

AMENDED AND RESTATED CREDIT AGREEMENT

Dated for reference November 5, 2013

AMONG:

CANFOR PULP LIMITED PARTNERSHIP,
by its general partner **CANFOR PULP HOLDING INC.**
as Borrower

AND:

CANFOR PULP HOLDING INC.
as Covenantor

AND:

HSBC BANK CANADA
as Co-Lead Arranger, Co-Bookrunner and Administrative Agent

AND:

CANADIAN IMPERIAL BANK OF COMMERCE
as Co-Lead Arranger, Co-Bookrunner and Syndication Agent

AND:

EXPORT DEVELOPMENT CANADA
as Documentation Agent

AND:

"LENDERS" AS DEFINED IN THIS AGREEMENT
As Lenders

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"LENDERS" AS DEFINED IN THIS AGREEMENT
as Lenders

The parties to this Agreement, with the consent and agreement of the Guarantors as evidenced by the attached Acknowledgement, Consent and Agreement, wish to establish (i) a \$110,000,000 revolving term credit facility, for purposes of repaying certain notes maturing in 2013 and for general corporate purposes including working capital requirements, and which facility shall include a \$10,000,000 swingline and a \$25,000,000 commercial or standby letter of credit/letter of guarantee sub-facility, (ii) a \$20,000,000 standby letter of credit/letter of guarantee facility guaranteed by EDC and (iii) a \$50,000,000 non-revolving term credit facility, for purposes of certain capital expenditures.

In consideration of the mutual covenants and agreements hereinafter set forth, the parties hereto covenant and agree each with the other as of the Closing Date as follows:

1. INTERPRETATION

1.1 Defined Terms

As used in this Agreement, including the recitals and the schedules, unless there is something in the subject matter or the context inconsistent therewith, the following terms shall have the following meanings:

"Accommodation" means:

- (a) an Advance by a Lender made on the occasion of a Borrowing pursuant to an Accommodation Request (whether given or deemed to have been given or otherwise made or deemed to have been made pursuant to this Agreement);
- (b) the creation of Bankers' Acceptances on the occasion of a Drawing (or the making of a BA Equivalent Loan) pursuant to an Accommodation Request;
- (c) the issue of a Fronted Letter of Credit by the Fronting Lender on the occasion of an Issuance pursuant to an Accommodation Request; and
- (d) the issue of an EDC Guaranteed LC by the Tranche B Lender on the occasion of an Issuance pursuant to an Accommodation Request and a Confirmation;

and includes an Advance and a Bankers' Acceptance resulting from a Rollover or Conversion (whether requested or deemed to have been requested hereunder or otherwise effected) pursuant to this Agreement and all outstanding Accommodations under the Existing Credit Agreement, including the deemed Accommodations described in §2.1(h). Each type of Borrowing and each type of Letter of Credit is a "type" of Accommodation, as are Bankers' Acceptances;

"Accommodation Request" means a notice of request for a Borrowing, a Drawing and/or an Issuance substantially in the form of Schedule 2, or such other form as the Administrative Agent may from time to time specify;

"Account PSG Certificate of Cover" has the meaning ascribed to such term in the EDC Account PSG;

"Account PSG Fees" has the meaning ascribed to such term in the EDC Account PSG;

"Administrative Agent" means HSBC acting in its capacity as administrative agent under this Agreement and any successor administrative agent appointed in accordance with §12.6;

"Advance" means an advance of monies (other than and excluding Discount Proceeds) made or deemed to have been made by a Lender under the Credit Facility and includes an Advance resulting from a Conversion or Rollover (whether requested or deemed to have been requested hereunder) or otherwise effected pursuant hereto, including a Swingline Advance. An Advance may be denominated in US Dollars (a **"US Dollar Advance"**) or Cdn. Dollars (a **"Canadian Dollar Advance"**). A Canadian Dollar Advance shall be designated a **"Prime Rate Advance"** and a US Dollar Advance shall be designated from time to time, as requested or deemed to have been requested by Canfor, a **"LIBOR Advance"** or a **"Base Rate Advance"**. Each of a Prime Rate Advance, a LIBOR Advance and a Base Rate Advance is a "type" of Advance;

“Affiliate” means, with respect to any Person (**“first Person”**), any other Person which controls (or is a member of a group which controls), or is under common control with, or is controlled by, the first Person. Notwithstanding the foregoing, neither the Administrative Agent nor any Lender shall be deemed to be an Affiliate of Canfor or any Affiliate thereof solely by reason of its agency function or lending relationship;

“Agency Fee Agreement” means the agreement so entitled between Canfor and the Administrative Agent dated November 5, 2013.

“Agreement”, **“herein”**, **“hereof”**, **“hereto”** and **“hereunder”** and similar expressions mean and refer to this agreement, as supplemented, modified, extended, amended or restated and not to any particular Article, section, paragraph, Schedule or other portion hereof; and the expressions **“Article”**, **“§”**, and **“Schedule”** followed by a number or letter mean and refer to the specified Article, § or Schedule of this Agreement;

“Applicable Margin” means in respect of the following types of Accommodation or the unadvanced portion of a Commitment, the following corresponding margins and fees, expressed as basis points per annum:

[Drawn Margins redacted]	

[REDACTED]	
[REDACTED]	
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]

For the purposes of determining the Applicable Margin under the leverage-based grid set out above, the following shall apply:

- (a) The Applicable Margin shall be determined from time to time by the Administrative Agent based solely upon delivery of a Compliance Certificate pursuant to §9.1(i)(3), whose determination shall be conclusive and binding for all purposes hereof, absent demonstrated error. The Administrative Agent shall provide notice to Canfor and the Lenders of any change in the Applicable Margin as so determined by it.
- (b) Changes in the Applicable Margin shall be effective and payable from and including the Interest Rate and Fee Adjustment Date. Canfor and the Lenders acknowledge that adjustments based on the Applicable Margin for a Financial Quarter may not be determined until the completion of Canfor's quarterly or annual financial statements, as the case may be. Canfor and the Lenders agree that no adjustments based on changes to the Applicable Margin shall be made following the end of a Financial Quarter until the Interest Rate and Fee Calculation Date. Such adjustments, if any, shall be retroactive to the Interest Rate and Fee Adjustment Date. Canfor agrees to pay to the Administrative Agent for the account of the Lenders and the Lenders agree to repay to the Administrative Agent for the account of Canfor, its due share of the Retroactive Amount. The Retroactive Amount shall, in either case, be paid on or before the sixth day following the applicable Interest Rate and Fee Calculation Date.
- (c) If Canfor takes a LIBOR Advance before the date of an increase or decrease in the Applicable Margin to be added to LIBOR to be paid on LIBOR Advances, which LIBOR Advance matures after the date of that increase or decrease, the rates of interest for the Interest Periods of that LIBOR Advance will be calculated by using the interest rates applicable from time to time for the number of days the LIBOR Advance is outstanding during the respective Interest Periods.

“Asset Disposition” means any sale, lease, transfer or other disposition (or series of related sales, leases, transfers or dispositions) of property or other assets by or on behalf of Canfor or any Designated Subsidiary, excluding (a) sales of assets in the ordinary course of business; and (b) sales, leases, transfers or other dispositions only involving Canfor and/or its Designated Subsidiaries;

“Assignee” has the meaning ascribed to such term in §13.8(d);

"BA Equivalent Loan" means, in relation to a Drawing, a loan in Canadian Dollars made to Canfor by a Non-Acceptance Lender as part of the Drawing in accordance with the provisions of §4.11;

"Bank Products" means the MasterCard facility which HSBC may extend from time to time to Canfor or any of the following products, services or facilities extended from time to time to Canfor or any Guarantor by HSBC or any of its Affiliates, provided that such other products, services or facilities have been approved by the Administrative Agent in writing: (a) Cash Management Services; (b) commercial credit card and merchant card services; and (c) other banking products or services as may be requested by Canfor or any Guarantor;

"Bank Products Obligations" means all obligations owing by Canfor or any Guarantor in respect of Bank Products;

"Bankers' Acceptance" means a depository bill as defined by the *Depository Bills and Notes Act* (Canada) or a blank non-interest bearing bill of exchange as defined by the *Bills of Exchange Act* (Canada), in either case drawn by Canfor, denominated in Canadian Dollars and accepted by a Lender as a bankers' acceptance, as evidenced by such Lender's endorsement thereof at the request of Canfor pursuant to an Accommodation Request, and includes a Bankers' Acceptance resulting from a Conversion or Rollover;

"Base Rate" means, at any time, the greater of:

- (a) the rate of interest per annum established and reported by HSBC from time to time as the reference rate of interest it charges to customers for US Dollar loans made by it in Canada; and
- (b) the sum of (1) the Federal Funds Effective Rate multiplied by 365 (or 366 in the case of a leap year) and divided by 360, plus (2) 100 basis points per annum;

as to which a certificate of the Administrative Agent, absent manifest error, shall be conclusive evidence from time to time. With each quoted or published change in such rate aforesaid of HSBC there shall be a corresponding change in the rate of interest payable under this Agreement, should such changed rate exceed that set forth in paragraph (b) of this definition, all without the necessity of any notice thereof to Canfor or any other Person;

"basis point" and **"b.p."** each mean one one-hundredth (1/100) of one per cent, or .01%;

"Beneficiary" means, in respect of any Letter of Credit, the beneficiary specified therein;

"Bond" has the meaning given to it in the Trust Indenture;

"Borrowing" means a borrowing consisting of one or more Advances. Prime Rate Advances, LIBOR Advances and Base Rate Advances are each a "type" of Borrowing;

"Business Day" means:

- (a) in respect of LIBOR Advances and payments in connection therewith, a day (other than Saturday or Sunday) which is a day for trading by and between banks in US Dollar deposits in the London Eurodollar interbank market and which is also a day on which banks are open for business in New York City, Vancouver and Toronto; and

- (b) for all other purposes of this Agreement, a day (other than Saturday or Sunday) on which banks are open for business in Vancouver and Toronto;

"Canadian Dollars", "Cdn. Dollars", "Cdn. \$" and "\$" each mean lawful money of Canada;

"Canfor" means Canfor Pulp Limited Partnership, by its general partner GP, provided that immediately prior to the winding up of Canfor Pulp Limited Partnership pursuant to the Reorganization, "Canfor" shall and shall thereafter means GP, on its own behalf, and its permitted assigns. For greater certainty, immediately prior to the winding up of Canfor Pulp Limited Partnership pursuant to the Reorganization, all of the parties to this Agreement agree that GP will automatically become the borrower under this Agreement and all of the provisions of this Agreement will apply to GP as borrower as if it was the original borrower under this Agreement;

"Canfor Factoring" means Canfor Pulp International Ltd.;

"Canfor Hedging Obligations" means all amounts due and payable from time to time by Canfor in respect of a Hedge Instrument entered into by Canfor with a Lender or its Affiliate for hedging currency, interest rate or commodity price fluctuations in respect of the business of Canfor;

"Canfor Notes" means all notes issued by Finance Co. pursuant to the Note Purchase Agreement;

"Canfor Sales" means Canfor Pulp and Paper Sales Ltd.;

"Capital Lease Obligations" means all rental obligations which, under GAAP, are or will be required to be capitalized on the books of Canfor or any of its Designated Subsidiaries, taken at the amount thereof accounted for as indebtedness (net of interest expense) in accordance with such principles;

"Capital Stock" means, with respect to any Person, any and all shares, interests (partnership, joint venture or otherwise), participations or other similar interests (however designated, whether voting or non-voting) in the equity of such Person, whether now outstanding or issued after the date hereof;

"Cash Equivalents" means:

- (a) marketable securities issued, or directly and fully guaranteed by the government of Canada, any Province of Canada or the United States or any agency or instrumentality thereof (provided that the full faith and credit of Canada, such Province or the United States, as the case may be, is pledged in support of those securities) maturing within 365 days from the date of acquisition;
- (b) commercial paper maturing within 180 days from the date of acquisition, and rated:
 - (1) in Canada, A-1 low or better by S&P or R-1 low or better by DBRS; or
 - (2) in the United States, P-2 or better by Moody's or A-2 or better by S&P; and

- (c) certificates of deposit maturing within 365 days of the date of acquisition, in each case issued or accepted by a bank to which the *Bank Act (Canada)* applied having at the time of acquisition combined capital, surplus and undistributed profits of at least Cdn. \$2 billion;

"Cash Management Services" means any services provided from time to time by HSBC or any of its Affiliates to Canfor or any Guarantor in connection with operating, collections, payroll, trust, or other depository or disbursement accounts, including automatic clearinghouse, controlled disbursements, depository, electronic funds transfer, information reporting, lockbox, stop payment, overdraft and/or wire transfer services.

"CDOR" means on any day the per annum rate of interest which is the arithmetic average of the rates applicable to Canadian Dollar bankers' acceptances having a term equal or comparable to the bankers' acceptances proposed to be issued by Canfor displayed and identified as such on the display referred to as the "CDOR Page" (or any display substituted therefor) of Reuters' Monitor Money Rates Service at or about 8:00 a.m. (Calgary time) on such day, or if such day is not a Business Day, then on the immediately preceding Business Day, as adjusted by the Administrative Agent in good faith to reflect any error in a posted rate or a posted average annual rate; provided, however, that if such a rate does not appear on the Reuters' Screen CDOR Page as contemplated, then the CDOR, on any day, shall be the annual discount rate quoted by the Administrative Agent which would be applicable in respect of a sale to the Administrative Agent of bankers' acceptances issued on such day (determined as of 10:00 a.m. Toronto time on such day) and accepted by the Administrative Agent, or if such day is not a Business Day, then on the immediately preceding Business Day, in a comparable amount and having a term equal or comparable to those proposed to be issued by Canfor;

"Change of Control" means the acquisition by any Person, or group of Persons acting jointly or in concert, of beneficial ownership of greater than 50% of the issued and outstanding Capital Stock of Canfor;

"CIBC" means Canadian Imperial Bank of Commerce, a Canadian chartered bank;

"Closing Date" has the meaning ascribed to it in §6.1;

"Code" means the United States *Internal Revenue Code* of 1986, as amended from time to time, and the rules and regulations promulgated thereunder from time to time.

"Commitment" means, for a Lender in respect of a Tranche, the amount set forth opposite such Lender's name under the heading "Commitment" on Schedule 1 to the extent not permanently reduced, cancelled or terminated pursuant to this Agreement;

"Compliance Certificate" means a certificate delivered by Canfor pursuant to §9.1(i)(3) substantially in the form of Schedule 6;

"Confirmation" has the meaning ascribed to such term in the EDC Account PSG;

"Consolidated Net Income Available for Restricted Payments" means an amount equal to (1) the sum of (i) Cdn. \$75,000,000 plus (ii) 70% (or minus 100% in the case of a deficit) of Consolidated Net Income for the period (taken as an accounting period) commencing on September 30, 2012 and terminating at the end of the last Financial Quarter preceding the date of any proposed Restricted Payment plus (iii) the aggregate amount received after September 30, 2012 by Canfor as the net cash proceeds from the sale of its shares (excluding

amounts received from Designated Subsidiaries) less (2) the aggregate amount of Restricted Payments made subsequent to September 30, 2012, other than those made pursuant to §9.2(f). The term "shares" as used in this definition shall include warrants and options to purchase shares or partnership units;

"Consolidated Net Income" means, for any relevant period, the net income or net loss reported in the consolidated financial statements of CPPI, prepared in accordance with GAAP, provided that net income of a Non-Designated Subsidiary that is not distributed to a Designated Subsidiary or Canfor in that period shall not be included in the calculation of Consolidated Net Income;

"Conversion" means, in respect of any Drawing or type of Borrowing, the conversion of the method for calculating interest, discount rates or fees thereon from one method to another in accordance with §2.11, and includes a conversion from a Prime Rate Advance to a Drawing and vice-versa and a conversion from a LIBOR Advance to a Base Rate Advance and vice-versa;

"CPPI" means Canfor Pulp Products Inc., a corporation under the laws of British Columbia;

"Credit Facility" means the credit facility to be made available hereunder to Canfor for the purposes set forth in §2.1(b);

"Credit Facility Documents" means this Agreement, the Agency Fee Agreement, the Guarantee Agreements, Bankers' Acceptances, Letters of Credit and all other documents required under the Agreement or necessary to implement the financing comprised in the Credit Facility;

"Credit Party" means Canfor, GP, CPPI and each Designated Subsidiary and each other Affiliate of Canfor that is a party to a Credit Facility Document;

"Current Debt" means any obligation for borrowed money (and any notes payable and drafts accepted representing extensions of credit whether or not representing obligations for borrowed money) payable on demand or within a period of one year from the date of the creation thereof, provided that any such obligation shall be treated as Funded Debt regardless of its term, if such obligation is renewable at the option of Canfor pursuant to the terms thereof or of a revolving credit or similar agreement effective for more than one year after the date of the creation of such obligation, or may be payable out of the proceeds of a similar obligation pursuant to the terms of such obligation or of any such agreement;

"DBRS" means DBRS Limited;

"Default" means an event which, with the giving of notice or passage of time, or both, would constitute an Event of Default;

"Designated Subsidiary" means Canfor Sales, Canfor Factoring and any other Subsidiary of Canfor designated as such by resolution of the board of directors of Canfor;

"Discount Proceeds" means, in respect of Bankers' Acceptances to be purchased by a Lender, the result (rounded to the nearest whole cent, with one-half of one cent and more being rounded up) obtained by multiplying the aggregate Face Amount of such Bankers' Acceptances by a price (rounded up or down to the second decimal place, with .005 or more being rounded up) determined by dividing one by the sum of one plus the product of (x) the applicable Discount

Rate multiplied by (y) a fraction, the numerator of which is the number of days in the term to maturity of such Bankers' Acceptances and the denominator of which is 365;

"Discount Rate" means:

- (a) with respect to an issue of Bankers' Acceptances accepted by a Lender (other than HSBC), the CDOR; and
- (b) with respect to an issue of Bankers' Acceptances accepted by HSBC, the CDOR plus 5 basis points;

"Drawing" means the creation or making of one or more Bankers' Acceptances in pursuance of an Accommodation Request;

"Drawing Date" means any Business Day fixed in accordance with the provisions of this Agreement for a Drawing;

"EBITDA" means, on a consolidated basis for Canfor and the Designated Subsidiaries for any relevant period and without duplication, Consolidated Net Income for such period, plus:

- (a) amounts deducted in calculating Consolidated Net Income in respect of the aggregate interest expense incurred for interest and equivalent costs of borrowing, taking into account the effect of any relevant Hedge Instruments;
- (b) amounts deducted in calculating Consolidated Net Income in respect of the repurchase or redemption of any securities of Canfor, including in connection with the early retirement or defeasance of any Indebtedness;
- (c) amounts deducted in calculating Consolidated Net Income in respect of income taxes;
- (d) amounts deducted in calculating Consolidated Net Income in respect of depreciation and amortization;
- (e) non-cash items deducted in calculating Consolidated Net Income, in respect of:
 - (1) the closure, restructuring, conversion, sale, abandonment or other disposition of property, plant and equipment;
 - (2) write-downs of property, plant, equipment, timberlands and goodwill;
 - (3) foreign exchange adjustments on Indebtedness;
 - (4) Non-cash write-downs in asset backed commercial paper investment valuations; and
- (f) amounts deducted in calculating Consolidated Net Income in respect of extraordinary items;

minus:

- (g) amounts added in calculating Consolidated Net Income in respect of the repurchase or redemption of any securities of Canfor, including in connection with the early retirement or defeasance of any Indebtedness;
- (h) amounts added in calculating Consolidated Net Income in respect of income taxes;
- (i) non-cash items added in calculating Consolidated Net Income, in respect of:
 - (1) the closure, restructuring, conversion, sale, abandonment or other disposition of property, plant and equipment;
 - (2) write-ups of property, plant, equipment, timberlands and goodwill;
 - (3) foreign exchange adjustments on Indebtedness; and
 - (4) non-cash write-ups in asset backed commercial paper investment valuations;
- (j) amounts added in calculating Consolidated Net Income in respect of extraordinary items; and
- (k) all cash payments during such period relating to non-cash items or charges which were added back in determining EBITDA in any prior period,

all of which shall be calculated in accordance with GAAP unless otherwise expressly described;

“EBITDA Interest Coverage Ratio” means, at any time, the ratio calculated by dividing:

- (a) EBITDA determined for the four most recently completed Financial Quarters of Canfor,
- by
- (b) Net Interest Expense for that period;

“EDC” means Export Development Canada;

“EDC Account PSG” means the Account Performance Security Guarantee No. 57545, under which EDC’s maximum aggregate liability is \$20,000,000, issued by EDC to the Tranche B Lender (including the Account PSG Certificate of Cover and the general terms and conditions thereto, as amended by the special conditions specified in the Account PSG Certificate of Cover), as may be amended, restated or replaced from time to time;

“EDC Guaranteed LC” means a standby letter of credit or letter of guarantee for a specified amount in Canadian Dollars or US Dollars issued by the Tranche B Lender at the request and upon the indemnity of Canfor pursuant to Article 5, in respect of which (i) a Request for Cover has been submitted to EDC, (ii) EDC has issued a Confirmation and (iii) the applicable Account PSG Fees have been paid, all in accordance with the EDC Account PSG, including the EDC Guaranteed Hydro LC;

“EDC Guaranteed LC Facility” means the credit facility to be made available by the Tranche B Lender to Canfor under which EDC Guaranteed LCs are to be issued in accordance with Article 5;

“EDC Guaranteed Hydro LC” means the standby letter of credit currently in the Face Amount of \$7,537,427, issued by the Tranche B Lender on behalf of Canfor to British Columbia Hydro and Power Authority;

“Eligible Funded Debt” means Funded Debt which may be prepaid without Make-Whole Amount, premium or penalty, including, without limitation, Funded Debt (including the Canfor Notes) where the holder thereof agrees to waive any Make-Whole Amount, premium or penalty otherwise applicable to a prepayment;

“Environmental Laws” means all applicable Laws, Governmental Approvals and guidelines or requirements of any Governmental Body (including consent decrees as to which Canfor or a Designated Subsidiary is a party or otherwise subject, and administrative orders which may affect Canfor or a Designated Subsidiary) relating to public health and safety, protection of the environment, the Release of Hazardous Materials and occupational health and safety;

“Equivalent Amount” means, on a particular date in respect of any amount (the **“original amount”**) expressed in a particular currency (the **“original currency”**), the equivalent amount expressed in a second designated currency (the **“second currency”**) determined by reference to the Bank of Canada noon rate at which the original currency may be exchanged into the second currency as published on the Reuters Screen page BOFC. In the event that such rate does not appear on such Reuters page, such rate shall be ascertained by reference to any other means (as selected by the Administrative Agent) by which such rate is quoted or published from time to time by the Bank of Canada; provided that, if at the time of any such determination, for any reason, no such exchange rate is being quoted or published, the Administrative Agent may use such reasonable method as it considers appropriate to ascertain such rate, and the resulting determination shall be conclusive absent manifest error;

“ERISA” means the United States *Employee Retirement Income Security Act of 1974*, as amended from time to time, and the rules and regulations promulgated thereunder from time to time in effect;

“ERISA Affiliate” means any trade or business (whether or not incorporated) that is treated as a single employer together with Canfor under section 414 of the Code;

“Escrow Agreement” means the agreement dated December 10, 2012 among Canfor, the Trustee and the Administrative Agent on behalf of each Lender pursuant to which the Pledged Bond issued pursuant to the Trust Indenture was delivered into escrow;

“Event of Default” means any of the events specified in §11.1;

“Excepted Dispositions” means any disposition:

- (a) of inventory in the ordinary course of business;
- (b) pursuant to a Permitted Merger;
- (c) to Canfor or a Wholly Owned Designated Subsidiary;

- (d) of property, other than shares or Indebtedness of a Designated Subsidiary, where the net proceeds of such disposition are, within six months of such disposition, applied to the purchase of property (other than inventory) or to construction costs, improvements or additions to property, in each case used in the business of Canfor or Designated Subsidiary, or to the purchase of all of the outstanding common shares of a company which is not a Designated Subsidiary but which, immediately following such purchase, becomes a Designated Subsidiary;
- (e) of property, other than shares or Indebtedness of a Designated Subsidiary, where the net proceeds of such dispositions are used to effect a Funded Debt Reduction; or
- (f) of accounts receivable in a true sale involving no continuing recourse against Canfor or any Designated Subsidiary (including pursuant to an asset securitization), at a discount no greater than is then customary in the marketplace for receivables of similar quality;

“Excluded Taxes” shall mean, in relation to any Lender, those Taxes which are imposed or levied by any jurisdiction or any political subdivision thereof:

- (a) on or measured by the overall net income of such Lender or its applicable Lending Branch or any Affiliate thereof, and all franchise taxes, branch taxes, taxes on doing business or taxes measured by capital or net worth imposed on any Lender or its applicable Lending Branch or any Affiliate thereof, as a result of such Lender (1) carrying on a trade or business therein or having a permanent establishment therein, (2) being organized under the laws of such jurisdiction or any political subdivision thereof, or (3) being or being deemed to be resident or domiciled in such jurisdiction for income tax purposes;
- (b) by reason of such Lender not dealing at arm’s length (as such term is interpreted for purposes of the *Income Tax Act* (Canada)) with Canfor; or
- (c) which would not have been imposed had such Lender satisfied a relevant authority that such Lender was not a Person mentioned in §(a) or §(b) above;

“Existing Credit Agreement” means the agreement entitled “Credit Agreement” dated as of November 13, 2012 among Canfor as borrower, HSBC as co-lead arranger, co-bookrunner and administrative agent, CIBC as co-lead arranger, co-bookrunner and syndication agent, EDC as documentation agent and the “Lenders” as defined therein as lenders;

“Face Amount” means, in respect of a Bankers’ Acceptance, the amount payable to the holder thereof on its maturity and, in respect of a Letter of Credit, the maximum amount that may from time to time be payable to the Beneficiary thereof, and where used in a context referring to more than one Bankers’ Acceptance or Letter of Credit means the aggregate of the Face Amounts thereof;

“Federal Funds Effective Rate” means, for any day, an interest rate per annum expressed on the basis of a 360-day year equal to the weighted average (rounded upwards if necessary to the next 0.01 %) of the rates on overnight federal funds transactions with members of the United States Federal Reserve System arranged by federal funds brokers on such day, as published

for such day (or, if such day is not a Business Day, for the immediately preceding Business Day) by the Federal Reserve Bank of New York or, if such rate is not so published for any day which is a Business Day, the average (rounded upwards if necessary to the next 0.01%) of the quotations at approximately 11:00 a.m. (New York time) for such day for such transactions received by the Administrative Agent from three federal funds brokers of recognized standing selected by the Administrative Agent in its sole discretion;

"Finance Co." means Canfor Pulp Finance Inc., a corporation under the laws of British Columbia;

"Financial Quarter" means a period of three consecutive months ending on and including March 31, June 30, September 30 or December 31, as the case may be;

"Financial Year" means a financial year commencing on January 1 of each calendar year and ending on and including December 31 of such year;

"Fronted Letter of Credit" means a standby or commercial letter of credit or a letter of guarantee for a specified amount in Canadian Dollars or US Dollars issued by the Fronting Lender at the request and upon the indemnity of Canfor pursuant to Article 5 and having a term to maturity from the date of issuance thereof of no more than 365 days.

"Fronting Lender" has the meaning ascribed to it in §5.2(a);

"F.R.S. Board" means the Board of Governors of the Federal Reserve System of the United States or any successor thereto;

"Funded Debt" means:

- (a) any obligation payable more than one year from the date of creation thereof, including the current portion thereof, which under GAAP is shown on the balance sheet as a liability, excluding (i) obligations with respect to reforestation and post-employment benefits, and (ii) reserves for deferred income taxes and other reserves to the extent that such reserves do not constitute an obligation;
- (b) Capital Lease Obligations;
- (c) Indebtedness secured by any Lien existing on property owned subject to such Lien whether or not the Indebtedness secured thereby shall have been assumed;
- (d) Guarantees, endorsements (other than endorsements of negotiable instruments for collection in the ordinary course of business) and other contingent liabilities (whether direct or indirect) in connection with the indebtedness, shares or dividends of any Person;
- (e) obligations under any contract providing for the making of loans, advances or capital contributions to any Person, or for the purchase of any property from any Person, in each case in order to enable such Person primarily to maintain working capital, net worth or any other balance sheet condition or to pay debts, dividends or expenses;
- (f) obligations under any contract for the purchase of materials, supplies or other property if such contract (or any related document) requires that payment for

such materials, supplies or other property shall be made regardless of whether or not delivery of such materials, supplies or other property is ever made or tendered;

- (g) obligations under any contract to rent or lease (as lessee) any real or personal property if such contract (or any related document) provides that the obligation to make payments thereunder is absolute and unconditional under conditions not customarily found in commercial leases then in general use or requires that the lessee purchase or otherwise acquire securities or obligations of the lessor;
- (h) obligations under any contract for the sale or use of materials, supplies or other property if such contract (or any related document) requires that payment for such materials, supplies or other property, or the use thereof, shall be subordinated to any indebtedness (of the purchaser or user of such materials, supplies or other property) owed or to be owed to any Person; and
- (i) obligations under any other contract which, in economic effect, is substantially equivalent to a guarantee of indebtedness;

all as determined in accordance with GAAP, except that Guarantees by a Designated Subsidiary of Funded Debt of Canfor (to the extent such Designated Subsidiary has similarly guaranteed the Credit Facility) shall not be considered Funded Debt and the obligation to repurchase assets referred to in the definition of Total Debt shall, as and when excluded from the definition of Total Debt, not be considered Funded Debt;

"Funded Debt Reduction" means a prepayment of such Eligible Funded Debt, if any, as may be selected by Canfor, provided that Canfor or the Designated Subsidiary making a Funded Debt Reduction shall have given not less than 60 Business Days' written notice thereof to each holder of Canfor Notes and shall include in such Funded Debt Reduction pro-rata prepayments of those Canfor Notes where the holders thereof, not less than 30 Business Days prior to the prepayment date specified in such notice, have given written notice of their agreement to accept such pro-rata prepayment, without Make-Whole Amount, penalty or premium, and further provided that, to the extent that any amount required to be used to effect a Funded Debt Reduction exceeds the aggregate amount of the Eligible Funded Debt selected by Canfor and the Canfor Notes of the accepting holders, the amount of such excess shall be deemed to constitute part of the Funded Debt Reduction irrespective of its application by Canfor or a Designated Subsidiary to other purposes and further provided that Funded Debt Reduction shall not include any prepayment which would otherwise be a Funded Debt Reduction if as a result of such prepayment more than 25% of the original aggregate principal amount of the Canfor Notes would be paid on or before the fifth anniversary of the issue date for such Canfor Notes;

"GAAP" means, in relation to any Person at any time, the accounting principles in effect from time to time of the Canadian Institute of Chartered Accountants, including those set out in the Handbook of the Canadian Institute of Chartered Accountants and the International Financial Reporting Standards ("**IFRS**") and its interpretations adopted by the International Accounting Standards Board, applied on a consistent basis with the most recent audited financial statements of such Person and, if applicable, its consolidated subsidiaries (except for changes approved by the auditors of such Person);

"GP" means Canfor Pulp Holding Inc., a Canadian federal corporation;

“General Security Agreements” means general security agreements to be executed by, respectively, Canfor and the Guarantors in accordance with the provisions of Article 5A, in substantially the form and content set out in Schedule 8 hereto, wherein Canfor and the Guarantors shall create and grant to and in favour of the Administrative Agent for the benefit of the Secured Parties, as security for the payment and performance of all Obligations, Canfor Hedging Obligations, and Bank Products Obligations:

- (a) a mortgage, charge and security interest in or upon all of their respective presently owned or held and after acquired or held personal property of whatsoever nature and kind and wheresoever situate including goods (but excluding consumer goods), chattel paper, documents of title, investment property, instruments, money and intangibles; and
- (b) a floating charge, or in jurisdictions where the laws do not recognize a floating charge, a fixed and specific mortgage and charge, on all of their respective real property and interests in real property,

as amended, modified, supplemented, extended, renewed or replaced from time to time;

“Governmental Approval” means any authorization, permit, approval, grant, license, consent, right, privilege, registration, filing, order, commitment, judgment, direction, ordinance, decree or like instrument or affirmation issued or granted by any Governmental Body;

“Governmental Body” means any government (including any federal, provincial, state, territorial, municipal or local government) or political subdivision or any agency, authority, bureau, regulatory or administrative authority, central bank, monetary authority, commission, department or instrumentality thereof, or any court, tribunal, judicial entity, or arbitrator, whether foreign or domestic;

“Guarantee” means, with respect to any Person, any obligation (except the endorsement in the ordinary course of business of negotiable instruments for deposit or collection) of such Person guaranteeing or in effect guaranteeing any Indebtedness, dividend or other obligation of any other Person in any manner, whether directly or indirectly, including (without limitation) obligations incurred through an agreement, contingent or otherwise, by such Person:

- (a) to purchase such Indebtedness or obligation or any property constituting security therefor;
- (b) to advance or supply funds (i) for the purchase or payment of such Indebtedness or obligation, or (ii) to maintain any working capital or other balance sheet condition or any income statement condition of any other Person or otherwise to advance or make available funds for the purchase or payment of such Indebtedness or obligation;
- (c) to lease properties or to purchase properties or services primarily for the purpose of assuring the owner of such Indebtedness or obligation of the ability of any other Person to make payment of the Indebtedness or obligation; or
- (d) otherwise to assure the owner of such Indebtedness or obligation against loss in respect thereof;

“Guarantee Agreements” means:

- (a) that certain guarantee and postponement dated November 13, 2012 (as supplemented by a confirmation and agreement dated September 25, 2013) executed by Canfor Sales in favour of the Secured Parties and delivered to the Administrative Agent under §8.1;
- (b) that certain guarantee and postponement dated November 13, 2012 (as supplemented by a confirmation and agreement dated September 25, 2013) executed by CPPI in favour of the Secured Parties and delivered to the Administrative Agent under §8.1;
- (c) that certain guarantee and postponement dated August 15, 2013 executed by Canfor Factoring in favour of the Secured Parties and delivered to the Administrative Agent under §8.1; and
- (d) and each additional guarantee and postponement that is from time to time delivered to the Administrative Agent under §9.4,

all as amended, supplemented or replaced from time to time;

“Guarantors” means CPPI, Canfor Sales and Canfor Factoring, and any other Designated Subsidiaries;

“Hazardous Materials” means:

- (a) any oil, flammable substances, explosives, radioactive materials, hazardous wastes or substances, toxic wastes or substances or any other wastes, contaminates, materials or pollutants which:
 - (1) pose a hazard to any real property, or to Persons on or about any real property; or
 - (2) cause any real property to be in violation of any Law;
- (b) asbestos in any form which is or could become friable, urea formaldehyde foam insulation, transformers or other equipment which contain dielectric fluid containing levels of polychlorinated biphenyls in excess of limits prescribed by Law, or radon gas;
- (c) any chemical, material or substance defined as or included in the definition of “dangerous goods”, “deleterious substance”, “hazardous substances”, “hazardous wastes”, “hazardous materials”, “extremely hazardous wastes”, “restricted hazardous waste”, or “toxic substances”, “waste” or words of similar import under any Law, including the *Canadian Environmental Protection Act* (Canada), *Fisheries Act* (Canada), *Transportation of Dangerous Goods Act* (Canada), *Canada Water Act* (Canada) and any applicable provincial legislation; and
- (d) any other chemical, material or substance, exposure to which is prohibited, limited or regulated by any Governmental Body or which may or could pose a hazard to the occupants of any real property or the owners or occupants of

property adjacent to or surrounding any real property, or any other Person coming upon any real property or adjacent or surrounding property;

“Hedge Instrument” means any interest rate or foreign exchange risk management agreement or product, including interest rate, commodity or currency exchange or swap agreements, futures contracts, forward exchange, purchase or sale agreements (including energy purchase or sale agreements), and any other agreements to fix or hedge interest rates or foreign exchange rates;

“Hedging Obligations” means, with respect to any Person, payment or delivery obligations under Hedge Instruments;

“HSBC” means HSBC Bank Canada, a Canadian chartered bank;

“Increased Costs” means any amounts payable by Canfor to the Administrative Agent or a Lender under any of §3.2(c), Article 10 and §13.5;

“Indebtedness” means, with respect to any Person, without duplication:

- (a) all obligations for borrowed money;
- (b) all obligations evidenced by bonds, debentures, notes or similar instruments (including, without limitation, debentures, notes or similar instruments convertible into shares of a Person) or upon which interest payments are customarily made;
- (c) all obligations under conditional sale or other title retention agreements relating to property purchased (other than customary reservations or retentions of title under agreements with suppliers entered into in the ordinary course of business);
- (d) all obligations (including, without limitation, earnout obligations) incurred, issued or assumed as the deferred purchase price of property or services purchased (other than trade debt incurred in the ordinary course of business) that would appear as liabilities on a balance sheet;
- (e) the principal portion of all Capital Lease Obligations;
- (f) the Mark to Market Amount of such Person;
- (g) the maximum amount of all letters of credit issued or bankers' acceptances facilities created, excluding amounts drawn under such letters of credit or bankers' acceptances which have become obligations for borrowed money under (a), and excluding performance based letters of credit issued to a Person's customers in connection with certain long-term contracts);
- (h) all preferred Capital Stock or other equity interests and which by the terms thereof could be (at the request of the holders thereof or otherwise) subject to mandatory sinking fund payments, redemptions or other acceleration;
- (i) the principal balance outstanding under any synthetic lease, tax retention operating lease, off-balance sheet loan or similar off-balance sheet financing product;

- (j) all obligations under take-or-pay or similar arrangements or under commodities agreements;
- (k) all Indebtedness of others of the type described in §(a) through (j) secured by (or for which the holder of such Indebtedness has an existing right, contingent or otherwise, to be secured by) any Lien on, or payable out of the proceeds of production from, property owned or acquired, whether or not the obligations secured thereby have been assumed;
- (l) all Guarantees of Indebtedness of another Person of the type described in §(a) through (j) and all other contingent obligations; and
- (m) all Indebtedness of the type described in §(a) through (j) of any partnership or unincorporated joint venture in which a Person is a general partner or a joint venturer in proportion to the ownership percentage in such partnership or joint venture;

“Information Documents” means, collectively, at any time and in any form, information provided by or on behalf of Canfor to the Administrative Agent in writing, pursuant to this Agreement, with respect to the businesses of Canfor and the Designated Subsidiaries, financial statements of Canfor and certificates and other materials reasonably requested by the Administrative Agent for the purpose, *inter alia*, of providing such information to prospective Lenders, as from time to time, amended, supplemented or replaced;

“Interest Period” means, for each LIBOR Advance, a period commencing:

- (a) in the case of the initial Interest Period for such Advance, on the date of such Advance; and
- (b) in the case of any subsequent Interest Period for such Advance in accordance with a Rollover, on the last day of the immediately preceding Interest Period,

and ending in either case on the last day of such period as shall be selected by Canfor pursuant to the provisions below.

If a Base Rate Advance is converted to a LIBOR Advance, the initial Interest Period for such LIBOR Advance shall commence on the date of such Conversion. The duration of each Interest Period for a LIBOR Advance shall be one, two, three or six months (subject to availability), as Canfor may select in the applicable Accommodation Request, or such other period to which the Tranche A Lenders may agree. No Interest Period may be selected which would end on a day after the Tranche A Maturity Date, or in the opinion of the Administrative Agent, conflict with any repayment stipulated in this Agreement. Whenever the last day of an Interest Period would otherwise occur on a day other than a Business Day, the last day of such Interest Period shall be extended to occur on the next succeeding Business Day; provided that, if such extension would cause the last day of such Interest Period to occur in the next following calendar month, the last day of such Interest Period shall occur on the immediately preceding Business Day;

“Interest Rate and Fee Adjustment Date” means that day which is the first day of the month which immediately follows the relevant Financial Quarter end;

“Interest Rate and Fee Calculation Date” means that day which is the first day of the third month following the end of a Financial Quarter;

"Investment" means any investment, made in cash or by delivery of property by a Person:

- (a) in any other Person, whether by acquisition of stock, indebtedness, or other obligation or security of such Person, or by loan, guarantee, advance, capital contribution or otherwise; or
- (b) in any property;

"ISP98" means the International Standby Practices ISP98, as published by the International Chamber of Commerce and in effect from time to time;

"Issuance" means the issuance of one or more Letters of Credit made pursuant to an Accommodation Request;

"Issue Date" means any Business Day fixed in accordance with the provisions of this Agreement for an Issuance;

"Law" means any law (including common law and the laws of equity), constitution, statute, treaty, regulation, by-law, rule, ordinance, order, guideline, requirement, injunction, writ, decree or award of any Governmental Body;

"Lenders" means the Tranche A Lenders, the Tranche B Lenders and the Tranche C Lenders;

"Lenders' Counsel" means such law firm as may from time to time be chosen by the Lenders to act on their behalf in connection with the Credit Facility;

"Lending Branch" means, in respect of a particular Lender, the branch whose address is set forth in Schedule 1, or such other branch as such Lender may designate from time to time by notice given to the Administrative Agent and Canfor;

"Letter of Credit" means (i) a Fronted Letter of Credit; or (ii) an EDC Guaranteed LC, as the context requires, and each is a "type" of Letter of Credit;

"LIBOR", means, with respect to any Interest Period applicable to a LIBOR Advance, the per annum rate of interest determined by the Administrative Agent, based on a 360-day year, rounded up to the nearest 0.01%, as the average of the offered quotations appearing on the display referred to as the "LIBOR 01 Page" of Reuter Monitor Money Rates Service (or any successor source from time to time) as of 11:00 a.m. (London, England time) two Business Days before the first day of such Interest Period to make deposits with leading banks in the London Interbank Offer Rate market in the currency of such LIBOR Advance for a period comparable to such Interest Period, or, if such "LIBOR 01 Page" shall not be available in respect of the relevant Interest Period, then "LIBOR" shall mean, with respect to any such Interest Period, the per annum rate of interest, based on a 360-day year (rounded up to the nearest 0.01%), determined by the Administrative Agent as being the rate of interest at which the Administrative Agent, in accordance with its normal practices, would be prepared to offer to leading banks in the London Interbank Offer Rate market for delivery on the first day of the relative Interest Period based on the number of days comprised therein, deposits in US Dollars of amounts comparable to such LIBOR Advance to be outstanding during such Interest Period at approximately 11:00 a.m. (London, England time) (or so soon thereafter as practicable);

"Lien" means, with respect to any Person, any mortgage, lien, pledge, charge, security interest or other encumbrance, or any interest or title of any vendor, lessor, lender or other secured

party to or of such Person under any conditional sale or other title retention agreement or capital lease, upon or with respect to any property or asset of such Person (including in the case of stock, stockholder agreements, voting trust agreements and all similar arrangements). "Lien" shall not include a sale of accounts receivable of the character described in §(f) of the definition of Excepted Disposition;

"Majority Lenders" means: (a) in respect of the Credit Facility at any time, Lenders whose respective individual Commitments under the Credit Facility at such time aggregate at least 66-2/3% of the total Commitments of all Lenders under the Credit Facility at such time; and (b) in respect of a particular Tranche at any time, Lenders whose respective individual Commitments under such Tranche at such time aggregate at least 66-2/3% of the total Commitments under such Tranche at such time;

"Make-Whole Amount" has the meaning ascribed to it in the Note Purchase Agreement;

"Margin Stock" has the meaning ascribed thereto in Regulation U issued by the F.R.S. Board;

"Mark to Market Amount" means, for any date for which the Mark to Market Amount is calculated with respect to any Person (and for greater certainty, where calculated with respect to Canfor or any Designated Subsidiary, shall be calculated with respect to Canfor and all Designated Subsidiaries as if they were a single Person), the aggregate net amount, if any, that would be payable by such Person under its Hedge Instruments if all Transactions thereunder were being terminated as of such date (provided that market quotation will be determined using estimates at mid-market of the amounts that would be paid for replacement Transactions) (for greater certainty, each net amount owing to or by such Person to a counterparty shall be netted against the amounts owing to or by such Person to all other counterparties). Notwithstanding the foregoing, the amount that would be payable by such Person under its Hedge Instruments may only be netted against amounts owing to or by such Person to counterparties with an S & P rating of BBB+ or better or a Moody's rating of Baa1 or better (and in the case of a counterparty rated by both S & P and by Moody's, such counterparty must have the required minimum rating for both). For the purposes of this definition, capitalized terms not otherwise defined in this Agreement shall have the respective meanings given to those terms in the then current ISDA Master Agreement (Multicurrency – Cross Border);

"Material Adverse Change" means any one or more transactions, events or conditions which, when taken together, have a material adverse effect on:

- (a) the ability of any Credit Party to perform and discharge their obligations under the Agreement or the other Credit Facility Documents;
- (b) the validity or enforceability of any material provision of the Agreement or the Guarantee Agreements; or
- (c) the business, operations, affairs, financial condition, assets, properties or prospects of Canfor or the Designated Subsidiaries, taken as a whole;

"Maturity Date" means the Tranche A Maturity Date or the Tranche C Maturity Date, as the context requires;

"Maximum Aggregate Liability" has the meaning ascribed to such term in the EDC Account PSG;

“Maximum Guaranteed Amount” has the meaning ascribed to such term in the EDC Account PSG;

“Minimum Shareholders’ Equity” means on a consolidated basis for CPPI, Canfor and the Designated Subsidiaries the amount equal to shareholders’ equity as at September 30, 2013 (as disclosed in writing to the Administrative Agent by November 30, 2013) less Cdn. \$85,000,000 plus other comprehensive income adjustments of up to \$50,000,000, plus 50% of Consolidated Net Income (provided Consolidated Net Income is at least \$1.00) for each Financial Year, commencing October 1, 2013;

“Moody’s” means Moody’s Investors Service, Inc.;

“Net Interest Expense” means, for any particular period, without duplication, the aggregate expense incurred by Canfor and the Designated Subsidiaries on a consolidated basis for interest and equivalent costs of borrowing (taking into account the effect of any relevant Hedge Instruments), including but not limited to (i) bankers’ acceptance fees, (ii) discounts on bankers’ acceptances, (iii) the interest portion of any Capital Lease Obligations, and (iv) all fees and other compensation paid to any Person that has extended credit to Canfor or a Designated Subsidiary other than any upfront, extension and similar non-recurring fees paid to the Administrative Agent or Lenders in connection with the Credit Facility, in each case whether or not actually paid, but excluding:

- (a) the interest capitalized in accordance with GAAP on new capital projects, including interest capitalized up to completion;
- (b) the “make-whole” premium on the redemption of any Canfor Note; and
- (c) the interest amount paid on that portion of Canfor Notes that have been repaid and not refinanced over the period,

and net of interest earned on unencumbered short term cash or Cash Equivalents;

“Non-Acceptance Lender” has the meaning set forth in §4.11;

“Non-Designated Subsidiary” means a Subsidiary of Canfor that is not a Designated Subsidiary;

“Non-U.S. Pension Plan” means any plan, fund or other similar program:

- (a) established or maintained outside of the United States of America by Canfor or any Designated Subsidiary primarily for the benefit of the employees (substantially all of whom are aliens not residing in the United States of America) of Canfor or such Designated Subsidiary, which plan, fund or other similar program provides for retirement income for such employees or results in a deferral of income for such employees in contemplation of retirement; and
- (b) not otherwise subject to ERISA;

