account agreements required pursuant to Section 5.2 hereof, together with any financing statements requested by the Bank in connection therewith;

(ii) copies (executed or certified, as may be required by the Bank) of all legal documents or proceedings (corporate or otherwise) required to be delivered to the Bank in connection with the execution and delivery of this Agreement and the other Loan Documents;

(iii) an incumbency certificate containing the names, titles and genuine signatures of each of the officers and directors of each Collateral Party;

(iv) evidence of insurance required by Section 8.4 hereof;

(v) an undertaking to: (A) use reasonable best efforts to deliver all bailee letters, landlord consents and non-disturbance agreements, as applicable, for each premise where Collateral is located within 30 days after the Closing Date; (B) deliver the acknowledgement of the assignment of the rights of the Borrower under each insurance policy executed by the insurer, within 60 days after the Closing Date, and (C) deliver evidence satisfactory to the Bank, confirming the closure of all bank accounts maintained by the Loan Parties with Bank of Nova Scotia, within 60 days after the Closing Date;

(vi) such valuations and certifications as it may require in order to satisfy itself as to the value of the Collateral, the financial condition of the Loan Parties, and the lack of material contingent liabilities of the Loan Parties;

(vii) evidence that, as of the Closing Date, Excess Availability is not less than Cdn.$2,000,000, after payment of transaction costs and application of initial proceeds of the Advances (other than payment of trade accounts payable incurred in the ordinary course);

(viii) a favourable written opinion of legal counsel to each Collateral Party;

(ix) a Borrowing Base certificate in the form attached hereto as Exhibit A showing the computation of the Borrowing Base in reasonable detail as of the close of business not more than three (3) Business Days prior to the Closing Date;

(x) a limited partnership report, certificate of good standing, status or compliance (as applicable) for each of the Collateral Parties (dated as of a date no more than two (2) days prior to the Closing Date) from the applicable government office in the jurisdiction of the applicable Collateral Party's incorporation or formation and in each jurisdiction in which it is qualified to do business;

(xi) original copies of the environmental questionnaires or checklists, completed by the Borrower in respect of the premises occupied or owned by such Borrower;

(xii) audited financial statements of the Borrower for the fiscal year ended December 31, 2008;

(xiii) a certificate signed by an officer of Hardwoods GP, confirming that there are no material changes from the unaudited internally-prepared financial statements of the Borrower for the six month period ended June 30, 2009 that were previously delivered to the Bank;

(xiv) original or certified copies of all Material Contracts;

(xv) the Bank shall have received and be satisfied with the terms (including coverage listing and deductibles) of all insurance policies, including EDC Policies, if any, and the proceeds of such policies shall be assigned to the Bank, in form and substance satisfactory to the Bank; and

(xvi) such other information, agreements, instruments, documents, certificates and opinions as the Bank may request, including without limitation those described in the list of documents attached as Schedule 7.2;

(b) all outstanding Indebtedness for Borrowed Money of the Borrower under the BNS Credit Agreement shall have been permanently repaid and all guarantees and security therefor shall have been released and discharged, or arrangements satisfactory to the Bank shall have been made for such repayments, releases and discharges;

(c) the Bank shall have received all fees payable on or prior to the date of such initial Extension of Credit, including all legal fees;

(d) all legal matters incident to the execution and delivery of this Agreement and the other Loan Documents and to the transactions contemplated hereby shall be satisfactory to the Bank and its counsel;

(e) the Liens granted to the Bank under the Collateral Documents or otherwise shall have been, and shall continue to be as of the date of such initial Extension of Credit, perfected or registered in a manner satisfactory to the Bank and its counsel;

(f) no Material Adverse Change, and no change in the Bank's understanding of the position of the Loan Parties, financial or otherwise, shall have occurred;

(g) a monthly forecast of the Borrower and Hardwoods USLP in respect of each month during the fiscal year ending December 31, 2010, including the projected revenues, expenses, balance sheet, cash flows and borrowing base calculations of each of the Borrower and Hardwoods USLP, on a month-by-month basis in reasonable detail, and the relevant assumptions used in connection with such calculations, all prepared by the Borrower and in form satisfactory to the Bank; and

(h) the Collateral Parties shall have received all necessary governmental, regulatory and other third party approvals and consents in compliance with applicable law, including, without limitation, all appropriate environmental approvals and certificates, on terms and conditions satisfactory to the Bank.

ARTICLE 8
COVENANTS

The Borrower agrees that, so long as any credit is available to or in use by the Borrower hereunder, except to the extent compliance with respect to any particular covenant is waived in writing, in whole or in part, by the Bank:

Section 8.1 Maintenance of Business

The Borrower shall, and shall cause each Loan Party to, preserve and maintain its existence. The Borrower shall, and shall cause each Loan Party to, preserve and keep in force and effect all licenses, permits and franchises necessary to the proper conduct of its business. The Borrower shall not, and shall cause each Loan Party not to, change its name or transact business under any trade name without first giving not less than thirty (30) days' prior written notice of its intent to do so to the Bank. The Borrower shall provide the Bank with not less than thirty (30) days' prior written notice of any change of name, or of any trade name, of any Collateral Party if the Borrower has knowledge thereof.

Section 8.2 Maintenance of Properties

The Borrower shall, and shall cause each Loan Party to, maintain, preserve and keep its Property, plant and Equipment in good repair, working order and condition (ordinary wear and tear excepted) and shall from time to time make all needed and proper repairs, renewals, replacements, additions and betterments thereto so that at all times the efficiency thereof shall be fully preserved and maintained.

Section 8.3 Taxes and Assessments

The Borrower shall duly pay and discharge, and shall cause each Loan Party to duly pay and discharge, all Taxes, rates, assessments, fees and governmental charges upon or against it or its Properties, in each case before the same become delinquent and before penalties accrue thereon, unless and to the extent that the same are being contested in good faith and by appropriate proceedings which prevent enforcement of the matter under contest and adequate reserves are provided therefor.

Section 8.4 Insurance

(1) The Borrower shall insure and keep insured, and shall cause each Loan Party to insure and keep insured, with good and responsible insurance companies, all insurable Property owned by it which is of a character usually insured by Persons similarly situated and operating like Properties against loss or damage from such hazards and risks, and in such amounts, as are insured by Persons similarly situated and operating like Properties; and the Borrower shall insure, and shall cause each Loan Party to insure, such other hazards and risks (including employers' and public liability risks) with good and responsible insurance companies as and to the extent usually insured by Persons similarly situated and conducting similar businesses. The Borrower shall upon request furnish to the Bank a certificate setting forth in summary form the nature and extent of the insurance maintained pursuant to this Section.

(2) The Borrower shall at all times insure or cause to be insured the Collateral consisting of tangible personal property against such risks and hazards as other Persons similarly situated insure against, and including in any event loss or damage by fire, theft, burglary, pilferage, loss in transit and such other hazards as the Bank may specify. All insurance required hereby shall be maintained in amounts and under policies and with insurers acceptable to the Bank, and all such policies shall contain a standard mortgage clause and loss payable clauses naming the Bank as loss payee and first mortgagee and all in

form and content, naming the Bank as an additional insured therein, acceptable to the Bank. The Borrower shall pay or cause to be paid all premiums on such insurance. Certificates of insurance evidencing compliance with the foregoing and, at the Bank's request, the policies of such insurance shall be delivered by the Borrower to the Bank. All insurance required hereby shall provide that no cancellation thereof shall be effective until at least 30 days after receipt by the applicable Loan Party and the Bank of written notice thereof, and shall be satisfactory to the Bank in all other respects. In case of any material loss, damage to or destruction of the Collateral or any part thereof, the Borrower shall promptly give written notice thereof to the Bank generally describing the nature and extent of such damage or destruction. In case of any loss, damage to or destruction of the Collateral or any part thereof, the Borrower, whether or not the insurance proceeds, if any, received on account of such damage or destruction shall be sufficient for that purpose, at the applicable Loan Party's cost and expense, shall promptly cause to be repaired or replaced the Collateral so lost, damaged or destroyed. In the event the Borrower or any Loan Party shall receive any proceeds of such insurance, the Borrower shall immediately pay over or caused to be paid such proceeds to the Bank. The Borrower, on behalf of all Loan Parties, hereby authorizes the Bank, at the Bank's option, to adjust, compromise and settle any losses under any insurance afforded, and does hereby irrevocably constitute the Bank, and each of its nominees, officers, agents, attorneys, and any other Person whom the Bank may designate, as their attorney in fact, with full power and authority to effect such adjustment, compromise and/or settlement and to endorse any drafts drawn by an insurer of the Collateral or any part thereof and to do everything necessary to carry out such purposes and to receive and receipt for any unearned premiums due under policies of such insurance. Unless the Bank elects to adjust, compromise or settle losses as aforesaid, the Borrower shall ensure that any adjustment, compromise and/or settlement of any losses under any insurance shall be made by the applicable Loan Party subject to final approval of the Bank (regardless of whether or not an Event of Default shall have occurred) in the case of losses exceeding Cdn$100,000. Net insurance proceeds received by the Bank under the provisions hereof or under any policy of insurance covering the Collateral or any part thereof shall be applied to the reduction of the Obligations (whether or not then due); provided, however, that the Bank may in its sole discretion release any or all such insurance proceeds to the applicable Loan Party. All insurance proceeds shall be subject to the Lien of the Bank under the Collateral Documents.

(3) Unless the Borrower provides the Bank with evidence of the insurance coverage required by this Agreement, the Bank may purchase insurance at the Borrower's expense to protect the Bank's interests in the Collateral. This

insurance may, but need not, protect the applicable Loan Party's interests in the Collateral. The coverage purchased by the Bank may not pay any claims that the applicable Loan Party makes or any claim that is made against the applicable Loan Party in connection with the Collateral. The Borrower may later cancel any such insurance purchased by the Bank, but only after providing the Bank with evidence that the Borrower has obtained insurance as required by this Agreement. If the Bank purchases insurance for the Collateral, the Borrower will be responsible for the costs of that insurance, including interest and any other charges that the Bank may impose in connection with the placement of the insurance, until the effective date of the cancellation or expiration of the insurance. The costs of the insurance may be added to the Obligations. The costs of the insurance may be more than the cost of insurance the Borrower may be able to obtain on its own.

Section 8.5 Financial Reports

The Borrower shall, and shall cause each Loan Party to, maintain a standard system of accounting in accordance with GAAP and shall promptly furnish to the Bank and its duly authorized representatives such information respecting the business and financial condition of the Borrower and the other Loan Parties as the Bank may reasonably request; and without any request, shall furnish to the Bank:

(a) a Borrowing Base certificate from the Borrower in the form attached hereto as Exhibit A, showing the computation of the Borrowing Base in reasonable detail as of the close of business on the last Business Day of each calendar week, together with such other information as is therein required, prepared by the Borrower and certified by the President or Chief Financial Officer of the Borrower, which shall be delivered to the Bank as soon as available and, in any event, (i) if average Excess Availability during the most recently completed monthly accounting period is less than or equal to Cdn.$3,000,000, not more than three (3) Business Days after the last Business Day of each calendar week, and (ii) if average Excess Availability is more than Cdn$3,000,000 during the most recently completed monthly accounting period, not more than three (3) Business Days after the close of the next succeeding monthly accounting period until such time as Excess Availability for any particular calendar week thereafter, determined as of the last day of such calendar week, is less than or equal to $3,000,000, in which event such Borrowing Base certificate shall be delivered not more than three (3) Business Days after the last Business Day of each calendar week thereafter;

(b) as soon as available, and in any event within twenty (20) days after the close of each monthly accounting period of the Borrower (or more frequently if requested by the Bank):

(i) a copy of the unaudited internal management-prepared financial statements of the Borrower as of the last day of such monthly accounting period (including balance sheet and statements of income, cashflows and statement of retained earnings of the Borrower for such monthly accounting period and for the fiscal year to date period then ended), in reasonable detail showing in comparative form (except in respect of the 12 months immediately following the Closing Date) the figures for the previous fiscal year, prepared by the Borrower in accordance with GAAP, except that such financial statements will not contain notes and will be subject to usual quarterly and year end adjustments, certified by the President or Chief Financial Officer of the Borrower;

(ii) an accounts receivable aging report on an invoice date basis (including reconciliation of cash and accounts receivable), an accounts payable report identifying accounts that are more than 60 days past their due date, an inventory stock status report, prepared by the Borrower in such format and detail as is required by the Bank, and certified by the President or Chief Financial Officer of the Borrower;

(iii) a report reconciling accounts receivable, accounts payable and inventory amounts set forth in the report delivered pursuant to Section 8.5(b)(ii) for such monthly accounting period to the corresponding figures for such items in the financial statements for such monthly accounting period; and

(iv) a priority claims and statutory deductions report, prepared by the Borrower in such format and detail as is required by the Bank, and certified by the President or Chief Financial Officer of the Borrower;

(c) as soon as available, and in any event within ninety (90) days after the last day of each annual accounting period of the Borrower, a copy of the audited financial statements of the Borrower as of the close of such period (including balance sheet, statements of income, retained earnings and cash flow of the Borrower for the period then ended), and accompanying notes thereto, each in reasonable detail showing in comparative form the figures for the previous fiscal year, accompanied by an unqualified opinion thereon of KPMG LLP or another firm of independent chartered accountants of recognized national standing, selected by the Borrower and satisfactory to the Bank (acting reasonably), to the effect that the financial statements have been prepared in accordance with GAAP and present fairly in accordance with GAAP the financial condition of the Borrower as of the close of such fiscal year and the results of its operations and cash flows for the fiscal year then ended and that an examination of such accounts in connection with such financial statements has been made in accordance with generally accepted auditing standards and, accordingly, such examination included such tests of the accounting records and such other auditing procedures as were considered necessary in the circumstances, except that the materiality standard applied to such financial statements will be the same as the materiality standard applied to the audited consolidated financial statements of the Fund;

(d) as soon as available, and in any event within ninety (90) days after the last day of each annual accounting period of Hardwoods Washington, a copy of the audited financial statements of Hardwoods Washington as of the close of such period (including balance sheet, statements of income, retained earnings and cash flow of Hardwoods Washington for the period then ended), and accompanying notes thereto, each in reasonable detail showing in comparative form the figures for the previous fiscal year, accompanied by an unqualified opinion thereon of KPMG LLP or another firm of independent chartered accountants of recognized national standing, to the effect that the financial statements have been prepared in accordance with GAAP and present fairly in accordance with GAAP the financial condition of Hardwoods Washington as of the close of such fiscal year and the results of its operations and cash flows for the fiscal year then ended and that an examination of such accounts in connection with such financial statements has been made in accordance with generally accepted auditing standards and, accordingly, such examination included such tests of the accounting records and such other auditing procedures as were considered necessary in the circumstances;

(e) as soon as available, and in any event within ninety (90) days after the last day of each annual accounting period of Hardwoods USLP, a copy of the unaudited financial statements of Hardwoods USLP as of the close of such period (including balance sheet, statements of income, retained earnings and cash flow of Hardwoods USLP for the period then ended), each in reasonable detail showing in comparative form the figures for the previous fiscal year in accordance with GAAP, except that such financial statements will not contain notes and the materiality standard applied to such financial statements will be the materiality standard applied to the audited consolidated financial statements of the Fund;

(f) as soon as available, and in any event prior to the end of each fiscal year of the Borrower, a copy of the business plan for the next fiscal year of each of the Borrower and Hardwoods USLP, including the projected revenues, expenses, balance sheet, cash flows and borrowing base calculations of the Borrower or Hardwoods USLP, respectively, on a month-by-month basis in reasonable detail, and the relevant assumptions used in connection with such calculations, all prepared by the Borrower and in form satisfactory to the Bank;

(g) promptly after receipt thereof, any additional written reports, management letters or other material information concerning the operations and financial affairs of the Borrower or any other Loan Party received from its independent chartered accountants; and

(h) promptly after knowledge thereof shall have come to the attention of any responsible officer of the Borrower, written notice of any threatened or pending litigation or governmental proceeding or labour controversy against the Borrower or any Subsidiary which, if adversely determined, would have a Material Adverse Effect, or of the occurrence of any Default or Event of Default hereunder.