“Note Purchase Agreement” means the agreement entered into as of November 30, 2006 between Finance Co., Canfor and various other parties thereto, as amended, restated, supplemented or otherwise modified from time to time;

"Notice" means an Accommodation Request or a Repayment/Cancellation Notice;

"Obligations" means, at any time, the amount (calculated and expressed in Cdn. Dollars, with each US Dollar obligation converted for purposes of such calculation into the Equivalent Amount in Cdn. Dollars) equal to the sum of:

- (a) the Principal Outstanding under the Credit Facility;
- (b) all accrued and unpaid interest thereon and all interest on accrued and unpaid interest; and
- (c) all accrued and unpaid fees, expenses, costs, indemnities, Increased Costs and other amounts payable to the Lenders or the Administrative Agent pursuant to the provisions of any Credit Facility Document or otherwise in respect of the Credit Facility;

"Participant" has the meaning ascribed in §13.8(c);

"Payment Account" means the following accounts in the name of Canfor:

- (1) [REDACTED]
[Bank accounts
information redacted]
[REDACTED]
[REDACTED]
- (2) [REDACTED]
Bank accounts
information redacted]
[REDACTED]
[REDACTED]

or such other places or accounts as may be agreed by the Administrative Agent and Canfor from time to time and notified to the Lenders;

"Permitted Encumbrances" means, in respect of any Credit Party at any time, any one or more of the following:

- (a) Liens for Taxes not yet due or which are being actively contested in good faith by appropriate proceedings, provided, in the latter case, that Canfor shall have established appropriate reserves for such Taxes in accordance with GAAP;
- (b) other Liens incidental to the conduct of its business or the ownership of its property and assets which were not incurred in connection with the borrowing of money or the obtaining of advances or credit, and which do not in the aggregate materially detract from the value of its property or assets taken as a whole or materially impair the use thereof in the operation of its business;

- (c) Liens on property or assets of a Designated Subsidiary to secure obligations of such Designated Subsidiary to Canfor or a Wholly-Owned Designated Subsidiary;
- (d) any Lien (i) existing on any property of any Person at the time it becomes a Designated Subsidiary, provided that the Indebtedness secured by such Lien is not assumed by Canfor or a Designated Subsidiary, or (ii) existing prior to the time of acquisition upon any property acquired by Canfor or a Designated Subsidiary through purchase, merger or amalgamation or otherwise provided that the Indebtedness secured by such Lien is not assumed by Canfor (unless it is the acquiring corporation) or a Designated Subsidiary, or (iii) placed upon property now owned or hereafter acquired by Canfor or a Designated Subsidiary at the time of, or within six months after, the acquisition thereof to secure all or a portion of the purchase price thereof or to secure all or a portion of the construction costs (including cost of installation) of improvements thereon or additions thereto, in each case made within six months of the acquisition thereof, provided that, with respect to Liens referred to §(i), (ii) and (iii), (A) any such Lien shall not encumber any other property of Canfor or such Designated Subsidiary, and (B) the aggregate amount of Funded Debt secured by any such Lien could be incurred under §(c) of the definition of Funded Debt at the time such Person becomes a Designated Subsidiary or at the time of such acquisition or creation and in each case after giving effect thereto;
- (e) any Lien renewing, extending or refunding any Lien permitted by §(d), provided that the principal amount secured is not increased, and the Lien is not extended to other property;
- (f) any Lien renewing, extending or refunding any Lien securing Funded Debt permitted by §(d), provided such Funded Debt was secured by a Lien immediately prior to such renewal, extension or refunding; and
- (g) Liens which secure other Indebtedness permitted by the terms of this Agreement and which secure the Credit Facility equally and rateably with such other Indebtedness so long as such other Indebtedness is so secured, such security to be (i) effective no earlier than 30 days after notice has been provided to the Administrative Agent describing in reasonable detail the property and Indebtedness which is to be secured, and (ii) provided pursuant to documentation reasonably satisfactory to the Majority Lenders under the Credit Facility;

“Permitted Mergers” means any of the following:

- (a) the amalgamation of GP with any one or more of the Designated Subsidiaries;
- (b) the amalgamation of one Designated Subsidiary with one or more other Designated Subsidiaries;
- (c) the formation of a partnership involving, and owned entirely by, the Persons referred to in §(a) or §(b);

- (d) once the Canfor Notes have been repaid and all Bonds issued pursuant to the Trust Indenture have been returned to the Trustee for cancellation and have been cancelled and the Security Documents have been released, discharged, and cancelled and any registrations with respect thereto discharged, the Reorganization;
- (e) any amalgamation, merger or similar transaction involving only Canfor and its subsidiaries on terms and conditions confirmed by the Lenders in writing to be satisfactory to them prior to completion of such transaction (including without limitation any Lender approval required under §13.2(b)(7) in view of any effect of such transaction on the Credit Facility Documents);

provided that the following additional conditions are satisfied:

- (f) the resulting, surviving or transferee Person shall be a Person organized and existing under the laws of Canada, any province thereof or any State of the United States of America and shall possess all of the property, capacity, rights, franchises, authorizations and qualifications of all other Persons involved in such transaction;
- (g) the resulting, surviving or transferee Person expressly assumes on terms and conditions as to legal effect satisfactory to the Lenders' Counsel the obligations of all other Persons involved in such transaction under all Credit Facility Documents to which such other Persons are a party;
- (h) no Default or Event of Default has occurred and is continuing and immediately after giving effect to such transaction on a *pro forma* basis no Default or Event of Default shall have occurred and be continuing;
- (i) the validity, enforceability and effect of any of the Credit Facility Documents or the EDC Account PSG shall not be affected in any adverse way, and in particular the EDC Account PSG will be effective to cover "Bank Instruments" and "Bank Instructions" (each as defined in the EDC Account PSG) in respect of standby letters of credit and letters of guarantee issued by the Tranche B Lender on behalf of Canfor or GP both before and after the Reorganization;
- (j) immediately following such transaction, the Secured Parties shall have such Lien over the present and after-acquired assets of the resulting, surviving or transferee Person with the same priority that the Lien over the assets of such Persons involved in the transactions immediately prior to the transaction; and
- (k) Canfor shall have delivered to the Administrative Agent a certificate of a Senior Officer and an opinion of counsel to Canfor, each stating that such transaction complies herewith and otherwise in form and substance acceptable to the Administrative Agent;

"Permitted Share Issuance" means an issuance of shares or other equity securities by a Designated Subsidiary where:

- (a) the Total Disposition Value for the 12 and 24 months preceding the issuance do not constitute more than 15% and 25%, respectively, of the consolidated assets of Canfor and its Designated Subsidiaries; and
- (b) the net proceeds of issuance are used to effect a Funded Debt Reduction or, within six months of issuance, are applied to the purchase of property (other than inventory) or to constructions costs, improvements or additions to property, in each case used in the business of the Designated Subsidiary, or to the purchase of all of the outstanding common shares of a company which is not then a Designated Subsidiary but which immediately following such purchase becomes a Designated Subsidiary, and after giving effect to such Funded Debt Reduction or application, as the case may be, Canfor could incur at least US\$1.00 of additional Funded Debt under §9.2(c);

“Person” includes an individual, partnership, body corporate, corporation (including a business trust), joint stock company, trust, unincorporated association, joint venture and other entity and any Governmental Body;

“Pledged Bond” means the Series D Senior Bond issued under the Trust Indenture;

“Prime Rate” means, at any time, the greater of:

- (a) the rate of interest per annum established and reported by HSBC from time to time as the reference rate of interest it charges to customers for Canadian Dollar loans made by it in Canada; and
- (b) the sum of:
 - (1) the average one month bankers’ acceptance rate as quoted on Reuters Service page CDOR as at 10:00 a.m. (Toronto time) on such day, expressed as a rate per annum; plus
 - (2) 100 basis points,

as to which a certificate of the Administrative Agent, absent manifest error, shall be conclusive evidence from time to time. With each quoted or published change in such rate aforesaid of HSBC there shall be a corresponding change in any rate of interest payable under this Agreement based on the Prime Rate should such changed rate exceed that set forth in §(b) of this definition, all without the necessity of any notice thereof to Canfor or any other Person;

“Principal Outstanding” means, at any time, the amount (calculated and expressed in Cdn. Dollars, with each US Dollar obligation converted for purposes of such calculation into the Equivalent Amount in Cdn. Dollars) equal to:

- (a) when used in a context pertaining to a type of Accommodation made by a single Lender under any one or more of the Tranches, the sum of:
 - (1) if the type of Accommodation is an Advance or BA Equivalent Loan, the aggregate principal amount of all such Accommodations then outstanding made by such Lender under such Tranche or Tranches; and

- (2) if the type of Accommodation is by way of Bankers' Acceptance (whether or not held by such Lender) or Letter of Credit, the Face Amount of all such Accommodations then outstanding made by such Lender under such Tranche or Tranches;
- (b) when used in a context pertaining to Accommodations made by a single Lender under any one or more of the Tranches, the sum of:
 - (1) the aggregate principal amount of all Advances and BA Equivalent Loans then outstanding made by such Lender under such Tranche or Tranches; and
 - (2) the Face Amount of all Accommodations then outstanding made by such Lender under such Tranche or Tranches by way of Bankers' Acceptances (whether or not held by such Lender) and Letters of Credit; and
- (c) when used elsewhere in this Agreement with reference to any one or more of the Tranches (including the Credit Facility as a whole), the sum of:
 - (1) the aggregate principal amount of all Advances and BA Equivalent Loans then outstanding made by the Lenders under such Tranche or Tranches; and
 - (2) the Face Amount of all Accommodations then outstanding made by the Lenders under such Tranche or Tranches by way of Bankers' Acceptances (whether or not held by the respective Lenders) and Letters of Credit;

"Receiver" includes a receiver, receiver/manager and receiver and manager;

"Release" includes releasing, spilling, leaking, pumping, pouring, emitting, emptying, discharging, injecting, escaping, leaching, disposing or dumping, or permitting any of the foregoing to occur;

"Reorganization" means the contemplated reorganization, currently scheduled to occur on December 27, 2013, whereby the assets and liabilities of Canfor Pulp Limited Partnership will be transferred to and assumed by GP, CPPI will transfer all of the units in Canfor Pulp Limited Partnership to GP and Canfor Pulp Limited Partnership will be wound up;

"Repayment/Cancellation Notice" means a notice in the form of or substantially similar effect as Schedule 3, given to the Administrative Agent by Canfor pursuant to any relevant provision of this Agreement;

"Request for Cover" has the meaning ascribed to such term in the EDC Account PSG;

"Required Notice", when used with respect to a type of Accommodation, a payment, prepayment or reduction of the Commitments hereunder, means such number of days' notice to the Administrative Agent as is set forth in Schedule 7;

"Restricted Investments" means all Investments which exceed, in aggregate amount, 15% of Canfor's consolidated total assets, but does not include:

- (a) loans or advances to, or the ownership, purchase or acquisition of shares, obligations or securities of any Designated Subsidiary or of a corporation which immediately after such investment will be a Designated Subsidiary;
- (b) Cash Equivalents;
- (c) Investments solely in consideration for shares in the capital of Canfor; and
- (d) Investments in Designated Subsidiaries;

“Restricted Payment” means any payment or declaration of any dividend on any class of CPPI’s Capital Stock (or of the Capital Stock of Canfor or a Designated Subsidiary which issues Capital Stock to the public (an **“Issuing Subsidiary”**)), any other distribution on account of any class of CPPI’s or an Issuing Subsidiary’s Capital Stock and any redemption, purchase or other acquisition by CPPI or, Canfor or a Designated Subsidiary, direct or indirect, of any of CPPI’s or an Issuing Subsidiary’s Capital Stock. There shall not be included in Restricted Payments: (i) dividends paid, or distributions made, in Capital Stock of CPPI or an Issuing Subsidiary; or (ii) exchanges of Capital Stock of CPPI or an Issuing Subsidiary into shares of the same or another class of common shares of CPPI or an Issuing Subsidiary or exchanges of outstanding preferred shares of CPPI or an Issuing Subsidiary into common shares of CPPI or an Issuing Subsidiary, except to the extent that cash or other value (other than shares) is involved in such exchange. The term “shares” as used in this definition shall include warrants and options to purchase shares;

“Retroactive Amount” means that amount of interest, stamping fees and commitment fees equal to the difference, if any, between:

- (a) interest, stamping fees and commitment fees actually paid by Canfor from and including the Interest Rate and Fee Adjustment Date following the end of each Financial Quarter to and including the Interest Rate and Fee Calculation Date; and
- (b) interest, stamping fees and commitment fees required to be paid for that Financial Quarter as a result of an adjustment to the Applicable Margin;

“Rollover” means, in respect of a Borrowing by way of LIBOR Advances, the continuation thereof or any portion thereof for a succeeding Interest Period and, in respect of a Drawing, the issuance of a further Drawing on any day in a Face Amount not exceeding the Face Amount of the Drawing maturing on that day, the proceeds of which are used to pay (directly or indirectly) the maturing Drawing, all as contemplated by §2.11;

“S&P” means Standard & Poor’s Ratings Services, a division of The McGraw Hill Companies, Inc.;

“Secured Party” means each Person that from time to time is a Lender or the Administrative Agent hereunder or a Lender or Affiliate of a Lender to whom Canfor Hedging Obligations or Bank Products Obligations are owed;

“Security Documents” has the meaning defined in the Trust Indenture;

“Senior Officer” means, in respect of a corporation, the chairman of the board, the president or chief executive officer, the chief financial officer, the chief legal officer, a vice-president, the secretary, the treasurer or such other officer as the Administrative Agent may agree to;

“Shareholders’ Equity” means consolidated unitholders’ or shareholders’ equity of Canfor and the Designated Subsidiaries, as applicable, provided that positive and negative non-cash adjustments to other comprehensive income related to defined benefit pension plans and foreign exchange impact from translating US\$ denominated assets and liabilities of US Subsidiaries shall not be included in the calculation of Shareholders’ Equity provided that such amounts thereafter shall not exceed Cdn. \$50,000,000 on a net cumulative basis (positive or negative) at any time;

“Subsidiary” means, as to any Person, any corporation, association or other business entity in which such Person or one or more of its Subsidiaries or such Person and one or more of its Subsidiaries owns sufficient equity or voting interests to enable it or them (as a group) ordinarily, in the absence of contingencies, to elect a majority of the directors (or Persons performing similar functions) of such entity, and any partnership or joint venture if more than a 50% interest in the profits or capital thereof is owned by such Person or one or more of its Subsidiaries or such Person and one or more of its Subsidiaries (unless such partnership can and does ordinarily take major business actions without the prior approval of such Person or one or more of its Subsidiaries);

“Swingline” means that portion of Tranche A to be made available by the Swingline Lender to Canfor as described in §2.1(f), and **“Swingline Advance”** means an advance of monies made or deemed to have been made, including by way of overdraft, by the Swingline Lender under the Swingline;

“Swingline Amount” means Cdn. \$10,000,000 (or the Equivalent Amount in US Dollars) to the extent not permanently reduced, cancelled or terminated pursuant to this Agreement;

“Swingline Lender” means HSBC, acting in its capacity as the Lender of Swingline Advances under §2.1(f), and any replacement swingline lender appointed in accordance with §12.9;

“Taxes” means all taxes, levies, imposts, stamp taxes, duties, fees, deductions, withholdings, charges, compulsory loans or restrictions or conditions resulting in a charge which are imposed, levied, collected, withheld or assessed by any country or political subdivision or taxing authority thereof as of the date hereof or at any time in the future together with interest thereon and penalties with respect thereto, if any, and any payments of principal, interest, charges, fees or other amounts made on or in respect thereof (but excluding Excluded Taxes), and **“Tax”** and **“Taxation”** shall be construed accordingly;

“Total Capitalization” means, as at the date of determination, the sum of Total Debt and Shareholders’ Equity, less the aggregate amount of Restricted Investments;

“Total Debt” means, at any time, the sum of all obligations of Canfor and the Designated Subsidiaries on a consolidated basis, with respect to:

- (a) borrowed money incurred or guaranteed by them;
- (b) any promissory notes or other negotiable instruments issued or guaranteed by them;

- (c) Capital Lease Obligations;
- (d) the amount of any securitization of accounts receivable in excess of \$50,000,000;
- (e) the Mark to Market Amount of Canfor and the Designated Subsidiaries;
- (f) other contingent liabilities in connection with Indebtedness (other than contingent liabilities in connection with Hedge Instruments to which Canfor or a Designated Subsidiary is a party),

all determined in accordance with GAAP, less unencumbered short term cash and Cash Equivalents held directly by Canfor or any Designated Subsidiary, provided that any debt of joint ventures, affiliates or Subsidiaries not wholly owned directly or indirectly by Canfor, and which has no recourse to Canfor or any Designated Subsidiary shall be excluded;

"Total Debt to Total Capitalization Ratio" means, as at the date of determination, the consolidated ratio of Total Debt to Total Capitalization;

"Total Disposition Value" means, with respect to any disposition or Permitted Share Issuance, the aggregate of the net proceeds thereof and all other dispositions (other than Excepted Dispositions) and Permitted Share Issuances during any specified time period; for the purposes of this definition the net proceeds of a disposition of all shares and Funded Debt and Current Debt of a Designated Subsidiary shall be deemed to be the value of the property of such Designated Subsidiary;

"Total Senior Capitalization" means as at the date of determination, the sum of Total Senior Secured Debt and Shareholders' Equity;

"Total Senior Secured Debt" means the portion of the Total Debt that is secured by a Lien or Liens that rank at least *pari passu* with the Lien (if any, whether or not it is perfected) that secures the Obligations; but, for greater certainty, does not include any of the Total Debt that is secured solely by a Lien arising under documents held in escrow or which by its terms does not attach to any collateral;

"Total Senior Secured Debt to Total Senior Capitalization Ratio" means, as at the date of determination, the consolidated ratio of Total Senior Secured Debt to Total Senior Capitalization;

"Tranche" means any of Tranche A, Tranche B or Tranche C;

"Tranche A" means the revolving credit facility described in §2.1(a)(1);

"Tranche A Lenders" means those institutions providing a Commitment in respect of Tranche A whose names are set forth on the execution pages hereof under the heading "Tranche A Lenders", and their respective permitted assigns;

"Tranche A Maturity Date" means January 31, 2018;

"Tranche B" means the EDC Guaranteed LC Facility;

"Tranche B Lender" means HSBC as the financial institution providing a Commitment in respect of Tranche B, and its permitted assigns;

"Tranche C" means the non-revolving credit facility described in §2.1(a)(3);

"Tranche C Lenders" means those financial institutions providing a Commitment in respect of Tranche C whose names are set forth on the execution pages hereof under the heading "Tranche C Lenders", and their respective permitted assigns;

"Tranche C Maturity Date" means November 5, 2018;

"Triggering Event" shall have the meaning ascribed to such term in §5A.1(1);

"Trust Indenture" means the trust indenture dated November 30, 2006 executed by Canfor and the Trustee, as supplemented by first and second supplemental indentures dated November 30, 2006, the third supplemental indenture dated September 30, 2009, and the fourth supplemental indenture dated December 10, 2012, and as may be further amended, supplemented or otherwise modified from time to time;

"Trustee" means Computershare Trust Company of Canada, in its capacity as trustee under the Trust Indenture;

"US Dollars", **"United States Dollars"** and **"US\$"** each mean lawful money of the United States of America in same day immediately available funds or, if such funds are not available, the form of money of the United States of America that is customarily used in the settlement of international banking transactions on the day payment is due hereunder;

"U.S. Multiemployer Plan" means any U.S. Plan that is a "multiemployer plan" (as such term is defined in section 4001(4)(3) of ERISA);

"U.S. Plan" means an "employee benefit plan" (as defined in section 3(3) of ERISA) that is or, within the preceding five years, has been established or maintained, or to which contributions are or, within the preceding five years, have been made or required to be made, by Canfor or any ERISA Affiliate or with respect to which Canfor or any ERISA Affiliate may have any liability;

"Uniform Customs" means the Uniform Customs and Practice for Documentary Credits, as published by the International Chamber of Commerce and in effect from time to time;

"Wholly-Owned Designated Subsidiary" means any Designated Subsidiary, all of the voting shares of every class of which, other than directors' qualifying shares, shall, at the time as of which any determination is being made, be owned by Canfor or an Affiliate of Canfor, either directly or through Wholly-Owned Subsidiaries;

"Wholly-Owned Subsidiary" means, with respect to a Person, any other Person, if at such time such first-mentioned Person and/or one or more Wholly-Owned Subsidiaries of such first-mentioned Person owns, directly or indirectly, all of the Capital Stock in such other Person (other than director's qualifying shares).

1.2 Computation of Time Periods.

- (a) *Inclusion Rules.* In this Agreement, in the computation of periods of time from a specified date to a later specified date, unless otherwise expressly stated, the

word “**from**” means “**from and including**” and the words “**to**” and “**until**” each mean “**to but excluding**”.

- (b) *Ibid.* Where in this Agreement a notice must be given a number of days prior to a specified action, the day on which such notice is given shall be included and the day of the specified action shall be excluded.

1.3 Accounting Terms

All accounting terms not specifically defined herein shall be construed in accordance with GAAP. Where the character or amount of any asset or liability or item of revenue or expense is required to be made, for the purposes of this Agreement, including the contents of any certificate to be delivered under this Agreement, such determination, consolidation or computation shall, unless the parties otherwise agree or the context otherwise requires, be made in accordance with GAAP applied (unless GAAP otherwise requires) on a consistent basis; provided that, if at any time after the Closing Date any change in GAAP would affect the computation of the Total Debt to Total Capitalization Ratio, the Total Senior Secured Debt to Total Senior Capitalization Ratio, the EBITDA Interest Coverage Ratio or Shareholders' Equity (including for the purposes of such computation the constituent components thereof) and there is a request made by Canfor to the Administrative Agent or by the Administrative Agent to Canfor to negotiate in good faith to amend the Total Debt to Total Capitalization Ratio, the Total Senior Secured Debt to Total Senior Capitalization Ratio, the EBITDA Interest Coverage Ratio or the definition of Shareholders' Equity, in light of such change in GAAP to preserve the original intent thereof, Canfor and the Administrative Agent and with the consent of the Majority Lenders under the Credit Facility as required by §13.2(a), shall enter into such negotiations, it being agreed, however, that until they have agreed upon an appropriate amendment:

- (a) the applicable ratio or definition shall continue to be computed in accordance with GAAP as it existed prior to giving effect to such change in GAAP; and
- (b) Canfor shall provide to the Administrative Agent a reconciliation between calculation of the subject ratio or definition made before and after giving effect to such change in GAAP.

1.4 Incorporation of Schedules

Schedules 1 to 7 shall, for all purposes hereof, form an integral part of this Agreement.

1.5 Gender; Singular, Plural, etc.

As used herein, each gender shall include all genders, and the singular shall include the plural and the plural the singular, as the context shall require.

1.6 Use of Certain Words

The words “**including**” and “**includes**”, when either follows any general term or statement, is not to be construed as limiting the general term or statement to the specific terms or matters set forth immediately following such word or to similar items or matters, but rather as referring to all other items or matters that could reasonably fall within the broadest possible scope of the general term or statement.

1.7 Successors, etc.

In this Agreement:

- (a) reference to any body corporate shall include successors thereto, whether by way of amalgamation or otherwise; provided that transfers and assignments by Canfor and Designated Subsidiaries and corporate and other reorganizations shall nonetheless be undertaken only in accordance with any restrictions imposed by the terms hereof;
- (b) references to any statute, enactment or legislation or to any section or provision thereof include a reference to any order, ordinance, regulation, rule or by-law or proclamation made under or pursuant to that statute, enactment or legislation and all amendments, modifications, consolidations, re-enactments or replacements thereof or substitutions therefor from time to time; and
- (c) reference to any agreement, instrument, Governmental Approval or other document shall include reference to such agreement, instrument, Governmental Approval or other document as the same may have been heretofore or may from time to time hereafter be amended, supplemented, replaced or restated.

1.8 Interpretation not Affected by Headings, etc.

The division of this Agreement into Articles and sections and the insertion of headings are for convenience of reference only and shall not affect the construction or interpretation hereof.

1.9 General Provisions as to Certificates and Opinions, etc.

Whenever the delivery of a certificate is a condition precedent to the taking of any action by the Administrative Agent or any Lender hereunder, the truth and accuracy of the facts and the diligent and good faith determination of the opinions stated in such certificate shall in each case be conditions precedent to the right of Canfor to have such action taken, and any certificate executed by Canfor shall be deemed to represent and warrant that the facts stated in such certificate are true, accurate and complete.

1.10 Currency

Unless otherwise specified, all statements of, or references to, dollar amounts in the Agreement without currency specification shall mean Canadian Dollars.

2. THE CREDIT FACILITY

2.1 Credit Facility

- (a) *Commitment.* The Credit Facility is comprised of three tranches as follows:
 - (1) Tranche A is to be made available on a committed, revolving basis in the principal amount of up to but not exceeding Cdn. \$110,000,000;
 - (2) Tranche B is the EDC Guaranteed LC Facility; and

- (3) Tranche C is to be made available on a committed, non-revolving basis in the principal amount of up to but not exceeding Cdn. \$50,000,000.

Subject to the terms and conditions set forth in this Agreement, Tranche A shall be available in Canadian Dollars by way of Prime Rate Advances, Bankers' Acceptances or Fronted Letters of Credit and in U.S. Dollars by way of Base Rate Advances, LIBOR Advances or Fronted Letters of Credit. Availability by way of Fronted Letters of Credit is limited to an aggregate principal amount of Cdn. \$25,000,000. Tranche B shall be made available by way of the issuance of EDC Guaranteed LCs. Tranche C shall be available in Canadian Dollars by way of Prime Rate Advances or Bankers Acceptances.

Subject to the terms and conditions of this Agreement, each Lender shall make Accommodations available under one or more (as the case may be) of the Tranches *pro rata* on the basis of such Lender's Commitments, as set forth in Schedule 1.

In no event shall a Lender be obligated to make Accommodations available under a Tranche if after making such Accommodations the Principal Outstanding of that Lender's Accommodations under such Tranche would exceed that Lender's Commitment in respect of such Tranche.

Each Lender shall make Accommodations available to Canfor through its relevant Lending Branch.

- (b) *Purposes.* The Credit Facility shall be used only for the following purposes:
- (1) in the case of Tranche A, general corporate purposes of Canfor, including working capital requirements and to finance or reimburse a portion of repayment of the cost at maturity of the Canfor Notes under the Note Purchase Agreement;
 - (2) in the case of Tranche B, the issuance of the EDC Guaranteed LCs; and
 - (3) in the case of Tranche C, capital expenditures to support Canfor's electricity purchase agreements with respect to its Northwood and Intercontinental pulp mills in Prince George, British Columbia.
- (c) *Availability Period.* Subject to the terms and conditions herein set forth:
- (1) Accommodations in respect of Tranche A will be made available by way of multiple draws from time to time up to the Tranche A Maturity Date;
 - (2) Accommodations in respect of Tranche B will be made available by way of the issuance from time to time of EDC Guaranteed LCs until the date of expiry or termination of the EDC Account PSG; and
 - (3) Accommodations in respect of Tranche C will be made available on the Closing Date;
- (d) *Minimum Amounts.* Subject to the Majority Lenders under the relevant Tranche in any specific instance waiving such requirement, the following minimum

amounts shall apply in respect of certain Borrowings and Drawings requested under each Accommodation Request (excluding Swingline Advances, Advances under §2.1(f)(2) and the EDC Guaranteed LC Facility):

- (1) the aggregate of the Prime Rate Advances requested in any Borrowing shall be at least Cdn. \$5,000,000 and a whole multiple of Cdn. \$1 million;
 - (2) each Bankers' Acceptance shall be in a Face Amount of at least Cdn. \$100,000 and a whole multiple thereof;
 - (3) the aggregate of the Face Amount of Bankers' Acceptances requested in any Drawing shall be at least Cdn. \$5,000,000 and a whole multiple of Cdn. \$1 million; and
 - (4) the aggregate of the Base Rate Advances requested in any Borrowing shall be at least US\$5,000,000 and a whole multiple of US\$1,000,000;
 - (5) the aggregate of the LIBOR Advances requested in any Borrowing shall be at least US\$5,000,000 and a whole multiple of US\$1,000,000,
- (e) *Nature of Tranches.* Tranche A is a revolving facility and amounts may be repaid thereunder and subsequently made the subject of a further Accommodation (subject to compliance with the terms and conditions of this Agreement). Accommodations under Tranche B may be made from time to time (subject to compliance with the terms and conditions of this Agreement), provided that, EDC will not issue a Confirmation if the Maximum Aggregate Liability is or would be exceeded and no Accommodation will be made available under Tranche B without a Confirmation. Tranche C shall not revolve and shall be repaid and reduce in accordance with the terms of this Agreement.
- (f) *Swingline Advances.*
- (1) The Swingline Lender has established at its Lending Branch an account for Canfor which is referred to as a **Swingline Account**. The Swingline Account shall record the day to day banking business of Canfor with the Swingline Lender under this §2.1(f).
 - (2) Each Swingline Advance shall be made by the Swingline Lender by way of a Prime Rate Advance (if requested in Canadian Dollars) or a Base Rate Advance (if requested in US Dollars) on the same day's notice if given to the Swingline Lender before noon (Toronto time) or, if requested by Canfor, on an overdraft basis by debiting such account of Canfor as shall be established by agreement of Canfor and the Swingline Lender. The amount of any such overdraft from time to time shall be deemed to be a Prime Rate Advance (to the extent of such debit balance in Canadian Dollars) and a Base Rate Advance (to the extent of such debit balance in US Dollars). Canfor shall ensure that the aggregate Principal Outstanding of all Swingline Advances does not exceed the Swingline Amount at any time.

- (3) Advances by the Swingline Lender outstanding at any time under this §2.1(f) are limited to the Swingline Amount. On the last Business Day of each week, or more frequently as the Swingline Lender may request, the Administrative Agent shall notify the other Tranche A Lenders of the requirement for an Advance by way of Prime Rate Advance to be made available by each of them under Tranche A in an amount as nearly equal to that Tranche A Lender's rateable share of the Swingline Advances outstanding under this §2.1(f) as is possible under the limitations set out in this Agreement; provided that the Administrative Agent shall not be required to request an Advance from the Tranche A Lenders at any time when the amount of the outstanding Swingline Advances is less than \$1,000,000 or for amounts other than multiples of \$100,000 in excess thereof. The proceeds of that Advance shall be deposited by the Administrative Agent to the Swingline Account to be applied against the outstanding Swingline Advances.
- (4) Each Tranche A Lender agrees to indemnify the Swingline Lender (to the extent not reimbursed by Canfor), rateably from and against any and all losses and claims of any kind or nature whatsoever which may be imposed on, incurred by, or asserted against the Swingline Lender in any way relating to or arising out of any Swingline Advance made under this §2.1(f), provided that no Tranche A Lender shall be liable for any portion of such losses or claims resulting from the Swingline Lender's gross negligence or wilful misconduct.
- (5) The Swingline Lender irrevocably agrees to grant and hereby grants to each of the Tranche A Lenders, and to induce the Swingline Lender to make Swingline Advances available hereunder, each of the Tranche A Lenders irrevocably agrees to accept and purchase and hereby accepts and purchases from the Swingline Lender, on the terms and conditions hereinafter stated, for each such Tranche A Lender's own account and risk, an undivided interest equal to such Tranche A Lender's rateable share of the Swingline Lender's obligations and rights under and in respect of each Swingline Advance. Each Tranche A Lender unconditionally and irrevocably agrees with the Swingline Lender that, if a Swingline Advance is not repaid in full by Canfor in accordance with the terms of this Agreement, such Tranche A Lender shall pay to the Swingline Lender, through the Administrative Agent, upon demand, an amount equal to such Tranche A Lender's rateable share of the amount of such Swingline Advance or any portion thereof which is not so repaid by Canfor.
- (g) *Increase in Tranche A.* The Tranche A Lenders may, at the request of Canfor by written notice to the Administrative Agent prior to the Tranche A Maturity Date, increase the total Commitments under Tranche A by up to \$50,000,000. If one or more Tranche A Lenders (for the purposes of this §2.1(g) each a "**Declining Lender**") declines Canfor's request to increase the total Commitments with respect to Tranche A, the Administrative Agent shall, at the option of Canfor:
- (1) permit the other Tranche A Lenders to increase their Commitments with respect to Tranche A proportionately to take up all or part of the proposed

increase in the Commitments with respect to Tranche A of the Declining Lenders; or

- (2) designate a replacement lender or lenders to take up all or part of the Commitments of the Declining Lenders with respect to the proposed increase in the total Commitments under Tranche A,

or Canfor may select a combination of (1) and (2).

- (h) *Deemed Accommodations.* Each of Canfor and the Lenders acknowledges and agrees that all amounts due and owing under outstanding Bankers' Acceptances and Letters of Credit issued under or pursuant to the Existing Credit Agreement or deemed to be Accommodations under the Existing Credit Agreement shall be deemed to be Accommodations under the Agreement and shall form part of the Obligations.

2.2 Amortization

- (a) *General.* Subject to §2.2(c) through (f), the Principal Outstanding of and all other Obligations relating to: (1) Tranche A, will become due and payable in full on the Tranche A Maturity Date; (2) Tranche B, will become due and payable in accordance with §5.8; and (3) Tranche C, will become due and payable in full on the Tranche C Maturity Date.
- (b) *Foreign Exchange Fluctuations.* If at any time the Principal Outstanding under any Tranche shall exceed 105% of the aggregate Commitments of the Lenders under such Tranche or if at any time the Principal Outstanding under any Tranche shall have exceeded for a 30 day period 103% of the aggregate Commitments of the Lenders in respect of such Tranche, in either case solely by virtue of a change in the Equivalent Amount in Cdn. Dollars of Accommodations made in US Dollars, Canfor shall within 10 Business Days following demand therefor by the Administrative Agent pay to the Administrative Agent such amount as is required to reduce such Principal Outstanding to such aggregate Commitments.
- (c) *Extension of Tranche A Maturity Date.* At the request of Canfor, the Administrative Agent, with the consent of the Majority Lenders under Tranche A, shall extend the Tranche A Maturity Date for successive periods of one year. If Canfor is desirous of extending the Tranche A Maturity Date it shall so notify the Administrative Agent not more than 90 days and not less than 60 days prior to the then current Tranche A Maturity Date, and the Administrative Agent shall, within 30 days of receipt of such extension notice, advise Canfor of the determination by each of the Tranche A Lenders in response to any such request. If the Administrative Agent, with the consent of the Majority Lenders under Tranche A, determines that it will extend the Tranche A Maturity Date in accordance with Canfor's request, the current Tranche A Maturity Date shall, subject to §(d), be extended to that date agreed to by the "Consenting Lenders" (as defined in §(d)).
- (d) *Tranche A Availability on Certain Terms.* If one or more Tranche A Lenders declines a request from Canfor for an extension of the Tranche A Maturity Date

("Declining Lenders") but an extension has been approved by the Majority Lenders under Tranche A ("Consenting Lenders"), the Administrative Agent may, at the option of Canfor, and subject to the provisions of §(e):

- (1) permit a Consenting Lender to increase its Commitment under Tranche A proportionately with other Consenting Lenders wishing to increase their respective Commitments under Tranche A to take up all or part of the respective Commitments of the Declining Lenders, including, without limitation, Commitments in respect of issued and unexpired Fronted Letters of Credit;
- (2) designate a replacement lender or lenders to take all or part of the Commitments under Tranche A of the Declining Lenders, including, without limitation, Commitments in respect of issued and unexpired Fronted Letters of Credit; or
- (3) agree to a permanent or temporary reduction of the principal amount of Tranche A to that amount which is equal to the aggregate Commitments of the Consenting Lenders under Tranche A and to extend the Tranche A Maturity Date for one year, or to that date requested by Canfor and agreed to by the Consenting Lenders,

or Canfor may select a combination of options (1), (2) and (3).

- (e) *Canfor to Repay Declining Lenders.* If the Administrative Agent has advised Canfor that the Consenting Lenders have agreed to extend the Tranche A Maturity Date, on terms which reflect any of the three options set forth in §(d) and such terms are acceptable to Canfor, Canfor shall so advise the Administrative Agent 10 days prior to the then current Tranche A Maturity Date. The revised principal amount of Tranche A and extended Tranche A Maturity Date shall not become available to Canfor unless, on or prior to the then current Tranche A Maturity Date the Declining Lenders have been repaid in full or arrangements satisfactory to the Administrative Agent, the Consenting Lenders and the Declining Lenders have been made to repay the Declining Lenders in respect of Tranche A, including to deal with the obligations of the Declining Lenders in respect of issued and unexpired Fronted Letters of Credit.
- (f) *Declining Lenders No Longer Lenders.* On payment in full pursuant to §(e) a Declining Lender shall cease for all purposes to be a Tranche A Lender.
- (g) *Fronted Letters of Credit.* If there are unexpired Fronted Letters of Credit outstanding under Tranche A at the time that the Majority Lenders under Tranche A decline an extension of the Tranche A Maturity Date pursuant to §2.2(c), Canfor shall make arrangements satisfactory to the Tranche A Lenders to deal with the outstanding liabilities of the Fronting Lender and other Tranche A Lenders under or in respect of those Fronted Letters of Credit.

2.3 Voluntary Reductions

Canfor shall have the right at any time and from time to time, without penalty or bonus, upon delivery of a Repayment/ Cancellation Notice to the Administrative Agent with the Required

Notice, to terminate the whole or reduce in part on a permanent basis the unused portion of the Commitments of the Tranche A Lenders (*pro rata* among such Lenders on the basis of their respective Commitments under Tranche A); provided that each partial reduction shall be in an aggregate minimum amount of Cdn. \$5,000,000 and multiples in excess thereof of Cdn. \$1,000,000.

2.4 Payments

- (a) *Payment Account.* Canfor shall make each payment to be made by it under this Agreement, following delivery of a Repayment/Cancellation Notice and with the Required Notice, not later than 2:00 p.m. (Toronto time) in the currency of the Accommodation or other Obligation in respect of which such payment is made (be it Canadian Dollars or US Dollars) on the day (subject to §2.4(b)) when due, in same day funds, by deposit of such funds to the Payment Account.
- (b) *Business Day.* Subject to the next following sentence, whenever any payment under this Agreement is due on a day other than a Business Day, such payment shall be made on the next succeeding Business Day, and such extension of time shall in such case be included in the computation of interest or fees, as the case may be. If any such extension would cause any payment of interest or fees on an Accommodation to be made in the next following calendar month, such payment shall be made on the last preceding Business Day.
- (c) *Application.* Unless otherwise provided herein (and in particular subject to §11.5), all amounts received by the Administrative Agent on account of the Obligations in respect of a Tranche shall be applied by the Administrative Agent as follows:
 - (1) first, to fulfil Canfor's obligation to pay accrued and unpaid interest due and owing in respect of that Tranche (including interest on overdue interest and on other amounts);
 - (2) second, to fulfil Canfor's obligation to pay any fees which are due and owing to the Lenders hereunder in respect of that Tranche (including those fees set forth in §2.6), and any Increased Costs and other unpaid costs, expenses and other amounts payable to the Administrative Agent and the Lenders in respect of that Tranche under any of the Credit Facility Documents;
 - (3) third, to fulfil Canfor's obligation to pay any amounts due and owing on account of Principal Outstanding in respect of that Tranche (including in respect of the Face Amount of outstanding Bankers' Acceptances and Letters of Credit); and
 - (4) fourth, to Canfor or as any court of competent jurisdiction may otherwise direct.
- (d) *Pro Rata Basis.* All payments of principal, interest and fees herein set forth, unless otherwise expressly stipulated, shall be made for the account of, and distributed by the Administrative Agent to, the relevant Lenders *pro rata* on the basis of their respective Commitments with respect to the relevant Tranche;

provided that, in the event that certain Lenders have received payment of interest as accrued up to a certain date, and other Lenders have only received payment as accrued up to an earlier date, any amounts required to be applied to interest hereunder shall first be paid to such other Lenders, until all Lenders have received payment of interest as accrued up to the same date, and thenceforth to all Lenders as otherwise required by this Agreement.

- (e) *Netting.* If on any date amounts (other than interest and fees) would be payable under this Agreement in the same currency by Canfor to certain Lenders and by such Lenders to Canfor, then, on such date, upon notice from the Administrative Agent stating that netting is to apply to such payments, each such party's obligations to make payment of any such amount will be automatically satisfied and discharged and, if the aggregate amount that would otherwise have been payable by Canfor to such Lenders exceeds the aggregate amount that would otherwise have been payable by such Lenders to Canfor or vice versa, such obligations shall be replaced by an obligation upon Canfor or such Lenders by whom the larger aggregate amount would have been payable to pay to the other the excess of the larger aggregate amount over the smaller aggregate amount.
- (f) *Payments Free of Set-off.* Except as set forth in §2.4(e), each payment made by Canfor on account of the Obligations shall be made without set-off or counterclaim.

2.5 Computations

- (a) *Basis.* All computations of:
 - (1) interest based on the Prime Rate and the Base Rate shall be made by the Administrative Agent on the basis of a year of 365 days or, in the case of a leap year, 366 days and the actual number of days (including the first day but excluding the last day) occurring in the period for which such interest is payable; and
 - (2) interest based on LIBOR shall be made by the Administrative Agent on the basis of a year of 360 days and the actual number of days (including the first day but excluding the last day) occurring in the period for which such interest is payable.

Computations of fees under §2.6(a), §4.6, §5.2(f) and §5.11 shall be made by the Administrative Agent on the basis of a year of 365 days or, in the case of a leap year, 366 days and the actual number of days (including the first day but excluding the last day) occurring in the period for which such fees are payable. Each determination by the Administrative Agent of an amount of interest, Discount Proceeds or fees payable by Canfor hereunder shall be conclusive and binding for all purposes, absent demonstrated error.

- (b) *Interest Act (Canada).* For the purposes of the *Interest Act (Canada)*, any rate of interest made payable under the terms of this Agreement at a rate or percentage (the "**Contract Rate**") for any period that is less than a consecutive 12 month period, such as a 360 or 365 day basis, (the "**Contract Rate Basis**"), is equivalent to the yearly rate or percentage of interest determined by multiplying

the Contract Rate by a fraction, the numerator of which is the number of days in the consecutive 12 month period commencing on the date such equivalent rate or percentage is being determined and the denominator of which is the number of days in the Contract Rate Basis.

2.6 Fees

[Fee rates redacted]

- [Redacted]
- [Redacted]
- [Redacted]
- [Redacted]
- [Redacted]
- [Redacted]
- [Redacted]
- [Redacted]
- [Redacted]
- [Redacted]
- [Redacted]

2.7 Interest on Overdue Amounts

Except as otherwise provided in this Agreement, each amount owed by Canfor to a Lender which is not paid when due (whether at stated maturity, on demand, by acceleration or otherwise) shall bear interest (both before and after maturity, default and judgment), from the date on which such amount is due until such amount is paid in full, payable on demand, at a rate per annum equal at all times to the Base Rate (in the case of amounts denominated in US

Dollars) or the Prime Rate (in the case of amounts denominated in Cdn. Dollars), in each case plus the Applicable Margin plus a further two (2%) percent per annum.

2.8 Account Debit Authorization

Canfor authorizes and directs the Administrative Agent, in its discretion, to automatically debit, by mechanical, electronic or manual means, the bank accounts of Canfor maintained with HSBC (for so long as HSBC is Administrative Agent hereunder) for all amounts due and payable under this Agreement on account of principal, interest and fees comprised in the Obligations.

2.9 Administrative Agent's Discretion on Allocation

In the event that it is not practicable to:

- (a) allocate an Accommodation *pro rata* in accordance with §3.2 or §4.1(b) by reason of the occurrence of circumstances described in Article 10; or
- (b) allocate a Drawing among the Lenders in accordance with §4.1(b) by reason of the need to ensure that the aggregate amount of Bankers' Acceptances required to be accepted hereunder complies with the minimum amounts or increments set forth in §2.1(d),

the Administrative Agent is authorized by Canfor and each Lender to make such allocation as the Administrative Agent determines in its sole and unfettered discretion may be equitable in the circumstances. All fees in respect of any such Drawing, and fees payable under §2.6(a), shall be adjusted, as among the Lenders, by the Administrative Agent accordingly.

2.10 Where Canfor Fails to Pay

Unless the Administrative Agent has been notified in writing by Canfor at least one Business Day prior to the date on which any payment to be made by Canfor under this Agreement is due that Canfor does not intend to remit such payment, the Administrative Agent may, in its discretion, assume that Canfor has remitted such payment when so due and the Administrative Agent may, in its discretion and in reliance upon such assumption, make available to each relevant Lender on such payment date an amount equal to the portion of such payment which is due to such Lender pursuant to this Agreement. If Canfor does not in fact remit such payment to the Administrative Agent, the Administrative Agent (without prejudice to any rights or remedies of the Lenders against Canfor) shall promptly notify each relevant Lender and each such Lender shall forthwith on demand repay to the Administrative Agent an amount equal to the portion of such assumed payment made available to such Lender, together with interest thereon until the date of repayment thereof at a rate determined by the Administrative Agent (such rate to be conclusive and binding on such Lender) in accordance with the Administrative Agent's usual banking practice for similar advances to financial institutions of like standing as such Lender but in no event greater than the Prime Rate.

2.11 Rollover and Conversion

- (a) *General.* Subject to the terms and conditions of this Agreement, Canfor may from time to time request that any Drawing or type of Borrowing or any portion thereof be rolled over or converted in accordance with the provisions hereof;

provided that Conversions shall only be permitted into a type of Accommodation in the same currency.

- (b) *Request.* Each request by Canfor for a Rollover or Conversion shall be made by the delivery of a duly completed and executed Accommodation Request to the Administrative Agent with the Required Notice and the provisions of Articles 3 or 4 shall apply to each request for a Rollover or Conversion as if such request were a request thereunder for an Advance or a Drawing (as the case may be).
- (c) *Effective Date.* Each Rollover or Conversion of a LIBOR Advance or Bankers' Acceptance shall be made effective as of, in the case of a LIBOR Advance, the last day of the subsisting Interest Period and, in the case of a Bankers' Acceptance, the maturity date applicable thereto.
- (d) *Failure to Elect.* If Canfor does not deliver an Accommodation Request at or before the time required by §2.11(b) and:
 - (1) in the case of a Bankers' Acceptance fails to give the Required Notice that it will pay to the Administrative Agent for the account of the applicable Lender the Face Amount thereof on the maturity date or if Canfor gives such notice but fails to act in accordance with it, Canfor shall be deemed to have requested a Conversion of the Face Amount thereof to a Prime Rate Advance and all of the provisions hereof relating to a Prime Rate Advance shall apply thereto; or
 - (2) in the case of a LIBOR Advance, fails to give the Required Notice that it will pay to the Administrative Agent for the account of the applicable Lender the principal amount thereof at the end of the relevant Interest Period or if Canfor gives such notice but fails to act in such accordance with it, Canfor shall be deemed to have requested a Rollover of such Advance to a LIBOR Advance having an Interest Period of one month, and all of the provisions hereof applicable to LIBOR Advances shall apply thereto.
- (e) *Continuing Obligation.* A Rollover or Conversion shall not constitute a repayment of the relevant Accommodation or a re-borrowing by Canfor but shall result in a change in the basis of calculation of interest, discounts or fees (as the case may be) for such Accommodation.