Each of the financial statements of the Borrower furnished to the Bank pursuant to this Section 8.5 shall be accompanied by a written certificate in the form attached hereto as Exhibit B signed by the President or Chief Financial Officer of the Borrower, and each of the financial statements of Hardwoods Washington and Hardwoods USLP furnished to the Bank pursuant to Section 8.5(d) or Section 8.5(e), respectively, shall be certified by the President or Chief Financial Officer of Hardwoods Washington or Hardwoods USLP, respectively.

Section 8.6 Inspection; Appraisals; Verification

(1) The Borrower shall, and shall cause each other Loan Party to, permit (and arrange for all access required to permit) the Bank and its duly authorized representatives and agents to visit and inspect any of the Properties at the times specified in Section 8.6(2), to examine and make copies of the books of accounts and other financial records of the Borrower and each other Loan Party, and to discuss the affairs, finances and accounts of the Borrower and each other Loan Party with, and to be advised as to the same by, their officers, employees and independent chartered accountants (and the Borrower, on

behalf of all Loan Parties, hereby authorizes such accountants to discuss with the Bank the finances and affairs of the Borrower and of each other Loan Party).

(2) If an Event of Default has occurred and is continuing, the Bank shall be entitled to visit and inspect the Properties at such times and intervals as the Bank determines appropriate. If no Event of Default has occurred and is continuing, and average Excess Availability is at least Cdn$3,000,000 during the period of six consecutive months immediately preceding the date on which any particular visit and inspection will occur, the Bank shall not be entitled to visit and inspect the Properties if the Bank has previously visited such Properties two times in such calendar year. If no Event of Default has occurred and is continuing but average Excess Availability is less than Cdn$3,000,000 during the period of six consecutive months immediately preceding the date on which any particular visit and inspection will occur, the Bank shall not be entitled to visit and inspect the Properties if the Bank has previously visited the Properties three times in such calendar year.

(3) The Bank may obtain (or direct the Borrower to obtain and provide to the Bank) appraisals of the Borrower's Inventory, or any portion thereof, from time to time as the Bank may designate, which appraisal reports shall in each case be prepared by an appraiser acceptable to the Bank and be in such format and contain such detail as the Bank may reasonably request; provided that: (i) if no Default or Event of Default has occurred and is continuing, any such appraisal of Inventory shall not be conducted more than two times during each calendar year (and not more than once per calendar year if average Excess Availability is not less than Cdn$3,000,000 for a period of six consecutive months), and (ii) if an Event of Default has occurred and is continuing, any such appraisal of Inventory may be conducted at such times and intervals as the Bank determines appropriate in its sole discretion. The costs and expenses incurred in obtaining any such appraisal shall in each case be borne by the Borrower (whether obtained by the Bank or by the Borrower).

(4) The Borrower agrees from time to time to deliver to the Bank such evidence of the existence, identity and location of the Collateral and of its availability as collateral security pursuant hereto (including, without limitation, schedules describing all Receivables created or acquired by the Borrower, copies of customer invoices or the equivalent and original shipping or delivery receipts for all merchandise and other goods sold or leased or services rendered, together with the Borrower's warranty of the genuineness thereof, and reports stating the book value of Inventory and Equipment by major category and location), in each case as the Bank may request. The Bank shall have the right to verify all or any part of the Collateral in any manner, and through any medium, which the Bank considers appropriate (including,

without limitation, the verification of Collateral by use of a fictitious name or through an agent of the Bank), and the Borrower agrees to furnish all assistance and information, and perform any acts, which the Bank may require in connection therewith. The Borrower shall promptly notify the Bank of any Collateral that the Borrower has determined is obsolete, stating the prior book value of such Collateral, a description thereof and its location.

(5) The Borrower shall, at the Bank's reasonable request and at the Borrower's expense, provide updated environmental questionnaires and checklists concerning activities and conditions affecting the real property owned, leased or operated by the Loan Parties and environmental reports prepared for the Bank by an environmental consultant or an environmental engineering firm acceptable to the Bank concerning any real property owned, leased or operated by any Loan Party.

Section 8.7 Fixed Charge Coverage Ratio

The Borrower shall at all times maintain a Fixed Charge Coverage Ratio that is not less than 1.1:1.0, calculated as of the last day of each calendar month and at such other times as the Bank determines necessary or appropriate.

Section 8.8 Indebtedness for Borrowed Money; Transfers of Assets

The Borrower shall not, nor shall it permit any Subsidiary to, (i) issue, incur, assume, create or have outstanding any Indebtedness for Borrowed Money or (ii) transfer any assets to any other Person; provided, however, that the foregoing shall not restrict nor operate to prevent:

(a) the Obligations of the Borrower owing to the Bank and other indebtedness and obligations of the Borrower or any Subsidiary from time to time owing to the Bank;

(b) purchase money indebtedness and Capitalized Lease Obligations secured by Liens permitted by Section 8.9(e) hereof in an aggregate amount not exceeding Cdn.$500,000 at any one time outstanding;

(c) Allowed Subordinated Indebtedness; or

(d) Distributions permitted under Section 8.14(2) or Section 8.14(3).

Section 8.9 Liens

The Borrower shall not, and it shall ensure that each Loan Party does not, create, incur or permit to exist any Lien of any kind on any Collateral owned by the Borrower or such Loan Party; provided, however that the foregoing shall not apply to nor operate to prevent the following permitted Liens ("**Permitted Liens**"):

(a) Liens arising by statute in connection with worker's compensation, unemployment insurance, old age benefits, social security obligations, Taxes, assessments, statutory obligations or other similar charges, good faith cash deposits in connection with tenders, contracts or leases to which the Borrower or any Subsidiary is a party or other cash deposits required to be made in the ordinary course of business, provided in each case that the obligation is not for borrowed money and that the obligation secured is not overdue or, if overdue, is being contested in good faith by appropriate proceedings which prevent enforcement of the matter under contest and adequate reserves have been established therefor;

(b) mechanics', workmen's, materialmen's, landlords', carriers', or other similar Liens arising in the ordinary course of business with respect to obligations which are not due or which are being contested in good faith by appropriate proceedings which prevent enforcement of the matter under contest;

(c) the pledge of assets for the purpose of securing an appeal, stay or discharge in the course of any legal proceeding, provided that the aggregate amount of liabilities of the Borrower and its Subsidiaries secured by a pledge of assets permitted under this Section 8.9(c), including interest and penalties thereon, if any, shall not be in excess of Cdn$100,000 at any one time outstanding;

(d) the Liens granted in favour of the Bank by the Collateral Documents;

(e) Liens on property of the Borrower or any other Loan Party created solely for the purpose of securing indebtedness permitted by Section 8.8(b) hereof, representing or incurred to finance, refinance or refund the purchase price of Property purchased in the ordinary course of business, provided that no such Lien shall extend to or cover other Property of the Borrower or such other Loan Party other than the respective Property so acquired, and the principal amount of indebtedness secured by any such Lien shall at no time exceed the original purchase price of such Property; and

(f) the Liens granted in respect of the Allowed Subordinated Indebtedness, provided that all such Liens are subordinated in favour of the Bank by agreement in form and substance satisfactory to the Bank.

Section 8.10 Investments, Acquisitions, Loans, Advances and Guarantees

The Borrower shall not, and it shall ensure that each Loan Party does not, directly or indirectly, make, retain or have outstanding any investments (whether through purchase of stock or obligations or otherwise) in, or loans or advances (other than for travel advances, employee relocation and housing loans, and other similar cash advances made to employees in the ordinary course of business) to, any other Person, or acquire all or any substantial part of the assets or business of any other Person or division thereof, or be or become liable as endorser, guarantor, surety or otherwise for any debt, obligation or undertaking of any other Person, or otherwise agree to provide funds for payment of the obligations of another, or supply funds thereto or invest therein or otherwise assure a creditor of another against loss, or apply for or become liable to the issuer of a letter of credit which supports an obligation of another, or subordinate any claim or demand it may have to the claim or demand of any other Person; provided, however, that the foregoing shall not apply to nor operate to prevent:

(a) investments in direct obligations of the Government of Canada or of any agency or instrumentality thereof whose obligations constitute full faith and credit obligations of the Government of Canada, provided that any such obligations shall mature within one year of the date of issuance thereof;

(b) investments in certificates of deposit issued by any Canadian chartered bank having capital and surplus of not less than Cdn$100,000,000 which have a maturity of one year or less;

(c) endorsement of items for deposit or collection of commercial paper received in the ordinary course of business; or

(d) investments by way of advances or loans to Affiliates of the Borrower, in each case made in lieu of, and for the same purpose as, any particular Hardwoods USLP Distribution, provided that (y) the amount of any such investment shall not exceed the amount that could have been distributed by the Borrower at such time if the amount of such investment had been a Hardwoods USLP Distribution, and (z) the requirements of Section 8.14(3) are complied with as if such investment had been a Hardwoods USLP Distribution.

In determining the amount of investments, acquisitions, loans, advances and guarantees permitted under this Section 8.10, investments and acquisitions shall always be taken at the original cost thereof (regardless of any subsequent appreciation or depreciation therein), loans and advances shall be taken at the principal amount thereof then remaining unpaid, and guarantees shall be taken at the amount of obligations guaranteed thereby.

Section 8.11 Operating Leases

The Borrower shall not, nor shall it permit any Subsidiary to, acquire the use or possession of any Property under a lease or similar arrangement, whether or not the Borrower or any Subsidiary has the express or implied right to acquire title to or purchase such Property, at any time if, after giving effect thereto, either (i) the aggregate amount of fixed rentals and other consideration payable by the Borrower and its Subsidiaries over the remaining unexpired terms of all such leases and similar arrangements would exceed Cdn.$10,000,000 or (ii) the aggregate amount of fixed rentals and other consideration payable by the Borrower and its Subsidiaries under all such leases and similar arrangements would exceed Cdn.$2,600,000 during any fiscal year of the Borrower.

Section 8.12 Mergers, Consolidations and Sales

The Borrower shall not, nor shall it permit any other Loan Party to, be a party to any amalgamation, merger or consolidation, or sell, transfer, lease or otherwise dispose of all or any substantial part of its Collateral, including any disposition of Collateral as part of a sale and leaseback transaction, or in any event sell or discount (with or without recourse) any of its notes or Receivables; provided, however, that this Section 8.12 shall not restrict the Borrower from selling its Inventory in the ordinary course of its business. Further, the Borrower shall not, nor shall it permit any other Loan Party to, sell, transfer or otherwise dispose of any of its Collateral to any Person without the prior written consent of the Bank.

Section 8.13 Maintenance of Subsidiaries

The Borrower shall not issue, assign, sell or transfer, or permit any other Loan Party to issue, assign, sell or transfer, any ownership interest of the Borrower or such other Loan Party in any Person.

Section 8.14 Distributions

(1) The Borrower shall not at any time:

(a) Except as expressly permitted pursuant to Section 8.14(2) or Section 8.14(3), declare or pay any distributions in cash or property in respect of any class or series of limited partnership units or other equity interest, or

(b) directly or indirectly purchase, redeem or otherwise acquire or retire any limited partnership units or other equity interests, or

(c) repay any Allowed Subordinated Indebtedness.

(2) Notwithstanding Section 8.14(1), the Borrower shall be entitled to make Proposed Cash Distributions from time to time, provided that, the aggregate

of all Outstanding Cash Distributions does not at any time exceed Permitted Cash Distributions.

(3) Notwithstanding Section 8.14(1), the Borrower shall be entitled to make Hardwoods USLP Distributions, provided that at the time at which any particular Hardwoods USLP Distribution is made by the Borrower:

(a) the average Excess Availability, determined for the period of thirty (30) consecutive days ending on the Business Day immediately preceding the date on which the Borrower makes a Hardwoods USLP Distribution, is not less than $1,000,000, after giving effect to such Hardwoods USLP Distribution; and

(b) no Event of Default has occurred, and no Event of Default will occur as a result of, or immediately after, such Hardwoods USLP Distribution is made.