3. ADVANCES

3.1 Advances

- (a) *Commitment.* Each Lender agrees (on a several basis with the other Lenders under each relevant Tranche, up to the amount of such Lender's Commitment thereunder), on the terms and conditions herein set forth, from time to time on any Business Day, to make Advances under each relevant Tranche prior to the cancellation or termination thereof.
- (b) *Amounts.* The aggregate principal amount of each Borrowing shall comply with §2.1(d).

3.2 Making the Advances (except Swingline Advances)

- (a) *Notice.* Each Borrowing shall be made with the Required Notice given not later than 1:00 p.m. (Toronto time) by Canfor to the Administrative Agent, and the Administrative Agent shall give to each Lender prompt notice thereof and of such Lender's rateable portion of each type of Borrowing to be made under the Borrowing. Each such notice of a Borrowing shall be given by way of an Accommodation Request or by telephone (confirmed promptly in writing), with the same information as would be contained in an Accommodation Request, including the requested date of such Borrowing and the aggregate amount of each type of Borrowing comprising such Borrowing.
- (b) *Lender Funding.* Each Lender shall, before noon (Toronto time) on the date of the requested Borrowing, deposit to the relevant Payment Account in same day funds such Lender's rateable portion (subject to §2.9) of each type of Borrowing comprising such Borrowing (in Canadian Dollars, in the case of Prime Rate Advances, and in US Dollars, in the case of LIBOR Advances and Base Rate Advances). Promptly upon receipt by the Administrative Agent of such funds and upon fulfilment of the applicable conditions set forth in Article 6, the Administrative Agent will make such funds available to Canfor by debiting such account (or causing such account to be debited), and by crediting such account of Canfor as shall be agreed with the Administrative Agent (or causing such account to be credited) with such Advances.
- (c) *Failure by Lender to Fund.* Unless the Administrative Agent shall have received notice from a Lender at least one Business Day prior to the date of any Borrowing that such Lender will not make available to the Administrative Agent such Lender's rateable portion of a type of Borrowing comprising such Borrowing, the Administrative Agent may assume that such Lender has made each such portion available to the Administrative Agent on the date of such Borrowing in accordance with §3.2(b) and the Administrative Agent may, in reliance upon such assumption, make available to Canfor on such date corresponding amounts. If and to the extent that such Lender shall not have made its rateable portions available to the Administrative Agent, such Lender shall pay such corresponding amounts to the Administrative Agent forthwith on demand. If such Lender shall pay such corresponding amounts to the Administrative Agent, the amounts so paid shall constitute such Lender's rateable portions of such Borrowing for the purposes of this Agreement. The Administrative Agent shall also be entitled to recover from such Lender interest on such corresponding amounts, for each day from the date such amounts were made available by the Administrative Agent to Canfor until the date such amounts are repaid to the Administrative Agent, at the rate payable by Canfor with respect to the affected type of Borrowing, together with the Administrative Agent's reasonable administrative fee. If such Lender shall not pay such corresponding amounts to the Administrative Agent forthwith on demand, Canfor shall pay such corresponding amounts (together with accrued and unpaid interest at the applicable rate herein set forth for the affected type of Borrowing) to the Administrative Agent within three Business Days of demand being made upon it.

- (d) *Notice of Failure.* The Administrative Agent shall notify Canfor of the failure of any Lender to make an Advance if:
- (1) such failure has not been remedied within seven days; or
 - (2) the Administrative Agent reasonably believes that such failure was caused by any reason other than a technical failure or as a result of a defect in the arrangements hereunder for funding Advances.

The Administrative Agent shall not be liable to Canfor or any Lender in respect of notice given or not given pursuant to this §3.2(d). In the event of the continuing failure by any Lender (in this §3.2(d), the “**defaulting Lender**”) to make an Advance, Canfor shall, in consultation with the Administrative Agent, use its reasonable best efforts to arrange for one or more other Persons (in this §3.2(d), the “**assuming Lender**”) reasonably satisfactory to Canfor and the Administrative Agent to assume all or a portion of the relevant Commitments and acquire the outstanding Accommodations and other rights and interests of the defaulting Lender hereunder. The assuming Lender and defaulting Lender shall execute all such documents as may be reasonably required by the Administrative Agent and Canfor to effect such assumption and acquisition.

3.3 Interest on Advances

Canfor shall pay interest on the unpaid principal amount of each Advance under the Credit Facility, at the following rates per annum:

- (a) *Prime Rate Advances.* If and so long as such Advance is a Prime Rate Advance, at a rate per annum equal at all times to the sum of the Prime Rate in effect from time to time plus the Applicable Margin, calculated on the daily principal amount outstanding under such Prime Rate Advance and payable in Cdn. Dollars in arrears:
 - (1) monthly on the first Business Day of each month; and
 - (2) when such Prime Rate Advance becomes due and payable in full.
- (b) *Base Rate Advances.* If and so long as such Advance is a Base Rate Advance, at a rate per annum equal at all times to the sum of the Base Rate in effect from time to time plus the Applicable Margin, calculated on the daily principal amount outstanding under such Base Rate Advance and payable in US Dollars in arrears:
 - (1) monthly on the first Business Day of each month; and
 - (2) when such Base Rate Advance becomes due and payable in full.
- (c) *LIBOR Advances.* If and so long as such Advance is a LIBOR Advance, at a rate per annum equal at all times during each Interest Period for such LIBOR Advance to the sum of LIBOR for such Interest Period plus the Applicable Margin, calculated on the daily principal amount outstanding under such LIBOR Advance and payable in US Dollars:

- (1) at the end of each Interest Period (except where such Interest Period exceeds three months in duration, in which case such interest shall be payable on the dates falling every three months following the commencement of the Interest Period and, finally, at the end of such Interest Period); and
- (2) when such LIBOR Advance becomes due and payable in full or is converted to a Base Rate Advance.

4. BANKERS' ACCEPTANCES

4.1 Acceptances

- (a) *Commitment.* Subject to §4.11, each Lender agrees (on a several basis with the other Lenders under each relevant Tranche, up to the amount of such Lender's Commitment thereunder), on the terms and conditions herein set forth, from time to time on any Business Day, to accept and purchase Bankers' Acceptances under each relevant Tranche prior to the cancellation or termination thereof.
- (b) *Amounts.* Each Drawing shall be in an aggregate Face Amount not less than the minimum amount (or requisite multiple in excess thereof) set forth in §2.1(d) and shall consist of the creation by Canfor of Bankers' Acceptances on the same day, effected or arranged by the Lenders in accordance with §4.4, rateably according to their respective Commitments (subject to §2.9).

4.2 Drawdown Request

- (a) *Notice.* Each Drawing shall be made with the Required Notice given not later than 1:00 p.m. (Toronto time) by Canfor to the Administrative Agent and the Administrative Agent shall give to each Lender prompt notice thereof and of such Lender's rateable portion thereof. Each such notice of a Drawing shall be given by way of an Accommodation Request or by other notice in writing with the same information as would be contained in an Accommodation Request, including the requested Drawing Date and the Face Amount of the Drawing.
- (b) *Maturity.* Canfor shall not request in an Accommodation Request a term for Bankers' Acceptances which would end on a date subsequent to the relevant Maturity Date or that would conflict with any repayment stipulated in this Agreement.

4.3 Form of Bankers' Acceptances

- (a) *Form.* Each Bankers' Acceptance shall:
 - (1) be in a Face Amount allowing for conformance with §2.1(d);
 - (2) be dated the Drawing Date;
 - (3) mature and be payable by Canfor (in common with all other Bankers' Acceptances created in connection with such Drawing) on a Business

Day which occurs no more than six months after the date thereof, subject to availability; and

- (4) be in a form satisfactory to the relevant Lender.
- (b) *Grace.* Canfor hereby waives presentment for payment and any other defence to payment of any amounts due in respect of any Bankers' Acceptance, and hereby renounces, and shall not claim, any days of grace for the payment of any Bankers' Acceptance.

4.4 Completion of Bankers' Acceptance

Upon receipt of the notice from the Administrative Agent pursuant to §4.2(a), each Lender is thereupon authorized to execute Bankers' Acceptances as the duly authorized attorney of Canfor pursuant to §4.8, in accordance with the particulars provided by the Administrative Agent.

4.5 BA Proceeds

Each Lender shall, for same day value on the Drawing Date specified by Canfor in the applicable Accommodation Request, credit the relevant Payment Account with the applicable Discount Proceeds of the Bankers' Acceptances purchased by that Lender to the Administrative Agent for the account of Canfor, less the stamping fee set forth in §4.6. Promptly upon receipt by the Administrative Agent of such funds and upon fulfilment of the applicable conditions set forth in Article 6, the Administrative Agent will make such funds available to Canfor by debiting such account (or causing such account to be debited), and by crediting such account as shall be agreed with Canfor (or causing such account to be credited) with such Discount Proceeds less such stamping fee. Each Lender may at any time and from time to time purchase, hold, sell, rediscount or otherwise dispose of any Bankers' Acceptance and no such dealing shall prejudice or impair Canfor's obligations under §4.7.

4.6 Stamping Fee

Canfor shall pay to the Administrative Agent in respect of each Drawing (for the account of the Lenders, *pro rata* on the basis of their respective Commitments, subject to §2.9) a stamping fee in Cdn. Dollars. Such stamping fee shall be payable by Canfor in full on the Drawing Date, and shall be calculated on the Face Amount of such Bankers' Acceptances on the basis of the number of days in the term of such Bankers' Acceptances (including the Drawing Date but excluding the maturity date) at a rate per annum equal to the applicable percentage set forth in the definition of "Applicable Margin".

4.7 Payment at Maturity

Canfor shall pay to the Administrative Agent, and there shall become due and payable, on the maturity date for each Bankers' Acceptance an amount in same day funds equal to the Face Amount of the Bankers' Acceptance. Canfor shall make each payment hereunder in respect of Bankers' Acceptances by deposit of the required funds to the relevant Payment Account. Upon receipt of such payment, the Administrative Agent will promptly thereafter cause such payment to be distributed to the Lenders rateably (based on the proportion that the Face Amount of Bankers' Acceptances accepted by a Lender maturing on the relevant date bears to the Face Amount of Bankers' Acceptances accepted by all the Lenders maturing on such date). Such

payment to the Administrative Agent shall satisfy Canfor's obligations under a Bankers' Acceptance to which it relates and the accepting institution shall thereafter be solely responsible for the payment of such Bankers' Acceptance.

4.8 Power of Attorney Respecting Bankers' Acceptances

In order to facilitate issues of Bankers' Acceptances pursuant to this Agreement, Canfor authorizes each Lender, and for this purpose appoints each Lender its lawful attorney, to complete, sign and endorse drafts issued in accordance with §4.4 on its behalf in handwritten or by facsimile or mechanical signature or otherwise and, once so completed, signed and endorsed, and following acceptance of them as Bankers' Acceptance under this Agreement, then purchase, discount or negotiate such Bankers' Acceptances in accordance with the provisions of this Article 4. Drafts so completed, signed, endorsed and negotiated on behalf of Canfor by any Lender shall bind Canfor as fully and effectively as if so performed by an authorized officer of Canfor.

4.9 Prepayments

Except as required by §4.10, no payment of the Face Amount of a Bankers' Acceptance shall be made by Canfor to a Lender prior to the maturity date thereof. Any such required payment made before the applicable maturity date shall be held by the Administrative Agent in a cash collateral account and invested in Cash Equivalents as security to provide for or to secure payment of the Face Amount of such outstanding Bankers' Acceptance upon maturity. Any such required payment made before the applicable maturity date by Canfor to the Administrative Agent, to the extent of the amount thereof, shall satisfy Canfor's obligations under the Bankers' Acceptance to which it relates as to a like amount. The accepting institution shall thereafter be solely responsible for the payment of the Bankers' Acceptance and shall indemnify and hold Canfor harmless against any liabilities, costs or expenses incurred by Canfor as a result of any failure by such Lender to pay the Bankers' Acceptance as to such like amount in accordance with its terms.

4.10 Default

Upon the occurrence of an Event of Default and the Administrative Agent declaring the Obligations to be due and payable pursuant to §11.2, and notwithstanding the date of maturity of any outstanding Bankers' Acceptances, an amount equal to the Face Amount of all outstanding Bankers' Acceptances which the Lenders are required to honour shall thereupon forthwith become due and payable by Canfor to the Administrative Agent.

4.11 Non-Acceptance Lenders

The parties acknowledge that a Lender (a "Non-Acceptance Lender") may not be permitted by applicable Law to, or may not by virtue of customary market practices, stamp or accept commercial drafts. A Non-Acceptance Lender shall, in lieu of accepting and purchasing Bankers' Acceptances, make a BA Equivalent Loan. The amount of each BA Equivalent Loan shall be equal to the Discount Proceeds which would be realized from a hypothetical sale of those Bankers' Acceptances which that Non-Acceptance Lender would otherwise be required to accept and purchase as part of such Drawing. To determine the amount of those Discount Proceeds, the hypothetical sale shall be deemed to take place at the Discount Rate for that BA Equivalent Loan. Any BA Equivalent Loan shall be made on the relevant Drawing Date, and shall remain outstanding for the term of the relevant Bankers' Acceptances. Concurrently with

the making of a BA Equivalent Loan, a Non-Acceptance Lender shall be entitled to deduct therefrom an amount equal to the stamping fee which that Lender would otherwise be entitled to receive pursuant to §4.6 as part of that BA Equivalent Loan if that BA Equivalent Loan was a Bankers' Acceptance, based on the amount of principal and interest payable on the maturity date of that BA Equivalent Loan. On the maturity date for the Bankers' Acceptances required by Canfor, Canfor shall pay to each Non-Acceptance Lender the amount of such Lender's BA Equivalent Loan plus interest on the principal amount of that BA Equivalent Loan calculated at the applicable Discount Rate from the date of acceptance to but excluding the maturity date of that BA Equivalent Loan.

5. LETTERS OF CREDIT

5.1 Letters of Credit Commitment

- (a) *Issuance of Fronted Letters of Credit.* The Fronting Lender, on the terms and conditions set out in this Agreement, from time to time on any Business Day, will issue Fronted Letters of Credit under Tranche A for the account of Canfor, provided that the aggregate Face Amount of all such Fronted Letters of Credit under Tranche A outstanding at any one time shall not exceed \$25,000,000 or such other limit as may be established pursuant to this Agreement.
- (b) *Principal Outstanding.* All Fronted Letters of Credit shall be issued by the Fronting Lender and, without limiting the generality of §13.1, the Principal Outstanding among the Tranche A Lenders shall be adjusted in the circumstances and in the manner contemplated by §13.1 in order to reflect the Issuance by the Fronting Lender.
- (c) *Issuance of EDC Guaranteed LCs.* The Tranche B Lender, on the terms and conditions set out in this Agreement, from time to time on any Business Day, will issue EDC Guaranteed LCs under Tranche B for the account of Canfor, provided that the aggregate Face Amount of all such EDC Guaranteed LCs outstanding at any one time shall not exceed the lesser of \$20,000,000 and EDC's Maximum Aggregate Liability or such other limit as may be established pursuant to this Agreement.

5.2 Fronting Lender Structure

Fronted Letters of Credit will be issued on the following terms:

- (a) CIBC (the "Fronting Lender"), which has agreed with Canfor to act as the fronting lender in respect of the issuance of Fronted Letters of Credit and has been designated as such to the Administrative Agent, may issue in its name a Fronted Letter of Credit for the account of Canfor in the Fronting Lender's customary form and with such terms as are contemplated by the application for the issuance thereof;
- (b) while such Fronted Letter of Credit shall on its face be an obligation of the Fronting Lender only, such Fronted Letter of Credit shall be issued on behalf of all of the Tranche A Lenders and each Tranche A Lender shall be obligated to reimburse the Fronting Lender in respect of such Fronted Letter of Credit in

proportion to its share of the total Commitments under Tranche A on the Issue Date of such Fronted Letter of Credit;

- (c) the Fronting Lender shall act under each such Fronted Letter of Credit as the agent of each Tranche A Lender to (i) receive drafts, other demands for payment and other documents presented by the Beneficiary under such Fronted Letter of Credit, and (ii) determine whether such drafts, demands and documents are in compliance with the terms and conditions of such Fronted Letter of Credit;
- (d) upon a demand for payment under any such Fronted Letter of Credit which the Fronting Lender has determined has been properly made, the Fronting Lender shall make a disbursement in respect of the amount demanded and make such amount available to the Beneficiary. Promptly following any such disbursement, the Fronting Lender shall notify the Administrative Agent and Canfor of such disbursement and the Fronting Lender shall be entitled to immediate reimbursement thereof by Canfor in accordance with §5.8;
- (e) the Fronting Lender shall provide such information in respect of any such Fronted Letters of Credit, including, without limitation advising the Administrative Agent on a quarterly basis as to the specifics of Fronted Letters of Credit issued by the Fronting Lender, as is required to allow the Administrative Agent to comply with §5.6;
- (f) the Fronting Lender, in consideration of it acting as the fronting lender on each Fronted Letter of Credit, shall be entitled to, and Canfor shall pay, a fronting fee (for the Fronting Lender's own account) of 10 basis points per annum of the Face Amount of such Fronted Letter of Credit at the time of Issuance or renewal or extension thereof, payable by Canfor on the Issue Date or date of renewal or extension thereof;
- (g) each Tranche A Lender agrees to indemnify the Fronting Lender (to the extent not reimbursed by Canfor), rateably from and against any and all losses and claims of any kind or nature whatsoever which may be imposed on, incurred by, or asserted against the Fronting Lender in any way relating to or arising out of any issuance of a Fronted Letter of Credit; provided, that no Tranche A Lender shall be liable for any portion of such losses and claims resulting from the Fronting Lender's gross negligence or wilful misconduct.

5.3 EDC Guaranteed LC Structure

EDC Guaranteed LCs will be issued on the following terms:

- (a) the Tranche B Lender may issue an EDC Guaranteed LC for the account of Canfor in its customary form and with such terms as are contemplated by the application for the Issuance thereof; and
- (b) upon a demand for payment under any such EDC Guaranteed LC which the Tranche B Lender has determined has been properly made, the Tranche B Lender shall make a disbursement in respect of the amount demanded and make such amount available to the Beneficiary. Promptly following any such disbursement, the Tranche B Lender shall notify the Administrative Agent and

Canfor of such disbursement and the Tranche B Lender shall be entitled to immediate reimbursement thereof by Canfor in accordance with §5.8.

5.4 Conditions of Issuance

- (a) *Fronted Letters of Credit.* The Fronting Lender and the Tranche A Lenders shall not be required to issue any Fronted Letter of Credit if on the Issue Date for such Letter of Credit the Fronting Lender determines that any of the following conditions has not been satisfied:
- (1) the Fronting Lender shall have received an Accommodation Request that a Fronted Letter of Credit be issued and an application, satisfactory to the Fronting Lender, specifying (1) the proposed Issue Date, (2) the expiry date (which shall not be later than the date which is 365 days after the Issue Date), (3) the name and address of the intended Beneficiary, (4) the Face Amount of such Fronted Letter of Credit and its maturity date and (5) the terms and conditions of the requested Fronted Letter of Credit and other relevant details; and
 - (2) the Fronting Lender shall have received such other documents as it or any Tranche A Lender, through the Fronting Lender, shall have reasonably requested as a condition to the issuance of such Fronted Letter of Credit and which is required in the ordinary course in connection with such Lender's issuance of standby or commercial letters of credit or letters of guarantee.
- (b) *EDC Guaranteed LCs.* The Tranche B Lender shall not be required to issue any EDC Guaranteed LC if on the Issue Date for such Letter of Credit the Tranche B Lender determines that any of the following conditions has not been satisfied:
- (1) the Tranche B Lender shall have received an Accommodation Request that an EDC Guaranteed LC be issued and an application, satisfactory to the Tranche B Lender, specifying (1) the proposed Issue Date, (2) the name and address of the intended Beneficiary, (3) the Face Amount of such EDC Guaranteed LC which shall not exceed Maximum Guaranteed Amount and its maturity date and (4) the terms and conditions of the requested EDC Guaranteed LC and other relevant details;
 - (2) the Tranche B Lender shall have received such other documents as it shall have reasonably requested as a condition to the issuance of such EDC Guaranteed LC and which is required in the ordinary course in connection with the Tranche B Lender's issuance of standby letters of credit or letters of guarantee;
 - (3) EDC's requirements for the applicability of the EDC Account PSG to such EDC Guaranteed LC have been satisfied, including the issuance by EDC of a Confirmation in respect of such EDC Guaranteed LC and receipt of payment of the applicable Account PSG Fees;
 - (4) the maximum liability for the EDC Guaranteed LC as set out by EDC in the Confirmation is not less than the requested Face Amount of the

requested EDC Guaranteed LC, as set forth in the Accommodation Request.

5.5 Notice to Tranche A Lenders

Promptly upon its receipt of an application for a Fronted Letter of Credit, the Fronting Lender shall notify the Administrative Agent and each Tranche A Lender thereof, which notice shall also specify each Tranche A Lender's share of the amount of such Fronted Letter of Credit. Upon its issuance of such Fronted Letter of Credit (or determination not to issue such Fronted Letter of Credit by reason of the failure to satisfy the conditions specified in §5.4(a)), the Fronting Lender shall give prompt notice thereof to Canfor, the Administrative Agent and each Tranche A Lender.

5.6 Administrative Agent's Records

The Administrative Agent shall maintain records showing the undrawn and unexpired amount of each Fronted Letter of Credit outstanding hereunder and each Tranche A Lender's share of such amount and showing for each Fronted Letter of Credit issued hereunder (i) the Issue Date and expiration date thereof, (ii) the amount thereof, (iii) the date and amount of all payments made thereunder and (iv) each Tranche A Lender's share of the amount of each Fronted Letter of Credit issued hereunder. The Administrative Agent shall make copies of such records available to Canfor or any Tranche A Lender upon its request.

5.7 Extension of Fronted Letters of Credit

Not later than the date which is 45 days prior to the expiry date then in effect of any Fronted Letter of Credit (other than a Fronted Letter of Credit which by its terms provides for automatic renewal), Canfor may make a request to the Administrative Agent for an extension of up to 365 days of the expiry date of such Fronted Letter of Credit, which request shall be given effect to if Canfor is not then, and would not as a result of giving effect to such request be, in Default. The expiry date of a Fronted Letter of Credit shall not be extended unless the Administrative Agent shall have received such notice on or before such 45th day.

5.8 Reimbursement Obligations

Canfor agrees to reimburse the Fronting Lender immediately for each disbursement made by the Fronting Lender under any Fronted Letter of Credit. Canfor shall make such reimbursement by paying to the Fronting Lender, for the account of the Fronting Lender, the full amount of each disbursement of the Fronting Lender by way of an Accommodation by way of a Prime Rate Advance (if the drawing under the Fronted Letter of Credit was in Canadian Dollars) or by way of a Base Rate Advance (if the drawing under the Letter of Credit was in US Dollars) under Tranche A. Canfor agrees to reimburse the Tranche B Lender immediately for each disbursement made by the Tranche B Lender under any EDC Guaranteed LC in Canadian Dollars (if the drawing under the EDC Guaranteed LC was in Canadian Dollars) and in US Dollars (if the drawing under the EDC Guaranteed LC was in US Dollars).

5.9 Reimbursement Obligations Absolute

- (a) Canfor acknowledges and agrees that the reimbursement obligations set out in §5.8 shall not be affected by, among other things, (i) any lack of validity or enforceability of any Letter of Credit, (ii) the validity or genuineness of documents or of any endorsements thereon, even though such documents shall in fact prove

to be invalid, fraudulent or forged, (iii) any dispute between Canfor and any Beneficiary of any Letter of Credit or any other party to which such Letter of Credit may be transferred, (iv) any claims whatsoever of Canfor against any Beneficiary of such Letter of Credit or any such transferee, (v) payment under a Letter of Credit against presentation of a draft or other document that does not comply strictly with the terms of such Letter of Credit, (provided that such payment does not breach the standards of reasonable care specified in the Uniform Customs or disentitle any Lender to reimbursement under ISP98, in each case as stated on its face to be applicable to such Letter of Credit) (vi) any Lien granted to, or in favour of, the Administrative Agent or any of the Tranche A Lenders or the Tranche B Lender as security for any of such reimbursement obligations failing to be perfected or (viii) any other event or circumstance whatsoever, whether or not similar to any of the foregoing, that might, but for the provisions of this §5.9 constitute a legal or equitable discharge of the obligations of Canfor in respect of any Letter of Credit.

- (b) Neither the Fronting Lender nor any Tranche A Lender nor the Tranche B Lender shall be liable for any error, omission, interruption or delay in transmission, dispatch or delivery of any message or advice, however transmitted, in connection with any Letter of Credit except, as to any such Person, for errors or omissions caused by such Person's gross negligence or wilful misconduct.
- (c) Canfor agrees that any action taken or omitted by the Fronting Lender or any Tranche A Lender or the Tranche B Lender under or in connection with any Letter of Credit or the related drafts or documents, if done in the absence of gross negligence or wilful misconduct, shall be binding on Canfor and shall not result in any liability of the Fronting Lender or any Tranche A Lender or the Tranche B Lender to Canfor.
- (d) Without limiting the generality of the foregoing, the parties hereto agree that:
 - (1) the Fronting Lender, in respect of Fronted Letters of Credit, and the Tranche B Lender, in respect of EDC Guaranteed LCs, may accept documents that appear on their face to be in substantial compliance with the terms of a Letter of Credit without responsibility for further investigation, regardless of any notice or information to the contrary, and may make payment upon presentation of documents that appear on their face to be in substantial compliance with the terms of such Letter of Credit;
 - (2) the Fronting Lender, in respect of Fronted Letters of Credit, and the Tranche B Lender, in respect of EDC Guaranteed LCs, shall have the right, in its sole discretion, to decline to accept such documents and to make such payment if such documents are not in strict compliance with the terms of such Letter of Credit; and
 - (3) this §5.9(d), together with §5.10, shall establish the standard of care to be exercised by the Fronting Lender and the Tranche B Lender when determining whether drafts and other documents presented under a Letter of Credit comply with the terms thereof (and the other parties to this

Agreement waive, to the extent permitted by applicable Law, any standard of care inconsistent with the foregoing).

- (e) Notwithstanding anything to the contrary contained herein, neither the Fronting Lender nor the Tranche B Lender shall be liable to Canfor for any consequential, indirect, punitive or exemplary damages with respect to action taken or omitted to be taken by it under any Letter of Credit.

5.10 Letter of Credit Payments

Canfor and each Tranche A Lender authorize the Fronting Lender to review on behalf of each Tranche A Lender each draft and other document presented under each Fronted Letter of Credit. Canfor authorizes the Tranche B Lender to review each draft and other document presented under each EDC Guaranteed LC. The determination of the Fronting Lender or the Tranche B Lender, as the case may be, as to the conformity of any documents presented under a Letter of Credit to the requirements of such Letter of Credit shall, in the absence of the Fronting Lender's or the Tranche B Lender's, as applicable, gross negligence or wilful misconduct (and subject to §5.9(d)(1)), be conclusive and binding on Canfor and each Tranche A Lender.

5.11 Fronted Letters of Credit Issue Fee

Canfor shall, on the third business day following the end of each Financial Quarter, and on the termination of the Commitments under Tranche A, pay to the Administrative Agent in relation to Fronted Letters of Credit issued, for the account of the Tranche A Lenders, a fee in respect of each Fronted Letter of Credit outstanding during any portion of such Financial Quarter equal to that specified in the definition of "Applicable Margin" multiplied by an amount equal to the undrawn portion of the Face Amount of each such Fronted Letter of Credit, such fee to be determined for a period equal to the number of days during such Financial Quarter that each such Fronted Letter of Credit was outstanding.

5.12 Tranche B Issue Fee and Account PSG Fees

The Tranche B Lender in consideration of it issuing each EDC Guaranteed LC shall be entitled to, and Canfor shall pay, a fee (for the Tranche B Lender's own account) of 57.5 basis points per annum of the Face Amount of such EDC Guaranteed LC payable by Canfor on the Issue Date and on any date of renewal or extension thereof. Canfor shall pay to the Tranche B Lender the applicable Account PSG Fees at the time of each Accommodation Request for the Issuance of an EDC Guaranteed LC.

5A SECURITY

5A.1 Security for Borrowing

- (1) Until such time as the Canfor Notes have been repaid in full and all Bonds issued pursuant to the Trust Indenture have been returned to the Trustee for cancellation and have been cancelled, in the event that:
 - (a) the Total Debt to Total Capitalization Ratio is at 35% or higher, or
 - (b) any Indebtedness of Canfor or a Guarantor is secured by a Lien other than a Permitted Encumbrance

(either such event a “Triggering Event”),

Canfor shall promptly deliver written notice to the Administrative Agent of such event and the Administrative Agent shall deliver written instruction to the Trustee to (i) immediately register notice of the Security Documents in all registry or public offices as the Trustee deems necessary or advisable to protect and perfect its interest therein and (ii) deliver the Pledged Bond to the Administrative Agent. In such event, Canfor will, and will cause each Guarantor to, take all such actions as the Trustee or the Administrative Agent may reasonably deem necessary or desirable to reaffirm each of the Security Documents delivered pursuant to the terms of the Trust Indenture and perfect the Liens granted thereunder and to reaffirm the delivery and pledge of the Pledged Bond.

- (2) At any time that the Trust Indenture is unenforceable or ineffective to create the security intended to be created thereunder, as well as after the Canfor Notes have been repaid in full and all Bonds issued pursuant to the Trust Indenture have been returned to the Trustee for cancellation and have been cancelled, Canfor, GP and the Guarantors will, within 60 days of the Total Debt to Total Capitalization Ratio reaching or exceeding 30%, execute the General Security Agreements and deliver them to the Administrative Agent together with all such resolutions, certificates and opinions which may be requested by the Administrative Agent in connection with the General Security Agreements, all of which will be held by the Administrative Agent in escrow on the terms and conditions set out below.
- (3) Canfor and the Lenders acknowledge and agree that the General Security Agreements, resolutions, certificates and opinions granted or provided pursuant to §5A.1(2) above will not be released from escrow and that the Administrative Agent will not perfect the security interests granted under the General Security Agreements by making any registration under the *Personal Property Security Act* (British Columbia) or other similar legislation in other applicable jurisdictions, unless and until the Total Debt to Total Capitalization Ratio is at 35% or higher, in which case the General Security Agreements will be immediately released from escrow and deemed delivered by Canfor, GP and the Guarantors to the Administrative Agent for the benefit of the Secured Parties to secure the obligations secured thereunder. The resolutions, certificates and opinions provided pursuant to §5A.1(2) above will also be immediately released from escrow and deemed delivered by Canfor, GP and the Guarantors to the Administrative Agent for the benefit of the Lenders. Canfor, GP and the Guarantors shall execute all such further documents, cause delivery of such opinions of the counsel to the Credit Parties addressed to the Administrative Agent and the Lenders in form satisfactory to the Administrative Agent, and take, or cause to be taken, all such action as the Administrative Agent may require in order to facilitate registrations in a manner and at registries the Administrative Agent deems necessary or desirable.
- (4) If any Lender determines, acting reasonably, that any applicable Law has made it unlawful, or that any Governmental Body has asserted that it is unlawful, for such Lender to hold or benefit from a Lien over real property pursuant to any Law of the United States or any State therein, such Lender may notify the Administrative Agent and disclaim any benefit of such Lien to the extent of such illegality; provided that such determination or

disclaimer shall not invalidate or render unenforceable such Lien for the benefit of any other Lender.

5A.2 Return to Escrow of General Security Agreements

In the event that, the General Security Agreements are released from escrow and deemed delivered pursuant to §5A.1(3) above and the Total Debt to Capitalization Ratio subsequently becomes less than 35% and no Event of Default has occurred and is continuing:

- (a) the General Security Agreements will return into escrow on the same basis as set forth in §5A.1(3) above; and
- (b) the Administrative Agent will refrain from making any registration stipulated in §5A.1(3) and, if any such registration has already been filed, cause the termination of such registration at the applicable registries.

5A.3 Release of Security

Upon Canfor providing the Administrative Agent with evidence that the Canfor Notes have been repaid in full and that all Bonds (other than the Pledged Bond) issued pursuant to the Trust Indenture have been returned to the Trustee for cancellation and have been cancelled, the Administrative Agent and the Lenders will take all such action reasonably required to cooperate with the Trustee with respect to the release, discharge and cancellation of the Pledged Bond and the Security Documents and any registrations with respect thereto. Once the Canfor Notes have been repaid in full and all Bonds issued pursuant to the Trust Indenture have been returned to the Trustee for cancellation and have been cancelled, Canfor will take all such action as is required of it pursuant to the Trust Indenture in order to obtain the release, discharge and cancellation of the Security Documents, the security created pursuant thereto and any registrations with respect thereto.

6. CLOSING CONDITIONS

6.1 Conditions Precedent to Effectiveness of the Agreement

This Agreement shall not become effective unless and until the date (which shall be no later than December 1, 2013 or such later date as may be agreed upon by Canfor and the Lenders) on which all of the conditions specified in this §6.1 are satisfied, fulfilled or otherwise met to the satisfaction of the Lenders or, to the extent not so satisfied, fulfilled or otherwise met, waived by the Lenders (the "**Closing Date**"), and Canfor shall not be entitled to an Accommodation (other than, for greater certainty, pursuant to the Existing Credit Agreement) unless and until the conditions precedent set forth in this §6.1 have been satisfied, fulfilled or otherwise met to the satisfaction of the Lenders or, to the extent not so satisfied, fulfilled or otherwise met, waived by the Lenders:

- (a) *Documents.*
 - (1) The Credit Facility Documents shall have been executed and delivered to the Administrative Agent.
 - (2) The Trust Indenture and the Escrow Agreement shall have been executed and delivered to the Administrative Agent.

- (3) The Security Documents shall have been executed and delivered into escrow pursuant to the Trust Indenture and the Pledged Bond shall have been executed and delivered into escrow pursuant to the Escrow Agreement.
- (4) The EDC Account PSG shall have been executed and delivered to the Tranche B Lender.
- (b) *Constitutional Documents.* The Administrative Agent shall have received certified copies of the constitutional documents of each Credit Party.
- (c) *Resolutions.* The Administrative Agent shall have received certified copies of resolutions of the boards of directors (or, where applicable, executive committees thereof) of each Credit Party authorizing the execution, delivery and performance of each Credit Facility Document to which it is a party.
- (d) *Incumbency.* The Administrative Agent shall have received a certificate of the secretary or an assistant secretary respectively of each Credit Party certifying the names and the true signatures of the officers authorized to sign the Credit Facility Documents to which it is a party.
- (e) *Good Standing.* The Administrative Agent shall have received a current certificate of good standing or like certificate in respect of each Credit Party available from appropriate government officials of its jurisdiction of formation.
- (f) *Representations and Warranties.* All of the representations and warranties contained herein or in any other Credit Facility Document shall be true and correct in all material respects on and as of the Closing Date as though made on and as of such date and the Administrative Agent shall have received certificates of a Senior Officer of each Credit Party so respectively certifying to the Lenders with regard to the Credit Facility Documents to which it is a party; and the Lenders shall not have become aware, after the date hereof, of any untrue statement of a material fact or an omission to state a material fact that is required to be stated where it is necessary to make a statement not misleading in the light of the circumstances in which it was made.
- (g) *No Default.* No Default or Event of Default shall have occurred and be continuing, and the Administrative Agent shall have received a certificate of a Senior Officer of Canfor so certifying to the Lenders.
- (h) *Due Diligence.* The Lenders shall have completed and be satisfied with their due diligence review in respect of Canfor, including without limitation review of material agreements and leases.
- (i) *Financial Statements.* The Administrative Agent shall have received the most recent annual audited and quarterly unaudited consolidated financial statements of CPPI.
- (j) *Compliance Certificate.* The Administrative Agent shall have received the most recent Compliance Certificate.

- (k) *Business Plan.* The Administrative Agent shall have received the current three year consolidated business plan forecast for Canfor.
- (l) *Designated Subsidiaries.* The Administrative Agent shall have received a list of all Designated Subsidiaries.
- (m) *Indebtedness.* The Administrative Agent shall have received a list of all Indebtedness of Canfor and the Designated Subsidiaries.
- (n) *Material Adverse Change.* There shall not exist or have occurred a Material Adverse Change.
- (o) *Fees.* The Administrative Agent and the Lenders shall have received payment of all fees and all reimbursable expenses then due.
- (p) *Evidence of Permitted Debt Incurrence.* The Administrative Agent shall have received evidence satisfactory to it that the Credit Facility will constitute permitted debt incurrence under the Note Purchase Agreement and that the execution, delivery and performance of the Credit Facility Documents will not conflict with, or result in a default under, any other obligations of any Credit Party.
- (q) *Repayment of Debt.* The Administrative Agent shall have received evidence satisfactory to it that any Indebtedness not permitted under this Agreement has been repaid.
- (r) *Opinions.* The Administrative Agent shall have received an opinion of counsel to the Credit Parties addressed to the Administrative Agent and the Lenders in form satisfactory to it and shall have received the favourable opinion of Lenders' Counsel in form and substance satisfactory to the Administrative Agent with respect to the matters covered by the aforementioned opinion and such other matters as the Administrative Agent shall reasonably request.
- (s) *Other.* The Lenders shall have received such supporting and other certificates, documentation and information as the Lenders may reasonably request.

6.2 General Conditions for Accommodations

Canfor shall not be entitled to any Accommodations (other than by Conversion or Rollover) after the Closing Date unless and until the conditions precedent set forth in this §6.2 have been satisfied, fulfilled or otherwise met to the satisfaction of the Lenders or, to the extent not so satisfied, fulfilled or otherwise met, waived by the Lenders:

- (a) *Documents.* The Credit Facility Documents shall have been executed and delivered to the Administrative Agent.
- (b) *Representations and Warranties.* All of the representations and warranties contained herein or in any other Credit Facility Document shall be true and correct in all material respects on and as of the date of the relevant Accommodation Request and on and as of the date the relevant Accommodation is to be made as though made on and as of each such date (unless expressly stated to be made as of the Closing Date or some other specified date) and the

Administrative Agent shall if requested have received certificates of an authorized officer of each Credit Party so respectively certifying to the Lenders with respect to the Credit Facility Documents to which it is a party.

- (c) *No Default.* No Default or Event of Default shall have occurred and be continuing or would result from making such Accommodation and the Administrative Agent shall, if requested, have received a certificate of an authorized officer of Canfor so certifying to the Lenders.
- (d) *Other.* The Lenders shall have received such supporting and other certificates and documentation as the Lenders may reasonably request.

6.3 Conversions and Rollovers

The obligation of the Lenders to make any Accommodation by Conversion or Rollover under the Credit Facility shall be subject to the condition precedent that no Event of Default shall have occurred and be continuing, and an authorized officer of Canfor shall so certify to the Lenders in the applicable Accommodation Request.

6.4 Deemed Representation

Each of the giving of any Notice and the acceptance or use by Canfor of the proceeds of any Accommodation shall be deemed to constitute a representation and warranty by Canfor that, on the date of such Notice and on the date of any Accommodation being provided and after giving effect thereto, the applicable conditions precedent set forth in this Article 6 shall have been satisfied, fulfilled or otherwise met.

6.5 Conditions Solely for the Benefit of the Lenders

All conditions precedent to the entitlement of Canfor to any Accommodations hereunder are solely for the benefit of the Lenders, and no other Person shall have standing to require satisfaction or fulfillment of any condition precedent or that it be otherwise met and no other Person shall be deemed to be a beneficiary of any such condition, any and all of which may be freely waived in whole or in part by the Lenders at any time the Lenders deem it advisable to do so in their sole discretion.

6.6 No Waiver

The making of any Accommodations without one or more of the conditions precedent set forth in this Article 6 having been satisfied, fulfilled or otherwise met shall not constitute a waiver by the Lenders of any such condition, and the Lenders reserve the right to require that each such condition be satisfied, fulfilled or otherwise met prior to the making of any subsequent Accommodations.

7. REPRESENTATIONS AND WARRANTIES

Canfor (i) represents and warrants to the Lenders, on its own behalf and on behalf of its Designated Subsidiaries, as set forth in this Article 7, (ii) acknowledges that the Lenders are relying thereon in entering into this Agreement and providing Accommodations from time to time, (iii) agrees that no investigation at any time made by or on behalf of the Lenders shall diminish in any respect whatsoever their right to rely thereon, and (iv) agrees that all representations and warranties shall be valid and effective as of the date when given or deemed

to have been given and to such extent shall survive the execution and delivery of this Agreement and the provision of Accommodations from time to time.

7.1 Existence

Each Credit Party is a Person duly incorporated or otherwise formed and is validly subsisting and in good standing under the laws of its jurisdiction of formation, and is duly qualified to do business in all jurisdictions where its failure to be duly qualified to carry on business would reasonably be expected to result in a Material Adverse Change. GP is the sole general partner of Canfor.

7.2 Corporate Authority

Each Credit Party has full corporate (or if it is a partnership, partnership) right, power and authority to enter into, and perform its obligations under each Credit Facility Document to which it is or will be a party, and each Credit Party has full corporate (or if it is a partnership, partnership) power and authority to own and operate its properties and to carry on its business as now conducted or as contemplated to be conducted. GP has the full power and authority to act as the general partner of Canfor.

7.3 Authorization, Governmental Approvals, etc.

The execution and delivery of this Agreement and each other Credit Facility Document to which each Credit Party is or will be a party and the performance by it of its obligations hereunder and thereunder have been duly authorized by all necessary corporate action on the part of such Credit Party, and no Governmental Approval under any applicable Law, and no registration, qualification, designation, declaration or filing with any Governmental Body having jurisdiction over it, is or was necessary therefor or to perfect the same or to preserve the benefit thereof to the Lenders except as has heretofore been effected or obtained.

7.4 Enforceability

This Agreement has been duly executed and delivered by Canfor and GP and constitutes, and each other Credit Facility Document and each other document hereby or thereby contemplated to which each Credit Party is or will be party (including by way of assignment) constitutes or when executed by it will constitute, its legal, valid and binding obligation, enforceable against it in accordance with its terms, subject to such qualifications as may be set forth in the opinion of counsel to the Credit Parties delivered pursuant to §6.1(r).

7.5 No Breach

The execution and delivery by each Credit Party of each Credit Facility Document and each other document hereby or thereby contemplated to which it is or will be a party (including by way of assignment) and the performance by it of its obligations hereunder and thereunder do not and will not:

- (a) conflict with or result in a breach of any of the terms, conditions or provisions of:
 - (1) its charter documents or by-laws;
 - (2) any Law;

- (3) any contractual restriction binding on or affecting it or its properties (including any Canfor Note); or
 - (4) any writ, judgment, injunction, determination or award which is binding on it; or
- (b) result in, or require or permit:
- (1) the imposition of any Lien (other than Permitted Encumbrances) on or with respect to any properties now owned or hereafter acquired by it; or
 - (2) the acceleration of the maturity of any of its Indebtedness under any contractual provision binding on or affecting it.

7.6 Litigation

As at the Closing Date and, except as otherwise disclosed in writing to the Administrative Agent, Canfor is not aware of any actions, suits or proceedings (whether or not purportedly on its behalf) pending or threatened against or affecting it or any other Credit Party before any Governmental Body which have a material likelihood of being determined adversely to it and would, if so adversely determined, reasonably be expected to be materially adverse.

7.7 Subsidiaries

Canfor and each Designated Subsidiary owns on the date hereof, and will own on the Closing Date, legally and beneficially (directly or indirectly) the respective portions of the outstanding shares in the capital of the corporations shown as its Subsidiaries in Schedule 4. Save as set forth in Schedule 4 or as may be set forth in an amendment to Schedule 4 provided to the Administrative Agent by Canfor in respect of an event occurring after the Closing Date, and save for statutory pre-emptive rights, no Person has any agreement or option, or right or privilege (whether by Law, pre-emptive or contractual) capable of becoming an agreement or option, for the purchase of shares in the capital of any Designated Subsidiary.

7.8 Environmental Matters

Except as otherwise disclosed in writing to the Administrative Agent under §9.1(j) in respect of an event occurring after the date hereof, to the best knowledge of Canfor and all Designated Subsidiaries, each Credit Party all of its facilities and properties are in compliance in all material respects with all Environmental Laws.

7.9 Compliance

Except as otherwise disclosed in writing to the Lenders prior to the date hereof or under §9.1(j) in respect of an event occurring after the date hereof:

- (a) no Default or Event of Default has occurred and is continuing; and
- (b) no Credit Party is in breach or default, or is aware of any event or circumstance which, but for the passage of time or the giving of notice or both, would constitute a breach or default:

- (1) under any contract, agreement or instrument (including the Canfor Notes) to which it is a party or by which it is bound (nor is it aware of any breach or default by any other party thereunder); or
 - (2) under any Law (including any Environmental Law) by which it is bound,
- and which could reasonably be expected to result in a Material Adverse Change.

7.10 Governmental Approvals

Each Credit Party possesses all material Governmental Approvals required to conduct properly its businesses.

7.11 Ownership of Assets

Each Credit Party owns or has legally enforceable interests in all material assets and property (including intellectual property) necessary to the operation of its business, in each case free and clear of all Liens other than Permitted Encumbrances.

7.12 Tax Returns

Each Credit Party has filed all Tax returns which are required to be filed and has paid all Taxes which have become due pursuant to such returns or pursuant to any assessment received by it, except any such Taxes which are being contested in good faith and by proper proceedings and for which adequate reserves have been maintained (and no Liens except Permitted Encumbrances have attached).

7.13 Financial Statements

The audited consolidated financial statements of CPPI as of and for the period ended December 31, 2012, copies of which have been delivered to the Administrative Agent, were prepared in accordance with GAAP and present fairly, as at the dates thereof, the consolidated financial position of CPPI and Canfor.

7.14 Material Adverse Change at Closing Date

As at the Closing Date, there does not exist and there has not occurred since December 31, 2012 any Material Adverse Change except for any change, effect, event, occurrence or change in any state of facts relating to (i) the Canadian equity market, or (ii) the debt syndication market in Canada.

7.15 Material Adverse Change

There does not exist nor has there occurred any Material Adverse Change of the nature described in §(a) or (b) of the definition of Material Adverse Change.

7.16 Margin Stock

No Credit Party or any of its Subsidiaries is engaged principally, or as one of its important activities, in the business of extending credit for the purpose of purchasing or carrying Margin Stock.

7.17 Intellectual Property

Except as disclosed to the Administrative Agent in writing, the use by any Credit Party of any material patent, trade mark, trade name, know how or other intellectual property does not infringe upon the rights of any Person in any material respect.

7.18 Insurance

Each Credit Party has in place in full force and effect, with financially sound and reputable insurers, insurance with respect to its business and assets, in such amounts and against such liabilities, casualties, risks and contingencies existing from time to time as is customary for owners and operators of similar businesses and similar property in accordance with good industry practices.

7.19 Compliance with ERISA

- (a) Canfor and each ERISA Affiliate has operated and administered each U.S. Plan in compliance with all applicable Laws except for such instances of non-compliance which are not material. Neither Canfor nor any ERISA Affiliate has incurred any material liability pursuant to Title I or IV of ERISA or the penalty or excise tax provisions of the Code relating to employee benefit plans (as defined in Section 3 of ERISA), and no event, transaction or condition has occurred or exists that could reasonably be expected to result in the incurrence of any such liability by Canfor or any ERISA Affiliate, or in the imposition of any material Lien on any of the rights, properties or assets of Canfor or any ERISA Affiliate, in either case pursuant to Title I or IV of ERISA or to such penalty or excise tax provisions or to Section 401(4)(29) or 412 of the Code;
- (b) The present value of the aggregate benefit liabilities under each of the U.S. Plans (other than U.S. Multiemployer Plans), determined as of the end of such U.S. Plan's most recently ended plan year on the basis of the actuarial assumptions specified for funding purposes in such U.S. Plan's most recent actuarial valuation report, did not exceed the aggregate current value of the assets of such U.S. Plan allocable to such benefit liabilities by more than Cdn. \$1,000,000 in the case of any single U.S. Plan and by more than Cdn. \$1,500,000 in the aggregate for all U.S. Plans. The term "**benefit liabilities**" has the meaning specified in section 4001 of ERISA and the terms "**current value**" and "**present value**" have the meanings specified in section 3 of ERISA.
- (c) Canfor and its ERISA Affiliates have not incurred material withdrawal liabilities (and are not subject to contingent withdrawal liabilities) under section 4201 or 4204 of ERISA in respect of U.S. Multiemployer Plans.
- (d) The expected post-retirement benefit obligation for any U.S. Plan (determined as of the last day of Canfor's most recently ended Financial Year in accordance with Financial Accounting Standards Board Statement No. 106, without regard to liabilities attributable to continuation coverage mandated by section 4980B of the Code) of Canfor and its Subsidiaries is not material.

7.20 Non-U.S. Pension Plans

All Non-U.S. Pension Plans have been established, operated, administered and maintained in material compliance with all laws, regulations and orders applicable thereto. All material premiums, contributions and any other amounts required by applicable Non-U.S. Pension Plan documents or applicable Law have been paid or accrued as required.

7.21 Labour Disputes

As at the Closing Date there exists no material labour dispute or disruption with respect to the operations and businesses of any Credit Party, and no such dispute or disruption is pending or threatened.

7.22 Disclosure

To the best of Canfor's knowledge and having exercised reasonable best efforts, all information (in each case having regard to modifying or succeeding information) other than projections (including the information contained in the Information Documents, and collectively the "Information") that has been or will be made available to the Administrative Agent and the Lenders by or on behalf of Canfor is or will be, when furnished, complete and correct in all material respects and does not or will not, when furnished, contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements contained therein not materially misleading in light of the circumstances under which such statements are made, and any projections that have been or will be made available to the Administrative Agent and the Lenders by or on behalf of Canfor have been or will be prepared in good faith based upon assumptions believed by Canfor to be reasonable at such time.

7.23 Trust Indenture

The Trust Indenture and the other Security Documents granted pursuant thereto will, following the release from escrow of the Pledged Bond after a Triggering Event, constitute a legal, valid and binding obligation, enforceable against each Credit Party thereto in accordance with its terms, subject to such qualifications as may be set forth in the opinions of counsel to the Credit Parties delivered in connection with the execution and delivery of the Trust Indenture and such other Security Documents.

8. GUARANTEE AGREEMENTS

8.1 Guarantee Agreements

As continuing collateral security for the payment and performance of the Obligations, the Bank Products Obligations and the Canfor Hedging Obligations, Guarantee Agreements, in form and substance satisfactory to the Lenders, made in favour of the Secured Parties have been executed and delivered to the Administrative Agent by CPPI and each of the current (as of the Closing Date) Designated Subsidiaries and, pursuant to §9.4, will be executed and delivered to the Administrative Agent by future Designated Subsidiaries.

8.2 Taking and Enforcement of the Guarantee Agreements

Each of the Lenders hereby acknowledges that, to the extent permitted by applicable Law, the Guarantee Agreements and the remedies provided hereunder and thereunder to the Lenders are for the benefit of the Administrative Agent and of the Lenders collectively and acting

together and not severally, and further acknowledges that its rights hereunder and under the Guarantee Agreements are to be exercised not severally but collectively by the Administrative Agent upon the decision of the Majority Lenders under the Credit Facility; accordingly, notwithstanding any of the provisions contained herein or in the Guarantee Agreements, each of the Lenders hereby covenants and agrees that it shall not be entitled to take any action with respect to the Obligations, including any declaration under §11.2 or any action under the Guarantee Agreements in respect of the Obligations, but that any such action shall be taken only by the Administrative Agent with the prior written agreement of the Majority Lenders under the Credit Facility.

8.3 Cash Collateral

To the extent that the Administrative Agent is from time to time in possession of cash collateral, it shall be entitled to invest the same and all proceeds thereof in Cash Equivalents, including Cash Equivalents issued by HSBC.

8.4 Release of Designated Subsidiaries

Upon the completion of the sale of the shares of a Guarantor as permitted by this Agreement, that Guarantor (and any Guarantor which is Subsidiary thereof) will be released from all obligations under the Guarantee Agreements and:

- (a) the Administrative Agent and the Lenders will execute and deliver to that Guarantor all such documents and instruments as may reasonably be required in order to acknowledge and confirm that release; and
- (b) the other Guarantors will execute and deliver to the Administrative Agent all such documents and instruments as the Administrative Agent and the Lenders may reasonably require in order to acknowledge and confirm the ongoing validity and enforceability of the Guarantee Agreements.

9. COVENANTS

9.1 Affirmative Covenants

Until the Obligations are paid and satisfied in full and this Agreement has been terminated, and in addition to any other covenants herein set forth, Canfor covenants on its own behalf and on behalf of the Designated Subsidiaries as set forth in this §9.1.

- (a) *Corporate Existence.* It will do all things necessary (i) to maintain its existence, and (ii) to carry out its businesses in a proper and efficient manner in like manner as a prudent operator of similar businesses, including obtaining and maintaining in full force and effect all material Governmental Approvals required for the conduct of its businesses, and shall cause each Designated Subsidiary to do so. Canfor shall promptly advise the Administrative Agent in writing of any change of name, shareholdings and jurisdiction of domicile of any Designated Subsidiary, and promptly provide to the Administrative Agent copies of any amendments to its or any Designated Subsidiary's constitutional documents.
- (b) *Compliance with Laws, etc.* It will comply with all applicable Laws (including Environmental Laws) and Governmental Approvals and do all things necessary to obtain, promptly renew and maintain in good standing from time to time all

Governmental Approvals and duly observe all valid requirements of any Governmental Body (including those requirements respecting the protection of the environment, Release of Hazardous Substances, and occupational health and safety), and shall cause each Designated Subsidiary to do so, except in each case to the extent that failure to do so has not resulted in, and would not reasonably be expected to result in a Material Adverse Change.

- (c) *Payment of Taxes and Claims.* It will file as and when required by applicable Law all Tax returns and will pay and discharge before the same shall become delinquent (i) all Taxes imposed upon it or upon its property, and (ii) all lawful claims (including claims for labour, materials, supplies or services) which, if unpaid, might become a Lien upon its property except in each case any such Tax or claim which is being contested in good faith and by proper proceedings and for which adequate reserves have been maintained and no Liens (except Permitted Encumbrances) have attached, and shall cause each Designated Subsidiary to do so.
- (d) *Insurance.* It will maintain, with financially sound and reputable insurers, insurance with respect to the businesses and assets of it and its Designated Subsidiaries, in such amounts and against such liabilities, casualties, risks and contingencies existing from time to time as is customary for owners and operators of similar businesses and similar property in accordance with good industry practices.
- (e) *Keeping of Books.* It will keep proper books of record and account, in which full and correct entries shall be made of all financial transactions and its assets and business in accordance with GAAP, and shall cause each Designated Subsidiary to do so.
- (f) *Maintain Properties.* It will maintain, preserve, protect and keep its properties which are essential to the ongoing operation of the businesses carried on by it in reasonable repair, working order and condition, and make necessary and proper repairs, renewals and replacements so that such businesses may be properly conducted at all times, unless it determines in good faith that the continued maintenance of such properties is no longer economically desirable, and shall cause each Designated Subsidiary to do so.
- (g) *Pay Obligations to Lenders and Perform Other Covenants.* It will make full and timely payment of the Obligations, whether now existing or hereafter arising, and will duly comply with all the terms and covenants contained in each of the Credit Facility Documents to which it is a party all at the times and places and in the manner set forth therein.
- (h) *Use of Proceeds.* It will use the proceeds of all Accommodations made available to it only for the purposes set forth in §2.1(b).
- (i) *Financial and Other Reporting.* It will deliver to the Administrative Agent:
 - (1) within 120 days after the end of each Financial Year, a copy of the annual audited consolidated financial statements of CPPI;

- (2) within 60 days after the end of the first three Financial Quarters of the Financial Year, a copy of the unaudited consolidated financial statements of CPPI prepared in accordance with GAAP, certified by a Senior Officer of CPPI;
- (3) with each of the financial statements in (1) and (2) above, a Compliance Certificate signed by a Senior Officer of CPPI;
- (4) within 60 days after the end of each Financial Year, a Canfor prepared three year financial forecast (current Financial Year and ensuing two Financial Years) for Canfor and the Designated Subsidiaries;
- (5) promptly upon their becoming available, copies of (i) all financial statements, reports, notices or proxy statements sent by CPPI, Canfor or any Designated Subsidiary to public securities holders generally, and (ii) all regular or periodic reports, all registration statements (without exhibits except as expressly requested by the Administrative Agent), and any prospectuses and all amendments thereto filed by CPPI, Canfor or any Designated Subsidiary with the Securities and Exchange Commission (at any time when CPPI, Canfor or any Designated Subsidiary is a reporting company under the *Securities Exchange Act* of 1934, as amended) or with the British Columbia Securities Commission (or any governmental department, bureau, commission or agency succeeding to the functions of the Securities and Exchange Commission or the British Columbia Securities Commission, as the case may be) and of all press releases and other statements made available generally by CPPI, Canfor or any Subsidiary to the public concerning developments that are material;
- (6) promptly following execution, receipt or sending thereof, copies of each amendment to any of the Canfor Notes and copies of each notice of default or prepayment given or received under any of the Canfor Notes;
- (7) promptly upon learning of same or commencing same, details of any litigation to which Canfor or any Designated Subsidiary is a party involving Cdn. \$15,000,000 (or the Equivalent Amount in other currencies) or more, or which involves the potential cessation or impairment of a material part of the business of Canfor or any Designated Subsidiary;
- (8) from time to time, upon request by the Administrative Agent, a certificate from a Senior Officer of Canfor as to whether or not a Default or Event of Default has occurred and is continuing, and such other information as the Administrative Agent acting on behalf of the Lenders may reasonably request from time to time; and
- (9) promptly upon delivery thereof under the Note Purchase Agreement, or any replacement of the Note Purchase Agreement, a copy of each compliance certificate required to be delivered thereunder.

Canfor will, with respect to the financial statements, certificates and other documents required to be delivered under this §9.1(i) concurrently with delivery

to the Administrative Agent either deliver to the Administrative Agent sufficient copies for distribution by the Administrative Agent to the Lenders, or send to the Administrative Agent complete electronic versions for transmittal by the Administrative Agent to the Lenders, provided that the Administrative Agent receives an original of each Compliance Certificate.

- (j) *Notice of Certain Events.* Canfor will promptly notify the Administrative Agent in writing of:
- (1) any Default or Event of Default;
 - (2) any default, or any event, condition or occurrence which with notice or lapse of time, or both, would constitute a default under any agreement regarding any Indebtedness of Canfor or any Designated Subsidiary in excess of Cdn. \$15,000,000 (or the Equivalent Amount in other currencies);
 - (3) any notice of any action by any Governmental Body or any action, suit, proceeding or investigation (or any basis therefor) pending, or to the best of its knowledge threatened, against or affecting Canfor or any Designated Subsidiary before any Governmental Body that has resulted in or would reasonably be expected to result in a Material Adverse Change;
 - (4) any other Material Adverse Change;
 - (5) any change in Designated Subsidiaries;
 - (6) any material labour dispute occurring or threatened in the business of Canfor or a Designated Subsidiary; and
 - (7) any change in CPPI's rating with any of Moody's, S&P or DBRS.
- (k) *Visitation, Inspection, etc.* It will permit the Lenders and their respective representatives and consultants to visit and inspect any of its assets, to examine its books and records and to make copies and take extracts therefrom, and to discuss its affairs, finances and accounts with its officers or its independent auditors (in the presence of its personnel), all at such reasonable times and as often as the Lenders may reasonably request through the Administrative Agent, and will cause each Designated Subsidiary to do so.
- (l) *Environmental Matters.* It will, and will cause each Designated Subsidiary to, use and operate all of its facilities and properties in compliance with all, and in a manner which would not result in liability under any, Environmental Laws, and keep all necessary Governmental Approvals relating to environmental matters in effect and remain in compliance therewith, except where such non-compliance or liability would not reasonably be expected to result in a Material Adverse Change.

- (m) *Share Ownership.* Canfor will maintain its direct or indirect ownership of 100% of the outstanding shares in the Capital Stock of each of the Designated Subsidiaries.
- (n) *Environmental Indemnity.* It will indemnify and hold harmless the Administrative Agent and Lenders and their respective directors, officers, employees, agents and representatives from and against any and all third party liabilities, claims, demands, actions and causes of action, fines and other penal or administrative sanctions suffered by the indemnitees arising directly or indirectly out of any breach of any Environmental Law, or any environmental hazards existing, or any environmental pollution occurring, at any time relating to its assets or properties or those of any of its Designated Subsidiaries.
- (o) *Rateable Security.* If, notwithstanding the prohibition contained in §9.2(a), Canfor or any Designated Subsidiary creates, assumes or permits to exist any Lien upon any of its property or assets, whether now owned or hereafter acquired, other than Permitted Encumbrances, it will make or cause to be made effective provision whereby the Obligations, Bank Products Obligations or Canfor Hedging Obligations will be secured equally and rateably with any and all other obligations thereby secured, such security to be pursuant to agreements reasonably satisfactory to the Majority Lenders under the Credit Facility and shall be accompanied by an opinion from counsel (selected by Canfor and reasonably satisfactory to the Majority Lenders under the Credit Facility) to the effect that the Lenders are so secured, and, in any such case, the Obligations, Bank Products Obligations and Canfor Hedging Obligations shall have the benefit, to the fullest extent that, and with such priority as, the Lenders may be entitled under applicable Law, of an equitable Lien on such property. Such violation of §9.2(a) will constitute an Event of Default, whether or not provision is made for an equal and rateable Lien pursuant to this §(o).
- (p) *Ranking of Obligations.* Canfor will ensure that its Obligations, Bank Products Obligations and Canfor Hedging Obligations rank, at all times, at least pari passu with all other senior unsecured Indebtedness of Canfor.
- (q) *Financial Tests.* Canfor and the Designated Subsidiaries shall maintain, on a consolidated basis:
- (1) at all times, a Total Debt to Total Capitalization Ratio of less than 50%;
 - (2) at all times, when the Total Debt to Total Capitalization Ratio is greater than 35%, an EBITDA Interest Coverage Ratio of not less than 2.0 to 1.0;
 - (3) at all times, Shareholders' Equity greater than Minimum Shareholders' Equity; and
 - (4) should (i) any of the Security Documents or General Security Agreements be released from escrow and deemed delivered and such security has not been returned to escrow under §5A.2 or released and discharged under §5A.3, or (ii) the Lenders otherwise obtain or otherwise have the benefit of security, a Total Senior Secured Debt to Total Senior Capitalization Ratio of less than 40%.

- (r) *Further Assurances.* Canfor will, at its cost and expense, upon request of the Administrative Agent, duly execute and deliver, or cause to be duly executed and delivered, to the Administrative Agent such further instruments and do and cause to be done such further acts as may be necessary or proper in the reasonable opinion of the Administrative Agent to carry out more effectually the provisions and purposes of this Agreement and the other Credit Facility Documents.

9.2 Negative Covenants

Until the Obligations are paid and satisfied in full and this Agreement has been terminated, and in addition to any other covenants herein set forth, Canfor covenants and agrees on its own behalf, and on behalf of the Designated Subsidiaries, that it will not take any of the actions set forth in this §9.2 or permit or suffer same to occur without the prior written consent of the Lenders or relevant Majority Lenders, as applicable pursuant to §13.2.

- (a) *Liens.* Neither it nor any Designated Subsidiary will create, incur or otherwise permit to exist any Lien on any of its assets, other than Permitted Encumbrances.
- (b) *Merger, etc.* Except for Permitted Mergers, neither it nor any Designated Subsidiary will merge, consolidate or amalgamate with or into, or sell, convey, transfer, lease or otherwise dispose of (in one transaction or a series of transactions) all or substantially all of its assets to, any other Person.
- (c) *Funded Debt.* Neither it nor any Designated Subsidiary will create, incur or assume any Funded Debt (for the purposes of this §(c), any Person becoming a Designated Subsidiary after the Closing Date being deemed, at the time it becomes a Designated Subsidiary, to have incurred all of its then outstanding Funded Debt), except:
 - (1) Funded Debt represented by the Canfor Notes issued under the Note Purchase Agreement;
 - (2) Funded Debt of any Designated Subsidiary of Canfor;
 - (3) (i) Funded Debt of Canfor or any Designated Subsidiary secured by Liens permitted by the provisions of §(d) and (e) of the definition of Permitted Encumbrances or unsecured and issued or assumed by Canfor or any Designated Subsidiary in connection with payment to sellers of property acquired by Canfor or any Designated Subsidiary or in connection with the subsequent additions to or improvements of such properties within six months after their purchase, provided such Funded Debt is incurred not more than six months after such acquisition, or (ii) Funded Debt of a Person existing at the time it becomes a Designated Subsidiary provided that such Funded Debt is not assumed or guaranteed by Canfor or any other Designated Subsidiary; provided that neither Canfor nor any Designated Subsidiary shall create, incur or assume any Funded Debt otherwise permitted by this §9.2(c)(3) if, after giving effect thereto, Funded Debt of Canfor and the Designated Subsidiaries would result in a breach of §9.1(q);

- (4) other Funded Debt, provided that neither Canfor nor any Designated Subsidiary shall create, incur or assume and Funded Debt otherwise permitted by this §9.2(c)(4) if, after giving effect thereto, the existence of such Funded Debt would result in a breach of §9.1(q); and
 - (5) Funded Debt renewing, extending or refunding Funded Debt previously created, incurred or assumed as permitted by this §9.2(c), provided that the principal amount of such new Funded Debt shall not exceed the outstanding principal amount of such Funded Debt being renewed, extended or refunded at the time of such renewal, extension or refunding.
- (d) *Sale of Property.* Sell, lease, transfer or otherwise dispose of property to any Person, other than a sale, lease, transfer or disposition to Canfor or a Wholly-Owned Designated Subsidiary, unless it is for not less than fair value as determined by the Board of Directors of Canfor and unless;
- (1) by way of Excepted Disposition; or
 - (2) the Total Disposition Values for the preceding 12 and 24 months do not constitute more than 15% and 25%, respectively, of the consolidated assets of Canfor and its Designated Subsidiaries;

or, in addition to complying with (1) or (2), sell or otherwise dispose of control of any shares or Indebtedness of any Designated Subsidiary except:

- (3) to Canfor or a Wholly-Owned Designated Subsidiary; or
 - (4) by way of a disposition of all shares and Indebtedness of a Designated Subsidiary held by Canfor and its Designated Subsidiaries for consideration which represents fair value, as determined by the Board of Directors of Canfor at the time of sale of such shares and Indebtedness; or
 - (5) by way of a disposition of shares of a Designated Subsidiary where the net proceeds are used to effect a Funded Debt Reduction initiated by Canfor within six months after such disposition or, within six months of such disposition, are applied to the purchase of property (other than inventory) or to construction costs, improvements or additions to property, in each case used in the business of Canfor or a Designated Subsidiary, or to the purchase of all of the outstanding common shares of a company which is not then a Designated Subsidiary but immediately following such purchase becomes a Designated Subsidiary and, immediately after giving effect to such Funded Debt Reduction or application, as the case may be, Canfor could incur at least US\$1.00 additional Funded Debt under §9.2(c).
- (e) *Issuance of Shares by Designated Subsidiaries.* Canfor will not permit any Designated Subsidiary to issue, sell or dispose of any of its equity securities except:

- (1) by way of a payment of dividends in or a distribution of its shares or other equity securities to its shareholders or other equityholders on a pro-rata basis;
 - (2) to Canfor or a Wholly-Owned Designated Subsidiary;
 - (3) to holders of minority interests pursuant to the exercise of entitlements to purchase shares or other equity securities on a pro-rata basis by reason of pre-emptive rights; or
 - (4) by a Permitted Share Issuance.
- (f) *Restricted Payments.* For so long as the Credit Facility has not been repaid in full and cancelled, Canfor will not, and will not permit any Designated Subsidiary to, make any Restricted Payments except out of Consolidated Net Income Available for Restricted Payments, provided that Canfor may redeem or purchase any of its shares from the new cash proceeds of a contemporaneous issue of its shares.
- (g) *No Speculative Hedging.* None of Canfor or any Designated Subsidiary will enter into any Hedge Instruments for speculative purposes (that is, purposes unrelated to hedging risks related to the business of Canfor and the Designated Subsidiaries such as rate, commodity or currency swaps).
- (h) *Amendments to Material Contracts.* None of Canfor or any Designated Subsidiary will amend a material contract if such amendment would have a material adverse financial effect on such contract taken as a whole.

9.3 Administrative Agent May Perform Covenants

If any Credit Party shall fail to perform or observe any covenant on its part contained herein or in any other Credit Facility Document, the Administrative Agent in its sole discretion acting reasonably, may, or the Administrative Agent, upon the instructions of the Majority Lenders under the Credit Facility, shall, in either case subject to the Administrative Agent having been indemnified to its satisfaction, perform (or cause to be performed), any of the said covenants capable of being performed by the Administrative Agent and, if any such covenant requires the payment or expenditure of money, the Administrative Agent may make such payment or expenditures with its own funds or with money borrowed for that purpose (but the Administrative Agent shall be under no obligation to do so); provided that the Administrative Agent shall first have provided written notice of its intention to Canfor and a reasonable opportunity (not to exceed 20 Business Days, or such longer period as the Majority Lenders under the Credit Facility shall approve) to cure the failure. All amounts paid by the Administrative Agent pursuant to this §9.3 shall be repaid by Canfor to the Administrative Agent on demand therefor and shall form part of the Obligations. No payment or performance under this §9.3 shall relieve Canfor from any Event of Default.

9.4 Addition of Designated Subsidiary

Canfor may at any time and from time to time notify the Administrative Agent that it wishes to designate a Wholly-Owned Subsidiary as a Designated Subsidiary, which designation shall be effective upon written acknowledgement by the Administrative Agent that it has received:

- (a) a guarantee and postponement, in form and substance satisfactory to the Lenders, made in favour of the Secured Parties by that new Designated Subsidiary of the Obligations, the Bank Products Obligations and the Canfor Hedging Obligations;
- (b) the corporate documents and opinion referred to in §6.1(b), §6.1(c), §6.1(d), §6.1(e) and §6.1(r) for that new Designated Subsidiary;
- (c) a Compliance Certificate as at the end of the most recent Financial Quarter, re-stated so as to include the new Designated Subsidiary.

10. CHANGES IN CIRCUMSTANCES

10.1 Illegality

If the enactment of any applicable Law, or any change therein or in the interpretation or application thereof by any Governmental Body or compliance by a Lender with any guideline, official directive, request or direction (whether or not having the force of Law) of any Governmental Body, hereafter makes it unlawful or impossible for a Lender to make, fund or maintain any type of Accommodation or to give effect to its obligations in respect of such type of Accommodation, such Lender may, by written notice thereof to Canfor and to the Administrative Agent, declare its obligations under this Agreement in respect of such type of Accommodation to be terminated, whereupon the same shall forthwith terminate, and Canfor shall within the time required by such Law (or at the end of such longer period as such Lender at its discretion has agreed) repay or effect a Conversion of the Principal Outstanding in respect of such type of Accommodation from such Lender (without reducing or prepaying the Commitment(s) of any other Lender(s)), and shall pay all accrued interest and fees payable hereunder and all Increased Costs incurred in connection with the termination or Conversion of such type of Accommodation.

In the foregoing circumstances, Canfor, in consultation with the Administrative Agent and the affected Lender, may arrange for one or more other Persons (in this §10.1, the “**assuming Lender**”) reasonably satisfactory to Canfor and the Administrative Agent to assume all or a portion of the relevant Commitments and acquire the outstanding Accommodations and other rights and interests of the affected Lender hereunder. The assuming Lender and affected Lender shall execute all such documents as may be reasonably required by Canfor and the Administrative Agent to effect such assumption and acquisition.

10.2 Circumstances Requiring Different Pricing

- (1) If, on or before any date on which an interest rate is to be determined on the basis of LIBOR, either:
 - (a) the Administrative Agent determines that it will not be possible to determine LIBOR for the applicable Interest Period or in the applicable amounts; or
 - (b) the Administrative Agent determines or receives notice from a Tranche A Lender that LIBOR will not adequately reflect the cost of making, funding or maintaining LIBOR Advances for the applicable Interest Period,

then the Administrative Agent shall forthwith give notice of such event to Canfor and each Tranche A Lender, whereupon the obligations of the Tranche A Lenders to make

LIBOR Advances to Canfor shall be suspended until the Administrative Agent gives notice to Canfor and the Tranche A Lenders that the circumstances giving rise to such determination no longer exist.

- (2) If the Administrative Agent determines that for any reason a market for bankers' acceptances does not exist at any time or the Tranche A Lenders or Tranche C Lenders cannot for other reasons, after reasonable efforts, readily sell bankers' acceptances or perform their other obligations under this Agreement with respect to bankers' acceptances, the Administrative Agent will promptly so notify Canfor and each Tranche A Lender or Tranche C Lender, as applicable. Thereafter, Canfor's right to request the acceptance of bankers' acceptances shall be and remain suspended until the Administrative Agent determines and notifies Canfor and each Tranche A Lender or Tranche C Lender, as applicable, that the condition causing such determination no longer exists.

10.3 Increased Costs

If:

- (a) the enactment or amendment of any Law or any change in the interpretation or application thereof by any Governmental Body; or
- (b) compliance by any Lender with any amendment or change to any existing directive, request or requirement (whether or not having the force of Law) of any Governmental Body, or with any new such directive, request or requirement of any Governmental Body,

shall have the effect of:

- (c) increasing the cost to such Lender of performing its obligations under this Agreement or in respect of any Accommodation, including the costs of maintaining any capital, reserve, deemed reserve or special deposit requirements with respect to this Agreement or any Accommodation or with respect to its obligations hereunder or thereunder or with respect to assets or deposits that directly or indirectly support such obligations;
- (d) requiring such Lender to maintain or allocate any capital (including a requirement affecting such Lender's allocation of capital to its obligations) or additional capital in respect of its obligations under this Agreement or in respect of any Accommodation or otherwise reducing the effective return to such Lender under this Agreement or in respect of any Accommodation or on its total capital as a result of entering into this Agreement or making any Accommodation;
- (e) reducing any amount payable to it by or in an amount it deems material (other than a reduction resulting from a higher rate of income or capital Tax or other special Tax relating to such Lender's income or capital and other than any Excluded Taxes); or
- (f) causing such Lender to make any payment or to forgo any return on or calculated by reference to any amount received or receivable by such Lender under this Agreement or in respect of any Accommodation;

such Lender may give notice to Canfor (with a copy to the Administrative Agent) specifying the nature of the event giving rise to such additional cost, reduction, payment or forgone return and Canfor shall promptly pay such amounts as such Lender may specify to be necessary to compensate it for any such additional cost, reduction, payment or forgone return. A certificate setting out, in reasonable detail, the amount of any such additional cost, reduction, payment or forgone return, submitted in good faith by such Lender to Canfor, shall be conclusive and binding for all purposes absent demonstrated error.

If such circumstances continue in effect for 60 consecutive days, the affected Lender, on request from Canfor, shall use its reasonable best efforts, in consultation with the Administrative Agent, to arrange for one or more other Persons (in this §10.3, the “**assuming Lender**”) reasonably satisfactory to Canfor and the Administrative Agent to assume all or a portion of the relevant Commitments and acquire the outstanding Accommodations and other rights and interests of the affected Lender hereunder. The assuming Lender and affected Lender shall execute all such documents as may be reasonably required by Canfor and the Administrative Agent to effect such assumption and acquisition. Failing such assumption and acquisition, Canfor may effect a prepayment and cancellation of the relevant Commitments of the affected Lender (without reducing or prepaying the Commitment(s) of any other Lender(s)).

10.4 Indemnification

- (a) *Matching Funds.* Canfor shall promptly pay to each Lender any amounts required to compensate such Lender for any breakage or similar cost, loss, cost of redeploying funds or other cost or expense suffered or incurred by such Lender as a result of:
- (1) any payment being made by Canfor in respect of a LIBOR Advance or a Bankers' Acceptance (due to acceleration hereunder or a mandatory repayment or prepayment of principal or for any other reason) on a day other than the last day of an Interest Period or the maturity date applicable thereto; provided that, where the event giving rise to such payment is a mandatory repayment or prepayment, Canfor may at its option instead deposit the amount of the repayment or prepayment to a cash collateral account pending expiry of the existing Interest Period or (as the case may be) maturity of outstanding Bankers Acceptances, and the monies in such cash collateral account shall be invested in Cash Equivalents and held as security to be applied by the Administrative Agent to the required repayment or prepayment on the expiry of such Interest Period or maturity of such Bankers Acceptance;
 - (2) Canfor's failure to give Notice in the manner and at the times required hereunder; or
 - (3) the failure of Canfor to fulfil or honour, before the date specified for any Accommodation, the applicable conditions set forth in Article 6 or to accept an Accommodation after delivery of a Notice in the manner and at the time specified in such Notice.

A certificate of such Lender submitted to Canfor (with a copy to the Administrative Agent) as to the amount necessary to so compensate such

Lender shall be conclusive evidence, absent demonstrated error, of the amount due from Canfor to such Lender.

- (b) *General.* Subject to §9.1(n), Canfor agrees to indemnify the Administrative Agent, the Lenders and their respective Affiliates, and the directors, officers and employees of each of them, from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind or nature whatsoever which may be imposed on, incurred by, or asserted against the indemnitees or any of them, related to or arising out of the transactions contemplated:

- (1) under this Agreement, or
- (2) under any other Credit Facility Document to which a Credit Party is party,

provided that no amount shall be payable under this §10.4(b) to the extent that same arises out of the gross negligence or wilful misconduct of an indemnified Person, or out of a breach by it of the terms of this Agreement or any other Credit Facility Document.

10.5 Taxes, Costs, Etc.

- (a) *Gross-Up.* Any and all payments by Canfor under this Agreement or any other Credit Facility Document shall be made free and clear of and without deduction or withholding for Taxes (including without limitation non-resident withholding Taxes) unless such Taxes are required by Law to be deducted or withheld. If Canfor shall be required by Law to deduct or withhold any Taxes from or in respect of any sum payable hereunder or thereunder:
- (1) the sum payable shall be increased as may be necessary so that after making all required deductions or withholdings (including deductions or withholdings applicable to additional amounts paid under this §10.5) the relevant Lender receives an amount equal to the sum it would have received if no deduction or withholding had been made;
 - (2) Canfor shall make such deductions or withholdings; and
 - (3) Canfor shall pay the full amount deducted or withheld to the relevant taxation or other authority in accordance with applicable Law.
- (b) *Pay Taxes.* Canfor shall pay all Taxes which arise from any payment made hereunder or under any other Credit Facility Document or from the execution, delivery or registration of, or otherwise with respect to, this Agreement or such other Credit Facility Document.
- (c) *Indemnity.* Canfor shall indemnify and save harmless each Lender for the full amount of Taxes (including any Taxes imposed by any jurisdiction on amounts payable under this section) paid by such Lender in respect of the Credit Facility, and any liability (including penalties, interest and expense) arising therefrom or with respect thereto, whether or not such Taxes were correctly or legally asserted. Payment under this indemnification shall be made within 30 days from

the date the Lender makes written demand therefor. A certificate as to the amount of such Taxes submitted by the Lender to Canfor (with a copy to the Administrative Agent) shall be conclusive evidence, absent demonstrated error, of the amount due from Canfor to such Lender.

- (d) *Evidence of Payment.* Within 30 days after the date of any payment of Taxes, Canfor will furnish to the relevant Lender the original or a certified copy of a receipt evidencing payment thereof.
- (e) *Survival.* Without prejudice to the survival of any other agreement or obligation of Canfor hereunder or under any other Credit Facility Document, the obligations of Canfor under this §10.5 shall survive the payment and performance of the Obligations.
- (f) *Lenders.* Each Lender shall endeavour to limit the incidence of any additional amounts payable under this §10.5 in respect of such Lender, and Canfor shall thereafter not be obligated to pay any such amounts should the cause of same be rescinded, removed, repealed or withdrawn; provided that, notwithstanding any other provisions of §10.5:
 - (1) each Lender shall have the absolute discretion as to whether to employ or claim, or as to the order and manner in which it employs or claims, any Tax credits, allowances or refunds available to it;
 - (2) in no event shall any Lender be obliged to disclose to Canfor any information of any kind in relation to its taxation affairs except as to whether it is a resident of Canada for purposes of the *Income Tax Act* (Canada) and, if not, where it is resident for purposes of such statute and any applicable tax treaty or convention; and
 - (3) nothing in this §10.5 shall interfere with the Lender's right to arrange its Tax affairs in whatever manner it seems fit in its absolute discretion.

10.6 Change of Control

If a Change of Control occurs, Canfor will offer, by written notice to the Administrative Agent, to repay all the Obligations and to cancel the Credit Facility, within 10 days of the Change of Control. If all Lenders accept the offer made by Canfor within 10 days of receipt by the Lenders from the Administrative Agent of that offer, Canfor will repay all of the Obligations and cancel the Credit Facility within 90 days after the Change of Control, subject to payment of all breakage and related costs as required by this Agreement with respect to certain Accommodations.

11. EVENTS OF DEFAULT

11.1 Events of Default

Each of the events set forth in this §11.1 shall constitute an "Event of Default".

- (a) *Payment.* Canfor shall fail:
 - (1) to pay the principal amount of any Advance or BA Equivalent Loan when the same becomes due and payable;

- (2) to reimburse any Lender in respect of any Bankers' Acceptance or Letter of Credit, or pay the Face Amount thereof, when required hereunder; or
- (3) to pay any interest or fees under this Agreement when the same becomes due and payable,

and in any such case under (2) or (3) such failure shall remain unremedied for a period of two Business Days.

- (b) *Representations and Warranties Incorrect.* Any of the representations or warranties made or deemed to be made by any Credit Party in any Credit Facility Document to which it is a party shall prove to be or have been incorrect in any material respect when made or deemed to be made, unless such representation or warranty is reconfirmed as true and correct within 20 Business Days and is in fact true and correct as of the date of such reconfirmation.
- (c) *Failure to Perform Certain Covenants.* Any Credit Party shall fail to perform or observe any covenant contained in any Credit Facility Document on its part to be performed or observed or otherwise applicable to it (other than those referred to in §9.1(q) or §9.2); provided that, if such failure is capable of being remedied, no Event of Default shall have occurred as a result thereof unless and until such failure shall have remained unremedied for 20 Business Days after written notice thereof given to Canfor by the Administrative Agent.
- (d) *Breach of Financial Tests.* Canfor shall be in breach of any of the covenants set out in §9.1(q) and such breach shall remain unremedied for five Business Days after written notice thereof given to Canfor by the Administrative Agent.
- (e) *Breach of Negative Covenant.* Canfor or any Designated Subsidiary shall be in breach of any of the covenants set out in §9.2.
- (f) *Failure to Pay Certain Amounts.* Any Credit Party shall fail to perform or observe any covenant or agreement to be performed or observed by it contained in any other agreement or in any instrument evidencing any of its Indebtedness in excess of Cdn. \$15,000,000 (or the Equivalent Amount in other currencies) and, as a result of that failure, any other party to that agreement or instrument accelerates the maturity of any amount owing thereunder.
- (g) *Voluntary Events of Bankruptcy.* Any Credit Party shall:
 - (1) apply for or consent to the appointment of, or the taking of possession by, a Receiver, custodian, administrator, trustee, liquidator or other similar official for itself or for all or any material part of its assets;
 - (2) generally not pay its debts as such debts become due or admit in writing its inability to pay its debts generally, or declare any general moratorium on its indebtedness;
 - (3) commit an act of bankruptcy, or make a general assignment for the benefit of creditors or a proposal under the *Bankruptcy and Insolvency Act* (Canada), or propose a plan of arrangement under the *Companies'*

Creditors Arrangement Act (Canada) or a similar Law of any applicable jurisdiction;

- (4) institute any proceeding seeking to adjudicate it a bankrupt or insolvent, or seeking liquidation, dissolution, winding up, reorganization, arrangement, adjustment, protection, relief or composition of it or its debts under any statute, rule or regulation relating to bankruptcy, insolvency, reorganization, relief or protection of debtors or at common law or in equity; or
 - (5) take any corporate action to authorize any of the actions described in this §11.1(g).
- (h) *Involuntary Events of Bankruptcy.* Any proceeding against any Credit Party:
- (1) has adjudicated it a bankrupt or insolvent;
 - (2) has resulted in the liquidation, dissolution, winding-up, reorganization, arrangement, adjustment, protection or relief or composition of it or its debts under any statute, rule or regulation relating to bankruptcy, insolvency, reorganization, relief or protection of debtors, or at common law or in equity; or
 - (3) has resulted in the appointment of a Receiver, custodian, administrator, trustee, liquidator or other similar official for it or any material part of its assets, and such appointment has not been stayed or discharged by it within 60 days from the date made.
- (i) *Execution.* Assets of any Credit Party are attached, executed, sequestered or distrained upon or become subject to any order of a court or other process and such attachment, execution, sequestration, distraint, order or process (i) relates to claims in the aggregate in excess of Cdn. \$15,000,000 (or the Equivalent Amount in other currencies), and (ii) such Credit Party shall not discharge the same or provide for its discharge in accordance with its terms, or procure a stay of execution thereof, or deposit with the Administrative Agent cash collateral or other security satisfactory to the Majority Lenders under the Credit Facility in the amount of the claim, within 60 days from the date of entry thereof.
- (j) *Judgments.* A final judgment for the payment of money (to the extent not insured) in the aggregate in excess of Cdn. \$15,000,000 (or the Equivalent Amount in other currencies) shall be rendered by a court of competent jurisdiction against any Credit Party and such Credit Party shall not discharge the same or provide for its discharge in accordance with its terms within 30 days after entry, or procure a stay of execution thereof or such judgment is not discharged within 30 days after the expiration of any stay of execution.
- (k) *Credit Facility Documents/EDC Account PSG Unenforceable.* Any Credit Facility Document or material provision thereof or the EDC Account PSG or material provision thereof shall become illegal or unenforceable or any Guarantee Agreement granted by a Guarantor ceases to guarantee all Obligations, Canfor Hedging Obligations, and Bank Products Obligations or the EDC Account PSG

ceases to guarantee payment of the "Guaranteed Amount" as defined in the EDC Account PSG in respect of each EDC Guaranteed LC.

11.2 Effect

- (a) *General.* Upon the occurrence and continuance of an Event of Default, except as provided in §11.2(b), the Administrative Agent:
- (1) shall, at the request of the Majority Lenders under the Credit Facility, by notice to Canfor cancel all obligations of the Lenders in respect of the Commitments (whereupon no further Accommodations may be made and any Notice given with respect to an Accommodation occurring on or after the date of such notice or request shall cease to have effect); and
 - (2) shall, at the request of the Majority Lenders under the Credit Facility, by notice to Canfor declare the Obligations to be forthwith due and payable, without presentment, demand, protest or further notice of any kind, all of which are hereby expressly waived by Canfor.
- (b) *Specific Defaults.* If any Event of Default specified in §11.1(g) or (h) shall occur, then all obligations of the Lenders in respect of the Commitments shall be automatically cancelled and the Obligations shall be forthwith due and payable, all as if the request and notice specified in each of §11.2(a)(1) and §11.2(a)(2) had been received and given by the Administrative Agent.
- (c) *Enforcement.* Upon the occurrence of an Event of Default and acceleration of the Obligations, the Administrative Agent may, or the Administrative Agent at the request of the Majority Lenders under the Credit Facility shall, commence such legal action or proceedings as it may deem expedient, all without any additional notice, presentation, demand, protest, notice of dishonour, entering into of possession of any of the property or assets of Canfor, or any other action, notice of all of which Canfor hereby expressly waives to the extent permitted by Law. In the case of the Guarantee Agreements, the Administrative Agent may, or shall, (in each case as provided in the previous sentence) exercise and enforce its rights and remedies under the Guarantee Agreements. The rights and remedies of the Administrative Agent and the Lenders hereunder and under the other Credit Facility Documents are cumulative and are in addition to and not in substitution for any other rights or remedies provided by Law; provided that nothing herein contained shall permit any Lender to take any steps which, pursuant to this Agreement, may only be undertaken by or with the consent of all Lenders or the Majority Lenders under the Credit Facility or the Majority Lenders under relevant Tranche. Nothing contained herein or in the Guarantee Agreements or in any security hereafter held by the Administrative Agent, nor any act or omission of the Administrative Agent or any Lender with respect to such Guarantee Agreements or security, shall in any way prejudice or affect the rights, remedies and powers of the Administrative Agent or the Lenders with respect to any other such Guarantee Agreements or security.

11.3 Right of Set-Off

In addition to any rights now or hereafter granted under applicable Law and not by way of limitation of any such rights, after the occurrence of an Event of Default, except where there is an agreement to the contrary, each Lender is hereby authorized by Canfor at any time or from time to time without notice to Canfor or to any other Person, any such notice being hereby expressly waived to the extent permitted by Law, to set off and to appropriate and to apply any and all deposits (general or special), time or demand, in each case whether matured or unmatured (and any other indebtedness) at any time held or owing by such Lender to or for the credit or account of Canfor against and on account of the Obligations of Canfor to such Lender, including all claims of any nature or description arising out of or connected with this Agreement or any of the other Credit Facility Documents, and although such obligations and liabilities or any of them shall be contingent and unmatured.

If any Lender is entitled to exercise any right of counter-claim, set-off or bankers' lien or similar right with respect to the property of a Guarantor, or if under any applicable bankruptcy, insolvency or other similar Law it receives a secured claim the security for which is a debt owed by it to a Guarantor, it shall apportion the amount thereof proportionately between:

- (a) the Obligations owed by Canfor or such Guarantor, as the case may be, which amounts shall be applied in accordance with this Agreement; and
- (b) amounts otherwise owed to it by such Guarantor, as the case may be.

11.4 Currency Conversion After Acceleration

At any time following the occurrence of an Event of Default and the acceleration of the Obligations, each Lender shall be entitled to convert, with two Business Days' prior notice to Canfor, its unpaid and outstanding US Dollar Advances or any of them to Prime Rate Advances. Any such conversion shall be calculated so that the resulting Prime Rate Advances shall be the Equivalent Amount in Cdn. Dollars on the date of conversion of the amount of US Dollars so converted. Any accrued and unpaid interest denominated in US Dollars at the time of any such conversion shall be similarly converted to Cdn. Dollars, and such Prime Rate Advances and accrued and unpaid interest thereon shall thereafter bear interest in accordance with Article 3.

11.5 Application of Recoveries

To the extent that the Administrative Agent receives or recovers monies pursuant to any right of enforcement under the Credit Facility Documents, such monies shall (without prejudice to the rights of the Administrative Agent to credit any monies received by it to any collateral account) be applied among the Lenders in the following order:

- (a) first, in or towards payment of all of the Administrative Agent's damages and disbursements (including amounts paid by the Administrative Agent pursuant to §9.3);
- (b) secondly, in or towards payment of the Obligations, the Bank Products Obligations and the Canfor Hedging Obligations *pro rata* to the respective aggregate amounts owing in respect of same;

- (c) thirdly, in payment to any Person to whom the Administrative Agent is obliged to pay in priority to the Credit Party otherwise entitled thereto, to the extent it is so obliged; and
- (d) fourthly, thereafter in payment to the Credit Party entitled thereto.

The fact that the Administrative Agent may make a payment pursuant to clauses (c) and/or (d) above or may determine that the Obligations, the Bank Products Obligations and the Canfor Hedging Obligations have been paid in full, will not thereafter prevent the Administrative Agent from applying any further monies, or any credit balance on any account, in the order set out in this §11.5. The Administrative Agent may satisfy any obligation to make a payment otherwise required under clause (c) or (d) above by interpleading and paying the amount thereof into court.

12. THE ADMINISTRATIVE AGENT AND THE LENDERS

12.1 Authorization and Action

Each Lender hereby appoints and authorizes the Administrative Agent to take such action as agent on that Lender's behalf and to exercise such powers under this Agreement and the other Credit Facility Documents as are delegated to the Administrative Agent by the terms hereof and thereof, together with such powers as are reasonably incidental thereto. As to any matters not expressly provided for by this Agreement or such other Credit Facility Documents, the Administrative Agent shall not be required to exercise any discretion or take any action, but shall be required to act or to refrain from acting (and shall be fully indemnified and protected in so acting or refraining from acting) upon the instructions of the Lenders or relevant Majority Lenders and such instructions (and indemnification) shall be binding upon all Lenders; provided that the Administrative Agent shall not be required to take any action which exposes the Administrative Agent to personal liability or which is contrary to this Agreement or such other Credit Facility Documents or applicable Law.

12.2 Duties and Obligations

The duties and obligations of the Administrative Agent under this Agreement shall be mechanical and administrative in nature, and the Administrative Agent shall not have, by reason of this Agreement or any other Credit Facility Document, any fiduciary relationship or duty with or to any Lender or any affiliate thereof.

Neither the Administrative Agent nor any of its respective directors, officers, agents or employees shall be liable to any Lender for any action taken or omitted to be taken by it or them under or in connection with this Agreement or any other Credit Facility Document except for its or their own gross negligence or wilful misconduct. Without limiting the generality of the foregoing, the Administrative Agent:

- (a) may treat any Lender as the payee of amounts attributable to such Lender's Commitment unless and until the Administrative Agent receives written notice of the assignment thereof signed by such Lender and the Administrative Agent receives the written agreement of the assignee that such assignee is bound hereby as if it had been an original Lender party hereto, in each case in form satisfactory to the Administrative Agent and otherwise in accordance with §13.8;

- (b) may consult with legal counsel (including counsel for Canfor), independent chartered accountants and other experts selected by it and shall not be liable to the Lenders for any action taken or omitted to be taken by it in good faith in accordance with the advice of such counsel, accountants or experts;
- (c) shall incur no liability under or in respect of this Agreement or any other Credit Facility Document by acting upon any notice, consent, certificate or other instrument or writing (which may be by fax, electronic communication, telegram, cable, facsimile or similar means of recorded communication) believed by it to be genuine and signed or sent by the proper party or parties or by acting upon any representation or warranty of Canfor made or deemed to be made hereunder or thereunder;
- (d) may assume that no Default or Event of Default has occurred and is continuing unless it has actual knowledge to the contrary or it has received notice of such Default or Event of Default from Canfor or any Lender; and
- (e) may rely as to any matters of fact which might reasonably be expected to be within the knowledge of any Person upon a certificate signed by or on behalf of such Person.