Section 8.15 Location of Collateral and Offices

The Collateral is and shall remain in the possession or control of the applicable Loan Party at the locations listed under Item 2 on Schedule 6.1 attached hereto (collectively, the "**Permitted Collateral Locations**"), except that Inventory having an aggregate fair market value of not more than $200,000 may be held at locations other than the locations listed under Item 2 on Schedule 6.1; provided that, notwithstanding the foregoing and for greater certainty, if for any reason any Collateral is at any time kept or located at a location other than a Permitted Collateral Location, the Bank shall nevertheless have and retain a Lien on and security interest therein. The Borrower or the applicable Loan Party owns and shall at all times own all Permitted Collateral Locations, except to the extent otherwise disclosed under Item 2 on Schedule 6.1. Neither Borrower or any other Loan Party shall move its chief executive office or maintain a place of business at a location other than those specified under Item 1 on Schedule 6.1 or permit the Collateral to be located at a location other than those specified under Item 2 on Schedule 6.1, in each case without first providing the Bank with 30 days' prior written notice of its intent to do so; provided that each of the Loan Parties shall at all times maintain its chief executive office and, unless otherwise specifically agreed to in writing by the Bank, Permitted Collateral Locations, in Canada and, with respect to any new chief executive office or place of business or location of Collateral, the Loan Parties shall have taken all action requested by the Bank to maintain the Lien and security interest of the Bank in the Collateral at all times fully perfected and in full force and effect. Except as otherwise expressly permitted pursuant to this Section 8.15, as to any premises not owned by the Borrower wherein any of the Collateral is located, the Borrower shall, unless the Bank agrees otherwise, use its reasonable best efforts to cause each party having any right, title or interest in, or Lien on, any of such premises to enter into an agreement (any such agreement to contain a legal description of such premises) whereby such party disclaims any right, title and interest in, and Lien on, the Collateral and allows the removal of such Collateral by the Bank and is otherwise in form and substance acceptable to the Bank.

Section 8.16 Settlements on Receivables

Unless and until an Event of Default occurs, any merchandise or other goods which are returned by a customer or account debtor or otherwise recovered may be resold by the Borrower in the ordinary course of its business as presently conducted; and, during the existence of any Event of Default, such merchandise and other goods shall be set aside at the request of the Bank and held by the Borrower as trustee for the Bank and shall remain part of the Collateral. Unless and until an Event of Default occurs, the Borrower may settle and adjust disputes and claims with its customers and account debtors, handle returns and recoveries and grant discounts, credits and allowances in the ordinary course of its business as presently conducted for amounts and on terms which it in good faith considers advisable; and, during the existence of any Event of Default, unless the Bank requests otherwise, the Borrower shall notify the Bank promptly of all returns and recoveries and, on the Bank's request, deliver any such merchandise or other goods to the Bank. During the existence of any Event of Default, unless the Bank requests otherwise, the Borrower shall also notify the Bank promptly of all disputes and claims and settle or adjust them at no expense to the Bank, but no discount, credit or allowance other than on normal trade terms in the ordinary course of business as presently conducted shall be granted to any customer or account debtor and no returns of merchandise or other goods shall be accepted by the Borrower without the Bank's consent. The Bank may, at all times during the existence of any Event of Default, settle or adjust disputes and claims directly with customers or account debtors for amounts and upon terms which the Bank considers advisable.

Section 8.17 Collection of Receivables

(a) Whether or not any Event of Default has occurred and whether or not the Bank has exercised any or all of its rights under other provisions of this Section 8.17 and without prejudice to any other right or remedy available to the Bank at law or in equity, if the Bank requests the Borrower to do so:

(i) all instruments and chattel paper at any time constituting part of the Receivables or any other Collateral (including any post dated cheques) shall, upon receipt by any Loan Party, be immediately endorsed to and deposited with the Bank; and

(ii) the Borrower shall (and shall cause the Loan Parties to) instruct all customers and account debtors to remit all payments in respect of Receivables or any other Collateral to a lockbox or lockboxes under the sole custody and control of the Bank and which are maintained at post office(s) in Toronto, Ontario selected by the Borrower.

(b) Upon the occurrence and during the continuation of an Event of Default, whether or not the Bank has exercised any or all of its rights under other provisions of this Section 8.17, and without prejudice to any other right or remedy available to the Bank at law or in equity, the Bank or its designee may notify the Borrower's customers and account debtors at any time that Receivables or any other Collateral have been assigned to the Bank or of the Bank's security interest therein, and either in its own name, or the Borrower's name, or both, demand, collect (including, without limitation, through a lockbox analogous to that described in (a)(ii) above), receive, receipt for, sue for, compound and give acquittance for any or all amounts due or to become due on Receivables or any other Collateral, and in the Bank's discretion file any claim or take any other action or proceeding which the Bank may deem necessary or appropriate to protect or realize upon the security interest of the Bank in the Receivables or any other Collateral.

(c) Any proceeds of Receivables or other Collateral transmitted to or otherwise received by the Bank pursuant to any of the foregoing provisions hereof may be handled and administered by the Bank in and through one or more remittance accounts at the Bank (such remittance accounts to constitute special restricted accounts for purposes of and subject to the provisions of Section 5.2 of this Agreement), and the Borrower, for itself and each of the other Loan Parties, acknowledges that the maintenance of such remittance account by the Bank is solely for the Bank's convenience and that the Loan Parties do not have any right, title or interest in such remittance account or any amounts at any time standing to the credit thereof. The Bank shall apply proceeds of Receivables and other Collateral received by it from any source to the payment of the Obligations (whether or not then due and payable), such applications to be made in accordance with Article 4 of this Agreement. Except for purposes of computing interest on the Obligations in accordance with this Agreement, the Bank need not apply or give credit for any item included in proceeds of Receivables or other Collateral until the Bank has received final payment therefor at its office in cash or final solvent credits current in Toronto, Ontario, acceptable to the Bank as such. However, if the Bank does give credit for any item prior to receiving final payment therefor and the Bank fails to receive such final payment or an item is charged back to the Bank for any reason, the Bank may at its election in either instance charge the amount of such item back against the remittance account or any depository account of the Borrower or any other Loan Party maintained with the Bank, together with interest thereon at the rate referred to in Section 3.1 hereof which applies to Revolving Credit Loans in the currency of the amount involved. Concurrently with each transmission of any proceeds of Receivables or other Collateral to the remittance account, the Borrower shall furnish the Bank with a report in such form as the Bank shall require identifying the particular Receivable or other Collateral from which the same arises or relates.

(d) The Borrower hereby indemnifies the Indemnitees from and against all liabilities, damages, losses, actions, claims, judgments, costs, expenses, charges and legal fees (on a solicitor client basis) suffered or incurred by any or all of them because of the maintenance of the foregoing arrangements; provided, however, that the Borrower shall not be required to indemnify any of the Indemnitees for any of the foregoing to the extent they arise solely from the gross negligence or wilful misconduct of such Indemnitee. The Bank shall have no liability or responsibility for accepting any cheque, draft or other order for payment of money bearing the legend "payment in full" or words of similar import or any other restrictive legend or endorsement whatsoever or be responsible for determining the correctness of any remittance.

Section 8.18 Inventory and Equipment

(1) The Borrower shall at its own cost and expense maintain, keep and preserve its Inventory in good and merchantable condition.

(2) The Borrower may, until otherwise notified by the Bank, use, consume and sell the Inventory in the ordinary course of business, but a sale in the ordinary course of business shall not under any circumstance include any transfer or sale in satisfaction, partial or complete, of a debt owing by the Borrower.

(3) The Borrower may, until otherwise notified by the Bank, sell obsolete, worn out, unusable or redundant Equipment which, other than with respect to redundant Equipment, is concurrently replaced with similar Equipment at least equal in quality and condition to that sold and owned by the Borrower free of any Lien other than Permitted Liens.

(4) As of the time any Inventory or Equipment becomes subject to the security interest provided pursuant to the Collateral Documents and at all times thereafter, the Borrower shall be deemed to have warranted as to any and all of such Inventory and Equipment that all warranties of the Borrower set forth

in this Agreement are true and complete with respect to such Inventory and Equipment; that all such Inventory and Equipment is located at a location set forth pursuant to Section 8.15 hereof; and that, in the case of Inventory, such Inventory is new and unused and in good and merchantable condition. The Borrower warrants and agrees that no Inventory is or will be consigned to any other person without the Bank's prior written consent.

(5) Except for Equipment from time to time located at the Permitted Collateral Locations or as otherwise disclosed to the Bank in writing, none of the Equipment is or will be attached to real estate in such a manner that the same may become a fixture.

(6) If any of the Inventory is at any time evidenced by a document of title, such document shall be promptly delivered by the Borrower to the Bank except to the extent the Bank specifically requests the Borrower not to do so with respect to any such document.

Section 8.19 Compliance with Laws

The Borrower shall, and shall cause each Loan Party to, comply in all respects with the requirements of all federal, provincial, state and local laws, rules, regulations, ordinances and orders applicable to or pertaining to their Properties or business operations, non compliance with which could have a Material Adverse Effect or could result in a Lien not permitted hereby.

Section 8.20 Burdensome Contracts with Affiliates

The Borrower shall not, nor shall it permit any Loan Party to, enter into any contract, agreement or business arrangement with any of its Affiliates on terms and conditions which are less favourable to the Borrower or such Loan Party than would be usual and customary in similar contracts, agreements or business arrangements between Persons not affiliated with each other and acting at arm's length to one another.

Section 8.21 No Changes in Fiscal Year

Neither the Borrower nor any Subsidiary shall change its fiscal year end without the prior written consent of the Bank.

Section 8.22 Formation of Subsidiaries

Except for existing Subsidiaries designated on Schedule 6.2 hereto, the Borrower shall not, nor shall it permit any Loan Party to, form or acquire any Subsidiary without the prior written consent of the Bank.

Section 8.23 Change in the Nature of Business

The Borrower shall not, and shall not permit any Loan Party to, engage in any business or activity if, as a result, the general nature of the business of the Borrower or any other Loan Party would be changed in any material respect from the general nature of the business engaged in by the Borrower or such other Loan Party on the date of this Agreement.

Section 8.24 Deposit Accounts

The Borrower shall not, and shall not permit any Subsidiary to, open or maintain any bank, deposit or similar account except with the Bank.

Section 8.25 Performance of Covenants

The Borrower and each other Loan Party shall observe and comply with all covenants and other agreements with the Bank. If the Borrower or any other Loan Party fails to perform any of such covenants and agreements herein or in any other document contained, the Bank may, at its option, perform the same and in so doing may expend such sums as the Bank may deem advisable in the performance thereof, including, without limitation, the payment of any insurance premiums, the payment of any Taxes, liens and encumbrances, expenditures made in defending against any adverse claims, and all other expenditures which the Bank may be compelled to make by operation of law or which the Bank may make by agreement or otherwise for the protection of its security. All such sums and amounts so expended shall be repayable by the Borrower immediately without notice or demand, shall constitute additional Obligations secured by the Collateral and shall bear interest from the date said amounts are expended at the rate per annum referred to in Section 2.1 hereof which applies to Revolving Credit Loans in the currency of the sum or amount involved. No such performance of any covenant or agreement by the Bank and no such advancement or expenditure therefor, shall relieve the Borrower of any default under the terms of this Agreement or in any way obligate the Bank to take any further or future action with respect thereto. The Bank, in making any payment hereby authorized, may do so according to any bill, statement or estimate procured from the appropriate public office or holder of the claim to be discharged without inquiry into the accuracy of such bill, statement or estimate or into the validity of any tax assessment, sale, forfeiture, tax lien or title or claim. The Bank, in performing any act hereunder, shall be the sole judge of whether the Borrower or other Loan Party is required to perform same under the terms of this Agreement or any other Loan Document. The Bank is hereby authorized to charge any depository or other account of the Borrower maintained with the Bank for the amount of such sums and amounts so expended.

Section 8.26 Insolvency Applications

The Borrower acknowledges that its business and financial relationships with the Bank are unique, and that the Bank does not have a common interest with any other of the Borrower's creditors. The Borrower agrees that if it voluntarily files any plan of arrangement under the *Companies' Creditors Arrangement Act* (Canada) or makes any proposal under the *Bankruptcy and Insolvency Act* (Canada), the Bank will be placed in its own class for voting and distribution purposes, and that the Borrower will not agree, directly or indirectly, to the classification of the Bank with any other creditor for any purpose of such plan or proposal or otherwise.

Section 8.27 Material Contracts

The Borrower will not, and will ensure that each other Loan Party does not, amend in any material respect, or terminate, any Material Contract without the prior written consent of the Bank, and the Borrower agrees not to enter into any Inventory consignment agreement with customers without the prior written consent of the Bank. The Borrower will forthwith notify the Bank of any Material Contract entered into by a Loan Party after the date hereof.