Further, the Administrative Agent:

- (a) does not make any warranty or representation to any Lender and shall not be responsible to any Lender for the accuracy or completeness of the documents, information or financial data made available to the Lenders in connection with the negotiation of this Agreement, or for any statements, warranties or representations (whether written or oral) made in or in connection with this Agreement or any other Credit Facility Document;
- (b) shall not have any duty to ascertain or to inquire as to the performance or observance of any of the terms, covenants or conditions of this Agreement or any other Credit Facility Document on the part of Canfor or any other Person or to inspect any assets (including books and records); and
- (c) shall not be responsible to any Lender for the due execution, legality, validity, enforceability, genuineness, sufficiency or value of this Agreement or any other Credit Facility Document.

The Administrative Agent shall promptly distribute to the Lenders copies of all material received from Canfor in compliance with Canfor's reporting obligations hereunder.

12.3 The Administrative Agent and Affiliates

With respect to its Commitment and Accommodations made or provided and to be made or provided by it, the Administrative Agent, if it is also a Lender, shall have the same rights and powers under this Agreement and every other Credit Facility Document as any other Lender and may exercise the same as though it were not the Administrative Agent; and the terms "Lender" and "Lenders" shall, unless otherwise expressly indicated, include the Administrative Agent in its capacity as Lender. Each Lender (including the Administrative Agent) and its Affiliates may accept deposits from, lend money to and generally engage in any kind of

business with Canfor and its Affiliates, or any corporation or other entity owned or controlled by such Persons, and any Person which may do business with such Persons, all as if it were not a party hereto and without any duty to account therefor to any Lender; provided that nothing in this §12.3 shall affect in any manner whatsoever any covenant or other obligation on the part of Canfor or any other Person to be observed or performed under this Agreement or any other Credit Facility Document.

12.4 Lender Credit Decision

It is understood and agreed by each Lender that it has itself been, and will continue to be, solely responsible for making its own independent appraisal of and investigations into the financial condition, creditworthiness, condition, affairs, status and nature of Canfor and its Affiliates. Accordingly, each Lender confirms to the Administrative Agent and each other Lender that it has not relied, and will not hereafter rely, on the Administrative Agent or any other Lender:

- (a) to check or inquire on its behalf into the adequacy, accuracy or completeness of any information provided by or on behalf of Canfor or any of its Affiliates under or in connection with this Agreement or any other Credit Facility Document or the transactions herein or therein contemplated (whether or not such information has been or is hereafter distributed to such Lender by the Administrative Agent or other Lender); or
- (b) to assess or keep under review on its behalf the financial condition, creditworthiness, condition, affairs, status or nature of Canfor or any of its Affiliates.

Each Lender acknowledges that a copy of this Agreement and of each Guarantee Agreement has been made available to it for its review and that it is satisfied with the form and substance of those documents.

12.5 Indemnifications

- (a) *General.* Subject to §12.5(b), each Lender shall indemnify the Administrative Agent, each respective Affiliate thereof, and each respective director, officer, and employee of the Administrative Agent and of each such Affiliate (to the extent not reimbursed by Canfor), with all other Lenders *pro rata* according to the respective amounts of their respective total Commitments under the Credit Facility, from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind or nature whatsoever which may be imposed on, incurred by, or asserted against the Administrative Agent or any such Affiliate, director, officer or employee in any way relating to or arising out of this Agreement or any other Credit Facility Document or any action taken or omitted by the Administrative Agent or any such Affiliate, director, officer or employee under this Agreement or any such other Credit Facility Document to the extent that the Administrative Agent or such Affiliate, director, officer or employee is not reimbursed for such expenses by Canfor; provided that no Lender shall be liable for any portion of such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements resulting from the gross negligence or wilful misconduct of an indemnitee. Without limiting the generality of the foregoing, each Lender agrees to reimburse the Administrative Agent and each such

Affiliate, director, officer or employee promptly upon demand for its share (determined rateably as aforesaid) of any out-of-pocket expenses (including counsel fees) incurred by the indemnitee in connection with the preservation of any rights of the Administrative Agent or the Lenders under, or the enforcement of, or legal advice in respect of rights or responsibilities under, this Agreement or any such other Credit Facility Document, to the extent that the Administrative Agent or such Affiliate, director, officer or employee is not reimbursed for such expenses by Canfor.

- (b) *Guarantee Agreements.* Each Lender shall indemnify the Administrative Agent, each Affiliate thereof, and each respective director, officer, and employee of the Administrative Agent and of each such Affiliate (to the extent not reimbursed by Canfor), with all other Lenders *pro rata* according to the respective amounts of their respective total Commitments under the Credit Facility, from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind or nature whatsoever which may be imposed on, incurred by, or asserted against the Administrative Agent or any such Affiliate, director, officer or employee in any way relating to or arising out of the Guarantee Agreements or any action taken or omitted by the Administrative Agent or any such Affiliate, director, officer or employee under the Guarantee Agreements to the extent that the Administrative Agent or such Affiliate, director, officer or employee is not reimbursed for such expenses by Canfor; provided that no Lender shall be liable for any portion of such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements resulting from the gross negligence or wilful misconduct of an indemnitee. Without limiting the generality of the foregoing, each Lender agrees to reimburse the Administrative Agent and each such Affiliate, director, officer or employee promptly upon demand for its share (determined rateably as aforesaid) of any out-of-pocket expenses (including counsel fees) incurred by the indemnitee in connection with the preservation of any rights of the Administrative Agent or the Lenders under, or the enforcement of, or legal advice in respect of rights or responsibilities under, the Guarantee Agreements, to the extent that the Administrative Agent or such Affiliate, director, officer or employee is not reimbursed for such expenses by Canfor.

12.6 Successor Agents

The Administrative Agent may, as hereinafter provided, resign at any time by giving written notice thereof to the Lenders and Canfor and may be removed at any time with cause by the Majority Lenders under the Credit Facility. Upon any such resignation or removal, the Lenders, after consultation with Canfor, shall have the right to appoint a successor Administrative Agent, which shall be a Lender. If no successor Administrative Agent shall have been so appointed by the Lenders and shall have accepted such appointment within 30 days after the retiring Administrative Agent's giving of notice of resignation or the Lenders' removal of the retiring Administrative Agent, then the retiring Administrative Agent shall on behalf of the Lenders forthwith designate one of the Lenders the *pro tem* successor Administrative Agent, and such designated Lender shall act as Administrative Agent under this Agreement pending the appointment of its successor. Upon the acceptance of any appointment as Administrative Agent under this Agreement by a successor Administrative Agent, such successor Administrative Agent shall thereupon succeed to and become vested with all the rights, powers, privileges and duties of the retiring Administrative Agent, and the retiring Administrative Agent shall be

discharged from any further duties and obligations as the Administrative Agent under this Agreement. After any retiring Administrative Agent's resignation or removal hereunder as Administrative Agent, the provisions of this Article 12 shall enure to its benefit as to any actions taken or omitted to be taken by it while it was the Administrative Agent under this Agreement.

12.7 Sub-Agent or Co-Agent

At any time or times, in order to comply with any legal requirement in any province, state or other jurisdiction, or to facilitate the taking by the Administrative Agent of any action provided for in any Credit Facility Document, the Administrative Agent may appoint one or more trust companies, chartered banks or other Persons (any of whom may, but need not be, a Lender) to act either as co-agent or sub-agent, jointly with the Administrative Agent or as a separate agent or agents on behalf of the Lenders, with such powers and authorities as the Administrative Agent deems necessary for the effective operation of the provisions of any Credit Facility Document. In the discretion of the Administrative Agent, any instrument or agreement appointing any such co-agent or sub-agent may include provisions for the protection of such co-agent or sub-agent similar to but no broader than the provisions of this Article 12. Upon the appointment of any such co-agent or sub-agent by the Administrative Agent, all references in this Agreement and in all other Credit Facility Documents to the Administrative Agent shall thereafter be construed as references to such co-agent or sub-agent to the extent necessary in order to give effect to its powers, authorities and obligations.

12.8 Assignment of Credit Facility Documents

Upon the resignation or removal of the Administrative Agent pursuant to §12.6, the Administrative Agent shall assign and transfer to the successor Administrative Agent all of its right, title and interest, as agent, in and to the Credit Facility Documents. The successor Administrative Agent shall ensure that all required notices, registrations and filings in connection with such assignment are given or made, as the case may be, and Canfor shall reimburse the successor Administrative Agent for and in respect of all of its reasonable costs and expenses in connection therewith.

12.9 Replacement of Swingline Lender

The Swingline Lender may be replaced by an Assignee of the Swingline Lender pursuant to and in accordance with the provisions of §13.8(d).

13. MISCELLANEOUS

13.1 Sharing of Payments; Records.

- (a) *The Swingline and Fronting Lender.* Upon the occurrence of an Event of Default, adjustments shall be made among the Tranche A Lenders as set forth in this §13.1(a).
 - (1) Unless the Swingline Lender and the Majority Lenders under Tranche A agree otherwise, if an Event of Default occurs, then the Swingline Lender will promptly request the Administrative Agent on behalf of Canfor (and for this purpose the Swingline Lender is irrevocably authorized by Canfor to do so) for a Borrowing by way of a Prime Rate Advance and/or a Base Rate Advance (as applicable) from the Tranche A Lenders pursuant to Article 3 to repay to the Swingline Lender the outstanding Swingline

Advances. The Tranche A Lenders are irrevocably directed by Canfor to make any Prime Rate Advance and/or Base Rate Advance (as applicable) if so requested by the Swingline Lender and pay the proceeds thereof directly to the Administrative Agent for the account of the Swingline Lender. At all times thereafter the commitment of the Swingline Lender to make Swingline Advances under §2.1(f) shall be terminated and the Tranche A Lenders shall make such adjusting payments amongst themselves in the manner contemplated by §13.1(b) as may be required to ensure their respective participations in outstanding Advances reflect their respective Commitments under Tranche A. If at any time after an Event of Default occurs any Fronted Letter of Credit is drawn upon which results in a payment by the Fronting Lender thereunder (in this §13.1(a), an “**LC Payment**”), the Fronting Lender will promptly request the Administrative Agent on behalf of Canfor (and for this purpose the Fronting Lender is irrevocably authorized by Canfor to do so) for a Borrowing by way of a Prime Rate Advance and/or a Base Rate Advance (as applicable) from the Tranche A Lenders pursuant to Article 3 to reimburse the Fronting Lender for such LC Payment and the foregoing provisions of this §13.1(a)(1) shall equally apply to each such further Advance. Each Tranche A Lender unconditionally agrees to pay to the Administrative Agent for the account of the Swingline Lender or the Fronting Lender such Tranche A Lender’s rateable portion of each Advance requested by the Swingline Lender or the Fronting Lender on behalf of Canfor to repay Swingline Advances or LC Payments made by the Swingline Lender or the Fronting Lender.

- (2) Except as provided in §13.1(a)(4), the obligations of each Tranche A Lender under §13.1(a)(1) are unconditional, shall not be subject to any qualification or exception whatsoever and shall be performed in accordance with the terms and conditions of this Agreement under all circumstances including:
 - (A) any lack of validity or enforceability of Canfor’s obligations under §2.1(f);
 - (B) the occurrence of any Default or Event of Default or the exercise of any rights by the Administrative Agent under §11.2; and
 - (C) the absence of any demand for payment being made, any proof of claim being filed, any security being enforced, any proceeding being commenced or any judgment being obtained by the Swingline Lender or the Fronting Lender against Canfor.
- (3) If a Tranche A Lender (a “**Defaulting Lender**”) fails to make payment on the due date therefor of any amount due from it for the account of the Swingline Lender or the Fronting Lender pursuant to §13.1(a)(1) (the balance thereof for the time being unpaid being referred to in this §13.1(a)(3) as an “**overdue amount**”) then, until the Swingline Lender or the Fronting Lender has received payment of that amount (plus interest as provided below) in full (and without in any way limiting the rights of the Swingline Lender or the Fronting Lender in respect of such failure):

- (A) the Swingline Lender or the Fronting Lender shall be entitled to receive any payment which the Defaulting Lender would otherwise have been entitled to receive in respect of Tranche A or otherwise in respect of any Credit Facility Document; and
 - (B) the overdue amount shall bear interest payable by the Defaulting Lender to the Swingline Lender or the Fronting Lender at the rate payable by Canfor in respect of the Obligations which gave rise to such overdue amount.
- (4) If for any reason an Advance may not be made pursuant to §13.1(a)(1) to reimburse the Swingline Lender or the Fronting Lender as contemplated thereby, then promptly upon receipt of notification of such fact from the Administrative Agent, each Tranche A Lender shall deliver to the Administrative Agent for the account of the Swingline Lender or the Fronting Lender in immediately available funds the purchase price for such Tranche A Lender's participation interest in the relevant unreimbursed Swingline Advances or LC Payments. Each Tranche A Lender shall, upon demand by the Swingline Lender or the Fronting Lender made to the Administrative Agent, deliver to the Administrative Agent for the account of the Swingline Lender or the Fronting Lender interest on such Tranche A Lender's rateable portion from the date of payment by the Swingline Lender or the Fronting Lender of such unreimbursed Swingline Advances or LC Payments until the date of delivery of such funds to the Swingline Lender or the Fronting Lender by such Tranche A Lender at a rate per annum equal to the Federal Funds Effective Rate (if reimbursement is to be made in US Dollars) or the one month CDOR (if reimbursement is to be made in Canadian Dollars) for such period. Such payment shall only, however, be made by the Tranche A Lenders in the event and to the extent the Swingline Lender or the Fronting Lender has not been reimbursed in full by Canfor for interest on the amount of such unreimbursed Swingline Advances or LC Payments.
- (5) The Swingline Lender or the Fronting Lender shall, forthwith upon its receipt of any reimbursement (in whole or in part) by Canfor for any unreimbursed Swingline Advances or LC Payments in relation to which other Tranche A Lenders have purchased a participation interest pursuant to §13.1(a)(4), or of any other amount from Canfor or any other Person in respect of such payment (other than pursuant to §2.1(f)), transfer to such other Tranche A Lender such other Tranche A Lender's rateable share of such reimbursement or other amount. In the event that any receipt by the Swingline Lender or the Fronting Lender of any reimbursement or other amount is found to have been a transfer in fraud of creditors or a preferential payment under any applicable insolvency legislation or is otherwise required to be returned, such Tranche A Lender shall promptly return to the Swingline Lender or the Fronting Lender any portion thereof previously transferred to it by the Swingline Lender or the Fronting Lender, without interest to the extent that interest is not payable by the Swingline Lender or the Fronting Lender in connection therewith.

(6) Without limiting Canfor's reimbursement obligations under §5.8, if any EDC Guaranteed LC is drawn upon which results in a payment by the Tranche B Lender thereunder, the Tranche B Lender will be reimbursed by EDC pursuant to the EDC Account PSG.

(b) *Sharing.* If:

- (1) any Lender shall obtain any payment (whether voluntary, involuntary, through the exercise of any right of set-off pursuant to §11.3 or at law or equity, or otherwise) on account of Accommodations in excess of its rateable share of payments on account thereof, other than Increased Costs paid to it and other than any payment made to it by (i) the Administrative Agent in accordance with the provisions hereof in connection with Tranche A or Tranche C, (ii) Canfor in connection with the Swingline, or (iii) by EDC under the EDC Account PSG; or
- (2) (without regard to outstanding Increased Costs) any Lender shall at the time of acceleration of the Obligations have outstanding Obligations which are less than its rateable share of all outstanding Obligations;

then such Lender shall forthwith purchase from the other Lenders such participations in the Accommodations made by such other Lenders as shall be necessary to cause such purchasing Lender to share the excess payment or be owed the outstanding Obligations rateably with such other Lenders.

In the case of paragraph (1) of this §13.1(b), if all or any portion of such excess payment is thereafter recovered from such purchasing Lender, such purchase from each other Lender shall be rescinded and each Lender shall repay to the purchasing Lender the purchase price to the extent of such recovery together with an amount equal to such other Lender's rateable share (according to the proportion that the amount such other Lender's required repayment bears to the total amount so recovered from the purchasing Lender) of any interest or other amount paid or payable by the purchasing Lender in respect of the total amount so recovered.

Any Lender purchasing a participation from another Lender pursuant to this §13.1 may, to the fullest extent permitted by Law, exercise all its rights of payment (including the right of set-off) with respect to such participation as fully as if such Lender were a direct creditor of Canfor in the amount of such participation.

(c) *Records.* The Principal Outstanding under the Credit Facility, the unpaid interest accrued thereon, the interest rate or rates applicable to any unpaid principal amounts, the duration of such application, the date of acceptance or issue, Face Amount and maturity of all Bankers' Acceptances and Letters of Credit and the Commitments shall at all times be ascertained from the records of the Administrative Agent, which shall be conclusive absent demonstrated error.

13.2 Amendments, etc.

(a) *Amendments - General.* Subject to §13.2(b), no amendment or waiver of any provision of this Agreement or of any other Credit Facility Document, nor any

consent to any departure by any Credit Party herefrom or therefrom, shall in any event be effective unless the same shall be in writing and signed by the relevant Majority Lenders (or by the Administrative Agent on their behalf), and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given.

- (b) *Amendments - Unanimous.* No instrument shall, unless in writing and signed by all the Lenders (or by the Administrative Agent on their behalf):
- (1) waive any of the conditions specified in Article 6;
 - (2) increase the Commitment of any Lender or subject any Lender to any additional obligation;
 - (3) reduce the principal of, or interest on, or discount rate applicable to any Accommodation or any fees hereunder;
 - (4) amend the Maturity Date for any Tranche or otherwise postpone any date fixed for any payment of principal of, or interest on, any Accommodation or any fees hereunder, or subordinate the Obligations or any portion thereof to any Indebtedness;
 - (5) amend the terms of §9.2(c) or this §13.2, provided that any waiver of a breach of §9.2(c) need only be approved under §13.2(a);
 - (6) amend the definition of "Majority Lenders" or otherwise reduce the number or percentage of Lenders required to act under this Agreement;
 - (7) except as permitted by §9.2(b), permit a change in Canfor or an assignment or transfer of any of its rights or obligations under any Credit Facility Document;
 - (8) release or subordinate the Guarantee Agreements except as required under §8.4;
 - (9) change the types of Accommodations available under the Credit Facility;
 - (10) except as permitted by §2.1(g) and §2.2(d), change the percentage of any Lender's Commitment;
 - (11) change the nature or extent of any security for the Credit Facility; or
 - (12) amend the provisions of this §13.2.
- (c) *Amendments - Administrative Agent.* No amendment, waiver or consent shall affect the rights or duties of the Administrative Agent under any Credit Facility Document unless such amendment, waiver or consent is in writing and approved by the Administrative Agent in addition to the Majority Lenders under the Credit Facility.

- (d) *Fronting Lender.* No amendment, waiver or consent shall, unless approved by the Fronting Lender, affect the rights or obligations of the Fronting Lender with respect to Fronted Letters of Credit.
- (e) *Swingline Lender.* No amendment, waiver or consent shall, unless approved by the Swingline Lender, affect the rights or obligations of the Swingline Lender with respect to Swingline Advances.

13.3 Notices, etc.

- (a) *Notices.* Any and all notices or other communications required or permitted pursuant to this Agreement shall be in writing and shall be personally delivered by courier or telecopied to the addressee at the address referred to below, in which case such notice or other communication shall conclusively be deemed to have been given to the addressee thereof on the day upon which it was delivered or received by telecopy if delivered or received prior to the relevant time on such day (or on the next Business Day if received after the relevant time or if received on a day that is not a Business Day). For this purpose, the "relevant time" shall be 1:00 p.m. (local time of the addressee) in the case of a Notice, and 3:00 p.m. (local time of the addressee) in all other cases. The addresses referred to above for Canfor and the Administrative Agent are as follows, and in respect of the Lenders as set forth on the execution pages of this Agreement:

Canfor

Canfor Pulp Limited Partnership
100 - 1700 West 75th Avenue
Vancouver, B.C.
V6P 6G2
Attention: Vice President and Treasurer
Fax No. (604) 661-5429

Administrative Agent

HSBC Bank Canada

11th Floor, 70 York Street,
Toronto, ON M5J 1S9
Attention: Agency Administrator
Fax No. (647) 788-2185
Email: [Contact information redacted]

With a copy to:

HSBC Bank Canada

Suite 200, 885 West Georgia Street
Vancouver, BC V6C 3G1
Attention: Douglas Brandes
Fax No. (604) 641-1808
Email: [Contact information redacted]

- (b) *Change.* Each party may change its address for service by written notice, given in the manner provided above, to the other parties and such change shall be effective upon the date the notice shall be deemed to be received.
- (c) *Deliveries.* All deliveries of financial statements and other documents to be made by Canfor to the Lenders hereunder shall be made by making delivery of such financial statements and documents to the Administrative Agent (in sufficient copies for the Administrative Agent and Lenders) to the address in §13.3(a) or to such other address as the Administrative Agent may from time to time notify to Canfor. All such deliveries shall be effective only upon actual receipt.
- (d) *Notice Irrevocable.* Each Notice shall be irrevocable and binding on Canfor.
- (e) *Reliance.* The Administrative Agent may act upon the basis of telephonic notice believed by it in good faith to be from Canfor prior to receipt of a Notice. In the event of conflict between the Administrative Agent's record of the applicable terms of any Accommodation and such Notice, the Administrative Agent's record shall prevail, absent demonstrated error.

13.4 No Waiver; Remedies

No failure on the part of the Administrative Agent, or any of the Lenders to exercise, and no delay in exercising, any right under any Credit Facility Document shall operate as a waiver thereof, nor shall any single or partial exercise of any right under any Credit Facility Document preclude any other or further exercise thereof or the exercise of any other right. The remedies herein and therein provided are cumulative and not exclusive of any remedies provided by Law.

13.5 Expenses

Canfor shall pay to the Administrative Agent, on its own account and on behalf of the Lenders, all reasonable costs and expenses (including all reasonable legal fees and disbursements on a full reimbursement basis) incurred by the Administrative Agent in connection with this Agreement, the other Credit Facility Documents and the Credit Facility, including:

- (a) the negotiation, preparation, printing, execution, delivery and interpretation, both prior and subsequent to the Closing Date, of this Agreement and any other Credit Facility Document (in this §13.5, collectively, the "Documents");
- (b) the performance by the Administrative Agent of its obligations and duties under any Document;
- (c) the fees and expenses of consulting and other expert or professional services; provided that, prior to the occurrence of a Default or an Event of Default, the provider of such services has been approved by Canfor, which approval shall not be unreasonably withheld;
- (d) advice of counsel with respect to matters relating to the Credit Facility, any Document or any transaction contemplated thereunder, including all reasonable legal fees and other out-of-pocket expenses incurred by the Administrative Agent;

- (e) the enforcement of any Document or the enforcement or preservation of rights under, and the refinancing, renegotiation or restructuring (including negotiation of any so-called "workout" or similar transaction) of the Credit Facility under, this Agreement or any other Document or the bringing of any action, suit or proceeding with respect to the enforcement of any Document or any such right or seeking any remedy which may be available to the Administrative Agent or the Lenders at law or in equity;
- (f) the maintenance of the registration, filing and the perfection of any security and the Liens thereof; and
- (g) any amendments, waivers or consents requested by Canfor pursuant to the provisions hereof or any other Document.

The obligations of Canfor under this §13.5 shall survive the payment and performance of the Obligations.

13.6 Judgment Currency

- (a) *Exchange Rate.* If, for the purposes of obtaining judgment in any court, it is necessary to convert a sum due hereunder to the Administrative Agent or a Lender in one currency (in this §13.6, the "**Original Currency**") into another currency (in this §13.6, the "**Judgment Currency**"), the parties agree, to the fullest extent that they may effectively do so, that the rate of exchange used shall be that at which in accordance with normal banking procedures the Administrative Agent or Lender could purchase the Original Currency with the Judgment Currency on the Business Day preceding that on which final judgment is paid or satisfied.
- (b) *Obligation.* The obligations of Canfor in respect of any sum due in the Original Currency from it to the Administrative Agent or a Lender under any Credit Facility Document shall, notwithstanding any judgment in any Judgment Currency, be discharged only to the extent that, on the Business Day following receipt by the Administrative Agent or Lender of any sum adjudged to be so due in such Judgment Currency, the Administrative Agent or Lender may in accordance with normal banking procedures purchase the Original Currency with such Judgment Currency. If the amount of the Original Currency so purchased is less than the sum originally due to the Administrative Agent or Lender in the Original Currency, Canfor agrees, as a separate obligation and notwithstanding any such judgment, to indemnify the Administrative Agent or Lender against such loss and, if the amount of the Original Currency so purchased exceeds the sum originally due to the Administrative Agent or Lender in the Original Currency, such Administrative Agent or Lender agrees to remit such excess to Canfor.

13.7 Governing Law

- (a) *Governing Law.* This Agreement shall be governed by and construed in accordance with the laws of the Province of British Columbia and the laws of Canada applicable therein.

- (b) *Submission to Jurisdiction.* Each party hereby irrevocably submits to the jurisdiction of the courts of British Columbia in any action or proceeding arising out of or relating to this Agreement and hereby irrevocably agrees that all claims in respect of any such action or proceeding may be heard and determined in such courts. Each party hereby irrevocably waives, to the fullest extent it may effectively do so, the defence of an inconvenient forum to the maintenance of such action or proceeding. As an alternative to any other method of service permitted by applicable Law, each party (other than Export Development Canada) also irrevocably consents to the service of any and all process in any such action or proceeding by the mailing of copies of such process to it at its address referred to in §13.3 or at such other address as it may direct in accordance with §13.3. Each party agrees that a final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by Law.
- (c) *Non-Exclusive.* Nothing in this §13.7 shall affect the right of any party to serve legal process in any other manner permitted by Law or affect the right of any Lender to bring any action or proceeding against any Credit Party or its property in the courts of other jurisdictions.
- (d) *Trial by Jury.* Each of the parties hereto, to the fullest extent permitted by Law, hereby waives its rights to a trial by jury.

13.8 Successors and Assigns

- (a) *Enurement.* This Agreement shall become effective when it shall have been executed by the parties and thereafter shall be binding upon and enure to the benefit of the parties and their respective successors and permitted assigns.
- (b) *Assignment by Canfor.* Canfor shall not have the right to assign its rights or obligations hereunder or any interest herein without the prior consent of all the Lenders, which consent may be withheld by the Lenders in their sole and absolute discretion; provided that the foregoing shall not prohibit a Permitted Merger by Canfor.
- (c) *Participation.* A Lender may at any time sell to one or more other Persons (each a "**Participant**") participating interests in all or any part of the Credit Facility. In the event of any such sale by a Lender of a participating interest to a Participant, such Lender's obligations under this Agreement to Canfor shall remain unchanged, such Lender shall remain solely responsible for the performance thereof and Canfor shall continue to be obligated to such Lender in connection with such Lender's rights under this Agreement. No Participant, unless such Participant is an Affiliate of such Lender, or is itself a Lender, shall be entitled to require such Lender to take or refrain from taking any action hereunder or under any other Credit Facility Document, except that such Lender may agree with any Participant that such Lender will not, without such Participant's consent, take any actions of the type described in §13.2(b)(3) or §13.2(b)(4). Canfor agrees that, if amounts outstanding under this Agreement are due and unpaid, or shall have been declared to be or shall have become due and payable further to the occurrence of an Event of Default, each Participant that was disclosed to Canfor at the time of creation of the relevant participation shall be deemed to have the

right of setoff, if any, in respect of its participating interests in amounts owing under this Agreement to the same extent as if the amount of its participating interest were owing directly to it as such Lender under this Agreement. Canfor also agrees that each Participant shall be entitled to the benefits of §10.5 with respect to its participation hereunder; provided that no Participant shall be entitled to receive any greater amount pursuant to such section, nor shall Canfor as a result thereof be required to pay any greater amount, than such Lender would have been entitled to receive, or that Canfor would have been required to pay, in respect of the amount of the participation transferred by such Lender to such Participant had no such transfer occurred.

- (d) *Assignments.* A Lender (an “**Assignor**”) may at any time, and, where no Event of Default has occurred, with the consent of the Administrative Agent and Canfor (which consent will not be unreasonably withheld), sell all or any part of its rights and obligations hereunder to one or more Persons (each an “**Assignee**”) in respect of a minimum aggregate amount of Commitment of Cdn. \$5,000,000 and in further increments of Cdn. \$1,000,000, and in such event shall provide three Business Days’ notice thereof to the Administrative Agent and Canfor. Upon such sale (other than a sale where the Assignee is a Federal Reserve Bank in the United States and does not assume any of the obligations of the Assignor hereunder and the Assignor is not released from its obligations hereunder, in which case the balance of this §13.8(d) shall not apply), the Assignor shall, to the extent of such sale, be released from its obligations hereunder and each of the Assignees shall become a party hereto to the extent of the interest so purchased. Any such sale by an Assignor shall not be effective unless and until (1) the Assignor has paid to the Administrative Agent an assignment processing fee in the amount of Cdn. \$5,000, (2) the Assignee has executed an instrument substantially in the form of Schedule 5 whereby such Assignee has agreed to be bound by the terms hereof as a Lender and has agreed to a specific Commitment under the Credit Facility and a specific address and telefacsimile number for the purpose of notices as provided in §13.3, and (3) a copy of a fully executed copy of such instrument has been delivered to each of the Administrative Agent and Canfor. Upon any such sale becoming effective, Schedule 1 shall be deemed to be amended to include the Assignee as a Lender including the specific Commitment, address and telefacsimile number as aforesaid and the Commitment of the Assignor shall be deemed to be reduced by the amount of the Commitment assigned to the Assignee. No Lender (including an Assignee) shall, after an assignment made pursuant to this §13.8(d), hold an amount of Commitment less than Cdn. \$5,000,000.

Prior to the occurrence of an Event of Default, any assignment pursuant to this §13.8(d) shall require the prior written approval of Canfor and the Administrative Agent, which will not be unreasonably withheld.

- (e) *Information.* Canfor authorizes the Administrative Agent and the Lenders to disclose to any Participant or Assignee (each, a “**Transferee**”) and any prospective Transferee and authorizes the Administrative Agent and the Lenders to disclose to any other Lender any and all financial information in their possession concerning Canfor and its Affiliates which has been delivered to them by or on behalf of Canfor pursuant to this Agreement or which has been delivered to them by or on behalf of Canfor in connection with their credit

evaluation prior to becoming a party to this Agreement, so long as any such Transferee or prospective Transferee agrees to comply with §13.10.

- (f) *Restrictions on Participations and Assignments by Lenders.* Notwithstanding anything to the contrary contained in §13.8(c) or 13.8(d) or any other provision of this Agreement:
- (1) a Lender who is a “resident” of Canada within the meaning of the *Income Tax Act* (Canada) shall not sell participating interests in all or any part of the Credit Facility to, or assign all or any part of its rights and obligations hereunder in respect of the Credit Facility to, any Person who is not such a “resident” of Canada unless such Person provides to Canfor such information with respect to such Person as is reasonably necessary in order to permit Canfor to comply with any applicable Law, or any applicable guideline, official directive, request or direction (whether or not having the force of Law) of any Governmental Body, requiring Canfor to deduct or withhold any amount on account of Taxes from or in respect of any payment made pursuant to this Agreement to such Person;
 - (2) any participation or assignment pursuant to this §13.8 shall not subject Canfor to any increased rate of withholding Tax on payments on account of the Obligations having regard to the applicable Laws at the time of such participation or assignment; and
 - (3) any assignment by the Swingline Lender of its rights and obligations hereunder in respect of the Swingline must be of all such rights and obligations in the Swingline Amount to one Person.
- (g) *Pledges to Federal Reserve Banks.* Notwithstanding any other provision of this Agreement, any Lender governed by the applicable Laws of the United States may at any time assign all or a portion of its rights under this Agreement and the other Credit Facility Documents to a Federal Reserve Bank. No such assignment shall relieve the assigning Lender from its obligations under this Agreement or the other Credit Facility Documents.

13.9 Conflict

In the event of a conflict between the provisions of this Agreement and the provisions of any other Credit Facility Document, the provisions of this Agreement shall prevail.

13.10 Confidentiality

Information provided by Canfor hereunder will not be disclosed by the Administrative Agent or any Lender or used by the Administrative Agent or any Lender for any purpose other than evaluation, monitoring and review pursuant to this Agreement; provided that such information may be disclosed:

- (a) as contemplated by §13.8(e) if such Participant or Assignee is advised such information is confidential and agrees to treat such information as confidential;

- (b) to any director, officer or employee of the Administrative Agent or that Lender or its Affiliates involved with the Credit Facility or that otherwise has a need for such information; provided that same is treated in the same manner as other confidential information held by the Administrative Agent or that Lender;
- (c) to legal counsel, accountants and other consultants and professional advisors determined by the Administrative Agent or that Lender to require such information for the purpose of assisting in or advising upon such evaluation, monitoring and review, if such Persons are advised that such information is confidential to Canfor;
- (d) pursuant to applicable Law;
- (e) to the extent that such information is public;
- (f) to the extent that such information was previously known to the Administrative Agent or that Lender through means other than Canfor, or was acquired from a third party not known to the Administrative Agent or that Lender to be under a duty of confidentiality to Canfor or its relevant Affiliate.

13.11 Severability

The provisions of this Agreement are intended to be severable. If any provision of this Agreement shall be held invalid or unenforceable in whole or in part in any jurisdiction, such provision shall, as to such jurisdiction, be ineffective to the extent of such invalidity or unenforceability without in any manner affecting the validity or enforceability thereof in any other jurisdiction or the remaining provisions hereof in any jurisdiction.

13.12 Covenantor' Agreement

GP, on its own behalf, covenants and agrees to observe and perform all of Canfor's obligations under the Credit Facility Documents to which Canfor is a party.

13.13 Prior Understandings

This Agreement supersedes all prior understandings and agreements, whether written or oral, among the parties relating to the transactions provided for herein.

13.14 Time of Essence

Time shall be of the essence hereof.

13.15 Counterparts

This Agreement may be executed in counterparts, each of which shall be deemed an original and all of which, taken together, shall constitute one and the same instrument, and may be delivered by a party by facsimile or similar means of recorded communication.

13.16 Effect of Amendment and Restatement

Subject to the conditions of effectiveness set forth in Section 6.1, the Existing Credit Agreement shall be amended and restated in its entirety as of the Closing Date. The parties hereto

acknowledge and agree that this Agreement is an amendment and restatement of the Existing Credit Agreement and not a novation of the Existing Credit Agreement. For greater certainty, Accommodations outstanding under the Existing Credit Agreement that remain outstanding upon the Closing Date shall constitute Accommodations hereunder governed by the terms hereof. Such Accommodations shall be continuing in all respects, and this Agreement shall not be deemed to evidence or result in a novation of those Accommodations or repayment and reborrowing of such Accommodations. The Existing Credit Agreement has been amended and restated solely for the purpose of reflecting amendments to the Existing Credit Agreement which the Lenders and Canfor have agreed upon.

IN WITNESS WHEREOF the parties have caused this Agreement to be executed by their respective officers thereunto duly authorized, as of the date first above written.

BORROWER:

CANFOR PULP LIMITED PARTNERSHIP,
by its general partner **Canfor Pulp Holding
Inc.**

Per: *Arnold*

ADMINISTRATIVE AGENT:

HSBC BANK CANADA

Per: _____

Per: _____

COVENANTOR:

CANFOR PULP HOLDING INC.

Per: *Arnold*

SYNDICATION AGENT:

**CANADIAN IMPERIAL BANK OF
COMMERCE**

Per: _____

DOCUMENTATION AGENT:

EXPORT DEVELOPMENT CANADA

Per: _____

acknowledge and agree that this Agreement is an amendment and restatement of the Existing Credit Agreement and not a novation of the Existing Credit Agreement. For greater certainty, Accommodations outstanding under the Existing Credit Agreement that remain outstanding upon the Closing Date shall constitute Accommodations hereunder governed by the terms hereof. Such Accommodations shall be continuing in all respects, and this Agreement shall not be deemed to evidence or result in a novation of those Accommodations or repayment and reborrowing of such Accommodations. The Existing Credit Agreement has been amended and restated solely for the purpose of reflecting amendments to the Existing Credit Agreement which the Lenders and Canfor have agreed upon.

IN WITNESS WHEREOF the parties have caused this Agreement to be executed by their respective officers thereunto duly authorized, as of the date first above written.

BORROWER:

CANFOR PULP LIMITED PARTNERSHIP,
by its general partner **Canfor Pulp Holding Inc.**

Per: _____

COVENANTOR:

CANFOR PULP HOLDING INC.

Per: _____

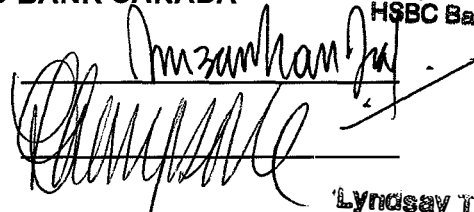
ADMINISTRATIVE AGENT:

HSBC BANK CANADA

Per: _____

Per: _____

AMBAR BANSAL
Vice President
Regional Head - Ontario
Corporate Banking
HSBC Bank Canada



Lyndsay Thompson
Assistant Vice President
Debt Finance Origination

SYNDICATION AGENT:

CANADIAN IMPERIAL BANK OF COMMERCE

Per: _____

DOCUMENTATION AGENT:

EXPORT DEVELOPMENT CANADA

Per: _____

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CANFOR PULP LIMITED PARTNERSHIP,
by its general partner **Canfor Pulp Holding Inc.**

Per: _____

ADMINISTRATIVE AGENT:

HSBC BANK CANADA

Per: _____

Per: _____

COVENANTOR:

CANFOR PULP HOLDING INC.

Per: _____

SYNDICATION AGENT:

CANADIAN IMPERIAL BANK OF COMMERCE

Per: _____

PETER RAWLINS
EXECUTIVE DIRECTOR

Kazim Mehdi
Director

DOCUMENTATION AGENT:

EXPORT DEVELOPMENT CANADA

Per: _____

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CANFOR PULP LIMITED PARTNERSHIP,
by its general partner **Canfor Pulp Holding Inc.**

Per: _____

ADMINISTRATIVE AGENT:

HSBC BANK CANADA

Per: _____

Per: _____

COVENANTOR:

CANFOR PULP HOLDING INC.

Per: _____

SYNDICATION AGENT:

CANADIAN IMPERIAL BANK OF COMMERCE

Per: _____

DOCUMENTATION AGENT:

EXPORT DEVELOPMENT CANADA

Per:  _____

MATTHEW DEVINE
FINANCING MANAGER


JOANNE TOGNARELLI
SENIOR FINANCING MANAGER

LENDERS:

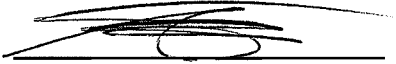
HSBC BANK CANADA

Per: _____



HSBC Bank Canada
Suite 200, 885 West Georgia Street
Vancouver, B.C.
V6C 3G1

Per: _____



Fax No. (604) 641-1808

**CANADIAN IMPERIAL BANK OF
COMMERCE**

Per: _____

Canadian Imperial Bank of Commerce
161 Bay Street
8th Floor
Toronto, Ontario
M5J 2S8

Per: _____

Fax No. (416) 594-8347

EXPORT DEVELOPMENT CANADA

Per: _____

Export Development Canada
150 Slater St.
Ottawa, Ontario
K1A 1K3

Per: _____

Fax No. (613) 598-3167

LENDERS:

HSBC BANK CANADA

Per: _____

Per: _____

HSBC Bank Canada
Suite 200, 885 West Georgia Street
Vancouver, B.C.
V6C 3G1

Fax No. (604) 641-1808

**CANADIAN IMPERIAL BANK OF
COMMERCE**

Per: _____

Per: _____


PETER RAWLINS
EXECUTIVE DIRECTOR


Kazim Mehdi
Director

EXPORT DEVELOPMENT CANADA

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EXPORT DEVELOPMENT CANADA

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MATTHEW DEVINE
FINANCING MANAGER

Per: _____


JOANNE TOGNARELLI
SENIOR FINANCING MANAGER

Export Development Canada
150 Slater St.
Ottawa, Ontario
K1A 1K3

Fax No. (613) 598-3167

SCHEDULE 1

LENDERS, LENDING BRANCHES AND COMMITMENTS

TRANCHE A:

LENDING BRANCH	COMMITMENT
HSBC Bank Canada Suite 200 885 West Georgia Street Vancouver, B.C. V6C 3G1	Cdn. \$40,000,000
Canadian Imperial Bank of Commerce CIBC Main Branch Commerce Court Toronto, Ontario Transit # 0002	Cdn. \$40,000,000
Export Development Canada 150 Slater Street Ottawa, Ontario K1A 1K3	Cdn. \$30,000,000
Tranche A Total	Cdn. \$110,000,000

TRANCHE B:

LENDING BRANCH	COMMITMENT
HSBC Bank Canada Suite 200 885 West Georgia Street Vancouver, B.C. V6C 3G1	Cdn. \$20,000,000
Tranche B Total	Cdn. \$20,000,000

TRANCHE C:

LENDING BRANCH	COMMITMENT
HSBC Bank Canada Suite 200 885 West Georgia Street Vancouver, B.C. V6C 3G1	Cdn. \$25,000,000
Canadian Imperial Bank of Commerce CIBC Main Branch Commerce Court Toronto, Ontario Transit # 0002	Cdn. \$25,000.00
Tranche C Total	Cdn. \$50,000.000

SCHEDULE 2

ACCOMMODATION REQUEST

TO: HSBC Bank Canada

Attention: ●

FROM: ● (the "Borrower")

DATE: ●

This notice is delivered to you, as Administrative Agent, pursuant to that certain Amended and Restated Credit Agreement dated for reference November 5, 2013, between, *inter alia*, the Borrower, HSBC Bank Canada as Administrative Agent, and the Lenders referred to therein, as amended, supplemented, restated or replaced from time to time (the "Credit Agreement"). All defined terms set forth, but not otherwise defined, in this notice shall have the respective meanings set forth in the Credit Agreement, unless the context requires otherwise.

1) The Borrower hereby requests an Accommodation as follows:

a) Tranche:

b) Date:

c) Aggregate amount of Accommodation: Cdn. \$ _____
US\$ _____

d) Type and Amount of Accommodation

(i)

		Amount	Converted from (if Applicable)
()	Prime Rate Advance	Cdn. \$ _____	_____
()	Base Rate Advance	US\$ _____	_____

(ii) () Bankers' Acceptances (or BA Equivalent Loans pursuant to §4.11 of the Credit Agreement)

Face Amount	Terms	Rollover Amount	Converted from (if Applicable)
Cdn. \$ _____	_____	Cdn. \$ _____	_____

(iii) () LIBOR Advance

Amount	Interest Period	Rollover Amount	Converted from (if Applicable)
US\$ _____	_____	US\$ _____	_____

(iv) Fronted Letter of Credit ()

<u>Amount</u>	<u>Maturity Date</u>	<u>Beneficiary</u>
US\$ or Cdn. \$ _____	_____	_____

(v) EDC Guaranteed LC ()

<u>Amount</u>	<u>Maturity Date</u>	<u>Beneficiary</u>
US\$ or Cdn. \$ _____	_____	_____

- 2) In the case of an Accommodation that would increase the aggregate Principal Outstanding under any Tranche, all of the representations and warranties of the Borrower set forth in Article 7 of the Credit Agreement and in every other Credit Facility Document, other than those which by their terms are made only as of a specific date, are true and correct in all material respects as at the date hereof, as though made on and as of the date hereof.
- 3) No Event of Default has occurred and is continuing.

DATED this _____ day of _____, 20__.

•

Per: _____

Title: _____

SCHEDULE 3

FORM OF REPAYMENT/CANCELLATION NOTICE

TO: HSBC Bank Canada

Attention: ●

FROM: ● (the "Borrower")

DATE: ●

This notice is delivered to you, as Administrative Agent, pursuant to that certain Amended and Restated Credit Agreement dated for reference November 5, 2013 between, *inter alia*, the undersigned Borrower, HSBC Bank Canada as Administrative Agent, and the Lenders referred to therein, as amended, supplemented, restated or replaced from time to time (the "Credit Agreement"). All defined terms set forth, but not otherwise defined, in this notice shall have the respective meanings set forth in the Credit Agreement, unless the context requires otherwise.

Notice is hereby given in accordance with §__ of the Credit Agreement that the undersigned wishes to cancel the aggregate Commitments allocated to Tranche _____ by the amount of Cdn. \$ _____ effective _____ (date) _____.

Notice is hereby given in accordance with §__ of the Credit Agreement that the undersigned commits to repay the _____ under Tranche _____ in the amount of US/Cdn. \$ _____ on _____, _____.

DATED this _____ day of _____, _____.

●

By: _____

Title: _____

SCHEDULE 4

SUBSIDIARIES

(for purposes of Section 7.7)

Canfor Pulp and Paper Sales Ltd. – 100% owned by Canfor

Canfor Pulp International Ltd. – 100% owned by Canfor

SCHEDULE 5

FORM OF ASSIGNMENT

Dated _____, 20__

Reference is made to the credit agreement dated for reference November 5, 2013 (the "**Credit Agreement**"), between, *inter alia*, Canfor Pulp Limited Partnership as Borrower, HSBC Bank Canada as Administrative Agent, and the Lenders referred to therein as Lenders.

Terms defined in the Credit Agreement are used herein as therein defined.

_____ (the "**Assignor**") and _____ (the "**Assignee**") agree as follows:

1. The Assignor hereby sells and assigns to the Assignee without recourse, and the Assignee hereby purchases and assumes from the Assignor, a Cdn. \$ _____ interest in the Tranche A Commitment and/or a Cdn. \$ _____ interest in the Tranche B Commitment and/or a Cdn. \$ _____ interest in the Tranche C Commitment and all of the Assignor's related and proportionate rights and obligations under the Credit Agreement and any agreements, documents and instruments delivered pursuant thereto (collectively, the "**Loan Documents**") as of the Effective Date (as defined below) (including, without limitation, such proportionate interest in the Assignor's Commitment as in effect on the Effective Date and the Accommodations made available by the Assignor under the Credit Facility and outstanding on the Effective Date).
2. The Assignor (i) represents and warrants that as of the date hereof its Commitment is Cdn. \$ _____ under Tranche A and/or Cdn. \$ _____ under Tranche B and/or Cdn. \$ _____ under Tranche C (without giving effect to assignments thereof which have not yet become effective, including, but not limited to, the assignment contemplated hereby); (ii) represents and warrants that it is the legal and beneficial owner of the interest being assigned by it hereunder and that such interest is free and clear of any adverse claim created by it; (iii) makes no representation or warranty and assumes no responsibility with respect to any statements, warranties or representations made in or in connection with the Loan Documents or the execution, legality, validity, enforceability, genuineness, sufficiency or value of the Loan Documents or any other instrument or document furnished pursuant thereto; (iv) makes no representation or warranty and assumes no responsibility with respect to the financial condition of any of Canfor or any affiliate thereof or the performance or observance by Canfor or any such affiliate of any of their respective obligations under the Loan Documents or any other instrument or document furnished pursuant thereto; and (v) gives notice to the Administrative Agent of the assignment to the Assignee hereunder.
3. The effective date of this Assignment (the "**Effective Date**") shall be the later of and the date that is three Business Days after the date on which a copy of a fully executed copy of this Assignment has been delivered to Canfor and the Administrative Agent in accordance with §13.8(d) of the Credit Agreement, and an assignment fee in the amount of Cdn. \$5,000 has been paid to the Administrative Agent.
4. The Assignee hereby agrees to the specific Commitment(s) in the amount of Cdn. \$ _____ under Tranche A and/or Cdn. \$ _____ under Tranche B and/or

Cdn. \$_____ under Tranche C and to the address and telefacsimile number set out after its name on the signature page hereof for the purpose of notices as provided in §13.3 of the Credit Agreement.