ARTICLE 9
EVENTS OF DEFAULT AND REMEDIES

Section 9.1 Events of Default

Any one or more of the following shall constitute an "**Event of Default**" hereunder:

(a) default in the payment when due of all or any part of any Obligation payable by the Borrower hereunder or under any other Loan Document (whether at the stated maturity thereof or at any other time provided for in this Agreement or such Loan Document), or default shall occur in the payment when due of any other indebtedness or obligation (whether direct, contingent or otherwise) of the Borrower owing to the Bank; or

(b) default in the observance or performance of any obligation set forth in Section 5.2, Section 8.4 through Section 8.17, inclusive, or Section 8.21 hereof or of any obligation in any Loan Document requiring the maintenance of insurance on the Collateral subject thereto or dealing with the use or remittance of proceeds of Collateral; or

(c) default in the observance or performance of any obligation herein (other than any obligation referred to in Section 9.1(a) or Section 9.1(b) above) or of any obligation in any other Loan Document, if such obligation is not remedied within thirty (30) days after the earlier of (i) the date on which such failure shall first become actually known to any officer of the Borrower or (ii) the date on which written notice thereof is given to the Borrower by the Bank; or

(d) any representation or warranty made by the Borrower or any other Collateral Party herein or in any other Loan Document, or in any statement or certificate furnished by it pursuant hereto or thereto, or in connection with any Extension of Credit made hereunder, is untrue in any material respect as of the date on which such representation or warranty was made; or

(e) any event occurs or condition exists (other than those described in Section 9.1(a) through Section 9.1(d) above) that is specified as a default under any of the other Loan Documents that is not cured within the applicable cure period, if any, or any of the Loan Documents shall for any reason not be or shall cease to be in full force and effect, or any of the Loan Documents is declared to be null and void, or any of the Collateral Documents shall for any reason fail to create a valid and perfected first priority Lien in favour of the Bank in any Collateral purported to be covered thereby except as expressly permitted by the terms thereof; or

(f) default shall occur under any Indebtedness for Borrowed Money issued, assumed or guaranteed by the Borrower or any other Loan Party, or under any indenture, agreement or other instrument under which the same may be issued, and such default shall continue for a period of time sufficient to permit the acceleration of the maturity of any such Indebtedness for Borrowed Money (whether or not such maturity is in fact accelerated), or any such Indebtedness for Borrowed Money shall not be paid when due (whether by lapse of time, acceleration or otherwise); or

(g) any judgment or judgments, writ or writs, or warrant or warrants of attachment, distress or any similar process or processes in an aggregate amount in excess of Cdn$500,000 shall be entered or filed against the Borrower or any other Loan Party or against any of their Property and which remains unvacated, unbonded, unstayed or unsatisfied for a period of thirty (30) days or if, within such period, any seizure or taking possession of any Collateral of the Borrower or such other Loan Party occurs by or on behalf of the related creditor; or

(h) dissolution, wind up or termination of existence of the Borrower or any other Loan Party; or

(i) a Material Adverse Change; or

(j) the LPA, the Exchange Agreement or any other Material Contract shall be amended in a manner that has or could reasonably be expected to have a Material Adverse Effect, or any successor or additional general partner of the Borrower shall fail to execute and deliver, concurrently upon succeeding as or becoming a general partner, all agreements required to preserve and protect the rights, remedies and interests of the Bank under the Loan Documents substantially in the form of the agreements previously executed and delivered by any prior general partner, as applicable; or

(k) Hardwoods Specialty Products ULC at any time and for any reason owns, directly, legally and beneficially, less than 80% of the issued and outstanding limited partnership units of the Borrower or to have the power to vote such units for all purposes; or

(l) With respect to any particular Hardwoods USLP Distribution made pursuant to Section 8.14(3) or any investment made in lieu of a Hardwoods USLP Distribution pursuant to Section 8.10(d), Excess Availability is less than $1,000,000 for the period of thirty (30) consecutive days commencing on the Business Day immediately after the date on which the Borrower makes such Hardwoods USLP Distribution or investment in lieu of a Hardwoods USLP Distribution; or

(m) the Borrower or any other Loan Party shall (i) have entered involuntarily against it a receiving order or other order for relief under the *Bankruptcy and Insolvency Act* (Canada), the *Companies' Creditors Arrangement Act* (Canada) or any other legislation in respect of bankruptcy, insolvency or relief of debtors (including without limitation the United States Bankruptcy Code), (ii) not pay, or admit in writing its inability to pay, its debts generally as they become due, or commit any other act of bankruptcy, (iii) make an assignment for the benefit of creditors, (iv) apply for, seek, consent to, or acquiesce in, the appointment of a receiver, interim receiver, custodian, monitor, trustee, examiner, liquidator or similar official for it or any substantial part of its Property, (v) institute any proceeding seeking relief (including without limitation any assignment, proposal or the giving of any notice of intention to make a proposal) under the *Bankruptcy and Insolvency Act* (Canada), the *Companies' Creditors Arrangement Act* (Canada) or any other legislation in respect of bankruptcy, insolvency or relief of debtors (including without limitation the United States Bankruptcy Code), or to adjudicate it insolvent, or seeking dissolution, winding up, liquidation, reorganization, arrangement, adjustment or composition of it or its debts under any law relating to bankruptcy, insolvency or reorganization or relief of debtors (including any plan of arrangement involving or affecting its creditors under applicable corporate law), or fail to file promptly and in good faith an answer or other pleading denying (or shall admit) the material allegations of any such proceeding filed against it or shall consent to, acquiesce in or indicate approval of, any such proceeding, (vi) take any corporate action in furtherance of any matter described in Section 9.1(m)(i) through Section 9.1(m)(v) above, or (vii) fail to contest in good faith any appointment or proceeding described in Section 9.1(n) hereof; or

(n) a custodian, monitor, receiver, receiver and manager, interim receiver, trustee, examiner, liquidator or similar official (a "**Receiver**") shall be appointed for the Borrower or any other Loan Party or any substantial part of any of their Property, or a proceeding described in Section 9.1(m)(v) shall be instituted against the Borrower or any other Loan Party, and such appointment continues undischarged or such proceeding continues undismissed or unstayed for a period of thirty (30) days, or a proceeding described in Section 9.1(m)(v) shall be instituted against any Collateral Party and a Receiver or creditor shall take possession of any Collateral of any such Collateral Party.

Section 9.2 Non-Bankruptcy Defaults

When any Event of Default described in Section 9.1 (a) through Section 9.1(l), both inclusive, has occurred and is continuing, the Bank may, by notice to the Borrower, take one or more of the following actions:

(a) terminate the obligation of the Bank to extend any further credit on the date (which may be the date thereof) stated in such notice, whether or not further credit would otherwise be available;

(b) declare the principal of and the accrued interest on any Revolving Credit Loans, and all other Obligations then outstanding, to be forthwith due and payable and thereupon any Revolving Credit Loans, and all such other Obligations, including both principal and interest and all fees, charges and other Obligations payable hereunder and under the other Loan Documents, shall be and become immediately due and payable without further demand, presentment, protest or notice of any kind; and

(c) enforce any and all rights and remedies available to it under the Loan Documents or applicable law.

Section 9.3 Bankruptcy Defaults

When any Event of Default described in Section 9.1(m) or Section 9.1(n) has occurred and is continuing, then any Revolving Credit Loans, and all other Obligations then outstanding, including both principal and interest, and all fees, charges and other Obligations payable hereunder and under the other Loan Documents, shall immediately become due and payable without presentment, demand, protest or notice of any kind, and the obligation of the Bank to extend further credit pursuant to any of the terms hereof shall immediately terminate. In addition, the Bank may exercise any and all remedies available to it under the Loan Documents or applicable law.

Section 9.4 Collateral for Undrawn Letters of Credit

When any Event of Default, other than an Event of Default described in Section 9.1(m) or Section 9.1(n), has occurred and is continuing, the Borrower shall, upon demand of the Bank, and when any Event of Default described in Section 9.1(m) or Section 9.1(n) has occurred the Borrower shall, without notice or demand from the Bank, immediately pay to the Bank the full amount of each Letter of Credit then outstanding, the Borrower agreeing to immediately make such payment and acknowledging and agreeing that the Bank would not have an adequate remedy at law for failure of the Borrower to honour any such demand and that the Bank shall have the right to require the Borrower to specifically perform such undertaking whether or not any such Letters of Credit have been presented for payment.

Section 9.5 Collateral for Outstanding Hedging Agreements

When any Event or Default other than an Event of Default described in Section 9.1(m) or Section 9.1(n) has occurred and is continuing, the Borrower shall, upon demand of the Bank, and when any Event of Default described in Section 9.1(m) or Section 9.1(n) has occurred the Borrower shall, without notice or demand from the Bank, immediately pay to the Bank the Deemed Outstanding Amount of all Hedging Agreements in respect of which the Bank has not already been fully reimbursed and pay all other amounts owing to the Bank under the terms of such Hedging Agreements, the Borrower agreeing to immediately make such payment and acknowledging and agreeing that the Bank would not have an adequate remedy at law for failure of the Borrower to honour any such demand and that the Bank shall have the right to require the Borrower to specifically perform such undertaking without regard to the date upon which the Bank is required under any outstanding Hedging Agreement to purchase any currency on behalf of the Borrower, the date upon which the Borrower is obligated to reimburse the Bank for currency purchased by the Bank on its behalf or the date upon which the Borrower is obligated to pay to the Bank any other amounts owing to the Bank under the terms of such Hedging Agreement.

ARTICLE 10
MISCELLANEOUS

Section 10.1 Non Business Days

If any payment hereunder becomes due and payable on a day that is not a Business Day, the due date of such payment shall be extended to the next succeeding Business Day on which date such payment shall be due and payable. In the case of any payment of principal falling due on a day which is not a Business Day, interest on such principal amount shall continue to accrue during such extension at the rate per annum then in effect, which accrued amount shall be due and payable on the next scheduled date for the payment of interest.

Section 10.2 No Waiver, Cumulative Remedies

No delay or failure on the part of the Bank in the exercise of any power or right shall operate as a waiver thereof or as an acquiescence in any default, nor shall any single or partial exercise of any power or right preclude any other or further exercise thereof or the exercise of any other power or right. No provision of any Loan Document as to any commercially reasonable manner or process of or in respect of the exercising of any right or remedy shall be construed as meaning no other manner or process is commercially reasonable. The rights and remedies hereunder of the Bank are cumulative to, and not exclusive of, any rights or remedies that it would otherwise have.

Section 10.3 Amendment, Notices

No amendment, modification, termination or waiver of any provision of this Agreement or of any other Loan Document, nor consent to any departure by the Borrower or any other Collateral Party therefrom, shall in any event be effective unless the same shall be in writing and signed by the Bank. No notice to or demand on the Borrower or any other Collateral Party in any case shall entitle the Borrower or any other Collateral Party to any other or further notice or demand in similar or other circumstances.

Section 10.4 Most Favoured Lender.

The Borrower will ensure that, if any Loan Party provides to any other lender any positive, negative or financial covenant which is not specifically included in this Agreement and that is more favourable to such lender than the covenants herein, then this Agreement shall be deemed to be amended automatically, *mutatis mutandis*, to include the benefit of such other positive, negative or financial covenant, as the case may be, effective as of the date on which such covenant was made in favour of such other lender; provided that if any such covenant is changed in a manner that is more favourable to such lender at any time after such covenant is deemed to be included herein, the same change will automatically apply, *mutatis mutandis*, to such covenant in this Agreement.

Section 10.5 Costs, Expenses and General Indemnity

(a) The Borrower agrees to pay on demand the costs and expenses of the Bank in connection with the negotiation, preparation, execution and delivery of this Agreement and the other Loan Documents and the other instruments and documents to be delivered thereunder, and in connection with the recording and filing of any of the foregoing as well as in connection with legal work (on a solicitor client basis and including Lien search and filing fees) and advice, field examinations, lien searches and filings and independent appraisals from time to time undertaken and obtained by the Bank in its administration of the credit facilities provided for herein, and in connection with the transactions contemplated hereby or thereby, and in connection with any consents hereunder and any waivers or amendments hereto or thereto, including the reasonable fees and expenses of counsel for the Bank, with respect to all of the foregoing (whether or not the transactions contemplated hereby are consummated). The Borrower further agrees to pay on demand to the Bank or any other holder of the Obligations all costs and expenses (including court costs and legal fees and disbursements on a solicitor client basis), if any, incurred or paid by the Bank or any other holder of the Obligations in connection with any Default or Event of Default or in connection with the enforcement or attempted enforcement of this Agreement or any other Loan Document or any other instrument or document delivered thereunder.

(b) The Borrower further agrees to indemnify the Bank, and any security trustee, and their respective successors, assigns, agents, directors, officers and employees, against all losses, claims, damages, penalties, judgments, liabilities and expenses (including, without limitation, all expenses of litigation or preparation therefor, whether or not the indemnified person is a party thereto) which any of them may pay or incur arising out of or relating to any Loan Document or any of the transactions contemplated thereby or the direct or indirect application or proposed application of the proceeds of any Extension of Credit made available hereunder, other than those which arise from the gross negligence or wilful misconduct of the party claiming indemnification. The Borrower, upon demand by the indemnified party at any time, shall reimburse such indemnified party for any legal or other expenses incurred in connection with investigating or defending against any of the foregoing except if the same is directly due to the gross negligence or wilful misconduct of the party to be indemnified. The obligations of the Borrower under this Section 10.4 shall survive the termination of this Agreement.

Section 10.6 Environmental Indemnity

In addition to any other liability of the Borrower hereunder or under any other Loan Document, the Borrower agrees to indemnify and save harmless the Indemnitees from and against:

(a) any losses suffered by them for, in connection with, or as a direct or indirect result of, the failure of any Loan Party to comply with all Requirements of Environmental Law;

(b) any losses suffered by the Indemnitees for, in connection with, or as a direct or indirect result of, the presence of any Hazardous Material situated in, on or under any Property owned by any Loan Party or upon which it carries on business; and

(c) any and all liabilities, losses, damages, penalties, expenses (including reasonable legal fees on a solicitor and his own client basis) and claims which may be paid, incurred or asserted against the Indemnitees for, in connection with, or as a direct or indirect result of, any legal or administrative proceedings with respect to the presence of any Hazardous Material on or under any Property owned by any Loan Party or upon which it carries on business, or the discharge, emission, spill, radiation or disposal by any of them of any Hazardous Material into or upon any Property, the atmosphere, or any watercourse or body of water; including, without limitation the costs of defending and/or counterclaiming or claiming over against third parties in respect of any action or matter and any cost, liability or damage arising out of a settlement entered into by the Indemnitees of any such action or matter;

except, as it relates to any Indemnitee, to the extent that any of the foregoing liabilities, losses, damages, penalties and expenses were caused by the negligence or wilful misconduct of such Indemnitee. The obligations of the Borrower under this Section shall survive the termination of this Agreement.

Section 10.7 Taxes

(1) Any and all payments by or on account of any obligation of the Borrower hereunder shall be made free and clear of and without deduction for any Indemnified Taxes or Other Taxes; provided that if the Borrower shall be required to deduct any Indemnified Taxes or Other Taxes from such payments, then (i) the sum payable shall be increased as necessary so that, after making all required deductions (including deductions applicable to additional sums payable under this Section), the Bank receives an amount equal to the sum it would have received had no such deductions been made,

(ii) the Borrower shall make such deductions and (iii) the Borrower shall pay the full amount deducted to the relevant Governmental Authority in accordance with applicable law. In addition, the Borrower shall pay an Other Taxes due and payable to the relevant Governmental Authority in accordance with applicable law.

(2) The Borrower shall indemnify the Bank within 10 days after written demand therefore, 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 Bank 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. A certificate as to the amount of such payment or liability delivered to the Borrower by the Bank shall be conclusive absent manifest error.

(3) As soon as practicable after any payment of Indemnified Taxes or Other Taxes by the Borrower to a Governmental Authority, the Borrower shall deliver to the Bank 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 Bank.

Section 10.8 Documentary Taxes

The Borrower agrees to pay upon demand any documentary, stamp or similar taxes payable in respect of this Agreement or any other Loan Document, including interest and penalties, in the event any such taxes are assessed, irrespective of when such assessment is made and whether or not any credit is then in use or available hereunder.

Section 10.9 Survival of Representations

All representations and warranties made herein or in any of the other Loan Documents or in certificates given pursuant hereto or thereto shall survive the execution and delivery of this Agreement and the other Loan Documents, and shall continue in full force and effect with respect to the date as of which they were made as long as any credit is in use or available hereunder.

Section 10.10 Notices

Except as otherwise specified herein, all notices hereunder or under any of the Loan Documents shall be in writing (including cable, telecopy or telex) and shall be given to the relevant party at its address, telecopier number or telex number set forth below, or such other address, telecopier number or telex number as such party may hereafter specify by notice to the other given by registered mail, by telecopy or by other telecommunication device capable of creating a written record of such notice and its receipt. Notices hereunder shall be addressed as follows:

if to the Borrower:

Hardwoods Specialty Products LP
#306-9440 202nd Street
Langley, BC
V1M 4A6

Attention:	Chief Financial Officer
Telephone:	(604) 881-1990
Facsimile:	(604) 881-1995

with a copy to:

Farris, Vaughan, Wills & Murphy LLP
25th Floor, 700 West Georgia Street
Vancouver, BC
V7Y 1B3

Attention:	Mitchell H. Gropper Q.C.
Telephone:	(604) 661-9322
Facsimile:	(604) 661-9349

if to the Bank:

Bank of Montreal
Asset Based Lending
11th Floor, First Canadian Place
Toronto, Ontario
M5X 1A1

Attention:	Vice President, Asset Based Lending
Telephone:	(416) 643-4414
Facsimile:	(416) 643 4249

Each such notice, request or other communication shall be effective (i) if given by telecopier, when such telecopy is transmitted to the telecopier number specified in this Section 10.10 and a confirmation of such telecopy has been received by the sender, (ii) if given by facsimile, when such facsimile is transmitted to the facsimile number specified in this Section 10.10 and the answerback is received by sender,

(iii) if given by mail, five (5) days after such communication is deposited in the mail, registered with return receipt requested, addressed as aforesaid, or (iv) if given by any other means, when delivered at the addresses specified in this Section 10.10; provided that any notice given pursuant to Section 10.10 hereof shall be effective only upon receipt.

Section 10.11 Construction

If any Collateral Party includes more than one Person, all payment, indemnity and other obligations of such Persons hereunder and under the other Loan Documents (including without limitation all payment, indemnity and other obligations under the Applications and the Hedging Agreements whether or not expressed as joint and several therein or executed by all such Persons) shall be joint and several (for greater certainty, notwithstanding the payment of proceeds of any Revolving Credit Loan to either or all such Persons) and each reference herein or in any other Loan Document to such Collateral Party shall be construed as meaning each such Person as well as any or all of them, as the context requires. Each such Person hereby irrevocably appoints the other as its agent and attorney for the purpose of incurring obligations to and receiving Revolving Credit Loan proceeds from the Bank on its behalf. The provisions of this Agreement relating to Subsidiaries shall only apply during such times as the Borrower has one or more Subsidiaries. To the extent of any conflict or inconsistency between any provision in this Agreement and any provision in another Loan Document, the provision in this Agreement shall govern.

Section 10.12 Headings

Section headings used in this Agreement are for convenience of reference only and are not a part of this Agreement for any other purpose.

Section 10.13 Severability of Provisions

Any provision of this Agreement that is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof or affecting the validity or enforceability of such provision in any other jurisdiction.

Section 10.14 Counterparts

This Agreement may be executed in any number of counterparts, and by different parties hereto on separate counterpart signature pages, whether by telecopy or otherwise, and all such counterparts taken together shall be deemed to constitute one and the same instrument.

Section 10.15 Set Off

The Borrower, for itself and the other Loan Parties, hereby authorizes the Bank at any time and from time to time to set off and apply any and all deposits (general or special, time or demand, provisional or final, due or not due) at any time held by the Bank in any Loan Party's name and in which such Loan Party has an interest, and any and all debts and obligations at any time owing by the Bank to or for the credit or account of such Loan Party, against any or all of the Obligations or the indebtedness or obligations of such Loan Party to the Bank. The rights of the Bank under this Section 10.15 are in addition to all other rights and remedies (including without limitation, other rights of set off and combination) that the Bank may have.

Section 10.16 Binding Nature, Assignment, Governing Law

This Agreement shall be binding upon the Borrower, and its successors and permitted assigns, and shall inure to the benefit of the Bank and the benefit of its successors and assigns, including any subsequent holder of the Obligations. The Borrower hereby consents to the Bank's sale, assignment, transfer or other disposition, at any time and from time to time hereafter, of this Agreement, the other Loan Documents and the Obligations, or of any portion thereof (including, without limitation, the Bank's rights, title, interests, remedies, powers and/or duties thereunder), and any grant of participations made by the Bank from time to time therein. The Borrower shall not assign its rights hereunder without the prior written consent of the Bank. This Agreement constitutes the entire understanding of the parties with respect to the subject matter hereof and any prior agreements, whether written or oral, with respect thereto are superseded hereby. This Agreement and the other Loan Documents and the rights and duties of the parties hereto and thereto shall, except as otherwise specified therein, be governed by, and construed in accordance with, the internal laws of the Province of British Columbia and the federal laws of Canada applicable therein without regard to principles of conflicts of laws.

Section 10.17 Submission to Jurisdiction; Waiver of Jury Trial

The Borrower hereby submits to the non-exclusive jurisdiction of the courts of competent jurisdiction located in the Province of British Columbia for purposes of all legal proceedings arising out of or relating to this Agreement, the other Loan Documents or the transactions contemplated hereby or thereby. The Borrower irrevocably waives, to the fullest extent permitted by law, any objection which it may now or hereafter have to the commencement and prosecution of any such proceeding brought in such a court and any claim that any such proceeding brought in such a court has been brought in an inconvenient forum. The Borrower and the Bank each hereby irrevocably waive any and all right to trial by jury in any legal proceeding arising out of or relating to any Loan Document or the transactions contemplated thereby.

Section 10.18 Judgment Currency

If in the recovery by the Bank of any amount owing by any other party hereunder or under any other Loan Document in any currency, judgment can only be obtained in another currency, and because of changes in the exchange rate of such currencies between the date of such judgement and payment in full of the amount of such judgment, the recovery under the judgment is less than the full amount owed by such other party, such other party shall pay any such shortfall to the Bank and such shortfall can be claimed by the Bank against such party as an alternative or additional cause of action.

Section 10.19 Exchange of Information

The Borrower hereby acknowledges and consents to the exchange and sharing of information by the Bank with other members of the BMO Financial Group, which includes the Bank and its subsidiaries and affiliates.

IN WITNESS WHEREOF this Agreement has been executed and delivered as of the date first mentioned above by the parties hereto under the hands of their proper officers duly authorized in that behalf.

BANK OF MONTREAL

By: ______________________
Michael Kenney
Vice President

By: ______________________
Gary Still
Senior Manager

Address: 1 First Canadian Place
11th Floor
Toronto, Ontario
M5X 1A1

HARDWOODS SPECIALTY PRODUCTS LP, by its general partner, HARDWOODS SPECIALTY PRODUCTS GP INC.

By: ______________________
Name:
Title:

IN WITNESS WHEREOF this Agreement has been executed and delivered as of the date first mentioned above by the parties hereto under the hands of their proper officers duly authorized in that behalf.

BANK OF MONTREAL

By: ______________________________

Michael Kenney

Vice President

By: ______________________________

Gary Still

Senior Manager

Address: 1 First Canadian Place
11th Floor
Toronto, Ontario
M5X 1A1

HARDWOODS SPECIALTY PRODUCTS LP, by its general partner, HARDWOODS SPECIALTY PRODUCTS GP INC.

By: Rob Brown.

Name: Rob Brown

Title: CFO

EXHIBIT A
BORROWING BASE CERTIFICATE

EXHIBIT B
COMPLIANCE CERTIFICATE

This Compliance Certificate is furnished to Bank of Montreal (the "**Bank**") pursuant to that certain Credit Agreement dated as of August 7, 2009, between Hardwoods Specialty Products LP (the "**Borrower**") and the Bank (such credit agreement, as amended, supplemented, restated or replaced from time to time, the "**Credit Agreement**"). Unless otherwise defined herein, the terms used in this Compliance Certificate have the meanings ascribed thereto in the Credit Agreement.

THE UNDERSIGNED HEREBY CERTIFIES THAT:

(1) I am the ______________________________________ of the Borrower.

(2) I have reviewed the terms of the Credit Agreement and I have made, or have caused to be made under my supervision, a detailed review of the transactions and conditions of the Borrower and its Subsidiaries during the accounting period covered by the attached financial statements.

(3) The examinations described in paragraph 2 above did not disclose, and I have no knowledge of, the existence of any condition or the occurrence of any event which constitutes a Default or Event of Default during or at the end of the accounting period covered by the attached financial statements or as of the date of this Compliance Certificate, except as set forth in paragraph (6) below.

(4) The financial statements required by Section 8.5 of the Credit Agreement and being furnished to you concurrently with this Compliance Certificate are, to the best of my knowledge, true and complete as of the dates and for the periods covered thereby.

(5) Schedule A attached hereto sets forth financial data and computations evidencing the Borrower's compliance with certain covenants of the Credit Agreement, all of which data and computations are, to the best of my knowledge, true, complete and correct and have been made in accordance with the relevant Sections of the Credit Agreement.

(6) Described below are the exceptions, if any, to paragraph 3 above, which list, in detail, the nature of the condition or event, the period during which it has existed and the action which the Borrower has taken, is taking, or proposes to take with respect to each such condition or event: ●

The foregoing certifications, together with the computations set forth in Schedule A attached hereto and the financial statements delivered with this Compliance

Certificate in support hereof, are made and delivered this ________ day of ____________________, ________.

HARDWOODS SPECIALTY PRODUCTS LP, by its general partner, HARDWOODS SPECIALTY PRODUCTS GP INC.

By: ______________________________

Name:

Title:

SCHEDULE A

to a Compliance Certificate furnished to Bank of Montreal (the "Bank") pursuant to the Credit Agreement dated as of August 7, 2009 between Hardwoods Specialty Products LP (the "Borrower") and the Bank (such credit agreement, as amended, supplemented, restated or replaced from time to time, the "Credit Agreement").

Dated as of ______________, ____________

Calculations for the Twelve Month Period ending ______________, ________

Fixed Charge Coverage Ratio (Section ●)

	Borrower	
EBITDA	$__________	A1
Cash Taxes paid	$__________	A2
Unfunded capital expenditures	$__________	A3
Add lines A2 and A3	$__________	A4
Subtract Line A4 from Line A1	$__________	A5
Interest Expense	$__________	A6
Scheduled principal repayments of long term debt (including capital	$__________	A7

leases, subordinate debt and preferred shares)		
Add lines A6 and A7	$__________	A8
Ratio of Line A5 to A8	__________: 1.0	A9*

*Line A9 must not be less than 1.1:1.0

Distributable Cash

	Borrower	
Cash Distributed to Unit Holders	$__________	B1
EBITDA	$__________	B2
Cash taxes paid	$__________	B3
Unfinanced capital expenditures incurred	$__________	B4
Interest Expense	$__________	B5

Principal payments on long term debt (including capital leases, subordinate debt and preferred shares)	$__________	B6
Add Line B3, B4, B5 and B6	$__________	B7
Subtract Line B7 from Line B2	$__________	B8
Cash Balance (as reflected on the applicable Balance Sheet)	$__________	B9
Add Line B8 and B9	$__________	B10*

*B10 must be greater than B1

SCHEDULE 1
DEFINITIONS

"**Acceleration**" is defined in Section 3.11(3) hereof.

"**Affiliate**" of any Person means any other Person directly or indirectly controlling or controlled by, or under direct or indirect common control with, such first mentioned Person. A Person shall be deemed to control another Person for purposes of this definition if such Person possesses, directly or indirectly, the power to direct, or cause the direction of, the management and policies of the other Person, whether through the ownership of voting securities, common directors, trustees or officers, by contract or otherwise; provided that, in any event for purposes of this definition, any Person that owns, directly or indirectly, 5% or more of the securities having the ordinary voting power for the election of directors or governing body of a corporation or 5% or more of the partnership or other ownership interests of any other Person (other than as a limited partner of such other Person) will be deemed to control such corporation or other Person.

"**Agreement**" means this Credit Agreement, as the same may be amended, modified or restated from time to time in accordance with the terms hereof.

"**Allowed Subordinated Indebtedness**" means any indebtedness of the Borrower that has been consented to in writing by the Bank; in each case provided that all such indebtedness is subordinated and postponed in favour of the Bank by agreements in form and substance satisfactory to the Bank and all security granted in connection with any such indebtedness has been postponed and subordinated in favour of the Bank by agreements in form and substance acceptable to the Bank.

"**Application**" is defined in Section 2.3 hereof.

"**Authorized Representative**" means, as of any particular time of determination, those persons shown on the list of officers provided by the Borrower pursuant to Section 7.2(a) hereof, or on any update of any such list provided by the Borrower to the Bank, and any other officer of the Borrower so named by any Authorized Representative of the Borrower in a written notice given to the Bank and not withdrawn.