5. As of the Effective Date (i) the Assignee shall, in addition to any rights and obligations under the Loan Documents held by it immediately prior to the Effective Date, have the rights and obligations under the Loan Documents that have been assigned to it pursuant to this Assignment and (ii) the Assignor shall, to the extent provided in this Assignment, relinquish its rights and be released from its obligations under the Loan Documents.

6. The Assignor and Assignee shall made all appropriate adjustments in payments under the Loan Documents for periods prior to the Effective Date directly between themselves.

7.. This Assignment shall be governed by, and construed in accordance with, the laws of the Province of British Columbia and the laws of Canada applicable therein.

There shall be no novation or re-creation of any of the obligations of Canfor under any of the Loan Documents by reason of the assignment provided for herein.

[ASSIGNOR]

By: _____
Title

[ASSIGNEE]

By: _____
Title

Address: _____

Attention: _____

Telefax: _____

Approved as of _____, 20____,
(which shall be the Effective Date).

HSBC BANK CANADA
as Administrative Agent

By: _____

Canfor hereby consents to the foregoing assignment as of the Effective Date
(applicable only where no Event of Default)

CANFOR PULP LIMITED PARTNERSHIP,
by its general partner Canfor Pulp Holding Inc.

By: _____

By: _____

<OR, after it becomes the borrower under the Credit Facility>

CANFOR PULP HOLDING INC.

By: _____

By: _____

SCHEDULE 6

FORM OF COMPLIANCE CERTIFICATE

Quarterly Compliance Certificate For the Financial Quarter Ended _____ (the "Compliance Date")

Reference is made to that certain Amended and Restated Credit Agreement dated for reference November 5, 2013 between, inter alia, the undersigned borrower, HSBC Bank Canada as Administrative Agent, and the Lenders referred to therein, as amended, supplemented, restated or replaced from time to time (the "Credit Agreement"). Terms defined in the Credit Agreement are used herein as therein defined.

We certify as follows:

1. As at the Compliance Date, the Total Debt to Total Capitalization Ratio was ____:1.0
2. **[If applicable]** For the Financial Quarter ended on the Compliance Date, the EBITDA Interest Coverage Ratio was ____:1.0
3. As at the Compliance Date, Shareholders' Equity was \$____ and the adjustments made to Shareholders' Equity for the Fiscal Quarter ended on the Compliance Date were as follows:
4. **[If applicable]** As at the Compliance Date, CPPI's ratings with the rating agencies set out below were as follows:

Moody's:

S&P:
5. No Default or Event of Default has occurred and is continuing [**• or, if a Default or Event of Default has occurred and is continuing, specify**].
6. All of the representations and warranties contained in any of the Credit Facility Documents are true and correct in all material respects on and as of the date hereof as though made on such date (unless expressly stated to be made on and as of the Closing Date or some other specified date) [**• or, if not so true and correct, specify**].

The foregoing ratios and percentages were calculated as follows (all amounts in Cdn. \$000's):

Show calculations.

DATED this ____ day of _____, 20____.

•
Per: _____

Name:

Title:

SCHEDULE 7

REQUIRED NOTICE

Prime Rate Advances	1 Business Day
Base Rate Advances	1 Business Day
Drawings	2 Business Days
LIBOR Advances	3 Business Days
Letters of Credit	2 Business Days
Permanent Reduction of Commitments	5 Business Days

SCHEDULE 8
FORMS OF GENERAL SECURITY AGREEMENT

See attached

SECURITY AGREEMENT

(Canfor Pulp International Ltd.)

THIS SECURITY AGREEMENT dated for reference November 5, 2013.

Section 1

DEFINITIONS

1.1 Defined Terms.

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

- (a) “**Agent**” means HSBC Bank Canada, and its successors, as administrative agent under the Credit Agreement and any successor administrative agent appointed under the Credit Agreement.
- (b) “**Business Premises**” means real property which the Debtor uses in its business, if any.
- (c) “**Collateral**” means all present and after-acquired personal property and other property, assets, rights and undertaking owned, leased, licensed, possessed or acquired by the Debtor, or in which the Debtor has rights, including all present and after-acquired Goods (including Equipment and Inventory), Investment Property, Instruments, Documents of Title, Chattel Paper, Intangibles (including Accounts), Money, crops and fixtures, owned, leased, licensed, possessed or acquired by the Debtor, or in which the Debtor has rights, and all Proceeds of that property, but specifically excludes the Excluded Collateral.
- (d) “**Contracts**” means all contracts, licenses and agreements to which the Debtor is at any time a party or pursuant to which the Debtor has at any time acquired rights, as those contracts, licenses and agreements may be amended, restated, supplemented or replaced, and includes all rights of the Debtor:
 - (i) to receive money due and to become due to it in connection with a contract, licence or agreement;
 - (ii) to damages arising out of, or for breach or default in respect of, a contract, licence or agreement; and
 - (iii) to perform and exercise all remedies in connection with a contract, licence or agreement.
- (e) “**Credit Agreement**” means the amended and restated credit agreement dated for reference November 5, 2013 among, *inter alia*, Canfor Pulp Limited Partnership as borrower, HSBC Bank Canada as co-lead arranger, co-bookrunner and administrative agent, Canadian Imperial Bank of Commerce as co-lead arranger, co-bookrunner and syndication agent, Export Development Canada as

documentation agent and the Lenders as defined therein, as may be amended, supplemented, restated or replaced from time to time.

- (f) **"Debtor"** means Canfor Pulp International Ltd., a British Columbia corporation, and its successors.
- (g) **"Environmental Laws"** means any laws, regulations, orders, by-laws, permits or lawful requirements of any governmental authority with respect to environmental protection or regulating hazardous materials;
- (h) **"Equipment"** means, collectively, all Goods in which the Debtor now or hereafter has rights other than Inventory or Consumer Goods and any part thereof, including, without limitation, all tools, apparatus, fixtures, plant, machinery, furniture, chattels, vehicles, vessels, air conditioning, heating, ventilating, electrical, mechanical, plumbing, communications and data systems, elevators, escalators and other conveyancing devices, boilers, furnaces, carpets, blinds, window coverings, curtains, awnings, lighting fixtures, doors, windows, demising walls and partitions, wiring, pipes, conduits, seasonal decorations, and the equipment described in **Schedule A** hereto or any schedule hereafter annexed hereto.
- (i) **"Event of Default"** means the occurrence of (i) an Event of Default as defined in the Credit Agreement, (ii) a "default," "event of default" or similar circumstance identified in any Secured Agreement that entitles the Debtor's counterparty to enforce its rights under that Secured Agreement, (iii) the failure of the Debtor to pay any of the Obligations when due, or (iv) any demand for payment validly made by any Secured Party pursuant to any Secured Agreement that is not met in accordance with the terms of the demand or within any applicable grace period.
- (j) **"Excluded Collateral"** means Consumer Goods and any Intellectual Property Right, Permit or Contract which would be breached or terminated if a security interest was granted in it without the consent of a third party, unless that consent is obtained, but does not include Accounts.
- (k) **"Hazardous Materials"** means any asbestos material, urea formaldehyde, explosives, radioactive materials, pollutants, contaminants, hazardous substances, corrosive substances, toxic substances, special waste or waste of any kind including, without limitation, compounds known as chlorobiphenyls and any substance the storage, manufacture, disposal, treatment, generation, use, transport, remediation or release of which into the environment is prohibited, controlled or licensed under Environmental Laws.
- (l) **"Intellectual Property Rights"** means all industrial and intellectual property rights, including copyrights, patents, trade-marks, industrial designs, know how and trade secrets, and all Contracts related to those industrial and intellectual property rights.
- (m) **"Obligations"** means all debts, liabilities and obligations of the Debtor to the Secured Parties under or in connection with the Secured Agreements, whether present or future, direct or indirect, absolute or contingent, matured or not, at any time owing or remaining unpaid by the Debtor to the Secured Parties in any currency under or in connection with the Secured Agreements, whether arising from dealings between the Secured Parties and the Debtor or from other dealings

or proceedings by which the Secured Parties may be or become in any manner whatever creditors of the Debtor under or in connection with the Secured Agreements, and wherever incurred, and whether incurred by the Debtor alone or with another or others and whether as principal or surety and all interest, fees, commissions and legal and other costs, charges and expenses owing or remaining unpaid by the Debtor to the Secured Parties in any currency under or in connection with the Secured Agreements.

- (n) **"Permits"** means all authorizations, registrations, permits, licenses, consents, quotas, grants, approvals, franchises, rights-of-way, easements and entitlements that the Debtor has, or is required to have, to own, possess or operate any of its property, or to operate and carry on any part of its business.
- (o) **"PPSA"** means the *Personal Property Security Act* (British Columbia), as amended, supplemented or replaced and includes all regulations made under that legislation.
- (p) **"Records"** means, collectively, all books, papers, documents, writings, tapes, magnetic or other machine readable data and records, and all other information, however stored, recording or relating to any of the Collateral.
- (q) **"Secured Agreements"** means the Credit Agreement, the Guarantee Agreement executed by the Debtor, and all present and future agreements under which Canfor Hedging Obligations or Bank Products Obligations arise, as such agreements may be amended, supplemented, restated and replaced from time to time), and any reference to "the Secured Agreements" in this Agreement shall be interpreted as referring to "the Secured Agreements or any of them."
- (r) **"Secured Parties"** means each person that from time to time (i) is defined as a "Lender" or as the "Administrative Agent" under the Secured Agreements or (ii) is a Lender or affiliate of a Lender to whom Canfor Hedging Obligations or Bank Products Obligations are owed, in each case in its capacity as a creditor under the Secured Agreements. Any reference to the "Secured Parties" shall be interpreted as referring to "the Secured Parties or any of them." If a Lender ceases to be a Lender by reason of assigning all of its rights and obligations under the Secured Agreements or having the Obligations owing to it under or in connection with the Secured Agreements paid in full as a Declining Lender, then that Lender and any affiliate to whom Canfor Hedging Obligations or Bank Products Obligations are owed shall cease to be Secured Parties under this Agreement.
- (s) **"STA"** means the *Securities Transfer Act* (British Columbia) as amended, supplemented or replaced and includes all regulations made under that legislation.

Capitalized terms that are used but not defined in this Security Agreement have the meanings defined in the Credit Agreement, the PPSA and the STA, as applicable.

Section 2

SECURITY INTEREST

2.1 Creation of Security Interest.

The Debtor, having its chief executive office at Suite 230, 1700 West 75th Avenue, Vancouver, British Columbia, V6P 6G2, as continuing security for the payment and performance of each of the Obligations, grants to the Agent for the benefit of the Secured Parties, having an office at Suite 200, 885 West Georgia Street, Vancouver, British Columbia, V6C 3G1, a continuing, specific and fixed mortgage, charge and security interest in, and a security interest is taken in, all of the Debtor's right, title and interest in and to the Collateral.

2.2 Floating Charge.

As security for the payment and performance of each of the Obligations, the Debtor grants a floating charge to the Agent for the benefit of the Secured Parties on and over all the Debtor's right, title and interest in and to real property, whether in fee or of a lesser estate, including without limitation, all leasehold property, easements, rights of way, fixtures, crops and improvements, both present and future, other than such as are validly and effectively charged under Section 2.1 or excluded under Section 2.4.

2.3 Attachment.

The Debtor acknowledges that value has been given. The security interests created hereby are intended to attach, as to all of the Collateral in which the Debtor has rights or interests, forthwith when the Debtor executes this Security Agreement, and, as to all Collateral in which the Debtor acquires any right or interest after the execution of this Security Agreement, when the Debtor acquires such right or interest.

2.4 Exception – Leases.

The last day of any term reserved by any lease, verbal or written, or any agreement therefor, now held or hereafter acquired by the Debtor is hereby excepted out of the mortgages, charges and security interests created hereby. The Debtor shall assign and dispose of such last day of any term reserved by any such lease in such manner as the Agent may from time to time direct in writing. Upon any sale, assignment, sublease or other disposition of such lease or agreement to lease, the Agent shall, for the purpose of vesting the aforesaid residue of any such term in any purchaser, assignee, sublessee or such other acquirer of the lease, agreement to lease or any interest therein, be entitled by deed or other written instrument to assign to such other person, the aforesaid residue of any such term in place of the Debtor and to vest the same freed and discharged from any obligation whatsoever respecting the same.

2.5 Intellectual Property.

Nothing in Section 2.1 is to be construed as constituting an absolute transfer or assignment of any present or future Intellectual Property Rights, but those sections are to be construed as granting to the Secured Parties a security interest in and a charge on all of the Debtor's present and after-acquired Intellectual Property Rights.

2.6 Where Consent Required.

Nothing herein shall constitute an assignment or attempted assignment of any right, privilege, benefit, policy or other document or instrument, including any Contract or Permit, which by the provisions thereof or by law is not assignable or which requires the consent of any third party to its assignment unless and until such consent is obtained or is waived by the third party. In each such case the Debtor shall, unless the Agent otherwise agrees in writing, forthwith obtain the consent of any necessary third party to its assignment hereby and for its further assignment by the Agent to any third party who may acquire same as a result of the Agent's exercise of remedies after an Event of Default. Upon such consents being obtained or waived, this Security Agreement shall apply thereto without regard to this Section 2.6 and without the necessity of any further assurance to effect the assignment thereof.

2.7 Pending Consent.

In any case to which Section 2.6 applies, unless and until consent to assignment is obtained as therein provided, the Debtor shall, to the extent it may do so by law or pursuant to the provisions of the document or instrument therein referred to, hold all benefit to be derived therefrom in trust for the Agent as additional security for the payment and performance of the Obligations and shall deliver up all such benefit to the Agent forthwith upon demand by the Agent.

Section 3

OBLIGATIONS SECURED

3.1 Obligations Secured.

The Collateral constitutes and will constitute continuing security for Obligations.

3.2 Reduction of Obligations.

The Obligations may be reduced to zero from time to time without affecting the validity, perfection or enforceability of this Security Agreement or the security interests created hereby until this Security Agreement is discharged in accordance with Section 8.10.

Section 4

DEBTOR'S REPRESENTATIONS AND WARRANTIES

4.1 General.

The Debtor represents and warrants to and for the benefit of the Secured Parties and so long as this Security Agreement remains in effect shall be deemed to continuously represent and warrant as set out in this Section 4.

4.2 Incorporation, Qualifications and Corporate Power.

The Debtor is a body corporate, duly incorporated, properly organized and validly existing under the laws of the Province of British Columbia and is duly registered and qualified to do business under the laws of each jurisdiction in which the character of the properties owned by it or the nature of the activities conducted by it make such registration or qualification advisable or necessary.

4.3 Enforceability.

This Security Agreement constitutes a valid and legally binding obligation of the Debtor enforceable against the Debtor in accordance with its terms, subject only to bankruptcy, insolvency or other statutes or judicial decisions affecting the enforcement of creditors' rights generally and to general principles of equity.

4.4 Name.

The full legal name of the Debtor (including any French or French/English form of its legal name), and any other name under which it conducts its business, is correctly specified on the signature page of this Security Agreement.

4.5 Survival and Reliance.

All representations and warranties of the Debtor made herein or in any certificate or other document delivered by or on behalf of the Debtor for the benefit of the Agent are material, shall survive the execution and delivery of this Security Agreement and shall continue in full force and effect without time limit. The Agent is deemed to have relied upon each such representation and warranty notwithstanding any investigation made by or on behalf of the Agent at any time.

Section 5

DEBTOR'S COVENANTS

5.1 General.

Unless compliance with the following covenants is waived by the Secured Parties in writing or unless non-compliance with any such covenants is otherwise consented to by the Secured Parties by written agreement with the Debtor, the Debtor covenants and agrees with the Secured Parties to observe and perform each of the covenants set out in this Section 5.

5.2 Keep Collateral in Good Repair.

The Debtor will keep the Collateral in good order, condition and repair.

5.3 Conduct of Business.

The Debtor will carry on and conduct its business in a proper and efficient manner so as to protect and preserve the Collateral.

5.4 Compliance with Agreements and Laws.

The Debtor will not use the Collateral in violation of this Security Agreement or any other agreement relating to the Collateral or any policy insuring the Collateral or any applicable statute, law, by-law, rule, regulation, court order or ordinance.

5.5 Inspection of Records and Collateral.

The Debtor will at all times keep accurate and complete records of the Collateral as well as proper books of account for its business all in accordance with generally accepted accounting principles, consistently applied. The Debtor will permit the Agent or its authorized agents to have access to all premises occupied by the Debtor or any place where the Collateral may be found to

inspect the Collateral and to examine the books of accounts, financial records and reports of the Debtor and to have temporary custody of, make copies of and take extracts from such books, records and reports.

5.6 Access to Computer Information.

In the event that the use of a computer system is required to access any information and data which the Agent is entitled to access and examine hereunder, the Debtor will allow the Agent the use of its computer system for such purpose and will provide assistance in that regard. If for any reason such information and data cannot be accessed and retrieved at the Debtor's premises the Agent may remove the medium in which such information or data is stored from the Debtor's premises to any other place which has a computer system that will give the Agent the opportunity to retrieve, record or copy such information and data. The Agent is hereby authorized to reproduce and retain a copy of any such information and data in any format whatsoever.

5.7 Delivery of Documents.

The Debtor will promptly deliver to the Agent upon request:

- (a) **Documents of Title.** Any Chattel Paper, Instruments, Investment Property, and Documents of Title, and upon such delivery, where applicable, duly endorse the same for transfer in blank or as the Agent may direct;
- (b) **Books of Account.** All computer software, tapes, discs, drums and cards, all books of account and all records, ledgers, reports, correspondence, schedules, documents, statements, lists and other writings relating to the Collateral or the Debtor's business for the purpose of inspecting, auditing or copying the same;
- (c) **Agreements.** All agreements, licenses, permits and consents relating to the Collateral and the Debtor's business; and
- (d) **Other Information.** Such information concerning the Collateral as the Agent may request.

5.8 Proceeds In Trust.

The Debtor will and shall be deemed to hold all Proceeds in trust, separate and apart from other Money, Instruments or property, for the benefit of the Agent until all amounts owing by the Debtor under the Credit Agreement have been paid in full and all obligations of the Debtor under the Credit Agreement have been terminated.

5.9 Performance and Default by Debtor.

The Debtor will observe and perform all the obligations imposed on the Debtor by or in respect of the Collateral, maintain the Collateral in good standing and not do or permit to be done anything to impair, and not omit to do anything that would prevent the impairment of, the security interests hereby created. The Debtor will give to the Agent prompt notice of any default by the Debtor in the performance of its covenants under this Security Agreement.

Section 6

COLLECTION OF ACCOUNTS

6.1 Collection of Accounts.

The Agent may, whether before or after default under this Security Agreement, notify and direct any Account Debtor to make all payments whatever to the Agent. The Agent may hold all amounts acquired from any Account Debtor and any Proceeds as part of the Collateral.

6.2 Trust Provision.

Any payments received by the Debtor after notification to Account Debtors, shall be held by the Debtor in trust for the Agent in the same medium in which received, shall not be commingled with any assets of the Debtor and shall, at the request of the Agent, be turned over to the Agent not later than the next business day following the day of their receipt.

Section 7

DEFAULT

7.1 Default.

The occurrence of an Event of Default will constitute an "Event of Default" under this Security Agreement.

7.2 Crystallization.

The floating charge created by Section 2.2 shall become a fixed charge as soon as:

- (a) the Agent gives notice to that effect to the Debtor;
- (b) the Agent takes any step to accelerate or demand payment of the Obligations, or gives notice of its intention or takes any steps to enforce its security; or
- (c) an Event of Default occurs in respect of the Debtor.

7.3 Demand Obligations.

The fact that this Security Agreement provides for Events of Default and rights of acceleration shall not derogate from the demand nature of any Obligation payable on demand.

7.4 Waiver not to Affect Subsequent Breach.

The Secured Parties may waive default or any breach by the Debtor of any of the provisions contained in this Security Agreement. No waiver shall extend to a subsequent breach or default, whether or not the same as or similar to the breach or default waived. No act or omission of the Secured Parties shall extend to or be taken in any manner whatsoever to affect any subsequent breach or default of the Debtor or the rights of the Secured Parties resulting therefrom. Any such waiver must be in writing and signed by the Agent to be effective.

Section 8

AGENT'S REMEDIES ON DEFAULT

8.1 Indebtedness Due and Rights and Remedies.

Upon the occurrence of an Event of Default, all of the Obligations shall become immediately due and payable without notice to the Debtor, and the Agent may, at its option, proceed to enforce payment of same and to exercise any or all of the rights and remedies contained herein, including, without limitation, the signification and collection of the Debtor's Accounts, or otherwise afforded by law, in equity or otherwise. The Agent shall have the right to enforce one or more remedies successively or concurrently in accordance with applicable law and the Agent expressly retains all rights and remedies not inconsistent with the provisions herein including all the rights it may have under the PPSA, and, without restricting the generality of the foregoing, the Agent may upon such Event of Default:

- (a) **Appointment of Receiver.** Appoint by instrument in writing a receiver, receiver-manager or receiver and manager (herein a "Receiver") of the Debtor and of all or any part of the Collateral and remove or replace such Receiver from time to time or may institute proceedings in any court of competent jurisdiction for the appointment of a Receiver. Any Receiver appointed by the Agent so far as concerns responsibility for its acts shall be deemed the agent of the Debtor and not of the Agent. Where the Agent is referred to in this Section the reference includes, where the context permits, any Receiver so appointed and the officers, employees, servants or agents of such Receiver;
- (b) **Enter and Repossess.** Immediately and without notice enter the Debtor's premises and repossess, disable or remove the Collateral and the Debtor hereby grants to the Agent a licence to occupy any premises of the Debtor for the purpose of storage of the Collateral;
- (c) **Retain the Collateral.** Retain and administer the Collateral in the Agent's sole and unfettered discretion, which the Debtor hereby acknowledges is commercially reasonable;
- (d) **Dispose of the Collateral.** Dispose of any Collateral by public auction, private tender or private contract with or without notice, advertising or any other formality, all of which are hereby waived by the Debtor. The Agent may, at its discretion establish the terms of such disposition, including, without limitation, terms and conditions as to credit, upset, reserve bid or price. The Agent may also lease the Collateral on such terms as it deems appropriate. The payments for Collateral, whether on a disposition or lease, may be deferred. All payments made pursuant to such dispositions shall be credited against the Obligations only as they are actually received. The Agent may buy in, rescind or vary any contract for the disposition of any Collateral and may dispose of any Collateral again without being answerable for any loss occasioned thereby. Any such disposition may take place whether or not the Agent has taken possession of the Collateral;
- (e) **Foreclose.** Foreclose upon the Collateral in satisfaction of the Obligations. The Agent may designate any part of the Obligations to be satisfied by the foreclosure of particular Collateral which the Agent considers to have a net realizable value approximating the amount of the designated part of the Obligations, in which case

only the designated part of the Obligations shall be deemed to be satisfied by the foreclosure of the particular Collateral;

- (f) **Carry on Business.** Carry on or concur in the carrying on of all or any part of the business of the Debtor and may, in any event, to the exclusion of all others, including the Debtor, enter upon, occupy and use all premises of or occupied or used by the Debtor and use any of the personal property (which shall include fixtures) of the Debtor for such time and such purposes as the Agent sees fit. The Agent shall not be liable to the Debtor for any neglect in so doing or in respect of any rent, costs, charges, depreciation or damages in connection therewith;
- (g) **Payment of Encumbrances.** Pay any Lien that may exist or be threatened against the Collateral. In any such case the amounts so paid together with costs, charges and expenses incurred in connection therewith shall be added to the Obligations secured by this Security Agreement;
- (h) **Payment of Deficiency.** If the proceeds of realization are insufficient to pay all monetary Obligations, the Debtor shall forthwith pay or cause to be paid to the Agent any deficiency and the Agent may sue the Debtor to collect the amount of such deficiency; and
- (i) **Dealing with Collateral.** Subject to applicable law seize, collect, realize, borrow money on the security of, release to third parties, sell (by way of public or private sale), lease or otherwise deal with the Collateral in such manner, upon such terms and conditions, at such time or times and place or places and for such consideration as may seem to the Agent advisable and without notice to the Debtor. The Agent may charge on its own behalf and pay to others sums for expenses incurred and for services rendered (expressly including legal services, consulting, receivers and accounting fees) in or in connection with seizing, collecting, realizing, borrowing on the security of, selling or obtaining payment of the Collateral and may add such sums to the Obligations secured by this Security Agreement.

8.2 Assemble the Collateral.

To assist the Agent in the implementation of such rights and remedies the Debtor will, at its own risk and expense and at the Agent's request, assemble and prepare for removal such items of the Collateral as are selected by the Agent as shall, in the Agent's sole judgment, have a value sufficient to cover all the Obligations.

8.3 Agent Not Liable for Failure to Exercise Remedies.

The Agent shall not be liable or accountable for any delay or failure to exercise its remedies, take possession of, seize, collect, realize, sell, lease or otherwise dispose of or obtain payment for the Collateral. The Agent shall not be bound to institute proceedings for such purposes or for the purpose of preserving any rights, remedies or powers of the Agent, the Debtor or any other person in respect of the Collateral or against any Account Debtor.

8.4 Allocation of Proceeds.

All monies collected or received by the Agent in respect of the Collateral may be held by the Agent and may be applied on account of such parts of the Obligations at the sole discretion of the Agent.

8.5 Extension of Time.

The Secured Parties may grant extensions of time and other indulgences, take and give up securities, accept compositions, grant releases and discharges, release the Collateral to third parties and otherwise deal with the Debtor's guarantors or sureties and others and with the Collateral and other securities as the Agent may see fit without prejudice to the liability of the Debtor to the Secured Parties, or the Agent's rights, remedies and powers under this Security Agreement.

8.6 Forbearance is not Waiver.

No extension of time, forbearance, indulgence or other accommodation now, heretofore or hereafter given by the Agent to the Debtor shall operate as a waiver, alteration or amendment of the rights of the Agent or otherwise preclude the Agent from enforcing such rights.

8.7 Effect of Appointment of Receiver.

As soon as the Agent takes possession of any Collateral or appoints a Receiver, all powers, functions, rights and privileges of the directors and officers of the Debtor with respect to that Collateral shall cease, unless specifically continued by the written consent of the Agent or the Receiver.

8.8 Limitation of Liability.

The Agent shall not be liable by reason of any entry into or taking possession of any of the Collateral hereby charged or intended so to be or any part thereof, to account as mortgagee in possession or for anything except actual receipts or be liable for any loss on realization or any act or omission for which a secured party in possession might be liable. The Debtor acknowledges and agrees that any and all payments, responsibilities, obligations and liabilities in respect of the Collateral shall remain those of the Debtor and no such payments, responsibilities, obligations or liabilities are assigned hereby nor are assumed or incurred by the Agent hereunder.

8.9 Release by Debtor.

The Debtor hereby releases and discharges the Secured Parties and the Receiver from every claim of every nature, whether sounding in damages or not, which may arise or be caused to the Debtor or any person claiming through or under the Debtor by reason or as a result of any act or omission of the Agent or any successor or assign claiming through or under the Secured Parties or the Receiver under the provisions of this Security Agreement unless such claim is the result of dishonesty or gross neglect.

8.10 Performance by Agent.

Nothing herein shall obligate the Agent to assume or perform any obligation of the Debtor to any third party in respect or arising out of the Collateral. The Debtor agrees to indemnify and save harmless the Agent from any and all claims of such third parties. The Agent may however at its

option assume or perform any such obligations which the Agent considers necessary or desirable to obtain the benefit of the Collateral, or any part thereof, free of any set off, deduction or abatement and any money so expended by the Agent shall form part of the Obligations and shall bear interest at the highest rate per annum from time to time charged by the Agent on any of the other Obligations.

Section 9

MISCELLANEOUS

9.1 Costs.

The Debtor will indemnify and reimburse the Agent on demand for all interest, commissions, costs of realization and other costs and expenses (including the full amount of all legal fees and expenses paid by the Agent) incurred by the Agent or any Receiver in connection with:

- (a) the perpetual registration of any financing statement registered in connection with the security interests hereby created;
- (b) the preparation, execution, perfection, protection, enforcement of and advice with respect to this Security Agreement;
- (c) the realization, disposition of, retention, protection, insuring or collection of any Collateral;
- (d) the protection or enforcement of the rights, remedies and powers of the Agent or any Receiver, including, without limitation, participation, preparation and advice with respect to any actions or proceedings commenced or threatened by or against the Debtor or any person who from time to time guarantees, assumes or otherwise becomes liable for the Obligations or who covenants and agrees to indemnify the Agent for any loss, costs or damages as a result of the Debtor's failure to perform the Obligations;
- (e) the inspection of the Collateral;
- (f) investigating title to the Collateral;
- (g) the compliance by the Agent with all demands made upon the Agent to amend, extend, cancel or discharge any registrations and filings related hereto; and
- (h) any other cost related hereto.

All amounts for which the Debtor is required hereunder to reimburse the Agent or any Receiver shall, from the date of disbursement until the date the Agent or the Receiver receives reimbursement, be deemed advanced to the Debtor by the Agent, shall be deemed to be Obligations and shall bear interest at the highest rate per annum from time to time charged by the Agent on any of the other Obligations.

9.2 Appointment of Attorney.

The Debtor hereby constitutes and appoints the Agent, or any Receiver, the true and lawful attorney of the Debtor irrevocably with full power of substitution to do, make and execute all such assignments, documents, acts, matters or things with the right to use the name of the Debtor

whenever and wherever it may be deemed necessary or expedient. The Debtor hereby declares that the irrevocable power of attorney granted hereby, being coupled with an interest, is given for valuable consideration.

9.3 No Obligation to Make Advances.

Nothing herein shall obligate the Secured Parties to make any advance or loan or further advance or extend credit to the Debtor and, in particular, nothing herein shall obligate the Secured Parties to advance any unadvanced portion of any loan or credit to the Debtor after the occurrence of an Event of Default. Except to the extent that the Agent:

- (a) by accepting bills of exchange drawn on it by the Debtor; or
- (b) by issuing letters of credit or letters of guarantee on the application of the Debtor,

is required to advance monies on the maturity of those bills or pursuant to those letters of credit or letters of guarantee, as the case may be, none of the preparation, execution, perfection or registration of this Security Agreement or the advance of any monies by the Agent shall bind the Agent to make any further advance.

9.4 Security Interests Effective Immediately.

Neither the execution of, nor any filing with respect to, this Security Agreement shall bind the Agent to grant any credit to the Debtor, but the security interests hereby created shall take effect forthwith upon the execution of this Security Agreement by the Debtor.

9.5 Security in Addition and not in Substitution, Remedies Cumulative.

The rights, remedies and powers conferred by this Security Agreement are in addition to, and not in substitution for, any other rights, remedies or powers the Agent may have under this Security Agreement, at law, in equity or by or under the PPSA or any other statute. The Agent may proceed by way of any action, suit or other proceeding at law or in equity and no right, remedy or power of the Agent shall be exclusive of or dependent on any other. The Agent may exercise any of its rights, remedies or powers separately or in combination and at any time.

9.6 Statutory Waivers.

To the fullest extent permitted by law, the Debtor waives all of the rights, benefits and protection given by the provisions of any existing or future statute which imposes limitations upon the rights, remedies or powers of the Agent or upon the methods of realization of security, including any seize or sue or anti-deficiency statute or any similar provisions of any other statute. In particular, the Debtor waives all rights, benefits and protection given by the *Civil Enforcement Act* and sections 47 to 50 of the *Law of Property Act* of the Province of Alberta insofar as they extend to or relate to any of the Collateral. The *Limitation of Civil Rights Act* of the Province of Saskatchewan shall not apply to the security interests hereby created or any of the rights, remedies or powers of the Agent or any Receiver.

9.7 Provisions Reasonable.

The Debtor acknowledges that the provisions of this Security Agreement and, in particular, those respecting rights, remedies and powers of the Agent and any Receiver against the Debtor, its

business and any Collateral upon an Event of Default, are commercially reasonable and not manifestly unreasonable.

9.8 Further Assurances.

The Debtor shall at all times, do, execute, acknowledge and deliver or cause to be done, executed, acknowledged or delivered all such further acts, deeds, transfers, assignments, security agreements and assurances as the Agent may reasonably require in order to give effect to the provisions hereof and for the better granting, transferring, assigning, charging, setting over, assuring, confirming or perfecting the security interests hereby created and the priority accorded to them by law or under this Security Agreement.

9.9 Notices.

- (a) Every notice, demand and other communication in connection with this Security Agreement (including, without limitation, notices required or permitted under the *Bankruptcy and Insolvency Act*) and all legal process in regard hereto shall be validly given, made or served if in writing and delivered to, or mailed, postage prepaid, or facsimiled or sent by other similar form of communication (collectively "**Electronic Communication**") to the intended recipient at its address first written above or to such other address or person as the other party may from time to time designate by notice.
- (b) Any notice, requisition, demand or other instrument, (including, without limitation, notices required or permitted under the *Bankruptcy and Insolvency Act*) if delivered, shall be deemed to have been given or made on the day on which it was delivered and if sent by Electronic Communication shall be deemed to have been given or made on the business day next following the day on which it was so sent, and if mailed shall be deemed to have been given or made on the third business day following the day on which it was so mailed. Any party hereto may give written notice of a change of address in the same manner, in which event any notice shall thereafter be given to it as above provided at such changed address.

9.10 Discharge.

Upon payment and performance by the Debtor of the Obligations secured hereby the Agent shall upon request in writing by the Debtor deliver up this Security Agreement to the Debtor and shall at the expense of the Debtor cancel and discharge the security interests hereby created and execute and deliver to the Debtor such documents as shall be requisite to discharge the security interests hereby created.

9.11 Amalgamation.

In the event of the amalgamation of the Debtor, this Security Agreement and all other security delivered by the Debtor in connection with this Security Agreement shall be binding on the amalgamated corporation and charge its present and future undertaking, property and assets to secure the present and future Obligations of the amalgamated corporation, all as if the amalgamated corporation had originally executed and delivered those documents; provided nothing in this paragraph shall be construed as a consent or a permission for the Debtor to amalgamate.

9.12 Delivery of Copy/Waiver.

The Debtor hereby acknowledges receiving a copy of this Security Agreement. The Debtor waives all rights to receive from the Agent a copy of any financing statement or financing change statement registered or verification statement issued at any time in respect of this Security Agreement.

9.13 Release of Information.

The Debtor hereby authorizes the Agent to provide a copy of this Security Agreement and such other information (including full details of the Obligations) as may be requested of the Agent by persons entitled thereto under the PPSA.

9.14 Inspection, Management and Repairs.

The Debtor covenants and agrees that the Agent may, but shall be under no obligation to, at such time or times as the Agent deems necessary and without the concurrence of the Debtor or any other person make such arrangements for the repairing, finishing and putting in order of the Business Premises, including, without limitation, such repairs, replacements and improvements as are necessary so that the Debtor and the Business Premises comply with Environmental Laws, and all reasonable costs, charges and expenses including an allowance for the time and services of the Agent, the Agent's servants or agents or any other person or persons appointed for the above purposes including, without limitation, the full amount of all legal fees, disbursements, costs, charges and expenses incurred by the Agent and any amount due hereunder shall be payable forthwith to the Agent, shall be deemed an advance to the Debtor by the Agent, shall be deemed to be Obligations, and shall bear interest at the highest rate per annum from time to time charged by the Agent on any of the other Obligations until paid.

9.15 Authorization of Inquiries.

The Debtor hereby authorizes the Agent to make enquiries from time to time of any governmental authority with respect to the Debtor's compliance with Environmental Laws and the Debtor agrees that the Debtor will from time to time provide to the Agent with such written authorization as the Agent may reasonably require in order to facilitate the obtaining of such information.

9.16 Indemnification.

- (a) The Debtor shall indemnify, reimburse and save harmless the Secured Parties and any receiver and their respective directors, officers, employees, agents, successors and assigns, from any and all liabilities, actions, damages, claims, losses, costs and expenses whatsoever (including without limitation, the full amount of all legal fees, costs, charges and expenses and the cost of removal, treatment, storage and disposal of any Hazardous Materials and remediation of the Business Premises) which may be paid, incurred or asserted against the Secured Parties or any receiver for, with respect to or as a direct or indirect result of the presence on or under, or the escape, seepage, leakage, spillage, discharge, emission or release from, the Business Premises or into or upon any other land, the atmosphere or any watercourse, body of water or wetland of any Hazardous Materials.
- (b) Any amount owing by the Debtor hereunder shall, from the date of disbursement until the date the recipient receives reimbursement, be deemed advanced to the

Debtor by the Secured Parties, shall be deemed to be obligations and shall bear interest at the highest rate per annum from time to time charged by the Secured Parties on any of the other Obligations until paid.

- (c) The Debtor agrees that the indemnity obligations hereunder shall survive the release of the security of this Security Agreement and the payment and satisfaction of the indebtedness and liabilities hereby secured, but only insofar as such indemnity obligations relate to liabilities, actions, damages, claims, losses, costs and expenses arising in connection with Hazardous Material that were on the Business Premises prior to such release, payment and satisfaction.

Section 10

INTERPRETATION

10.1 Entire Agreement/Amendment.

This Security Agreement contains the entire agreement between the parties relating to the security interests hereby created. Any amendment of this Security Agreement shall not be binding unless in writing and signed by the Agent and the Debtor. The Debtor confirms that there are no representations, warranties, covenants or acknowledgements affecting, or relied upon in entering this Security Agreement.

10.2 Severability.

Any provision of this Security Agreement prohibited by law or otherwise ineffective shall be ineffective only to the extent of such prohibition or ineffectiveness and shall be severable without invalidating or otherwise affecting the remaining provisions hereof.

10.3 Joint and Several Liability.

If more than one person executes this Security Agreement as Debtor, their obligations hereunder and the liability resulting therefrom shall be joint and several.

10.4 Headings.

All headings and titles in this Security Agreement are for reference only and are not to be used in the interpretation of the terms hereof.

10.5 Included Words.

Wherever the singular or the masculine are used herein, the same shall be deemed to include the plural or the feminine or the body politic or corporate where the context or the parties so require.

10.6 Applicable Law.

This Security Agreement shall be construed and enforceable under and in accordance with the laws of British Columbia and the laws of Canada applicable therein. The Debtor hereby irrevocably submits and attorns to the jurisdiction of the British Columbia Supreme Court sitting at Vancouver, British Columbia.

10.7 Binding Effect.

This Security Agreement shall be binding on the Debtor and its successors, heirs, administrators and executors and shall enure to the benefit of the Agent and its successors and assigns.

Officer Signature(s)

Name:

Execution Date

Y	M	D

Transferor(s) Signature(s)

CANFOR PULP INTERNATIONAL LTD.
by its authorized signatory:

OFFICER CERTIFICATION:
Your signature constitutes a representation that you are a solicitor, notary public or other person authorized by the *Evidence Act*, R.S.B.C. 1979, c.116, to take affidavits for use in British Columbia and certifies the matters set out in Part 5 of the *Land Title Act* as they pertain to the execution of this instrument.

SCHEDULE A

SPECIFIC EQUIPMENT DESCRIPTION

SCHEDULE B

DEBTOR'S PLACES OF BUSINESS

**Intercontinental Pulp Mill
2533 Pulp Mill Road, Prince George, British Columbia, V2N 2K3**

**Northwood Pulp Mill
5353 Northwood Pulp Mill Road, Prince George, BC V2L 4W2**

**Prince George Pulp & Paper Mill
2789 Pulp Mill Road, Prince George, BC V2N 2K3**

**Executive and Sales & Marketing Offices
Suite 230, 1700 West 75th Avenue, Vancouver, BC V6P 6G2**

SECURITY AGREEMENT

(Canfor Pulp and Paper Sales Ltd.)

THIS SECURITY AGREEMENT dated for reference November 5, 2013.

Section 1

DEFINITIONS

1.1 Defined Terms.

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

- (a) **"Agent"** means HSBC Bank Canada, and its successors, as administrative agent under the Credit Agreement and any successor administrative agent appointed under the Credit Agreement.
- (b) **"Business Premises"** means real property which the Debtor uses in its business, if any.
- (c) **"Collateral"** means all present and after-acquired personal property and other property, assets, rights and undertaking owned, leased, licensed, possessed or acquired by the Debtor, or in which the Debtor has rights, including all present and after-acquired Goods (including Equipment and Inventory), Investment Property, Instruments, Documents of Title, Chattel Paper, Intangibles (including Accounts), Money, crops and fixtures, owned, leased, licensed, possessed or acquired by the Debtor, or in which the Debtor has rights, and all Proceeds of that property, but specifically excludes the Excluded Collateral.
- (d) **"Contracts"** means all contracts, licenses and agreements to which the Debtor is at any time a party or pursuant to which the Debtor has at any time acquired rights, as those contracts, licenses and agreements may be amended, restated, supplemented or replaced, and includes all rights of the Debtor:
 - (i) to receive money due and to become due to it in connection with a contract, licence or agreement;
 - (ii) to damages arising out of, or for breach or default in respect of, a contract, licence or agreement; and
 - (iii) to perform and exercise all remedies in connection with a contract, licence or agreement.
- (e) **"Credit Agreement"** means the amended and restated credit agreement dated for reference November 5, 2013 among, *inter alia*, Canfor Pulp Limited Partnership as borrower, HSBC Bank Canada as co-lead arranger, co-bookrunner and administrative agent, Canadian Imperial Bank of Commerce as co-lead arranger, co-bookrunner and syndication agent, Export Development Canada as

documentation agent and the Lenders as defined therein, as may be amended, supplemented, restated or replaced from time to time.

- (f) **"Debtor"** means Canfor Pulp and Paper Sales Ltd., a British Columbia corporation, and its successors.
- (g) **"Environmental Laws"** means any laws, regulations, orders, by-laws, permits or lawful requirements of any governmental authority with respect to environmental protection or regulating hazardous materials;
- (h) **"Equipment"** means, collectively, all Goods in which the Debtor now or hereafter has rights other than Inventory or Consumer Goods and any part thereof, including, without limitation, all tools, apparatus, fixtures, plant, machinery, furniture, chattels, vehicles, vessels, air conditioning, heating, ventilating, electrical, mechanical, plumbing, communications and data systems, elevators, escalators and other conveyancing devices, boilers, furnaces, carpets, blinds, window coverings, curtains, awnings, lighting fixtures, doors, windows, demising walls and partitions, wiring, pipes, conduits, seasonal decorations, and the equipment described in **Schedule A** hereto or any schedule hereafter annexed hereto.
- (i) **"Event of Default"** means the occurrence of (i) an Event of Default as defined in the Credit Agreement, (ii) a "default," "event of default" or similar circumstance identified in any Secured Agreement that entitles the Debtor's counterparty to enforce its rights under that Secured Agreement, (iii) the failure of the Debtor to pay any of the Obligations when due, or (iv) any demand for payment validly made by any Secured Party pursuant to any Secured Agreement that is not met in accordance with the terms of the demand or within any applicable grace period.
- (j) **"Excluded Collateral"** means Consumer Goods and any Intellectual Property Right, Permit or Contract which would be breached or terminated if a security interest was granted in it without the consent of a third party, unless that consent is obtained, but does not include Accounts.
- (k) **"Hazardous Materials"** means any asbestos material, urea formaldehyde, explosives, radioactive materials, pollutants, contaminants, hazardous substances, corrosive substances, toxic substances, special waste or waste of any kind including, without limitation, compounds known as chlorobiphenyls and any substance the storage, manufacture, disposal, treatment, generation, use, transport, remediation or release of which into the environment is prohibited, controlled or licensed under Environmental Laws.
- (l) **"Intellectual Property Rights"** means all industrial and intellectual property rights, including copyrights, patents, trade-marks, industrial designs, know how and trade secrets, and all Contracts related to those industrial and intellectual property rights.
- (m) **"Obligations"** means all debts, liabilities and obligations of the Debtor to the Secured Parties under or in connection with the Secured Agreements, whether present or future, direct or indirect, absolute or contingent, matured or not, at any time owing or remaining unpaid by the Debtor to the Secured Parties in any currency under or in connection with the Secured Agreements, whether arising from dealings between the Secured Parties and the Debtor or from other dealings

or proceedings by which the Secured Parties may be or become in any manner whatever creditors of the Debtor under or in connection with the Secured Agreements, and wherever incurred, and whether incurred by the Debtor alone or with another or others and whether as principal or surety and all interest, fees, commissions and legal and other costs, charges and expenses owing or remaining unpaid by the Debtor to the Secured Parties in any currency under or in connection with the Secured Agreements.

- (n) **"Permits"** means all authorizations, registrations, permits, licenses, consents, quotas, grants, approvals, franchises, rights-of-way, easements and entitlements that the Debtor has, or is required to have, to own, possess or operate any of its property, or to operate and carry on any part of its business.
- (o) **"PPSA"** means the *Personal Property Security Act* (British Columbia), as amended, supplemented or replaced and includes all regulations made under that legislation.
- (p) **"Records"** means, collectively, all books, papers, documents, writings, tapes, magnetic or other machine readable data and records, and all other information, however stored, recording or relating to any of the Collateral.
- (q) **"Secured Agreements"** means the Credit Agreement, the Guarantee Agreement executed by the Debtor, and all present and future agreements under which Canfor Hedging Obligations or Bank Products Obligations arise, as such agreements may be amended, supplemented, restated and replaced from time to time, and any reference to "the Secured Agreements" in this Agreement shall be interpreted as referring to "the Secured Agreements or any of them."
- (r) **"Secured Parties"** means each person that from time to time (i) is defined as a "Lender" or as the "Administrative Agent" under the Secured Agreements or (ii) is a Lender or affiliate of a Lender to whom Canfor Hedging Obligations or Bank Products Obligations are owed, in each case in its capacity as a creditor under the Secured Agreements. Any reference to the "Secured Parties" shall be interpreted as referring to "the Secured Parties or any of them." If a Lender ceases to be a Lender by reason of assigning all of its rights and obligations under the Secured Agreements or having the Obligations owing to it under or in connection with the Secured Agreements paid in full as a Declining Lender, then that Lender and any affiliate to whom Canfor Hedging Obligations or Bank Products Obligations are owed shall cease to be Secured Parties under this Agreement.
- (s) **"STA"** means the *Securities Transfer Act* (British Columbia) as amended, supplemented or replaced and includes all regulations made under that legislation.