"**Availment Option**" means a method of borrowing which is available to the Borrower under the Revolving Credit as provided herein.

"**Bank**" is defined in the introductory paragraph hereof.

"**Bankers' Acceptance**" means a Draft that has been completed and accepted by the Bank.

"**Base Rate**" is defined in Section 2.2 hereof.

"**BNS Credit Agreement**" means the credit agreement dated as of March 23, 2004 between the Borrower and The Bank of Nova Scotia, as amended to date.

"**Borrower**" is defined in the first recital of this Agreement.

"**Borrowing Base**" means, as of any particular date of determination, the sum of:

(a) 90%, in the case of Insured Eligible Accounts, and 85%, in the case of the other Eligible Accounts (or such lesser percentage as the Bank may determine from time to time pursuant to Section 2.1 hereof), of the remainder of the then outstanding unpaid amount of Eligible Accounts, minus all returns, rebates, discounts (which may, at the Bank's option, be calculated on the shortest terms), credits, allowances, finance charges and/or taxes of any nature at any time issued, owing, available to or claimed by account debtors, granted, outstanding or payable in connection with such Eligible Accounts at such time; plus

(b) the lesser of (i) 65% (or such lesser percentage as the Bank may determine from time to time pursuant to Section 2.1 hereof) of the value (computed at the lower of market or cost using the weighted average cost method of inventory valuation applied by the Borrower in accordance with GAAP) of Eligible Inventory at such time, and (ii) 85% (or such lesser percentage as the Bank may determine from time to time pursuant to Section 2.1 hereof) of the Net Orderly Liquidation Value of Eligible Inventory at that time; minus

(c) such Reserves (including all Priority Payables) as may be applicable at such time of determination pursuant to Section 2.1.

provided that (i) the value of all Inventory included in the Borrowing Base shall not exceed the lesser of (A) 60% of the Borrowing Base (before deducting Reserves), and (B) 60% of the Revolving Credit Limit, and (ii) the Borrowing Base shall be computed only in respect of such Collateral as is included on the certificates to be furnished from time to time by the Borrower pursuant to this Agreement and, if required by the Bank pursuant to any of the terms hereof or any Collateral Document, as verified by such other evidence required to be furnished to the Bank pursuant hereto or pursuant to any such Collateral Document.

"**Business Day**" means any day other than a Saturday or Sunday or such other day on which banks are authorized or required to close in Toronto, Ontario.

"**Canadian Dollar Equivalent**" means, on any given date with respect to any particular currency, the amount of Canadian Dollars which could be purchased with the relevant amount of such currency at the then applicable Spot Rate at 11:00 a.m. Toronto time on such date (and if such date is not a Business Day, on the immediately preceding Business Day) for the purchase of Canadian Dollars with such currency.

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

"**Canadian Revolving Credit Loans**" is defined in Section 2.2 hereof.

"**Capital Lease**" means any lease of Property that in accordance with GAAP is required to be capitalized on the balance sheet of the lessee.

"**Capitalized Lease Obligation**" means the amount of the liability shown on the balance sheet of any Person in respect of a Capital Lease as determined in accordance with GAAP.

"**CDOR Rate**" means on any day the annual rate of interest which is the rate determined as being the arithmetic average of the quotations of all institutions listed in respect of the "**BA 1 Month**" Rate for Canadian Dollar denominated bankers' acceptances displayed and identified as such on the "**Reuters Screen CDOR Page**" (as defined in the International Swap Dealer Association, Inc. definitions, as modified and amended from time to time) as of 10:00 a.m. Toronto, Ontario local time on such day and, if such day is not a Business Day, then on the immediately preceding Business Day (as adjusted by the Bank after 10:00 a.m. Toronto, Ontario local time to reflect any error in a posted rate of interest or in the posted average annual rate of interest); and if such rates are not available on the Reuters Screen CDOR Page on any particular day, then the CDOR Rate on that day shall be calculated as the 30 day rate applicable to Canadian Dollar denominated bankers' acceptances quoted by the Bank as of 10:00 a.m. Toronto, Ontario local time on such day; or if such day is not a Business Day, then as quoted by the Bank on the immediately preceding Business Day.

"**Closing Date**" the date of this Agreement or such later Business Day on which each condition described in Section 7.2 hereof shall have been satisfied or waived in a manner acceptable to the Bank in its sole discretion.

"**Collateral**" means all properties, assets, rights, interests and privileges from time to time subject to the Liens granted to the Bank pursuant to the Collateral Documents.

"**Collateral Documents**" means all charges, mortgages, deeds of trust, debentures, hypothecs, security agreements, assignments, pledges and other documents as shall from time to time directly or indirectly secure the Obligations, and all guarantees in respect of all or any part of the Obligations.

"**Collateral Party**" means any Person that has executed a Collateral Document.

"**Conversion**" means the substitution of one Availment Option for another Availment Option and does not constitute a reborrowing hereunder.

"**Deemed Outstanding Amount**" in respect of any Hedging Agreement, means 10%, or such other percentage that the Bank shall determine from time to time in its discretion, of the maximum amount payable by the Borrower to the Bank thereunder (for which purpose, any amount payable in a currency other than Canadian Dollars shall be deemed to be the Canadian Dollar Equivalent of such amount).

"**Default**" means any event or condition the occurrence of which would, with the passage of time or the giving of notice, or both, constitute an Event of Default.

"**Distribution**" by any person means:

(a) any payment, dividend, return of capital or other distribution on or in respect of securities (including partnership units or interests) issued by such person (other than by the issuance of other securities that do not constitute Indebtedness for Borrowed Money of such person);

(b) any purchase, redemption, retraction or other acquisition by such person of any of its issued securities (other than by the issuance of other securities that do not constitute Indebtedness for Borrowed Money of such person);

(c) any consulting, licensing, management or administration fee or charge or any similar fee or charge paid or payable to any affiliate of such person (other than any such payment made in the ordinary course of business in respect of goods or services provided on terms and conditions no less favourable to the payer than would apply in a similar transaction entered into with an arm's-length party);

(d) any payment by such person on account of any principal of any loans or advances owed by it to any of its directors, officers, partners or shareholders or any of its or their respective affiliates; or

(e) any loan to, or guarantee of the indebtedness of, or other financial assistance (other than directors fees and other remuneration paid in the ordinary course of business) provided to, any of the directors, officers, partners or shareholders of such person or any of its or their respective affiliates, or any other person not dealing at arm's-length with such person or any of such directors, officers, partners, shareholders or affiliates, other than employee housing and relocation assistance provided to employees in the ordinary course of business.

"**Draft**" means, at any time, either a depository bill within the meaning of the *Depository Bills and Notes Act* (Canada), or a bill of exchange within the meaning of the *Bills of Exchange Act* (Canada), drawn by the Borrower on the Bank and bearing such distinguishing letters and numbers as the Bank may determine, but which at such time has not been completed by the Bank, as the payee, or accepted by the Bank.

"Drawing" means the purchase of completed Drafts by the Bank.

"Drawing Date" means, with respect to any particular Draft, the Business Day fixed for such Drawing in the applicable Drawing Notice.

"Drawing Fee" means, with respect to any particular Draft drawn by the Borrower and purchased by the Bank on a Drawing Date, an annual amount equal to 3.50% of the face amount of such Draft, calculated on the basis of the term to maturity of the Draft and a year of 365 days.

"Drawing Notice" is defined in Section 2.4(3) hereof.

"Drawing Price" means, with respect to any particular Bankers' Acceptance, the difference between (i) the result (rounded to the nearest whole cent, with one-half of one cent being rounded up) obtained by dividing the face amount of such Bankers' Acceptance by the sum of one plus the product of (A) the Discount Rate multiplied by (B) a fraction the numerator of which is the number of days from the Drawing Date to the maturity date of such Bankers' Acceptance and the denominator of which is 365, and (ii) the applicable Drawing Fee.

"**EBITDA**" means, with reference to any period, Net Income for such period plus all amounts deducted in arriving at such Net Income amount in respect of (i) Interest Expense for such period, and (ii) income taxes for such period, and (iii) all amounts properly charged for depreciation of fixed assets and amortization of intangible assets during such period on the books of the Borrower and its Subsidiaries, and (iv) eliminating any non-cash items deducted or added in determining Net Income such as extraordinary or unusual gains/losses, write down of goodwill and other similar extraordinary or unusual items.

"**EDC Policy**" means a policy of insurance satisfactory to the Bank and held with Export Development Canada or such other insurer as the Bank shall have approved in writing.

"**Election Notice**" is defined in Section 2.8(2) hereof.

"**Eligible Accounts**" means any Receivable arising from the sale of Inventory in the ordinary course of the Borrower's business, which the Bank determines, in its reasonable credit judgement, to be an "Eligible Account" based upon the following criteria or as otherwise determined as set forth below (but without limiting the discretion of the Bank to establish, at any time and from time to time, in its reasonable credit judgement, other criteria for such eligibility):

(f) such Receivable is subject to the Bank's perfected, first priority Lien and no other Liens other than Permitted Liens;

(g) such Receivable is evidenced by an invoice or other documentary evidence satisfactory to the Bank;

(h) such Receivable does not arise out of a sale made by the Borrower to an Affiliate of the Borrower or to a Person controlled by an Affiliate of the Borrower;

(i) such Receivable is not unpaid more than ninety (90) days after the original invoice date (which must be not more than five (5) days subsequent to the related shipment date or the date services were fully performed by the Borrower), but in any event, not more than sixty (60) days past the date that payment is due;

(j) such Receivable is not owing from an account debtor in respect of which 25% or more of the aggregate amount of all Receivables from such account debtor are unpaid more than ninety (90) days after the original invoice dates or more than sixty (60) days past the respective dates on which payment of such amounts are due;

(k) such Receivable would not cause the total Receivables owing from any one account debtor and its Affiliates to exceed 10% of all Eligible Accounts;

(l) no covenant, representation or warranty contained in this Agreement with respect to such Receivable has been breached;

(m) the account debtor in respect of such Receivable is not a creditor or supplier of the Borrower, such account debtor has not disputed its liability or made any claim with respect to any other Receivable due from such account debtor to the Borrower, nor has such account debtor set-off, nor is it entitled to set-off any other amount against payment of such Receivable;

(n) none of the following events has occurred and is continuing with respect to the applicable account debtor for such Receivable: (i) death or judicial declaration of incompetency of an account debtor who is an individual; (ii) the filing by or against the account debtor of a request, proposal, notice of intent to file a proposal, proceeding, action or petition for liquidation, reorganization, arrangement, adjustment of debts, adjudication as a bankrupt, winding-up, or other relief (including any plan of arrangement involving or affecting its creditors under applicable corporate law) under the bankruptcy, insolvency, restructuring, liquidation, winding-up, corporate or similar laws of Canada, any province or territory thereof, or any foreign jurisdiction, now or hereafter in effect; (iii) the making of a general assignment by the account debtor for the benefit of creditors; (iv) the appointment of a receiver, trustee, monitor, custodian, liquidator, administrator, interim receiver, monitor or trustee or other official for the account debtor or for any of the assets of the account debtor, including "trustee" under the *Bankruptcy and Insolvency Act,* (Canada); (v) the institution by or against the account debtor of any other type of insolvency, liquidation, bankruptcy, winding-up or reorganization proceeding (under the laws of Canada, the United States of America or otherwise, including applicable corporate statutes, the *Bankruptcy and Insolvency Act* (Canada) and the *Companies' Creditors Arrangement Act* (Canada) or of any formal or informal proceeding for the dissolution or liquidation of, settlement of claims against, or winding up of affairs of, the account debtor; (vi) the sale, assignment, or transfer of all or any material part of the assets of the account debtor; (vii) the non-payment generally by the account debtor of its debts as they become due; (viii) the failure, cessation of the business of the account debtor as a going concern or insolvency of the account debtor; or (ix) the account debtor calling a meeting of its creditors or indicating its consent to any proceeding or action hereinabove described;

(o) the sale giving rise to such Receivable was not made to an account debtor outside Canada or the United States of America, unless the sale is on letter of credit, guarantee or acceptance terms, in each case, as applicable, acceptable to the Bank in its reasonable credit judgment;

(p) the sale giving rise to such Receivable was not made on a bill and hold, pre-billed, guaranteed sale, sale-and-return, sale on approval, consignment or any other repurchase or return basis and is not evidenced by chattel paper;

(q) the Bank has not determined, in its sole discretion, that collection of such Receivable is insecure or that such Receivable may not be paid by reason of the account debtor's financial inability to pay and written notice thereof has been provided to the Borrower;

(r) the account debtor is not the Government of the United States of America, any State, or any department, agency or instrumentality of any of them, unless the Borrower assigns its right to payment of such Receivable to the Bank pursuant to the *Assignment of Claims Act* of 1940, as amended (31 U.S.C. Sub-Section 203 et seq.) or has otherwise complied with all other applicable laws, statutes, regulations and ordinances;

(s) the account debtor is not the Government of Canada nor any province thereof, nor any agency or instrumentality thereof, unless the Borrower has complied with all applicable laws, statutes (including the *Financial Administration Act* (Canada)), regulations and ordinances in order to duly and validly assign such Receivable to the Bank;

(t) such Receivable is not subject to any offset, deduction, defence, dispute, or counterclaim or otherwise contingent in any respect or for any reason;

(u) such Receivable does not represent amounts that have been rebilled or that are subject to any credit notes, allowances, or rebates, including volume rebates;

(v) the Borrower has not made any agreement with such account debtor for any extension of the time for payment or any deduction from payment, except for discounts or allowances made in the ordinary course of business for prompt payment, all of which discounts or allowances are reflected in the calculation of the face value of each applicable invoice related to such Receivable;

(w) shipment of the merchandise or the rendition of services has been completed and the Receivable does not otherwise represent a progress billing and the account debtor's obligation to pay is not otherwise conditional upon completion of any further performance under any contract, agreement or arrangement;

(x) no return, rejection or repossession of the merchandise has occurred;

(y) such Receivable is payable to the Borrower; and

(z) such Receivable is otherwise satisfactory to the Bank as determined in good faith by the Bank in the exercise of its reasonable credit judgment upon written notice being provided to the Borrower;

provided, however, that the Bank determines, in its reasonable credit judgment (and not based upon the foregoing criteria), that a Receivable is not eligible for determination of the Borrowing Base, the Bank will provide the Borrower with written notice of such determination not less than three (3) Business Days prior to the exclusion of such Receivable from such calculation, unless an Event of Default has occurred and is continuing, in which event no such prior notice is required (any such change being consistent with the normal operating procedures of the Bank) relating to the determination of Eligible Accounts and such change will take effect upon the date on which the next Borrowing Base Certificate is required to be delivered after such notice has been given.

"**Eligible Inventory**" means all raw materials and finished goods Inventory of the Borrower (other than packaging, crating, supplies, shipping, storing and other ancillary Inventory) which the Bank, in its reasonable judgment, deems to be Eligible Inventory; provided that in no event shall Inventory be deemed Eligible Inventory unless:

(a) all representations and warranties set forth herein and in the Collateral Documents with respect to such Inventory are true and complete;

(b) such Inventory is an asset of the Borrower to which it has good and marketable title, is freely assignable, and is subject to a perfected, first priority Lien in favour of the Bank free and clear of any other Liens;

(c) such Inventory is located at facilities of the Borrower that have been approved in writing by the Bank and, in the case of any facilities not owned by the Borrower, such facilities are at all times subject to landlord waiver agreements in form and substance satisfactory to the Bank, or an appropriate Reserve has been established by the Bank in respect of any such leased facility (which Reserve shall be equal to three months' rent in respect of each such leased facility as of the Closing Date), or the Bank otherwise agrees in writing;

(d) such Inventory is not so identified to a contract to sell that it constitutes, and has not otherwise given rise to, a Receivable;

(e) such Inventory is not damaged, unsaleable, obsolete or slow moving, and is otherwise of good and merchantable quality free from any defects which might adversely affect the market value thereof; and

(f) such Inventory is not held by the Borrower on consignment;

(g) Inventory is held at a location where the aggregate value of all such Inventory does not exceed $50,000;

and, in determining the value of any Eligible Inventory, if such Inventory was purchased within 30 days preceding the date of such determination, the value thereof shall be reduced by the amount of any account payable owing by the Borrower in respect thereof, and the value of any Eligible Inventory shall be reduced by the amount of any mark-up of costs thereof relating to duty, freight or any other additional accrued cost factor.

"**Equipment**" means all equipment and any other machinery, tools, fixtures, trade fixtures, furniture, furnishings, office equipment, vehicles and all other goods now or hereafter used or usable in connection with the Borrower's business, together with all parts, accessories and attachments relating to any of the foregoing.

"**Event of Default**" means any event or condition identified as such in Section 9.1 hereof.

"**Excess Availability**" means as of any date of calculation by the Bank, the amount that is equal to (i) the Borrowing Base, minus (ii) the Canadian Dollar Equivalent of the aggregate principal amount of all Extensions of Credit under the Revolving Credit as of the close of business on such date and, for purposes of determining "Excess Availability" pursuant to Section 8.14(3), such calculation shall be made after giving effect to the proposed Hardwoods USLP Distribution.

"**Exchange Agreement**" means the amended and restated exchange agreement between the Fund, Hardwoods Trust, the Borrower, Hardwoods GP, Hardwoods Speciality Products Corp., Hardwoods Washington, Hardwoods USLP, Sauder Hardwoods, Inc., and Hardwoods, Inc., dated March 31, 2008 and the agreements referenced therein, in each case as amended or restated from time to time in accordance with this Agreement.

"**Excluded Taxes**" means with respect to the Bank or any other recipient of any payment to be made by or on account of any obligation of the Borrower hereunder:

(h) income or franchise taxes imposed on (or measured by) its net income by Canada or by the jurisdiction under the laws of which such recipient is organized or in which its principal office is located; or

(i) any branch profits taxes imposed by Canada or any similar tax imposed by any other jurisdiction in which the Borrower is located which are imposed on (or measured by) its net income in Canada or such other jurisdiction, as applicable.

"**Extension of Credit**" means an extension of credit by the Bank to the Borrower pursuant to this Agreement, including for greater certainty, an extension of credit in the form of a Revolving Credit Loan, a Letter of Credit, a MasterCard Advance, a Bankers' Acceptance or a Hedging Agreement.

"**Fixed Charge Coverage Ratio**" means, with respect to any particular Twelve Month Period, the ratio of (i) EBITDA for such period, minus cash income taxes and unfunded capital expenditures paid during such period, to (ii) Interest Expense plus scheduled principal repayments of long term debt (including, without limitation, senior and subordinated debt, preferred shares and Capitalized Lease Obligations) paid during such period.

"**Forward Contract**" means a foreign exchange forward contract, in form and substance satisfactory to the Bank, entered into by the Borrower with the Bank.

"**Fund**" means Hardwoods Distribution Income Fund, a trust established under the laws of the Province of British Columbia.

"**GAAP**" means generally accepted accounting principles as in effect from time to time in Canada, applied by the Borrower and its Subsidiaries on a basis consistent with the preparation of the Borrower's most recent financial statements furnished to the Bank pursuant to Section 6.5 hereof.

"**Governmental Authority**" means any: (i) federal, provincial, state, municipal, local or other governmental or public department, central bank, court, commission, board, bureau, agency or instrumentality, domestic or foreign; (ii) any subdivision or authority of any of the foregoing; or (iii) any quasi governmental or private body exercising any regulatory, expropriation or taxing authority under or for the account of any of the above.

"**Hardwood Lumber**" means wood from broad-leaved trees, such as alder, birch, cherry, mahogany, maple, oak, teak and walnut.

"**Hardwoods Business**" means the distribution by the Borrower in Canada of Hardwood Lumber and Sheet Goods.

"**Hardwoods GP**" means Hardwoods Specialty Products GP Inc., a corporation incorporated under the federal laws of Canada.

"**Hardwoods USLP**" means Hardwoods Specialty Products US LP, a limited partnership established under the laws of the State of Delaware.

"**Hardwoods USLP Distribution**" means any Distribution, or portion thereof, that, directly or indirectly, will be received by Hardwoods USLP, whether as a debt or equity investment.

"**Hardwoods Washington**" means Hardwoods Specialty Products (Washington) Corp., a corporation existing under the laws of the State of Washington.

"**Hazardous Materials**" means any contaminant, pollutant or substance that is likely to cause harm or degradation to the surrounding environment or risk to human health and without restricting the generality of the foregoing, includes any pollutant, contaminant, waste, hazardous waste or dangerous goods present in such quantity or state that it contravenes any Requirements of Environmental Law.

"**Hedging Agreements**" means all Forward Contracts, Interest Rate Agreements and all other agreements or arrangements between the Borrower and the Bank designed to protect the Borrower against fluctuations in currency exchange or interest rates and not for speculative investment, in each case, in form and substance satisfactory to the Bank and is as amended, supplemented, modified or restated from time to time in accordance with the terms hereof.

"**Indebtedness for Borrowed Money**" means for any Person (without duplication) (i) all indebtedness created, assumed or incurred in any manner by such Person representing money borrowed (including by the issuance of debt securities), (ii) all indebtedness for the deferred purchase price of property or services (other than trade accounts payable arising in the ordinary course of business which are not more than sixty (60) days past due and in respect of which no demand for payment has been made), (iii) all indebtedness secured by any Lien upon Property of such Person, whether or not such Person has assumed or become liable for the payment of such indebtedness, (iv) all Capitalized Lease Obligations of such Person, and (v) all obligations of such Person on or with respect to letters of credit, bankers' acceptances and other extensions of credit whether or not representing obligations for borrowed money.

"**Indemnified Taxes**" means Taxes other than Excluded Taxes.

"**Indemnitees**" means the Bank and its successors and assigns, any agent of them or such successors or assigns (specifically including a receiver or receiver manager) and the respective officers, directors and employees of the foregoing.

"**Information Certificate**" means the Information Certificate executed and delivered to the Bank by the Borrower on or prior to the Closing Date.

"**Insured Eligible Accounts**" means Eligible Accounts insured through an EDC Policy.

"**Interest Expense**" means, with reference to any period, the sum of all interest charges (including imputed interest charges with respect to Capitalized Lease Obligations and all amortization of debt discount and expense) of the Borrower and its Subsidiaries for such period determined in accordance with GAAP.

"**Interest Rate Agreements**" means all interest rate swap agreements, interest rate cap agreements and interest rate collar agreements and all other agreements or arrangements between the Borrower and the Bank designed to protect the Borrower against fluctuations in interest rates, in each case, in form and substance satisfactory to the Bank, and in each case, as amended, supplemented, modified or restated from time to time in accordance with the terms hereof.

"**Inventory**" means all inventory and any other goods of the Borrower that are held for sale or lease or are to be furnished under contracts of service or consumed in the Borrower's business and all materials and supplies of every kind and nature used or usable in connection with the acquisition, manufacture, processing, supply, servicing, storing, packing, shipping, advertising, selling, leasing or furnishing of the foregoing, and any constituents or ingredients thereof.

"**L/C Commitment**" means Cdn.$500,000 or the U.S. Dollar Equivalent thereof.

"**Letter of Credit**" is defined in Section 2.3 hereof.

"LIBOR" means, for each LIBOR Interest Period for any particular LIBOR Loan, an interest rate per annum equal to the rate per annum offered by the Bank for deposits in U.S. Dollars obtained by the Bank in the London interbank markets, determined at approximately 11:00 a.m. (London time), two Business Days before the first day of such LIBOR Interest Period, for a period comparable to the LIBOR Interest Period and in an amount approximately equal to the amount of such LIBOR Loan.

"LIBOR Interest Period" means, for any particular LIBOR Loan, a period of 30 days, 60 days, 90 days or 180 days (or such other period as may be approved by the Bank), commencing (i) in the case of the initial LIBOR Interest Period, on the date on which such LIBOR Loan is made or converted from another Type of Accommodation, and (ii) in the case of any subsequent LIBOR Interest Period, on the last day of the immediately preceding LIBOR Interest Period, and ending, in either case, on the earlier of the date selected by the Borrower in the applicable Borrowing Notice or Conversion Notice, or the Termination Date; provided that if the last day of a LIBOR Interest Period would otherwise occur on a day other than a Business Day, the last day of such LIBOR Interest Period shall be extended to occur on the next Business Day, or if such extension would cause the last day of such LIBOR Interest Period to occur in the next calendar month, the last day of such LIBOR Interest Period shall occur on the preceding Business Day.

"**LIBOR Loan**" is defined in Section 2.2 hereof.

"**Lien**" means any mortgage, lien, security interest, pledge, charge or encumbrance of any kind in respect of any Property, including the interests of a vendor or lessor under any conditional sale, Capital Lease or other title retention arrangement.

"**Loan Documents**" means this Agreement, the Applications, the Hedging Agreements, the Bankers' Acceptances, the Collateral Documents, the Information Certificate, all guarantees and other documents and agreements required or contemplated hereunder executed by the Collateral Parties.

"**Loan Party**" means the Borrower, Hardwoods GP and any Subsidiary of the Borrower.

"Loans" means the Revolving Credit Loans.

"**LPA**" means the agreement of limited partnership dated March 22, 2004 between Hardwoods GP, as general partner, and Hardwoods Corp., as the initial limited partner, and each person who is admitted to the Borrower in accordance with the provisions of such agreement, whereby the Borrower was formed.

"MasterCard Advances" is defined in Section 2.5 hereof.

"MasterCard Limit" means the amount of Canadian dollars that is agreed upon in writing at any time and from time to time hereafter by the Bank and the Borrower as the maximum aggregate amount of all MasterCard Advances, provided that such maximum aggregate amount shall not in any event exceed $250,000.

"**Material Adverse Change**" means (a) a material adverse change in the business, operations, prospects, Property (including any Collateral) or financial or other condition of the Borrower or any other Loan Party or (b) a change which would impair the validity or enforceability of, or the ability of the Borrower or any other Collateral Party to perform and discharge its obligations under this Agreement or any of the other Loan Documents.

"**Material Adverse Effect**" means a material adverse effect on (i) the ability of the Borrower or any other Collateral Party to perform and discharge its obligations under this Agreement or any of the other Loan Documents, (ii) the Bank's ability to enforce its rights under this Agreement or any of the other Loan Documents, or (iii) the business, operations, prospects, Property or financial or other condition of the Borrower or any other Loan Party.

"**Material Contracts**" means (i) each of the contracts listed on Schedule 6.17, (ii) all agreements in respect of the lease of premises by the Borrower, (iii) all agreements (other than employment agreements) pursuant to which the Borrower has or will be required to make aggregate annual payments in excess of $250,000, (iv) the LPA and the Exchange Agreement, (v) all agreements with Persons that are Affiliates of the Borrower, (vi) all agreements with material suppliers or material customers of the Borrower having a term of at least 6 months, and (vii) such other agreements as are designated to be "material" by the Bank by written notice to the Borrower or by the Borrower by written notice to the Bank.

"**Net Income**" means, with reference to any period, the net income (or net loss) of the Borrower and its Subsidiaries for such period calculated in accordance with GAAP.

"**Net Orderly Liquidation Value**" means the value of unencumbered (except to the Bank) Eligible Inventory (as applicable) based on definitions and assumptions acceptable to the Bank in its sole discretion and confirmed in an appraisal report by an independent accredited appraiser satisfactory to the Bank in its sole discretion.

"**Obligations**" means all obligations of the Borrower to pay principal, interest and fees in connection with Extensions of Credit and all other obligations of the Borrower arising under, in relation to, or in respect of, the Loan Documents (or any of them), in each case whether now existing or hereafter arising, due or to become due, direct or indirect, absolute or contingent, joint or several, and howsoever evidenced, held or acquired.

"Other Taxes" means any and all present or future stamp or documentary taxes or any other or property taxes, charges or similar levies arising from any payment made hereunder or form the execution, delivery or enforcement of, or otherwise with respect to this Agreement.