Capitalized terms that are used but not defined in this Security Agreement have the meanings defined in the Credit Agreement, the PPSA and the STA, as applicable.

Section 2

SECURITY INTEREST

2.1 Creation of Security Interest.

The Debtor, having its chief executive office at Suite 230, 1700 West 75th Avenue, Vancouver, British Columbia, V6P 6G2, as continuing security for the payment and performance of each of the Obligations, grants to the Agent for the benefit of the Secured Parties, having an office at Suite 200, 885 West Georgia Street, Vancouver, British Columbia, V6C 3G1, a continuing, specific and fixed mortgage, charge and security interest in, and a security interest is taken in, all of the Debtor's right, title and interest in and to the Collateral.

2.2 Floating Charge.

As security for the payment and performance of each of the Obligations, the Debtor grants a floating charge to the Agent for the benefit of the Secured Parties on and over all the Debtor's right, title and interest in and to real property, whether in fee or of a lesser estate, including without limitation, all leasehold property, easements, rights of way, fixtures, crops and improvements, both present and future, other than such as are validly and effectively charged under Section 2.1 or excluded under Section 2.4.

2.3 Attachment.

The Debtor acknowledges that value has been given. The security interests created hereby are intended to attach, as to all of the Collateral in which the Debtor has rights or interests, forthwith when the Debtor executes this Security Agreement, and, as to all Collateral in which the Debtor acquires any right or interest after the execution of this Security Agreement, when the Debtor acquires such right or interest.

2.4 Exception -- Leases

The last day of any term reserved by any lease, verbal or written, or any agreement therefor, now held or hereafter acquired by the Debtor is hereby excepted out of the mortgages, charges and security interests created hereby. The Debtor shall assign and dispose of such last day of any term reserved by any such lease in such manner as the Agent may from time to time direct in writing. Upon any sale, assignment, sublease or other disposition of such lease or agreement to lease, the Agent shall, for the purpose of vesting the aforesaid residue of any such term in any purchaser, assignee, sublessee or such other acquirer of the lease, agreement to lease or any interest therein, be entitled by deed or other written instrument to assign to such other person, the aforesaid residue of any such term in place of the Debtor and to vest the same freed and discharged from any obligation whatsoever respecting the same.

2.5 Intellectual Property.

Nothing in Section 2.1 is to be construed as constituting an absolute transfer or assignment of any present or future Intellectual Property Rights, but those sections are to be construed as granting to the Secured Parties a security interest in and a charge on all of the Debtor's present and after-acquired Intellectual Property Rights.

2.6 Where Consent Required.

Nothing herein shall constitute an assignment or attempted assignment of any right, privilege, benefit, policy or other document or instrument, including any Contract or Permit, which by the provisions thereof or by law is not assignable or which requires the consent of any third party to its assignment unless and until such consent is obtained or is waived by the third party. In each such case the Debtor shall, unless the Agent otherwise agrees in writing, forthwith obtain the consent of any necessary third party to its assignment hereby and for its further assignment by the Agent to any third party who may acquire same as a result of the Agent's exercise of remedies after an Event of Default. Upon such consents being obtained or waived, this Security Agreement shall apply thereto without regard to this Section 2.6 and without the necessity of any further assurance to effect the assignment thereof.

2.7 Pending Consent.

In any case to which Section 2.6 applies, unless and until consent to assignment is obtained as therein provided, the Debtor shall, to the extent it may do so by law or pursuant to the provisions of the document or instrument therein referred to, hold all benefit to be derived therefrom in trust for the Agent as additional security for the payment and performance of the Obligations and shall deliver up all such benefit to the Agent forthwith upon demand by the Agent.

Section 3

OBLIGATIONS SECURED

3.1 Obligations Secured.

The Collateral constitutes and will constitute continuing security for Obligations.

3.2 Reduction of Obligations.

The Obligations may be reduced to zero from time to time without affecting the validity, perfection or enforceability of this Security Agreement or the security interests created hereby until this Security Agreement is discharged in accordance with Section 8.10.

Section 4

DEBTOR'S REPRESENTATIONS AND WARRANTIES

4.1 General.

The Debtor represents and warrants to and for the benefit of the Secured Parties and so long as this Security Agreement remains in effect shall be deemed to continuously represent and warrant as set out in this Section 4.

4.2 Incorporation, Qualifications and Corporate Power.

The Debtor is a body corporate, duly incorporated, properly organized and validly existing under the laws of the Province of British Columbia and is duly registered and qualified to do business under the laws of each jurisdiction in which the character of the properties owned by it or the nature of the activities conducted by it make such registration or qualification advisable or necessary.

4.3 Enforceability.

This Security Agreement constitutes a valid and legally binding obligation of the Debtor enforceable against the Debtor in accordance with its terms, subject only to bankruptcy, insolvency or other statutes or judicial decisions affecting the enforcement of creditors' rights generally and to general principles of equity.

4.4 Name.

The full legal name of the Debtor (including any French or French/English form of its legal name), and any other name under which it conducts its business, is correctly specified on the signature page of this Security Agreement.

4.5 Survival and Reliance.

All representations and warranties of the Debtor made herein or in any certificate or other document delivered by or on behalf of the Debtor for the benefit of the Agent are material, shall survive the execution and delivery of this Security Agreement and shall continue in full force and effect without time limit. The Agent is deemed to have relied upon each such representation and warranty notwithstanding any investigation made by or on behalf of the Agent at any time.

Section 5

DEBTOR'S COVENANTS

5.1 General.

Unless compliance with the following covenants is waived by the Secured Parties in writing or unless non-compliance with any such covenants is otherwise consented to by the Secured Parties by written agreement with the Debtor, the Debtor covenants and agrees with the Secured Parties to observe and perform each of the covenants set out in this Section 5.

5.2 Keep Collateral in Good Repair.

The Debtor will keep the Collateral in good order, condition and repair.

5.3 Conduct of Business.

The Debtor will carry on and conduct its business in a proper and efficient manner so as to protect and preserve the Collateral.

5.4 Compliance with Agreements and Laws.

The Debtor will not use the Collateral in violation of this Security Agreement or any other agreement relating to the Collateral or any policy insuring the Collateral or any applicable statute, law, by-law, rule, regulation, court order or ordinance.

5.5 Inspection of Records and Collateral.

The Debtor will at all times keep accurate and complete records of the Collateral as well as proper books of account for its business all in accordance with generally accepted accounting principles, consistently applied. The Debtor will permit the Agent or its authorized agents to have access to all premises occupied by the Debtor or any place where the Collateral may be found to

inspect the Collateral and to examine the books of accounts, financial records and reports of the Debtor and to have temporary custody of, make copies of and take extracts from such books, records and reports.

5.6 Access to Computer Information.

In the event that the use of a computer system is required to access any information and data which the Agent is entitled to access and examine hereunder, the Debtor will allow the Agent the use of its computer system for such purpose and will provide assistance in that regard. If for any reason such information and data cannot be accessed and retrieved at the Debtor's premises the Agent may remove the medium in which such information or data is stored from the Debtor's premises to any other place which has a computer system that will give the Agent the opportunity to retrieve, record or copy such information and data. The Agent is hereby authorized to reproduce and retain a copy of any such information and data in any format whatsoever.

5.7 Delivery of Documents.

The Debtor will promptly deliver to the Agent upon request:

- (a) **Documents of Title.** Any Chattel Paper, Instruments, Investment Property, and Documents of Title, and upon such delivery, where applicable, duly endorse the same for transfer in blank or as the Agent may direct;
- (b) **Books of Account.** All computer software, tapes, discs, drums and cards, all books of account and all records, ledgers, reports, correspondence, schedules, documents, statements, lists and other writings relating to the Collateral or the Debtor's business for the purpose of inspecting, auditing or copying the same;
- (c) **Agreements.** All agreements, licenses, permits and consents relating to the Collateral and the Debtor's business; and
- (d) **Other Information.** Such information concerning the Collateral as the Agent may request.

5.8 Proceeds In Trust.

The Debtor will and shall be deemed to hold all Proceeds in trust, separate and apart from other Money, Instruments or property, for the benefit of the Agent until all amounts owing by the Debtor under the Credit Agreement have been paid in full and all obligations of the Debtor under the Credit Agreement have been terminated.

5.9 Performance and Default by Debtor.

The Debtor will observe and perform all the obligations imposed on the Debtor by or in respect of the Collateral, maintain the Collateral in good standing and not do or permit to be done anything to impair, and not omit to do anything that would prevent the impairment of, the security interests hereby created. The Debtor will give to the Agent prompt notice of any default by the Debtor in the performance of its covenants under this Security Agreement.

Section 6

COLLECTION OF ACCOUNTS

6.1 Collection of Accounts.

The Agent may, whether before or after default under this Security Agreement, notify and direct any Account Debtor to make all payments whatever to the Agent. The Agent may hold all amounts acquired from any Account Debtor and any Proceeds as part of the Collateral.

6.2 Trust Provision.

Any payments received by the Debtor after notification to Account Debtors, shall be held by the Debtor in trust for the Agent in the same medium in which received, shall not be commingled with any assets of the Debtor and shall, at the request of the Agent, be turned over to the Agent not later than the next business day following the day of their receipt.

Section 7

DEFAULT

7.1 Default.

The occurrence of an Event of Default will constitute an "Event of Default" under this Security Agreement.

7.2 Crystallization.

The floating charge created by Section 2.2 shall become a fixed charge as soon as:

- (a) the Agent gives notice to that effect to the Debtor;
- (b) the Agent takes any step to accelerate or demand payment of the Obligations, or gives notice of its intention or takes any steps to enforce its security; or
- (c) an Event of Default occurs in respect of the Debtor.

7.3 Demand Obligations.

The fact that this Security Agreement provides for Events of Default and rights of acceleration shall not derogate from the demand nature of any Obligation payable on demand.

7.4 Waiver not to Affect Subsequent Breach.

The Secured Parties may waive default or any breach by the Debtor of any of the provisions contained in this Security Agreement. No waiver shall extend to a subsequent breach or default, whether or not the same as or similar to the breach or default waived. No act or omission of the Secured Parties shall extend to or be taken in any manner whatsoever to affect any subsequent breach or default of the Debtor or the rights of the Secured Parties resulting therefrom. Any such waiver must be in writing and signed by the Agent to be effective.

Section 8

AGENT'S REMEDIES ON DEFAULT

8.1 Indebtedness Due and Rights and Remedies.

Upon the occurrence of an Event of Default, all of the Obligations shall become immediately due and payable without notice to the Debtor, and the Agent may, at its option, proceed to enforce payment of same and to exercise any or all of the rights and remedies contained herein, including, without limitation, the signification and collection of the Debtor's Accounts, or otherwise afforded by law, in equity or otherwise. The Agent shall have the right to enforce one or more remedies successively or concurrently in accordance with applicable law and the Agent expressly retains all rights and remedies not inconsistent with the provisions herein including all the rights it may have under the PPSA, and, without restricting the generality of the foregoing, the Agent may upon such Event of Default:

- (a) **Appointment of Receiver.** Appoint by instrument in writing a receiver, receiver-manager or receiver and manager (herein a "Receiver") of the Debtor and of all or any part of the Collateral and remove or replace such Receiver from time to time or may institute proceedings in any court of competent jurisdiction for the appointment of a Receiver. Any Receiver appointed by the Agent so far as concerns responsibility for its acts shall be deemed the agent of the Debtor and not of the Agent. Where the Agent is referred to in this Section the reference includes, where the context permits, any Receiver so appointed and the officers, employees, servants or agents of such Receiver;
- (b) **Enter and Repossess.** Immediately and without notice enter the Debtor's premises and repossess, disable or remove the Collateral and the Debtor hereby grants to the Agent a licence to occupy any premises of the Debtor for the purpose of storage of the Collateral;
- (c) **Retain the Collateral.** Retain and administer the Collateral in the Agent's sole and unfettered discretion, which the Debtor hereby acknowledges is commercially reasonable;
- (d) **Dispose of the Collateral.** Dispose of any Collateral by public auction, private tender or private contract with or without notice, advertising or any other formality, all of which are hereby waived by the Debtor. The Agent may, at its discretion establish the terms of such disposition, including, without limitation, terms and conditions as to credit, upset, reserve bid or price. The Agent may also lease the Collateral on such terms as it deems appropriate. The payments for Collateral, whether on a disposition or lease, may be deferred. All payments made pursuant to such dispositions shall be credited against the Obligations only as they are actually received. The Agent may buy in, rescind or vary any contract for the disposition of any Collateral and may dispose of any Collateral again without being answerable for any loss occasioned thereby. Any such disposition may take place whether or not the Agent has taken possession of the Collateral;
- (e) **Foreclose.** Foreclose upon the Collateral in satisfaction of the Obligations. The Agent may designate any part of the Obligations to be satisfied by the foreclosure of particular Collateral which the Agent considers to have a net realizable value approximating the amount of the designated part of the Obligations, in which case

only the designated part of the Obligations shall be deemed to be satisfied by the foreclosure of the particular Collateral;

- (f) **Carry on Business.** Carry on or concur in the carrying on of all or any part of the business of the Debtor and may, in any event, to the exclusion of all others, including the Debtor, enter upon, occupy and use all premises of or occupied or used by the Debtor and use any of the personal property (which shall include fixtures) of the Debtor for such time and such purposes as the Agent sees fit. The Agent shall not be liable to the Debtor for any neglect in so doing or in respect of any rent, costs, charges, depreciation or damages in connection therewith;
- (g) **Payment of Encumbrances.** Pay any Lien that may exist or be threatened against the Collateral. In any such case the amounts so paid together with costs, charges and expenses incurred in connection therewith shall be added to the Obligations secured by this Security Agreement;
- (h) **Payment of Deficiency.** If the proceeds of realization are insufficient to pay all monetary Obligations, the Debtor shall forthwith pay or cause to be paid to the Agent any deficiency and the Agent may sue the Debtor to collect the amount of such deficiency; and
- (i) **Dealing with Collateral.** Subject to applicable law seize, collect, realize, borrow money on the security of, release to third parties, sell (by way of public or private sale), lease or otherwise deal with the Collateral in such manner, upon such terms and conditions, at such time or times and place or places and for such consideration as may seem to the Agent advisable and without notice to the Debtor. The Agent may charge on its own behalf and pay to others sums for expenses incurred and for services rendered (expressly including legal services, consulting, receivers and accounting fees) in or in connection with seizing, collecting, realizing, borrowing on the security of, selling or obtaining payment of the Collateral and may add such sums to the Obligations secured by this Security Agreement.

8.2 Assemble the Collateral.

To assist the Agent in the implementation of such rights and remedies the Debtor will, at its own risk and expense and at the Agent's request, assemble and prepare for removal such items of the Collateral as are selected by the Agent as shall, in the Agent's sole judgment, have a value sufficient to cover all the Obligations.

8.3 Agent Not Liable for Failure to Exercise Remedies.

The Agent shall not be liable or accountable for any delay or failure to exercise its remedies, take possession of, seize, collect, realize, sell, lease or otherwise dispose of or obtain payment for the Collateral. The Agent shall not be bound to institute proceedings for such purposes or for the purpose of preserving any rights, remedies or powers of the Agent, the Debtor or any other person in respect of the Collateral or against any Account Debtor.

8.4 Allocation of Proceeds.

All monies collected or received by the Agent in respect of the Collateral may be held by the Agent and may be applied on account of such parts of the Obligations at the sole discretion of the Agent.

8.5 Extension of Time.

The Secured Parties may grant extensions of time and other indulgences, take and give up securities, accept compositions, grant releases and discharges, release the Collateral to third parties and otherwise deal with the Debtor's guarantors or sureties and others and with the Collateral and other securities as the Agent may see fit without prejudice to the liability of the Debtor to the Secured Parties, or the Agent's rights, remedies and powers under this Security Agreement.

8.6 Forbearance is not Waiver.

No extension of time, forbearance, indulgence or other accommodation now, heretofore or hereafter given by the Agent to the Debtor shall operate as a waiver, alteration or amendment of the rights of the Agent or otherwise preclude the Agent from enforcing such rights.

8.7 Effect of Appointment of Receiver.

As soon as the Agent takes possession of any Collateral or appoints a Receiver, all powers, functions, rights and privileges of the directors and officers of the Debtor with respect to that Collateral shall cease, unless specifically continued by the written consent of the Agent or the Receiver.

8.8 Limitation of Liability.

The Agent shall not be liable by reason of any entry into or taking possession of any of the Collateral hereby charged or intended so to be or any part thereof, to account as mortgagee in possession or for anything except actual receipts or be liable for any loss on realization or any act or omission for which a secured party in possession might be liable. The Debtor acknowledges and agrees that any and all payments, responsibilities, obligations and liabilities in respect of the Collateral shall remain those of the Debtor and no such payments, responsibilities, obligations or liabilities are assigned hereby nor are assumed or incurred by the Agent hereunder.

8.9 Release by Debtor.

The Debtor hereby releases and discharges the Secured Parties and the Receiver from every claim of every nature, whether sounding in damages or not, which may arise or be caused to the Debtor or any person claiming through or under the Debtor by reason or as a result of any act or omission of the Agent or any successor or assign claiming through or under the Secured Parties or the Receiver under the provisions of this Security Agreement unless such claim is the result of dishonesty or gross neglect.

8.10 Performance by Agent.

Nothing herein shall obligate the Agent to assume or perform any obligation of the Debtor to any third party in respect or arising out of the Collateral. The Debtor agrees to indemnify and save harmless the Agent from any and all claims of such third parties. The Agent may however at its

option assume or perform any such obligations which the Agent considers necessary or desirable to obtain the benefit of the Collateral, or any part thereof, free of any set off, deduction or abatement and any money so expended by the Agent shall form part of the Obligations and shall bear interest at the highest rate per annum from time to time charged by the Agent on any of the other Obligations.

Section 9

MISCELLANEOUS

9.1 Costs.

The Debtor will indemnify and reimburse the Agent on demand for all interest, commissions, costs of realization and other costs and expenses (including the full amount of all legal fees and expenses paid by the Agent) incurred by the Agent or any Receiver in connection with:

- (a) the perpetual registration of any financing statement registered in connection with the security interests hereby created;
- (b) the preparation, execution, perfection, protection, enforcement of and advice with respect to this Security Agreement;
- (c) the realization, disposition of, retention, protection, insuring or collection of any Collateral;
- (d) the protection or enforcement of the rights, remedies and powers of the Agent or any Receiver, including, without limitation, participation, preparation and advice with respect to any actions or proceedings commenced or threatened by or against the Debtor or any person who from time to time guarantees, assumes or otherwise becomes liable for the Obligations or who covenants and agrees to indemnify the Agent for any loss, costs or damages as a result of the Debtor's failure to perform the Obligations;
- (e) the inspection of the Collateral;
- (f) investigating title to the Collateral;
- (g) the compliance by the Agent with all demands made upon the Agent to amend, extend, cancel or discharge any registrations and filings related hereto; and
- (h) any other cost related hereto.

All amounts for which the Debtor is required hereunder to reimburse the Agent or any Receiver shall, from the date of disbursement until the date the Agent or the Receiver receives reimbursement, be deemed advanced to the Debtor by the Agent, shall be deemed to be Obligations and shall bear interest at the highest rate per annum from time to time charged by the Agent on any of the other Obligations.

9.2 Appointment of Attorney.

The Debtor hereby constitutes and appoints the Agent, or any Receiver, the true and lawful attorney of the Debtor irrevocably with full power of substitution to do, make and execute all such assignments, documents, acts, matters or things with the right to use the name of the Debtor

whenever and wherever it may be deemed necessary or expedient. The Debtor hereby declares that the irrevocable power of attorney granted hereby, being coupled with an interest, is given for valuable consideration.

9.3 No Obligation to Make Advances.

Nothing herein shall obligate the Secured Parties to make any advance or loan or further advance or extend credit to the Debtor and, in particular, nothing herein shall obligate the Secured Parties to advance any unadvanced portion of any loan or credit to the Debtor after the occurrence of an Event of Default. Except to the extent that the Agent:

- (a) by accepting bills of exchange drawn on it by the Debtor; or
- (b) by issuing letters of credit or letters of guarantee on the application of the Debtor,

is required to advance monies on the maturity of those bills or pursuant to those letters of credit or letters of guarantee, as the case may be, none of the preparation, execution, perfection or registration of this Security Agreement or the advance of any monies by the Agent shall bind the Agent to make any further advance.

9.4 Security Interests Effective Immediately.

Neither the execution of, nor any filing with respect to, this Security Agreement shall bind the Agent to grant any credit to the Debtor, but the security interests hereby created shall take effect forthwith upon the execution of this Security Agreement by the Debtor.

9.5 Security in Addition and not in Substitution, Remedies Cumulative.

The rights, remedies and powers conferred by this Security Agreement are in addition to, and not in substitution for, any other rights, remedies or powers the Agent may have under this Security Agreement, at law, in equity or by or under the PPSA or any other statute. The Agent may proceed by way of any action, suit or other proceeding at law or in equity and no right, remedy or power of the Agent shall be exclusive of or dependent on any other. The Agent may exercise any of its rights, remedies or powers separately or in combination and at any time.

9.6 Statutory Waivers.

To the fullest extent permitted by law, the Debtor waives all of the rights, benefits and protection given by the provisions of any existing or future statute which imposes limitations upon the rights, remedies or powers of the Agent or upon the methods of realization of security, including any seize or sue or anti-deficiency statute or any similar provisions of any other statute. In particular, the Debtor waives all rights, benefits and protection given by the *Civil Enforcement Act* and sections 47 to 50 of the *Law of Property Act* of the Province of Alberta insofar as they extend to or relate to any of the Collateral. The *Limitation of Civil Rights Act* of the Province of Saskatchewan shall not apply to the security interests hereby created or any of the rights, remedies or powers of the Agent or any Receiver.

9.7 Provisions Reasonable.

The Debtor acknowledges that the provisions of this Security Agreement and, in particular, those respecting rights, remedies and powers of the Agent and any Receiver against the Debtor, its

business and any Collateral upon an Event of Default, are commercially reasonable and not manifestly unreasonable.

9.8 Further Assurances.

The Debtor shall at all times, do, execute, acknowledge and deliver or cause to be done, executed, acknowledged or delivered all such further acts, deeds, transfers, assignments, security agreements and assurances as the Agent may reasonably require in order to give effect to the provisions hereof and for the better granting, transferring, assigning, charging, setting over, assuring, confirming or perfecting the security interests hereby created and the priority accorded to them by law or under this Security Agreement.

9.9 Notices.

- (a) Every notice, demand and other communication in connection with this Security Agreement (including, without limitation, notices required or permitted under the *Bankruptcy and Insolvency Act*) and all legal process in regard hereto shall be validly given, made or served if in writing and delivered to, or mailed, postage prepaid, or facsimiled or sent by other similar form of communication (collectively "Electronic Communication") to the intended recipient at its address first written above or to such other address or person as the other party may from time to time designate by notice.
- (b) Any notice, requisition, demand or other instrument, (including, without limitation, notices required or permitted under the *Bankruptcy and Insolvency Act*) if delivered, shall be deemed to have been given or made on the day on which it was delivered and if sent by Electronic Communication shall be deemed to have been given or made on the business day next following the day on which it was so sent, and if mailed shall be deemed to have been given or made on the third business day following the day on which it was so mailed. Any party hereto may give written notice of a change of address in the same manner, in which event any notice shall thereafter be given to it as above provided at such changed address.

9.10 Discharge.

Upon payment and performance by the Debtor of the Obligations secured hereby the Agent shall upon request in writing by the Debtor deliver up this Security Agreement to the Debtor and shall at the expense of the Debtor cancel and discharge the security interests hereby created and execute and deliver to the Debtor such documents as shall be requisite to discharge the security interests hereby created.

9.11 Amalgamation.

In the event of the amalgamation of the Debtor, this Security Agreement and all other security delivered by the Debtor in connection with this Security Agreement shall be binding on the amalgamated corporation and charge its present and future undertaking, property and assets to secure the present and future Obligations of the amalgamated corporation, all as if the amalgamated corporation had originally executed and delivered those documents; provided nothing in this paragraph shall be construed as a consent or a permission for the Debtor to amalgamate.

9.12 Delivery of Copy/Waiver.

The Debtor hereby acknowledges receiving a copy of this Security Agreement. The Debtor waives all rights to receive from the Agent a copy of any financing statement or financing change statement registered or verification statement issued at any time in respect of this Security Agreement.

9.13 Release of Information.

The Debtor hereby authorizes the Agent to provide a copy of this Security Agreement and such other information (including full details of the Obligations) as may be requested of the Agent by persons entitled thereto under the PPSA.

9.14 Inspection, Management and Repairs.

The Debtor covenants and agrees that the Agent may, but shall be under no obligation to, at such time or times as the Agent deems necessary and without the concurrence of the Debtor or any other person make such arrangements for the repairing, finishing and putting in order of the Business Premises, including, without limitation, such repairs, replacements and improvements as are necessary so that the Debtor and the Business Premises comply with Environmental Laws, and all reasonable costs, charges and expenses including an allowance for the time and services of the Agent, the Agent's servants or agents or any other person or persons appointed for the above purposes including, without limitation, the full amount of all legal fees, disbursements, costs, charges and expenses incurred by the Agent and any amount due hereunder shall be payable forthwith to the Agent, shall be deemed an advance to the Debtor by the Agent, shall be deemed to be Obligations, and shall bear interest at the highest rate per annum from time to time charged by the Agent on any of the other Obligations until paid.

9.15 Authorization of Inquiries.

The Debtor hereby authorizes the Agent to make enquiries from time to time of any governmental authority with respect to the Debtor's compliance with Environmental Laws and the Debtor agrees that the Debtor will from time to time provide to the Agent with such written authorization as the Agent may reasonably require in order to facilitate the obtaining of such information.

9.16 Indemnification.

- (a) The Debtor shall indemnify, reimburse and save harmless the Secured Parties and any receiver and their respective directors, officers, employees, agents, successors and assigns, from any and all liabilities, actions, damages, claims, losses, costs and expenses whatsoever (including without limitation, the full amount of all legal fees, costs, charges and expenses and the cost of removal, treatment, storage and disposal of any Hazardous Materials and remediation of the Business Premises) which may be paid, incurred or asserted against the Secured Parties or any receiver for, with respect to or as a direct or indirect result of the presence on or under, or the escape, seepage, leakage, spillage, discharge, emission or release from, the Business Premises or into or upon any other land, the atmosphere or any watercourse, body of water or wetland of any Hazardous Materials.
- (b) Any amount owing by the Debtor hereunder shall, from the date of disbursement until the date the recipient receives reimbursement, be deemed advanced to the

Debtor by the Secured Parties, shall be deemed to be obligations and shall bear interest at the highest rate per annum from time to time charged by the Secured Parties on any of the other Obligations until paid.

- (c) The Debtor agrees that the indemnity obligations hereunder shall survive the release of the security of this Security Agreement and the payment and satisfaction of the indebtedness and liabilities hereby secured, but only insofar as such indemnity obligations relate to liabilities, actions, damages, claims, losses, costs and expenses arising in connection with Hazardous Material that were on the Business Premises prior to such release, payment and satisfaction.

Section 10

INTERPRETATION

10.1 Entire Agreement/Amendment.

This Security Agreement contains the entire agreement between the parties relating to the security interests hereby created. Any amendment of this Security Agreement shall not be binding unless in writing and signed by the Agent and the Debtor. The Debtor confirms that there are no representations, warranties, covenants or acknowledgements affecting, or relied upon in entering this Security Agreement.

10.2 Severability.

Any provision of this Security Agreement prohibited by law or otherwise ineffective shall be ineffective only to the extent of such prohibition or ineffectiveness and shall be severable without invalidating or otherwise affecting the remaining provisions hereof.

10.3 Joint and Several Liability.

If more than one person executes this Security Agreement as Debtor, their obligations hereunder and the liability resulting therefrom shall be joint and several.

10.4 Headings.

All headings and titles in this Security Agreement are for reference only and are not to be used in the interpretation of the terms hereof.

10.5 Included Words.

Wherever the singular or the masculine are used herein, the same shall be deemed to include the plural or the feminine or the body politic or corporate where the context or the parties so require.

10.6 Applicable Law.

This Security Agreement shall be construed and enforceable under and in accordance with the laws of British Columbia and the laws of Canada applicable therein. The Debtor hereby irrevocably submits and attorns to the jurisdiction of the British Columbia Supreme Court sitting at Vancouver, British Columbia.

10.7 Binding Effect.

This Security Agreement shall be binding on the Debtor and its successors, heirs, administrators and executors and shall enure to the benefit of the Agent and its successors and assigns:

Officer Signature(s) _____ Name:	Execution Date <table border="1" style="margin: auto;"><tr><td style="text-align: center;">Y</td><td style="text-align: center;">M</td><td style="text-align: center;">D</td></tr></table>	Y	M	D	Transferor(s) Signature(s) CANFOR PULP AND PAPER SALES LTD. by its authorized signatory: _____
Y	M	D			

OFFICER CERTIFICATION:

Your signature constitutes a representation that you are a solicitor, notary public or other person authorized by the *Evidence Act*, R.S.B.C. 1979, c.116, to take affidavits for use in British Columbia and certifies the matters set out in Part 5 of the *Land Title Act* as they pertain to the execution of this instrument.

SCHEDULE A

SPECIFIC EQUIPMENT DESCRIPTION

SCHEDULE B

DEBTOR'S PLACES OF BUSINESS

Intercontinental Pulp Mill
2533 Pulp Mill Road, Prince George, British Columbia, V2N 2K3

Northwood Pulp Mill
5353 Northwood Pulp Mill Road, Prince George, BC V2L 4W2

Prince George Pulp & Paper Mill
2789 Pulp Mill Road, Prince George, BC V2N 2K3

Executive and Sales & Marketing Offices
Suite 230, 1700 West 75th Avenue, Vancouver, BC V6P 6G2

SECURITY AGREEMENT

(Canfor Pulp Holding Inc.)

THIS SECURITY AGREEMENT dated for reference November 5, 2013.

Section 1

DEFINITIONS

1.1 Defined Terms.

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

- (a) **"Agent"** means HSBC Bank Canada, and its successors, as administrative agent under the Credit Agreement and any successor administrative agent appointed under the Credit Agreement.
- (b) **"Business Premises"** means real property which the Debtor uses in its business, if any.
- (c) **"Collateral"** means all present and after-acquired personal property and other property, assets, rights and undertaking owned, leased, licensed, possessed or acquired by the Debtor, or in which the Debtor has rights, including all present and after-acquired Goods (including Equipment and Inventory), Investment Property, Instruments, Documents of Title, Chattel Paper, Intangibles (including Accounts), Money, crops and fixtures, owned, leased, licensed, possessed or acquired by the Debtor, or in which the Debtor has rights, and all Proceeds of that property, but specifically excludes the Excluded Collateral.
- (d) **"Contracts"** means all contracts, licenses and agreements to which the Debtor is at any time a party or pursuant to which the Debtor has at any time acquired rights, as those contracts, licenses and agreements may be amended, restated, supplemented or replaced, and includes all rights of the Debtor:
 - (i) to receive money due and to become due to it in connection with a contract, licence or agreement;
 - (ii) to damages arising out of, or for breach or default in respect of, a contract, licence or agreement; and
 - (iii) to perform and exercise all remedies in connection with a contract, licence or agreement.
- (e) **"Credit Agreement"** means the amended and restated credit agreement dated for reference November 5, 2013 among, *inter alia*, Canfor Pulp Limited Partnership as borrower, HSBC Bank Canada as co-lead arranger, co-bookrunner and administrative agent, Canadian Imperial Bank of Commerce as co-lead arranger, co-bookrunner and syndication agent, Export Development Canada as

documentation agent and the Lenders as defined therein, as may be amended, supplemented, restated or replaced from time to time.

- (f) **"Debtor"** means Canfor Pulp Holding Inc., a Canadian federal corporation, and its successors.
- (g) **"Environmental Laws"** means any laws, regulations, orders, by-laws, permits or lawful requirements of any governmental authority with respect to environmental protection or regulating hazardous materials;
- (h) **"Equipment"** means, collectively, all Goods in which the Debtor now or hereafter has rights other than Inventory or Consumer Goods and any part thereof, including, without limitation, all tools, apparatus, fixtures, plant, machinery, furniture, chattels, vehicles, vessels, air conditioning, heating, ventilating, electrical, mechanical, plumbing, communications and data systems, elevators, escalators and other conveyancing devices, boilers, furnaces, carpets, blinds, window coverings, curtains, awnings, lighting fixtures, doors, windows, demising walls and partitions, wiring, pipes, conduits, seasonal decorations, and the equipment described in **Schedule A** hereto or any schedule hereafter annexed hereto.
- (i) **"Event of Default"** means the occurrence of (i) an Event of Default as defined in the Credit Agreement, (ii) a "default," "event of default" or similar circumstance identified in any Secured Agreement that entitles the Debtor's counterparty to enforce its rights under that Secured Agreement, (iii) the failure of the Debtor to pay any of the Obligations when due, or (iv) any demand for payment validly made by any Secured Party pursuant to any Secured Agreement that is not met in accordance with the terms of the demand or within any applicable grace period.
- (j) **"Excluded Collateral"** means Consumer Goods and any Intellectual Property Right, Permit or Contract which would be breached or terminated if a security interest was granted in it without the consent of a third party, unless that consent is obtained, but does not include Accounts.
- (k) **"Hazardous Materials"** means any asbestos material, urea formaldehyde, explosives, radioactive materials, pollutants, contaminants, hazardous substances, corrosive substances, toxic substances, special waste or waste of any kind including, without limitation, compounds known as chlorobiphenyls and any substance the storage, manufacture, disposal, treatment, generation, use, transport, remediation or release of which into the environment is prohibited, controlled or licensed under Environmental Laws.
- (l) **"Intellectual Property Rights"** means all industrial and intellectual property rights, including copyrights, patents, trade-marks, industrial designs, know how and trade secrets, and all Contracts related to those industrial and intellectual property rights.
- (m) **"Obligations"** means all debts, liabilities and obligations of the Debtor to the Secured Parties under or in connection with the Secured Agreements, whether present or future, direct or indirect, absolute or contingent, matured or not, at any time owing or remaining unpaid by the Debtor to the Secured Parties in any currency under or in connection with the Secured Agreements, whether arising from dealings between the Secured Parties and the Debtor or from other dealings

or proceedings by which the Secured Parties may be or become in any manner whatever creditors of the Debtor under or in connection with the Secured Agreements, and wherever incurred, and whether incurred by the Debtor alone or with another or others and whether as principal or surety and all interest, fees, commissions and legal and other costs, charges and expenses owing or remaining unpaid by the Debtor to the Secured Parties in any currency under or in connection with the Secured Agreements.

- (n) **"Permits"** means all authorizations, registrations, permits, licenses, consents, quotas, grants, approvals, franchises, rights-of-way, easements and entitlements that the Debtor has, or is required to have, to own, possess or operate any of its property, or to operate and carry on any part of its business.
- (o) **"PPSA"** means the *Personal Property Security Act* (British Columbia), as amended, supplemented or replaced and includes all regulations made under that legislation.
- (p) **"Records"** means, collectively, all books, papers, documents, writings, tapes, magnetic or other machine readable data and records, and all other information, however stored, recording or relating to any of the Collateral.
- (q) **"Secured Agreements"** means the Credit Agreement and all present and future agreements under which Canfor Hedging Obligations or Bank Products Obligations arise, as such agreements may be amended, supplemented, restated and replaced from time to time, and any reference to "the Secured Agreements" in this Agreement shall be interpreted as referring to "the Secured Agreements or any of them."
- (r) **"Secured Parties"** means each person that from time to time (i) is defined as a "Lender" or as the "Administrative Agent" under the Secured Agreements or (ii) is a Lender or affiliate of a Lender to whom Canfor Hedging Obligations or Bank Products Obligations are owed, in each case in its capacity as a creditor under the Secured Agreements. Any reference to the "Secured Parties" shall be interpreted as referring to "the Secured Parties or any of them." If a Lender ceases to be a Lender by reason of assigning all of its rights and obligations under the Secured Agreements or having the Obligations owing to it under or in connection with the Secured Agreements paid in full as a Declining Lender, then that Lender and any affiliate to whom Canfor Hedging Obligations or Bank Products Obligations are owed shall cease to be Secured Parties under this Agreement.
- (s) **"STA"** means the *Securities Transfer Act* (British Columbia) as amended, supplemented or replaced and includes all regulations made under that legislation.

Capitalized terms that are used but not defined in this Security Agreement have the meanings defined in the Credit Agreement, the PPSA and the STA, as applicable.

Section 2

SECURITY INTEREST

2.1 Creation of Security Interest.

The Debtor, having its chief executive office at Suite 230, 1700 West 75th Avenue, Vancouver, British Columbia, V6P 6G2, as continuing security for the payment and performance of each of the Obligations, grants to the Agent for the benefit of the Secured Parties, having an office at Suite 200, 885 West Georgia Street, Vancouver, British Columbia, V6C 3G1, a continuing, specific and fixed mortgage, charge and security interest in, and a security interest is taken in, all of the Debtor's right, title and interest in and to the Collateral.

2.2 Floating Charge.

As security for the payment and performance of each of the Obligations, the Debtor grants a floating charge to the Agent for the benefit of the Secured Parties on and over all the Debtor's right, title and interest in and to real property, whether in fee or of a lesser estate, including without limitation, all leasehold property, easements, rights of way, fixtures, crops and improvements, both present and future, other than such as are validly and effectively charged under Section 2.1 or excluded under Section 2.4.

2.3 Attachment.

The Debtor acknowledges that value has been given. The security interests created hereby are intended to attach, as to all of the Collateral in which the Debtor has rights or interests, forthwith when the Debtor executes this Security Agreement, and, as to all Collateral in which the Debtor acquires any right or interest after the execution of this Security Agreement, when the Debtor acquires such right or interest.

2.4 Exception – Leases

The last day of any term reserved by any lease, verbal or written, or any agreement therefor, now held or hereafter acquired by the Debtor is hereby excepted out of the mortgages, charges and security interests created hereby. The Debtor shall assign and dispose of such last day of any term reserved by any such lease in such manner as the Agent may from time to time direct in writing. Upon any sale, assignment, sublease or other disposition of such lease or agreement to lease, the Agent shall, for the purpose of vesting the aforesaid residue of any such term in any purchaser, assignee, sublessee or such other acquirer of the lease, agreement to lease or any interest therein, be entitled by deed or other written instrument to assign to such other person, the aforesaid residue of any such term in place of the Debtor and to vest the same freed and discharged from any obligation whatsoever respecting the same.

2.5 Intellectual Property.

Nothing in Section 2.1 is to be construed as constituting an absolute transfer or assignment of any present or future Intellectual Property Rights, but those sections are to be construed as granting to the Secured Parties a security interest in and a charge on all of the Debtor's present and after-acquired Intellectual Property Rights.

2.6 Where Consent Required.

Nothing herein shall constitute an assignment or attempted assignment of any right, privilege, benefit, policy or other document or instrument, including any Contract or Permit, which by the provisions thereof or by law is not assignable or which requires the consent of any third party to its assignment unless and until such consent is obtained or is waived by the third party. In each such case the Debtor shall, unless the Agent otherwise agrees in writing, forthwith obtain the consent of any necessary third party to its assignment hereby and for its further assignment by the Agent to any third party who may acquire same as a result of the Agent's exercise of remedies after an Event of Default. Upon such consents being obtained or waived, this Security Agreement shall apply thereto without regard to this Section 2.6 and without the necessity of any further assurance to effect the assignment thereof.

2.7 Pending Consent.

In any case to which Section 2.6 applies, unless and until consent to assignment is obtained as therein provided, the Debtor shall, to the extent it may do so by law or pursuant to the provisions of the document or instrument therein referred to, hold all benefit to be derived therefrom in trust for the Agent as additional security for the payment and performance of the Obligations and shall deliver up all such benefit to the Agent forthwith upon demand by the Agent.

Section 3

OBLIGATIONS SECURED

3.1 Obligations Secured.

The Collateral constitutes and will constitute continuing security for Obligations.

3.2 Reduction of Obligations.

The Obligations may be reduced to zero from time to time without affecting the validity, perfection or enforceability of this Security Agreement or the security interests created hereby until this Security Agreement is discharged in accordance with Section 8.10.

Section 4

DEBTOR'S REPRESENTATIONS AND WARRANTIES

4.1 General.

The Debtor represents and warrants to and for the benefit of the Secured Parties and so long as this Security Agreement remains in effect shall be deemed to continuously represent and warrant as set out in this Section 4.

4.2 Incorporation, Qualifications and Corporate Power.

The Debtor is a body corporate, duly incorporated, properly organized and validly existing under the laws of the Province of British Columbia and is duly registered and qualified to do business under the laws of each jurisdiction in which the character of the properties owned by it or the nature of the activities conducted by it make such registration or qualification advisable or necessary.

4.3 Enforceability.

This Security Agreement constitutes a valid and legally binding obligation of the Debtor enforceable against the Debtor in accordance with its terms, subject only to bankruptcy, insolvency or other statutes or judicial decisions affecting the enforcement of creditors' rights generally and to general principles of equity.

4.4 Name.

The full legal name of the Debtor (including any French or French/English form of its legal name), and any other name under which it conducts its business, is correctly specified on the signature page of this Security Agreement.

4.5 Survival and Reliance.

All representations and warranties of the Debtor made herein or in any certificate or other document delivered by or on behalf of the Debtor for the benefit of the Agent are material, shall survive the execution and delivery of this Security Agreement and shall continue in full force and effect without time limit. The Agent is deemed to have relied upon each such representation and warranty notwithstanding any investigation made by or on behalf of the Agent at any time.

Section 5

DEBTOR'S COVENANTS

5.1 General.

Unless compliance with the following covenants is waived by the Secured Parties in writing or unless non-compliance with any such covenants is otherwise consented to by the Secured Parties by written agreement with the Debtor, the Debtor covenants and agrees with the Secured Parties to observe and perform each of the covenants set out in this Section 5.

5.2 Keep Collateral in Good Repair.

The Debtor will keep the Collateral in good order, condition and repair.

5.3 Conduct of Business.

The Debtor will carry on and conduct its business in a proper and efficient manner so as to protect and preserve the Collateral.

5.4 Compliance with Agreements and Laws.

The Debtor will not use the Collateral in violation of this Security Agreement or any other agreement relating to the Collateral or any policy insuring the Collateral or any applicable statute, law, by-law, rule, regulation, court order or ordinance.

5.5 Inspection of Records and Collateral.

The Debtor will at all times keep accurate and complete records of the Collateral as well as proper books of account for its business all in accordance with generally accepted accounting principles, consistently applied. The Debtor will permit the Agent or its authorized agents to have access to all premises occupied by the Debtor or any place where the Collateral may be found to

inspect the Collateral and to examine the books of accounts, financial records and reports of the Debtor and to have temporary custody of, make copies of and take extracts from such books, records and reports.

5.6 Access to Computer Information.

In the event that the use of a computer system is required to access any information and data which the Agent is entitled to access and examine hereunder, the Debtor will allow the Agent the use of its computer system for such purpose and will provide assistance in that regard. If for any reason such information and data cannot be accessed and retrieved at the Debtor's premises the Agent may remove the medium in which such information or data is stored from the Debtor's premises to any other place which has a computer system that will give the Agent the opportunity to retrieve, record or copy such information and data. The Agent is hereby authorized to reproduce and retain a copy of any such information and data in any format whatsoever.

5.7 Delivery of Documents.

The Debtor will promptly deliver to the Agent upon request:

- (a) **Documents of Title.** Any Chattel Paper, Instruments, Investment Property, and Documents of Title, and upon such delivery, where applicable, duly endorse the same for transfer in blank or as the Agent may direct;
- (b) **Books of Account.** All computer software, tapes, discs, drums and cards, all books of account and all records, ledgers, reports, correspondence, schedules, documents, statements, lists and other writings relating to the Collateral or the Debtor's business for the purpose of inspecting, auditing or copying the same;
- (c) **Agreements.** All agreements, licenses, permits and consents relating to the Collateral and the Debtor's business; and
- (d) **Other Information.** Such information concerning the Collateral as the Agent may request.

5.8 Proceeds In Trust.

The Debtor will and shall be deemed to hold all Proceeds in trust, separate and apart from other Money, Instruments or property, for the benefit of the Agent until all amounts owing by the Debtor under the Credit Agreement have been paid in full and all obligations of the Debtor under the Credit Agreement have been terminated.

5.9 Performance and Default by Debtor.

The Debtor will observe and perform all the obligations imposed on the Debtor by or in respect of the Collateral, maintain the Collateral in good standing and not do or permit to be done anything to impair, and not omit to do anything that would prevent the impairment of, the security interests hereby created. The Debtor will give to the Agent prompt notice of any default by the Debtor in the performance of its covenants under this Security Agreement.

Section 6

COLLECTION OF ACCOUNTS

6.1 Collection of Accounts.

The Agent may, whether before or after default under this Security Agreement, notify and direct any Account Debtor to make all payments whatever to the Agent. The Agent may hold all amounts acquired from any Account Debtor and any Proceeds as part of the Collateral.

6.2 Trust Provision.

Any payments received by the Debtor after notification to Account Debtors, shall be held by the Debtor in trust for the Agent in the same medium in which received, shall not be commingled with any assets of the Debtor and shall, at the request of the Agent, be turned over to the Agent not later than the next business day following the day of their receipt.

Section 7

DEFAULT

7.1 Default.

The occurrence of an Event of Default will constitute an "Event of Default" under this Security Agreement.

7.2 Crystallization.

The floating charge created by Section 2.2 shall become a fixed charge as soon as:

- (a) the Agent gives notice to that effect to the Debtor;
- (b) the Agent takes any step to accelerate or demand payment of the Obligations, or gives notice of its intention or takes any steps to enforce its security; or
- (c) an Event of Default occurs in respect of the Debtor.

7.3 Demand Obligations.

The fact that this Security Agreement provides for Events of Default and rights of acceleration shall not derogate from the demand nature of any Obligation payable on demand.

7.4 Waiver not to Affect Subsequent Breach.

The Secured Parties may waive default or any breach by the Debtor of any of the provisions contained in this Security Agreement. No waiver shall extend to a subsequent breach or default, whether or not the same as or similar to the breach or default waived. No act or omission of the Secured Parties shall extend to or be taken in any manner whatsoever to affect any subsequent breach or default of the Debtor or the rights of the Secured Parties resulting therefrom. Any such waiver must be in writing and signed by the Agent to be effective.