"**Outstanding Cash Distributions**" means, as of the last day of any particular Twelve Month Period, the aggregate amount of all cash Distributions, whether by way of income or capital or both, distributed by the Borrower to one or more of its partners during such Twelve Month Period, other than Hardwoods USLP Distributions.

"**Permitted Cash Distributions**" means, as of any particular date of determination, the sum of the following amounts, determined as of the last day of the applicable Twelve Month Period:

(j) EBITDA for such period minus cash income taxes, unfunded capital expenditures, Interest Expense and scheduled principal repayments of long term debt (including, without limitation, senior and subordinated debt, preferred shares and Capitalized Lease Obligations) paid during such period, plus

(k) the amount of cash as set out on the balance sheet of the Borrower, prepared as of the last day of such period.

"**Permitted Collateral Locations**" is defined in Section 8.15 hereof.

"Permitted Liens" is defined in Section 8.9 hereof.

"**Person**" means an individual, partnership, corporation, association, trust, unincorporated organization or any other entity or organization, including a government or agency or political subdivision thereof.

"**Prime Rate**" means, for any day, the greater of (i) the floating annual rate of interest established by the Bank from time to time as the reference rate it will use to determine rates of interest on Canadian dollar loans to customers in

Canada and designated as its prime rate, as in effect on such day; and (ii) the CDOR Rate applicable on such day plus 100 basis points.

"**Prime Rate Loan**" is defined in Section 2.2 hereof.

"**Priority Payables**" means, as at any particular time of determination, any amount due and payable at such time by a Loan Party that is secured by a Lien (whether choate or inchoate) or a statutory right in favour of a Governmental Authority, that encumbers any Receivable or Inventory and that ranks, or is capable of ranking prior to or *pari passu* with any Lien on such Receivable or Inventory granted in favour of the Bank, including without limitation, amounts due, deducted or withheld, as applicable, and not yet paid, contributed or remitted, as applicable, by any Loan Party in respect of vacation pay, termination and severance pay, realty, municipal or similar Taxes, or pursuant to any legislation relating to workers' compensation, employment insurance, the *Income Tax Act* (Canada), any Canadian pension plan or any similar legislation.

"**Property**" means any interest in any kind of property or asset, whether real, personal or mixed, or tangible or intangible.

"**Proposed Cash Distribution**" means any cash Distribution, whether by way of income or capital or both, which the Borrower proposes to make to any or all of its partners, other than a Hardwoods USLP Distribution.

"**Receivable**" means any account, account receivable, receivable, book debt and any other form of monetary obligation owing to the Borrower, including any right of the Borrower to payment for goods sold or leased or for services rendered, whether or not earned by performance.

"**Receiver**" is defined in Section 9.1(n) hereof.

"**Requirements of Environmental Law**" means (i) obligations under common law, (ii) requirements imposed by or pursuant to statutes, regulations and by laws, (iii) requirements announced by a Governmental Authority as having immediate effect, provided that at the time of making such announcement such Governmental Authority also states its intention of enacting legislation to confirm such requirements retroactively, (iv) all directives, policies and guidelines issued by any Governmental Authority charged with the administration thereof which purport to have the force of law, and (v) all requirements imposed under any clean up, compliance or other order made pursuant to any of the foregoing, in each and every case relating to environmental, health or safety matters including, but not limited to, all such obligations and requirements which relate to solid, gaseous or liquid waste generation, handling, treatment, storage, disposal or transportation and exposure to Hazardous Materials.

"**Reserves**" means reserves that limit the availability under the Revolving Credit, consisting of reserves against Eligible Accounts and Eligible Inventory, as applicable, established from time to time by the Bank, in the Bank's reasonable credit judgment in accordance with Section 2.1, including, without limitation, rent reserves, reserves in respect of any products of the Bank, reserves in respect of dilution in excess of the percentage assumed by the Bank for the purpose of establishing the advance rates used to calculate the Borrowing Base, reserves established as a result of the Borrower's failure to comply with any reporting requirements hereunder, warehousemen's and bailee's charges, Priority Payables, the Reserves set forth on Schedule 2.1, and reserves with respect to amounts that the Bank believes may be required to be paid in connection with the preservation, protection, collection or realization of Collateral, or in connection with any obligation of any Collateral Party set forth in any Loan Document.

"**Revolving Credit**" is defined in Section 2.1 hereof.

"**Revolving Credit Commitment**" means Cdn. $15,000,000.

"**Revolving Credit Limit**" at any time, means the lesser of (a) the Revolving Credit Commitment and (b) the Borrowing Base, as determined and computed by the Bank at such time.

"**Revolving Credit Loan**" means a Canadian Revolving Credit Loan or a U.S. Revolving Credit Loan, as applicable.

"**Rollover**" means the renewal of an Availment Option upon its maturity in the same form, and does not constitute a reborrowing hereunder.

"**Sheet Goods**" means plywood as well as non-structural sheet goods such as medium density fibreboard, particleboard and melamine coated stock.

"**Spot Rate**" means in respect of a currency, the rate determined by the Bank by reference to applicable currency markets to be the Spot Rate for the purchase by the Bank of such currency with another currency through its main Toronto branch at approximately 11:00 a.m. (Toronto time) on the date as of which the foreign exchange computation is made; provided that if at the time of any such determination, no such Spot Rate can be reasonably quoted, the Bank may use any commercially reasonable method to determine such rate hereunder, and such determination shall be conclusive absent manifest error.

"**Subsidiary**" means any corporation or other Person more than 50% of the outstanding ordinary voting shares or other equity interests of which is at the time directly or indirectly owned by the Borrower, by one or more of its Subsidiaries, or by the Borrower and one or more of its Subsidiaries.

"**Taxes**" means all taxes of any kind or nature whatsoever, including without limitation, income taxes, sales or value added taxes, levies, stamp taxes, royalties, duties and all fees, deductions, compulsory loans and withholdings imposed, levied, collected, withheld or assessed as of the date hereof or at any time in the future, by any Governmental Authority of or within Canada or any other jurisdiction whatsoever having power to tax, together with penalties, fines, additions to tax and interest thereon.

"**Termination Date**" means the earlier of (i) August 7, 2012 and (ii) the date on which the Revolving Credit is terminated in whole pursuant to Section 3.10, Section 9.2 or Section 9.3 hereof.

"**Twelve Month Period**" means the period of twelve (12) calendar months ending on or immediately prior to such date of determination.

"**U.S.**" means the United States of America.

"**U.S. Base Rate**" means, as of any particular date of determination, the floating annual rate of interest established from time to time by the Bank as the reference rate it will use to determine the rates of interest on U.S. Dollar loans made to customers in Canada and designated as its U.S. Base Rate at its principal office in Toronto, Ontario as in effect on such date of determination.

"**U.S. Dollar Equivalent**" means, on any given date with respect to any particular currency, the amount of U.S. Dollars which could be purchased with the relevant amount of such currency at the then applicable Spot Rate at 11:00 a.m. Toronto time on such date (and if such date is not a Business Day, on the immediately preceding Business Day) for the purchase of U.S. Dollars with such currency.

"**U.S. Dollars**" or "**U.S. $**" means lawful currency of the United States of America.

"**U.S. Revolving Credit Loans**" is defined in Section 2.2 hereof.

SCHEDULE 2.1
RESERVES

Nil.

SCHEDULE 6.1
LOCATIONS AND TRADE NAMES OF LOAN PARTIES

Item 1 – Location of Chief Executive Office

Entity	Address
Hardwoods Specialty Products LP	#306 – 9440 202nd Street, Langley, BC V1M 4A6
Hardwoods Specialty Products GP Inc.	#306 – 9440 202nd Street, Langley, BC V1M 4A6

Item 2 – Permitted Collateral Locations

Entity	Address
Hardwoods Specialty Products GP Inc.	#306 – 9440 202nd Street, Langley, BC V1M 4A6
Hardwoods Specialty Products LP	#306 – 9440 202nd Street, Langley, BC V1M 4A6

Langley, BC - 27321 – 58th Crescent, Langley, BC V4W 4W7

Kelowna, BC - 397 Penno Road, Unit 100, Kelowna, BC V1X 6X3

Duncan, BC - 4970 Polkey Road, Unit 2-A, Duncan, BC V9L 4T8

Calgary, AB - 5870 – 48th Street SE, Calgary, AB T2C 4L4

Edmonton, AB - 7007 – 68 Ave., Edmonton AB T6B 3E3

Red Deer, AB - 8053 Edgar Industries Cres., Red Deer, AB T4P 3S2

Saskatoon, SK - 854 – 47th Street East, Saskatoon, SK S7K 0X4

Winnipeg, MB - 895 Keewatin Street, Winnipeg, MB R2X 2X4

Brampton, ON - 10 Carson Court, Brampton, ON L6T 4P8

Item 3 – Trade Names

Nil.

SCHEDULE 6.2
LOAN PARTIES

Loan Party	Equity Holder	Jurisdiction of Incorporation of Equity Holder	Percentage Ownership of Loan Party	Number and Class of Shares held in Loan Party
Hardwoods Specialty Products LP	Hardwoods Specialty Products GP Inc.	Canada	99% of General Partner Units	99 General Partner Units
Hardwoods Specialty Products LP	Sauder Hardwoods, Inc.	British Columbia	1% of General Partner Units	1 General Partner Unit
Hardwoods Specialty Products LP	Sauder Hardwoods, Inc.	British Columbia	20% of Limited Partner Units	3,602,500 Class B Limited Partner Units
Hardwoods Specialty Products LP	Hardwoods Specialty Products ULC	British Columbia	80% of Limited Partner Units	14,410,000 Class A Limited Partner Units
Hardwoods Specialty Products GP Inc.	Hardwoods Trust	British Columbia	80% of Common Shares	800 Common Shares
Hardwoods Specialty Products GP Inc.	Sauder Hardwoods, Inc.	British Columbia	20% of Common Shares	200 Common Shares

SCHEDULE 6.11
LITIGATION AND OTHER CLAIMS

[Omitted – disclosure would violate confidentiality provisions]

SCHEDULE 6.14
AFFILIATE TRANSACTIONS

Nil.

SCHEDULE 6.17
MATERIAL CONTRACTS

"**Material Contracts**" means (i) each of the contracts listed on Schedule 6.17, (ii) all agreements in respect of the lease of premises by the Borrower, (iii) all agreements (other than employment agreements) pursuant to which the Borrower has or will be required to make aggregate annual payments in excess of $250,000, (iv) the LPA and the Exchange Agreement, (v) all agreements with Persons that are Affiliates of the Borrower, (vi) all agreements with material suppliers or material customers of the Borrower having a term of at least 6 months, and (vii) such other agreements as are designated to be "material" by the Bank by written notice to the Borrower or by the Borrower by written notice to the Bank.

(1) The LPA;

(2) The Exchange Agreement;

(3) The Administration Agreement among Hardwoods LP, the Fund and the Trust;

(4) The Subordination Agreement between the Fund, Hardwoods LP, Hardwoods GP, Hardwoods USGP, Hardwoods USLP, Sauder Hardwoods, Inc., Hardwoods, Inc., Sauder Industries Limited and Wellington Investment Corporation;

(5) The Securityholders' Agreement among the Fund, the Trust, Hardwoods LP, Hardwoods GP, Hardwoods ULC, Hardwoods USLP, Hardwoods US Corp;

(6) The Services Agreement among Hardwoods LP and Hardwoods USLP;

(7) Leases and Renewals:

   (a) Brampton, ON - 1999 - 1st Lease renewal and amendment

   (b) Brampton, ON – 2002

   (c) Brampton, ON - 1994

   (d) Calgary, AB – 2002

   (e) Calgary, AB - 2008 - 1st renewal

   (f) Calgary, AB - 2008 – Sublet

   (g) Duncan, BC – 1996

(h) Duncan, BC - 2005 - 2nd Renew & Modify

(i) Duncan, BC - 2007 - 3rd Renew & Modify

(j) Edmonton, AB – 2008

(k) Kelowna, BC – 2000

(l) Kelowna, BC - 2001 June - 2nd amend

(m) Kelowna, BC - 2001 May - 1st amend

(n) Kelowna, BC - 2006 – ext

(o) Langley, BC – 1994

(p) Langley, BC - 1995 - siding agreement

(q) Langley, BC - 2004 - 1st Renew & Modify

(r) Langley, BC - 2009 - 2nd Renew & Modify

(s) Langley, BC - Head Office – 2005

(t) Red Deer, AB – 2006

(u) Saskatoon, SK – 2004

(v) Saskatoon, SK – 2009

(w) Winnipeg, MB - 2001 – assignment

(x) Winnipeg, MB - 2008 - 1st amend

(y) Winnipeg. MB - 1999

SCHEDULE 7.2
LIST OF DOCUMENTS

1. Security executed by the Borrower in favour of the Bank pursuant to Section 427 of the *Bank Act* (Canada) and related documents;

2. General security agreement of the Borrower in favour of the Bank;

3. Guarantee executed by Hardwoods GP in favour of the Bank;

4. General security agreement of Hardwoods GP in favour of the Bank;

5. Limited recourse guarantee executed by Hardwoods ULC in favour of the Bank;

6. Securities pledge agreement executed by Hardwoods ULC in favour of the Bank;

7. Limited recourse guarantee executed by Hardwoods Trust in favour of the Bank;

8. Securities pledge agreement executed by Hardwoods Trust in favour of the Bank;

9. Securities pledge agreement executed by Sauder Hardwoods, Inc. in favour of the Bank;

10. Standard application and indemnity agreement for letters of credit, letters of guarantee or documentary letters credit for each letter of credit and letter of guarantee, as applicable;

11. Standard bank documentation relating to Hedging Agreements, as applicable;

12. MasterCard Card Agreement, as applicable;

13. Certified copies of all insurance policies listing the Bank as first loss payee and additional insured;

14. Blocked Account and lockbox agreements, as applicable;

15. Assignment of insurance policies;

16. Shareholders agreements in respect of the shareholders of each Loan Party, if applicable;

17. Legal opinions; and

18. All other agreements and documents as the Bank may reasonably request.

SCHEDULE 8.9
PERMITTED LIENS

Nil.