Section 8

AGENT'S REMEDIES ON DEFAULT

8.1 Indebtedness Due and Rights and Remedies.

Upon the occurrence of an Event of Default, all of the Obligations shall become immediately due and payable without notice to the Debtor, and the Agent may, at its option, proceed to enforce payment of same and to exercise any or all of the rights and remedies contained herein, including, without limitation, the signification and collection of the Debtor's Accounts, or otherwise afforded by law, in equity or otherwise. The Agent shall have the right to enforce one or more remedies successively or concurrently in accordance with applicable law and the Agent expressly retains all rights and remedies not inconsistent with the provisions herein including all the rights it may have under the PPSA, and, without restricting the generality of the foregoing, the Agent may upon such Event of Default:

- (a) **Appointment of Receiver.** Appoint by instrument in writing a receiver, receiver-manager or receiver and manager (herein a "Receiver") of the Debtor and of all or any part of the Collateral and remove or replace such Receiver from time to time or may institute proceedings in any court of competent jurisdiction for the appointment of a Receiver. Any Receiver appointed by the Agent so far as concerns responsibility for its acts shall be deemed the agent of the Debtor and not of the Agent. Where the Agent is referred to in this Section the reference includes, where the context permits, any Receiver so appointed and the officers, employees, servants or agents of such Receiver;
- (b) **Enter and Repossess.** Immediately and without notice enter the Debtor's premises and repossess, disable or remove the Collateral and the Debtor hereby grants to the Agent a licence to occupy any premises of the Debtor for the purpose of storage of the Collateral;
- (c) **Retain the Collateral.** Retain and administer the Collateral in the Agent's sole and unfettered discretion, which the Debtor hereby acknowledges is commercially reasonable;
- (d) **Dispose of the Collateral.** Dispose of any Collateral by public auction, private tender or private contract with or without notice, advertising or any other formality, all of which are hereby waived by the Debtor. The Agent may, at its discretion establish the terms of such disposition, including, without limitation, terms and conditions as to credit, upset, reserve bid or price. The Agent may also lease the Collateral on such terms as it deems appropriate. The payments for Collateral, whether on a disposition or lease, may be deferred. All payments made pursuant to such dispositions shall be credited against the Obligations only as they are actually received. The Agent may buy in, rescind or vary any contract for the disposition of any Collateral and may dispose of any Collateral again without being answerable for any loss occasioned thereby. Any such disposition may take place whether or not the Agent has taken possession of the Collateral;
- (e) **Foreclose.** Foreclose upon the Collateral in satisfaction of the Obligations. The Agent may designate any part of the Obligations to be satisfied by the foreclosure of particular Collateral which the Agent considers to have a net realizable value approximating the amount of the designated part of the Obligations, in which case

only the designated part of the Obligations shall be deemed to be satisfied by the foreclosure of the particular Collateral;

- (f) **Carry on Business.** Carry on or concur in the carrying on of all or any part of the business of the Debtor and may, in any event, to the exclusion of all others, including the Debtor, enter upon, occupy and use all premises of or occupied or used by the Debtor and use any of the personal property (which shall include fixtures) of the Debtor for such time and such purposes as the Agent sees fit. The Agent shall not be liable to the Debtor for any neglect in so doing or in respect of any rent, costs, charges, depreciation or damages in connection therewith;
- (g) **Payment of Encumbrances.** Pay any Lien that may exist or be threatened against the Collateral. In any such case the amounts so paid together with costs, charges and expenses incurred in connection therewith shall be added to the Obligations secured by this Security Agreement;
- (h) **Payment of Deficiency.** If the proceeds of realization are insufficient to pay all monetary Obligations, the Debtor shall forthwith pay or cause to be paid to the Agent any deficiency and the Agent may sue the Debtor to collect the amount of such deficiency; and
- (i) **Dealing with Collateral.** Subject to applicable law seize, collect, realize, borrow money on the security of, release to third parties, sell (by way of public or private sale), lease or otherwise deal with the Collateral in such manner, upon such terms and conditions, at such time or times and place or places and for such consideration as may seem to the Agent advisable and without notice to the Debtor. The Agent may charge on its own behalf and pay to others sums for expenses incurred and for services rendered (expressly including legal services, consulting, receivers and accounting fees) in or in connection with seizing, collecting, realizing, borrowing on the security of, selling or obtaining payment of the Collateral and may add such sums to the Obligations secured by this Security Agreement.

8.2 Assemble the Collateral.

To assist the Agent in the implementation of such rights and remedies the Debtor will, at its own risk and expense and at the Agent's request, assemble and prepare for removal such items of the Collateral as are selected by the Agent as shall, in the Agent's sole judgment, have a value sufficient to cover all the Obligations.

8.3 Agent Not Liable for Failure to Exercise Remedies.

The Agent shall not be liable or accountable for any delay or failure to exercise its remedies, take possession of, seize, collect, realize, sell, lease or otherwise dispose of or obtain payment for the Collateral. The Agent shall not be bound to institute proceedings for such purposes or for the purpose of preserving any rights, remedies or powers of the Agent; the Debtor or any other person in respect of the Collateral or against any Account Debtor.

8.4 Allocation of Proceeds.

All monies collected or received by the Agent in respect of the Collateral may be held by the Agent and may be applied on account of such parts of the Obligations at the sole discretion of the Agent.

8.5 Extension of Time.

The Secured Parties may grant extensions of time and other indulgences, take and give up securities, accept compositions, grant releases and discharges, release the Collateral to third parties and otherwise deal with the Debtor's guarantors or sureties and others and with the Collateral and other securities as the Agent may see fit without prejudice to the liability of the Debtor to the Secured Parties, or the Agent's rights, remedies and powers under this Security Agreement.

8.6 Forbearance is not Waiver.

No extension of time, forbearance, indulgence or other accommodation now, heretofore or hereafter given by the Agent to the Debtor shall operate as a waiver, alteration or amendment of the rights of the Agent or otherwise preclude the Agent from enforcing such rights.

8.7 Effect of Appointment of Receiver.

As soon as the Agent takes possession of any Collateral or appoints a Receiver, all powers, functions, rights and privileges of the directors and officers of the Debtor with respect to that Collateral shall cease, unless specifically continued by the written consent of the Agent or the Receiver.

8.8 Limitation of Liability.

The Agent shall not be liable by reason of any entry into or taking possession of any of the Collateral hereby charged or intended so to be or any part thereof, to account as mortgagee in possession or for anything except actual receipts or be liable for any loss on realization or any act or omission for which a secured party in possession might be liable. The Debtor acknowledges and agrees that any and all payments, responsibilities, obligations and liabilities in respect of the Collateral shall remain those of the Debtor and no such payments, responsibilities, obligations or liabilities are assigned hereby nor are assumed or incurred by the Agent hereunder.

8.9 Release by Debtor.

The Debtor hereby releases and discharges the Secured Parties and the Receiver from every claim of every nature, whether sounding in damages or not, which may arise or be caused to the Debtor or any person claiming through or under the Debtor by reason or as a result of any act or omission of the Agent or any successor or assign claiming through or under the Secured Parties or the Receiver under the provisions of this Security Agreement unless such claim is the result of dishonesty or gross neglect.

8.10 Performance by Agent.

Nothing herein shall obligate the Agent to assume or perform any obligation of the Debtor to any third party in respect or arising out of the Collateral. The Debtor agrees to indemnify and save harmless the Agent from any and all claims of such third parties. The Agent may however at its

option assume or perform any such obligations which the Agent considers necessary or desirable to obtain the benefit of the Collateral, or any part thereof, free of any set off, deduction or abatement and any money so expended by the Agent shall form part of the Obligations and shall bear interest at the highest rate per annum from time to time charged by the Agent on any of the other Obligations.

Section 9

MISCELLANEOUS

9.1 Costs.

The Debtor will indemnify and reimburse the Agent on demand for all interest, commissions, costs of realization and other costs and expenses (including the full amount of all legal fees and expenses paid by the Agent) incurred by the Agent or any Receiver in connection with:

- (a) the perpetual registration of any financing statement registered in connection with the security interests hereby created;
- (b) the preparation, execution, perfection, protection, enforcement of and advice with respect to this Security Agreement;
- (c) the realization, disposition of, retention, protection, insuring or collection of any Collateral;
- (d) the protection or enforcement of the rights, remedies and powers of the Agent or any Receiver, including, without limitation, participation, preparation and advice with respect to any actions or proceedings commenced or threatened by or against the Debtor or any person who from time to time guarantees, assumes or otherwise becomes liable for the Obligations or who covenants and agrees to indemnify the Agent for any loss, costs or damages as a result of the Debtor's failure to perform the Obligations;
- (e) the inspection of the Collateral;
- (f) investigating title to the Collateral;
- (g) the compliance by the Agent with all demands made upon the Agent to amend, extend, cancel or discharge any registrations and filings related hereto; and
- (h) any other cost related hereto.

All amounts for which the Debtor is required hereunder to reimburse the Agent or any Receiver shall, from the date of disbursement until the date the Agent or the Receiver receives reimbursement, be deemed advanced to the Debtor by the Agent, shall be deemed to be Obligations and shall bear interest at the highest rate per annum from time to time charged by the Agent on any of the other Obligations.

9.2 Appointment of Attorney.

The Debtor hereby constitutes and appoints the Agent, or any Receiver, the true and lawful attorney of the Debtor irrevocably with full power of substitution to do, make and execute all such assignments, documents, acts, matters or things with the right to use the name of the Debtor

whenever and wherever it may be deemed necessary or expedient. The Debtor hereby declares that the irrevocable power of attorney granted hereby, being coupled with an interest, is given for valuable consideration.

9.3 No Obligation to Make Advances.

Nothing herein shall obligate the Secured Parties to make any advance or loan or further advance or extend credit to the Debtor and, in particular, nothing herein shall obligate the Secured Parties to advance any unadvanced portion of any loan or credit to the Debtor after the occurrence of an Event of Default. Except to the extent that the Agent:

- (a) by accepting bills of exchange drawn on it by the Debtor; or
- (b) by issuing letters of credit or letters of guarantee on the application of the Debtor,

is required to advance monies on the maturity of those bills or pursuant to those letters of credit or letters of guarantee, as the case may be, none of the preparation, execution, perfection or registration of this Security Agreement or the advance of any monies by the Agent shall bind the Agent to make any further advance.

9.4 Security Interests Effective Immediately.

Neither the execution of, nor any filing with respect to, this Security Agreement shall bind the Agent to grant any credit to the Debtor, but the security interests hereby created shall take effect forthwith upon the execution of this Security Agreement by the Debtor.

9.5 Security in Addition and not in Substitution, Remedies Cumulative.

The rights, remedies and powers conferred by this Security Agreement are in addition to, and not in substitution for, any other rights, remedies or powers the Agent may have under this Security Agreement, at law, in equity or by or under the PPSA or any other statute. The Agent may proceed by way of any action, suit or other proceeding at law or in equity and no right, remedy or power of the Agent shall be exclusive of or dependent on any other. The Agent may exercise any of its rights, remedies or powers separately or in combination and at any time.

9.6 Statutory Waivers.

To the fullest extent permitted by law, the Debtor waives all of the rights, benefits and protection given by the provisions of any existing or future statute which imposes limitations upon the rights, remedies or powers of the Agent or upon the methods of realization of security, including any seize or sue or anti-deficiency statute or any similar provisions of any other statute. In particular, the Debtor waives all rights, benefits and protection given by the *Civil Enforcement Act* and sections 47 to 50 of the *Law of Property Act* of the Province of Alberta insofar as they extend to or relate to any of the Collateral. The *Limitation of Civil Rights Act* of the Province of Saskatchewan shall not apply to the security interests hereby created or any of the rights, remedies or powers of the Agent or any Receiver.

9.7 Provisions Reasonable.

The Debtor acknowledges that the provisions of this Security Agreement and, in particular, those respecting rights, remedies and powers of the Agent and any Receiver against the Debtor, its

business and any Collateral upon an Event of Default, are commercially reasonable and not manifestly unreasonable.

9.8 Further Assurances.

The Debtor shall at all times, do, execute, acknowledge and deliver or cause to be done, executed, acknowledged or delivered all such further acts, deeds, transfers, assignments, security agreements and assurances as the Agent may reasonably require in order to give effect to the provisions hereof and for the better granting, transferring, assigning, charging, setting over, assuring, confirming or perfecting the security interests hereby created and the priority accorded to them by law or under this Security Agreement.

9.9 Notices.

- (a) Every notice, demand and other communication in connection with this Security Agreement (including, without limitation, notices required or permitted under the *Bankruptcy and Insolvency Act*) and all legal process in regard hereto shall be validly given, made or served if in writing and delivered to, or mailed, postage prepaid, or facsimiled or sent by other similar form of communication (collectively "Electronic Communication") to the intended recipient at its address first written above or to such other address or person as the other party may from time to time designate by notice.
- (b) Any notice, requisition, demand or other instrument, (including, without limitation, notices required or permitted under the *Bankruptcy and Insolvency Act*) if delivered, shall be deemed to have been given or made on the day on which it was delivered and if sent by Electronic Communication shall be deemed to have been given or made on the business day next following the day on which it was so sent, and if mailed shall be deemed to have been given or made on the third business day following the day on which it was so mailed. Any party hereto may give written notice of a change of address in the same manner, in which event any notice shall thereafter be given to it as above provided at such changed address.

9.10 Discharge.

Upon payment and performance by the Debtor of the Obligations secured hereby the Agent shall upon request in writing by the Debtor deliver up this Security Agreement to the Debtor and shall at the expense of the Debtor cancel and discharge the security interests hereby created and execute and deliver to the Debtor such documents as shall be requisite to discharge the security interests hereby created.

9.11 Amalgamation.

In the event of the amalgamation of the Debtor, this Security Agreement and all other security delivered by the Debtor in connection with this Security Agreement shall be binding on the amalgamated corporation and charge its present and future undertaking, property and assets to secure the present and future Obligations of the amalgamated corporation, all as if the amalgamated corporation had originally executed and delivered those documents; provided nothing in this paragraph shall be construed as a consent or a permission for the Debtor to amalgamate.

9.12 Delivery of Copy/Waiver.

The Debtor hereby acknowledges receiving a copy of this Security Agreement. The Debtor waives all rights to receive from the Agent a copy of any financing statement or financing change statement registered or verification statement issued at any time in respect of this Security Agreement.

9.13 Release of Information.

The Debtor hereby authorizes the Agent to provide a copy of this Security Agreement and such other information (including full details of the Obligations) as may be requested of the Agent by persons entitled thereto under the PPSA.

9.14 Inspection, Management and Repairs.

The Debtor covenants and agrees that the Agent may, but shall be under no obligation to, at such time or times as the Agent deems necessary and without the concurrence of the Debtor or any other person make such arrangements for the repairing, finishing and putting in order of the Business Premises, including, without limitation, such repairs, replacements and improvements as are necessary so that the Debtor and the Business Premises comply with Environmental Laws, and all reasonable costs, charges and expenses including an allowance for the time and services of the Agent, the Agent's servants or agents or any other person or persons appointed for the above purposes including, without limitation, the full amount of all legal fees, disbursements, costs, charges and expenses incurred by the Agent and any amount due hereunder shall be payable forthwith to the Agent, shall be deemed an advance to the Debtor by the Agent, shall be deemed to be Obligations, and shall bear interest at the highest rate per annum from time to time charged by the Agent on any of the other Obligations until paid.

9.15 Authorization of Inquiries.

The Debtor hereby authorizes the Agent to make enquiries from time to time of any governmental authority with respect to the Debtor's compliance with Environmental Laws and the Debtor agrees that the Debtor will from time to time provide to the Agent with such written authorization as the Agent may reasonably require in order to facilitate the obtaining of such information.

9.16 Indemnification.

- (a) The Debtor shall indemnify, reimburse and save harmless the Secured Parties and any receiver and their respective directors, officers, employees, agents, successors and assigns, from any and all liabilities, actions, damages, claims, losses, costs and expenses whatsoever (including without limitation, the full amount of all legal fees, costs, charges and expenses and the cost of removal, treatment, storage and disposal of any Hazardous Materials and remediation of the Business Premises) which may be paid, incurred or asserted against the Secured Parties or any receiver for, with respect to or as a direct or indirect result of the presence on or under, or the escape, seepage, leakage, spillage, discharge, emission or release from, the Business Premises or into or upon any other land, the atmosphere or any watercourse, body of water or wetland of any Hazardous Materials.
- (b) Any amount owing by the Debtor hereunder shall, from the date of disbursement until the date the recipient receives reimbursement, be deemed advanced to the

Debtor by the Secured Parties, shall be deemed to be obligations and shall bear interest at the highest rate per annum from time to time charged by the Secured Parties on any of the other Obligations until paid.

- (c) The Debtor agrees that the indemnity obligations hereunder shall survive the release of the security of this Security Agreement and the payment and satisfaction of the indebtedness and liabilities hereby secured, but only insofar as such indemnity obligations relate to liabilities, actions, damages, claims, losses, costs and expenses arising in connection with Hazardous Material that were on the Business Premises prior to such release, payment and satisfaction.

Section 10

INTERPRETATION

10.1 Entire Agreement/Amendment.

This Security Agreement contains the entire agreement between the parties relating to the security interests hereby created. Any amendment of this Security Agreement shall not be binding unless in writing and signed by the Agent and the Debtor. The Debtor confirms that there are no representations, warranties, covenants or acknowledgements affecting, or relied upon in entering this Security Agreement.

10.2 Severability.

Any provision of this Security Agreement prohibited by law or otherwise ineffective shall be ineffective only to the extent of such prohibition or ineffectiveness and shall be severable without invalidating or otherwise affecting the remaining provisions hereof.

10.3 Joint and Several Liability.

If more than one person executes this Security Agreement as Debtor, their obligations hereunder and the liability resulting therefrom shall be joint and several.

10.4 Headings.

All headings and titles in this Security Agreement are for reference only and are not to be used in the interpretation of the terms hereof.

10.5 Included Words.

Wherever the singular or the masculine are used herein, the same shall be deemed to include the plural or the feminine or the body politic or corporate where the context or the parties so require.

10.6 Applicable Law.

This Security Agreement shall be construed and enforceable under and in accordance with the laws of British Columbia and the laws of Canada applicable therein. The Debtor hereby irrevocably submits and attorns to the jurisdiction of the British Columbia Supreme Court sitting at Vancouver, British Columbia.

10.7 Binding Effect.

This Security Agreement shall be binding on the Debtor and its successors, heirs, administrators and executors and shall enure to the benefit of the Agent and its successors and assigns.

Officer Signature(s) _____ Name:	Execution Date <table border="1" style="margin: auto;"><tr><td style="text-align: center;">Y</td><td style="text-align: center;">M</td><td style="text-align: center;">D</td></tr></table>	Y	M	D	Transferor(s) Signature(s) CANFOR PULP HOLDING INC. by its authorized signatory: _____
Y	M	D			

OFFICER CERTIFICATION:

Your signature constitutes a representation that you are a solicitor, notary public or other person authorized by the *Evidence Act*, R.S.B.C. 1979, c.116, to take affidavits for use in British Columbia and certifies the matters set out in Part 5 of the *Land Title Act* as they pertain to the execution of this instrument.

SCHEDULE A

SPECIFIC EQUIPMENT DESCRIPTION

SCHEDULE B

DEBTOR'S PLACES OF BUSINESS

Intercontinental Pulp Mill
2533 Pulp Mill Road, Prince George, British Columbia, V2N 2K3

Northwood Pulp Mill
5353 Northwood Pulp Mill Road, Prince George, BC V2L 4W2

Prince George Pulp & Paper Mill
2789 Pulp Mill Road, Prince George, BC V2N 2K3

Executive and Sales & Marketing Offices
Suite 230, 1700 West 75th Avenue, Vancouver, BC V6P 6G2

SECURITY AGREEMENT

(Canfor Pulp Limited Partnership)

THIS SECURITY AGREEMENT dated for reference November 5, 2013.

Section 1

DEFINITIONS

1.1 Defined Terms.

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

- (a) **"Agent"** means HSBC Bank Canada, and its successors, as administrative agent under the Credit Agreement and any successor administrative agent appointed under the Credit Agreement.
- (b) **"Business Premises"** means real property which the Debtor uses in its business, if any.
- (c) **"Collateral"** means all present and after-acquired personal property and other property, assets, rights and undertaking owned, leased, licensed, possessed or acquired by the Debtor, or in which the Debtor has rights, including all present and after-acquired Goods (including Equipment and Inventory), Investment Property, Instruments, Documents of Title, Chattel Paper, Intangibles (including Accounts), Money, crops and fixtures, owned, leased, licensed, possessed or acquired by the Debtor, or in which the Debtor has rights, and all Proceeds of that property, but specifically excludes the Excluded Collateral.
- (d) **"Contracts"** means all contracts, licenses and agreements to which the Debtor is at any time a party or pursuant to which the Debtor has at any time acquired rights, as those contracts, licenses and agreements may be amended, restated, supplemented or replaced, and includes all rights of the Debtor:
 - (i) to receive money due and to become due to it in connection with a contract, licence or agreement;
 - (ii) to damages arising out of, or for breach or default in respect of, a contract, licence or agreement; and
 - (iii) to perform and exercise all remedies in connection with a contract, licence or agreement.
- (e) **"Credit Agreement"** means the amended and restated credit agreement dated for reference November 5, 2013 among, *inter alia*, the Debtor as borrower, HSBC Bank Canada as co-lead arranger, co-bookrunner and administrative agent, Canadian Imperial Bank of Commerce as co-lead arranger, co-bookrunner and syndication agent, Export Development Canada as documentation agent and the

Lenders as defined therein, as may be amended, supplemented, restated or replaced from time to time.

- (f) **"Debtor"** means Canfor Pulp Limited Partnership, a Manitoba limited partnership, by its general partner Canfor Pulp Holding Inc., and its successors.
- (g) **"Environmental Laws"** means any laws, regulations, orders, by-laws, permits or lawful requirements of any governmental authority with respect to environmental protection or regulating hazardous materials;
- (h) **"Equipment"** means, collectively, all Goods in which the Debtor now or hereafter has rights other than Inventory or Consumer Goods and any part thereof, including, without limitation, all tools, apparatus, fixtures, plant, machinery, furniture, chattels, vehicles, vessels, air conditioning, heating, ventilating, electrical, mechanical, plumbing, communications and data systems, elevators, escalators and other conveyancing devices, boilers, furnaces, carpets, blinds, window coverings, curtains, awnings, lighting fixtures, doors, windows, demising walls and partitions, wiring, pipes, conduits, seasonal decorations, and the equipment described in **Schedule A** hereto or any schedule hereafter annexed hereto.
- (i) **"Event of Default"** means the occurrence of (i) an Event of Default as defined in the Credit Agreement, (ii) a "default," "event of default" or similar circumstance identified in any Secured Agreement that entitles the Debtor's counterparty to enforce its rights under that Secured Agreement, (iii) the failure of the Debtor to pay any of the Obligations when due, or (iv) any demand for payment validly made by any Secured Party pursuant to any Secured Agreement that is not met in accordance with the terms of the demand or within any applicable grace period.
- (j) **"Excluded Collateral"** means Consumer Goods and any Intellectual Property Right, Permit or Contract which would be breached or terminated if a security interest was granted in it without the consent of a third party, unless that consent is obtained, but does not include Accounts.
- (k) **"Hazardous Materials"** means any asbestos material, urea formaldehyde, explosives, radioactive materials, pollutants, contaminants, hazardous substances, corrosive substances, toxic substances, special waste or waste of any kind including, without limitation, compounds known as chlorobiphenyls and any substance the storage, manufacture, disposal, treatment, generation, use, transport, remediation or release of which into the environment is prohibited, controlled or licensed under Environmental Laws.
- (l) **"Intellectual Property Rights"** means all industrial and intellectual property rights, including copyrights, patents, trade-marks, industrial designs, know how and trade secrets, and all Contracts related to those industrial and intellectual property rights.
- (m) **"Obligations"** means all debts, liabilities and obligations of the Debtor to the Secured Parties under or in connection with the Secured Agreements, whether present or future, direct or indirect, absolute or contingent, matured or not, at any time owing or remaining unpaid by the Debtor to the Secured Parties in any currency under or in connection with the Secured Agreements, whether arising from dealings between the Secured Parties and the Debtor or from other dealings or proceedings by which the Secured Parties may be or become in any manner

whatever creditors of the Debtor under or in connection with the Secured Agreements, and wherever incurred, and whether incurred by the Debtor alone or with another or others and whether as principal or surety and all interest, fees, commissions and legal and other costs, charges and expenses owing or remaining unpaid by the Debtor to the Secured Parties in any currency under or in connection with the Secured Agreements.

- (n) **"Permits"** means all authorizations, registrations, permits, licenses, consents, quotas, grants, approvals, franchises, rights-of-way, easements and entitlements that the Debtor has, or is required to have, to own, possess or operate any of its property, or to operate and carry on any part of its business.
- (o) **"PPSA"** means the *Personal Property Security Act* (British Columbia), as amended, supplemented or replaced and includes all regulations made under that legislation.
- (p) **"Records"** means, collectively, all books, papers, documents, writings, tapes, magnetic or other machine readable data and records, and all other information, however stored, recording or relating to any of the Collateral.
- (q) **"Secured Agreements"** means the Credit Agreement and all present and future agreements under which Canfor Hedging Obligations or Bank Products Obligations arise, as such agreements may be amended, supplemented, restated and replaced from time to time, and any reference to "the Secured Agreements" in this Agreement shall be interpreted as referring to "the Secured Agreements or any of them."
- (r) **"Secured Parties"** means each person that from time to time (i) is defined as a "Lender" or as the "Administrative Agent" under the Secured Agreements or (ii) is a Lender or affiliate of a Lender to whom Canfor Hedging Obligations or Bank Products Obligations are owed, in each case in its capacity as a creditor under the Secured Agreements. Any reference to the "Secured Parties" shall be interpreted as referring to "the Secured Parties or any of them." If a Lender ceases to be a Lender by reason of assigning all of its rights and obligations under the Secured Agreements or having the Obligations owing to it under or in connection with the Secured Agreements paid in full as a Declining Lender, then that Lender and any affiliate to whom Canfor Hedging Obligations or Bank Products Obligations are owed shall cease to be Secured Parties under this Agreement.
- (s) **"STA"** means the *Securities Transfer Act* (British Columbia) as amended, supplemented or replaced and includes all regulations made under that legislation.

Capitalized terms that are used but not defined in this Security Agreement have the meanings defined in the Credit Agreement, the PPSA and the STA, as applicable.

Section 2

SECURITY INTEREST

2.1 Creation of Security Interest.

The Debtor, having its chief executive office at Suite 230, 1700 West 75th Avenue, Vancouver, British Columbia, V6P 6G2, as continuing security for the payment and performance of each of

the Obligations, grants to the Agent for the benefit of the Secured Parties, having an office at Suite 200, 885 West Georgia Street, Vancouver, British Columbia, V6C 3G1, a continuing, specific and fixed mortgage, charge and security interest in, and a security interest is taken in, all of the Debtor's right, title and interest in and to the Collateral.

2.2 Floating Charge.

As security for the payment and performance of each of the Obligations, the Debtor grants a floating charge to the Agent for the benefit of the Secured Parties on and over all the Debtor's right, title and interest in and to real property, whether in fee or of a lesser estate, including without limitation, all leasehold property, easements, rights of way, fixtures, crops and improvements, both present and future, other than such as are validly and effectively charged under Section 2.1 or excluded under Section 2.4.

2.3 Attachment.

The Debtor acknowledges that value has been given. The security interests created hereby are intended to attach, as to all of the Collateral in which the Debtor has rights or interests, forthwith when the Debtor executes this Security Agreement, and, as to all Collateral in which the Debtor acquires any right or interest after the execution of this Security Agreement, when the Debtor acquires such right or interest.

2.4 Exception – Leases

The last day of any term reserved by any lease, verbal or written, or any agreement therefor, now held or hereafter acquired by the Debtor is hereby excepted out of the mortgages, charges and security interests created hereby. The Debtor shall assign and dispose of such last day of any term reserved by any such lease in such manner as the Agent may from time to time direct in writing. Upon any sale, assignment, sublease or other disposition of such lease or agreement to lease, the Agent shall, for the purpose of vesting the aforesaid residue of any such term in any purchaser, assignee, sublessee or such other acquirer of the lease, agreement to lease or any interest therein, be entitled by deed or other written instrument to assign to such other person, the aforesaid residue of any such term in place of the Debtor and to vest the same freed and discharged from any obligation whatsoever respecting the same.

2.5 Intellectual Property.

Nothing in Section 2.1 is to be construed as constituting an absolute transfer or assignment of any present or future Intellectual Property Rights, but those sections are to be construed as granting to the Secured Parties a security interest in and a charge on all of the Debtor's present and after-acquired Intellectual Property Rights.

2.6 Where Consent Required.

Nothing herein shall constitute an assignment or attempted assignment of any right, privilege, benefit, policy or other document or instrument, including any Contract or Permit, which by the provisions thereof or by law is not assignable or which requires the consent of any third party to its assignment unless and until such consent is obtained or is waived by the third party. In each such case the Debtor shall, unless the Agent otherwise agrees in writing, forthwith obtain the consent of any necessary third party to its assignment hereby and for its further assignment by the Agent to any third party who may acquire same as a result of the Agent's exercise of remedies after an Event of Default. Upon such consents being obtained or waived, this Security

Agreement shall apply thereto without regard to this Section 2.6 and without the necessity of any further assurance to effect the assignment thereof.

2.7 Pending Consent.

In any case to which Section 2.6 applies, unless and until consent to assignment is obtained as therein provided, the Debtor shall, to the extent it may do so by law or pursuant to the provisions of the document or instrument therein referred to, hold all benefit to be derived therefrom in trust for the Agent as additional security for the payment and performance of the Obligations and shall deliver up all such benefit to the Agent forthwith upon demand by the Agent.

Section 3

OBLIGATIONS SECURED

3.1 Obligations Secured.

The Collateral constitutes and will constitute continuing security for Obligations.

3.2 Reduction of Obligations.

The Obligations may be reduced to zero from time to time without affecting the validity, perfection or enforceability of this Security Agreement or the security interests created hereby until this Security Agreement is discharged in accordance with Section 8.10.

Section 4

DEBTOR'S REPRESENTATIONS AND WARRANTIES

4.1 General.

The Debtor represents and warrants to and for the benefit of the Secured Parties and so long as this Security Agreement remains in effect shall be deemed to continuously represent and warrant as set out in this Section 4.

4.2 Formation and Qualifications.

The Debtor is a limited partnership, duly formed, properly organized and validly existing under the laws of the Province of British Columbia as a limited partnership and is duly registered and qualified to do business under the laws of each jurisdiction in which the character of the properties owned by it or the nature of the activities conducted by it make such registration or qualification advisable or necessary.

4.3 Incorporation, Qualifications and Corporate Power.

Canfor Pulp Holding Inc. is a body corporate, duly incorporated, properly organized and validly existing under the laws of the Province of British Columbia and is duly registered and qualified to do business under the laws of each other jurisdiction in which the character of the properties owned by it or the nature of the activities conducted by it make such registration or qualification advisable or necessary. Canfor Pulp Holding Inc. has the power to act as general partner of the Debtor and has been given the power and authority as general partner of the Debtor to bind the Debtor, to enter into this Security Agreement and to grant the security interests hereby created.

4.4 Enforceability.

This Security Agreement constitutes a valid and legally binding obligation of the Debtor enforceable against the Debtor in accordance with its terms, subject only to bankruptcy, insolvency or other statutes or judicial decisions affecting the enforcement of creditors' rights generally and to general principles of equity.

4.5 Name.

The full legal name of the Debtor (including any French or French/English form of its legal name), and any other name under which it conducts its business, is correctly specified on the signature page of this Security Agreement.

4.6 Survival and Reliance.

All representations and warranties of the Debtor made herein or in any certificate or other document delivered by or on behalf of the Debtor for the benefit of the Agent are material, shall survive the execution and delivery of this Security Agreement and shall continue in full force and effect without time limit. The Agent is deemed to have relied upon each such representation and warranty notwithstanding any investigation made by or on behalf of the Agent at any time.

Section 5

DEBTOR'S COVENANTS

5.1 General.

Unless compliance with the following covenants is waived by the Secured Parties in writing or unless non-compliance with any such covenants is otherwise consented to by the Secured Parties by written agreement with the Debtor, the Debtor covenants and agrees with the Secured Parties to observe and perform each of the covenants set out in this Section 5.

5.2 Keep Collateral in Good Repair.

The Debtor will keep the Collateral in good order, condition and repair.

5.3 Conduct of Business.

The Debtor will carry on and conduct its business in a proper and efficient manner so as to protect and preserve the Collateral.

5.4 Compliance with Agreements and Laws.

The Debtor will not use the Collateral in violation of this Security Agreement or any other agreement relating to the Collateral or any policy insuring the Collateral or any applicable statute, law, by-law, rule, regulation, court order or ordinance.

5.5 Inspection of Records and Collateral.

The Debtor will at all times keep accurate and complete records of the Collateral as well as proper books of account for its business all in accordance with generally accepted accounting principles, consistently applied. The Debtor will permit the Agent or its authorized agents to have access to all premises occupied by the Debtor or any place where the Collateral may be found to inspect the Collateral and to examine the books of accounts, financial records and reports of the

Debtor and to have temporary custody of, make copies of and take extracts from such books, records and reports.

5.6 Access to Computer Information.

In the event that the use of a computer system is required to access any information and data which the Agent is entitled to access and examine hereunder, the Debtor will allow the Agent the use of its computer system for such purpose and will provide assistance in that regard. If for any reason such information and data cannot be accessed and retrieved at the Debtor's premises the Agent may remove the medium in which such information or data is stored from the Debtor's premises to any other place which has a computer system that will give the Agent the opportunity to retrieve, record or copy such information and data. The Agent is hereby authorized to reproduce and retain a copy of any such information and data in any format whatsoever.

5.7 Delivery of Documents.

The Debtor will promptly deliver to the Agent upon request:

- (a) **Documents of Title.** Any Chattel Paper, Instruments, Investment Property, and Documents of Title, and upon such delivery, where applicable, duly endorse the same for transfer in blank or as the Agent may direct;
- (b) **Books of Account.** All computer software, tapes, discs, drums and cards, all books of account and all records, ledgers, reports, correspondence, schedules, documents, statements, lists and other writings relating to the Collateral or the Debtor's business for the purpose of inspecting, auditing or copying the same;
- (c) **Agreements.** All agreements, licenses, permits and consents relating to the Collateral and the Debtor's business; and
- (d) **Other Information.** Such information concerning the Collateral as the Agent may request.

5.8 Proceeds In Trust.

The Debtor will and shall be deemed to hold all Proceeds in trust, separate and apart from other Money, Instruments or property, for the benefit of the Agent until all amounts owing by the Debtor under the Credit Agreement have been paid in full and all obligations of the Debtor under the Credit Agreement have been terminated.

5.9 Performance and Default by Debtor.

The Debtor will observe and perform all the obligations imposed on the Debtor by or in respect of the Collateral, maintain the Collateral in good standing and not do or permit to be done anything to impair, and not omit to do anything that would prevent the impairment of, the security interests hereby created. The Debtor will give to the Agent prompt notice of any default by the Debtor in the performance of its covenants under this Security Agreement.

Section 6

COLLECTION OF ACCOUNTS

6.1 Collection of Accounts.

The Agent may, whether before or after default under this Security Agreement, notify and direct any Account Debtor to make all payments whatever to the Agent. The Agent may hold all amounts acquired from any Account Debtor and any Proceeds as part of the Collateral.

6.2 Trust Provision.

Any payments received by the Debtor after notification to Account Debtors, shall be held by the Debtor in trust for the Agent in the same medium in which received, shall not be commingled with any assets of the Debtor and shall, at the request of the Agent, be turned over to the Agent not later than the next business day following the day of their receipt.

Section 7

DEFAULT

7.1 Default.

The occurrence of an Event of Default will constitute an "Event of Default" under this Security Agreement.

7.2 Crystallization.

The floating charge created by Section 2.2 shall become a fixed charge as soon as:

- (a) the Agent gives notice to that effect to the Debtor;
- (b) the Agent takes any step to accelerate or demand payment of the Obligations, or gives notice of its intention or takes any steps to enforce its security; or
- (c) an Event of Default occurs in respect of the Debtor.

7.3 Demand Obligations.

The fact that this Security Agreement provides for Events of Default and rights of acceleration shall not derogate from the demand nature of any Obligation payable on demand.

7.4 Waiver not to Affect Subsequent Breach.

The Secured Parties may waive default or any breach by the Debtor of any of the provisions contained in this Security Agreement. No waiver shall extend to a subsequent breach or default, whether or not the same as or similar to the breach or default waived. No act or omission of the Secured Parties shall extend to or be taken in any manner whatsoever to affect any subsequent breach or default of the Debtor or the rights of the Secured Parties resulting therefrom. Any such waiver must be in writing and signed by the Agent to be effective.

Section 8

AGENT'S REMEDIES ON DEFAULT

8.1 Indebtedness Due and Rights and Remedies.

Upon the occurrence of an Event of Default, all of the Obligations shall become immediately due and payable without notice to the Debtor, and the Agent may, at its option, proceed to enforce payment of same and to exercise any or all of the rights and remedies contained herein, including, without limitation, the signification and collection of the Debtor's Accounts, or otherwise afforded by law, in equity or otherwise. The Agent shall have the right to enforce one or more remedies successively or concurrently in accordance with applicable law and the Agent expressly retains all rights and remedies not inconsistent with the provisions herein including all the rights it may have under the PPSA, and, without restricting the generality of the foregoing, the Agent may upon such Event of Default:

- (a) **Appointment of Receiver.** Appoint by instrument in writing a receiver, receiver-manager or receiver and manager (herein a "Receiver") of the Debtor and of all or any part of the Collateral and remove or replace such Receiver from time to time or may institute proceedings in any court of competent jurisdiction for the appointment of a Receiver. Any Receiver appointed by the Agent so far as concerns responsibility for its acts shall be deemed the agent of the Debtor and not of the Agent. Where the Agent is referred to in this Section the reference includes, where the context permits, any Receiver so appointed and the officers, employees, servants or agents of such Receiver;
- (b) **Enter and Repossess.** Immediately and without notice enter the Debtor's premises and repossess, disable or remove the Collateral and the Debtor hereby grants to the Agent a licence to occupy any premises of the Debtor for the purpose of storage of the Collateral;
- (c) **Retain the Collateral.** Retain and administer the Collateral in the Agent's sole and unfettered discretion, which the Debtor hereby acknowledges is commercially reasonable;
- (d) **Dispose of the Collateral.** Dispose of any Collateral by public auction, private tender or private contract with or without notice, advertising or any other formality, all of which are hereby waived by the Debtor. The Agent may, at its discretion establish the terms of such disposition, including, without limitation, terms and conditions as to credit, upset, reserve bid or price. The Agent may also lease the Collateral on such terms as it deems appropriate. The payments for Collateral, whether on a disposition or lease, may be deferred. All payments made pursuant to such dispositions shall be credited against the Obligations only as they are actually received. The Agent may buy in, rescind or vary any contract for the disposition of any Collateral and may dispose of any Collateral again without being answerable for any loss occasioned thereby. Any such disposition may take place whether or not the Agent has taken possession of the Collateral;
- (e) **Foreclose.** Foreclose upon the Collateral in satisfaction of the Obligations. The Agent may designate any part of the Obligations to be satisfied by the foreclosure of particular Collateral which the Agent considers to have a net realizable value approximating the amount of the designated part of the Obligations, in which case

only the designated part of the Obligations shall be deemed to be satisfied by the foreclosure of the particular Collateral;

- (f) **Carry on Business.** Carry on or concur in the carrying on of all or any part of the business of the Debtor and may, in any event, to the exclusion of all others, including the Debtor, enter upon, occupy and use all premises of or occupied or used by the Debtor and use any of the personal property (which shall include fixtures) of the Debtor for such time and such purposes as the Agent sees fit. The Agent shall not be liable to the Debtor for any neglect in so doing or in respect of any rent, costs, charges, depreciation or damages in connection therewith;
- (g) **Payment of Encumbrances.** Pay any Lien that may exist or be threatened against the Collateral. In any such case the amounts so paid together with costs, charges and expenses incurred in connection therewith shall be added to the Obligations secured by this Security Agreement;
- (h) **Payment of Deficiency.** If the proceeds of realization are insufficient to pay all monetary Obligations, the Debtor shall forthwith pay or cause to be paid to the Agent any deficiency and the Agent may sue the Debtor to collect the amount of such deficiency; and
- (i) **Dealing with Collateral.** Subject to applicable law seize, collect, realize, borrow money on the security of, release to third parties, sell (by way of public or private sale), lease or otherwise deal with the Collateral in such manner, upon such terms and conditions, at such time or times and place or places and for such consideration as may seem to the Agent advisable and without notice to the Debtor. The Agent may charge on its own behalf and pay to others sums for expenses incurred and for services rendered (expressly including legal services, consulting, receivers and accounting fees) in or in connection with seizing, collecting, realizing, borrowing on the security of, selling or obtaining payment of the Collateral and may add such sums to the Obligations secured by this Security Agreement.

8.2 Assemble the Collateral.

To assist the Agent in the implementation of such rights and remedies the Debtor will, at its own risk and expense and at the Agent's request, assemble and prepare for removal such items of the Collateral as are selected by the Agent as shall, in the Agent's sole judgment, have a value sufficient to cover all the Obligations.

8.3 Agent Not Liable for Failure to Exercise Remedies.

The Agent shall not be liable or accountable for any delay or failure to exercise its remedies, take possession of, seize, collect, realize, sell, lease or otherwise dispose of or obtain payment for the Collateral. The Agent shall not be bound to institute proceedings for such purposes or for the purpose of preserving any rights, remedies or powers of the Agent, the Debtor or any other person in respect of the Collateral or against any Account Debtor.

8.4 Allocation of Proceeds.

All monies collected or received by the Agent in respect of the Collateral may be held by the Agent and may be applied on account of such parts of the Obligations at the sole discretion of the Agent.

8.5 Extension of Time.

The Secured Parties may grant extensions of time and other indulgences, take and give up securities, accept compositions, grant releases and discharges, release the Collateral to third parties and otherwise deal with the Debtor's guarantors or sureties and others and with the Collateral and other securities as the Agent may see fit without prejudice to the liability of the Debtor to the Secured Parties, or the Agent's rights, remedies and powers under this Security Agreement.

8.6 Forbearance is not Waiver.

No extension of time, forbearance, indulgence or other accommodation now, heretofore or hereafter given by the Agent to the Debtor shall operate as a waiver, alteration or amendment of the rights of the Agent or otherwise preclude the Agent from enforcing such rights.

8.7 Effect of Appointment of Receiver.

As soon as the Agent takes possession of any Collateral or appoints a Receiver, all powers, functions, rights and privileges of the directors and officers of the Debtor with respect to that Collateral shall cease, unless specifically continued by the written consent of the Agent or the Receiver.

8.8 Limitation of Liability.

The Agent shall not be liable by reason of any entry into or taking possession of any of the Collateral hereby charged or intended so to be or any part thereof, to account as mortgagee in possession or for anything except actual receipts or be liable for any loss on realization or any act or omission for which a secured party in possession might be liable. The Debtor acknowledges and agrees that any and all payments, responsibilities, obligations and liabilities in respect of the Collateral shall remain those of the Debtor and no such payments, responsibilities, obligations or liabilities are assigned hereby nor are assumed or incurred by the Agent hereunder.

8.9 Release by Debtor.

The Debtor hereby releases and discharges the Secured Parties and the Receiver from every claim of every nature, whether sounding in damages or not, which may arise or be caused to the Debtor or any person claiming through or under the Debtor by reason or as a result of any act or omission of the Agent or any successor or assign claiming through or under the Secured Parties or the Receiver under the provisions of this Security Agreement unless such claim is the result of dishonesty or gross neglect.

8.10 Performance by Agent.

Nothing herein shall obligate the Agent to assume or perform any obligation of the Debtor to any third party in respect or arising out of the Collateral. The Debtor agrees to indemnify and save harmless the Agent from any and all claims of such third parties. The Agent may however at its option assume or perform any such obligations which the Agent considers necessary or desirable to obtain the benefit of the Collateral, or any part thereof, free of any set off, deduction or abatement and any money so expended by the Agent shall form part of the Obligations and shall bear interest at the highest rate per annum from time to time charged by the Agent on any of the other Obligations.

Section 9

MISCELLANEOUS

9.1 Costs.

The Debtor will indemnify and reimburse the Agent on demand for all interest, commissions, costs of realization and other costs and expenses (including the full amount of all legal fees and expenses paid by the Agent) incurred by the Agent or any Receiver in connection with:

- (a) the perpetual registration of any financing statement registered in connection with the security interests hereby created;
- (b) the preparation, execution, perfection, protection, enforcement of and advice with respect to this Security Agreement;
- (c) the realization, disposition of, retention, protection, insuring or collection of any Collateral;
- (d) the protection or enforcement of the rights, remedies and powers of the Agent or any Receiver, including, without limitation, participation, preparation and advice with respect to any actions or proceedings commenced or threatened by or against the Debtor or any person who from time to time guarantees, assumes or otherwise becomes liable for the Obligations or who covenants and agrees to indemnify the Agent for any loss, costs or damages as a result of the Debtor's failure to perform the Obligations;
- (e) the inspection of the Collateral;
- (f) investigating title to the Collateral;
- (g) the compliance by the Agent with all demands made upon the Agent to amend, extend, cancel or discharge any registrations and filings related hereto; and
- (h) any other cost related hereto.

All amounts for which the Debtor is required hereunder to reimburse the Agent or any Receiver shall, from the date of disbursement until the date the Agent or the Receiver receives reimbursement, be deemed advanced to the Debtor by the Agent, shall be deemed to be Obligations and shall bear interest at the highest rate per annum from time to time charged by the Agent on any of the other Obligations.

9.2 Appointment of Attorney.

The Debtor hereby constitutes and appoints the Agent, or any Receiver, the true and lawful attorney of the Debtor irrevocably with full power of substitution to do, make and execute all such assignments, documents, acts, matters or things with the right to use the name of the Debtor whenever and wherever it may be deemed necessary or expedient. The Debtor hereby declares that the irrevocable power of attorney granted hereby, being coupled with an interest, is given for valuable consideration.

9.3 No Obligation to Make Advances.

Nothing herein shall obligate the Secured Parties to make any advance or loan or further advance or extend credit to the Debtor and, in particular, nothing herein shall obligate the Secured Parties to advance any unadvanced portion of any loan or credit to the Debtor after the occurrence of an Event of Default. Except to the extent that the Agent:

- (a) by accepting bills of exchange drawn on it by the Debtor; or
- (b) by issuing letters of credit or letters of guarantee on the application of the Debtor,

is required to advance monies on the maturity of those bills or pursuant to those letters of credit or letters of guarantee, as the case may be, none of the preparation, execution, perfection or registration of this Security Agreement or the advance of any monies by the Agent shall bind the Agent to make any further advance.

9.4 Security Interests Effective Immediately.

Neither the execution of, nor any filing with respect to, this Security Agreement shall bind the Agent to grant any credit to the Debtor, but the security interests hereby created shall take effect forthwith upon the execution of this Security Agreement by the Debtor.

9.5 Security in Addition and not in Substitution, Remedies Cumulative.

The rights, remedies and powers conferred by this Security Agreement are in addition to, and not in substitution for, any other rights, remedies or powers the Agent may have under this Security Agreement, at law, in equity or by or under the PPSA or any other statute. The Agent may proceed by way of any action, suit or other proceeding at law or in equity and no right, remedy or power of the Agent shall be exclusive of or dependent on any other. The Agent may exercise any of its rights, remedies or powers separately or in combination and at any time.

9.6 Statutory Waivers.

To the fullest extent permitted by law, the Debtor waives all of the rights, benefits and protection given by the provisions of any existing or future statute which imposes limitations upon the rights, remedies or powers of the Agent or upon the methods of realization of security, including any seize or sue or anti-deficiency statute or any similar provisions of any other statute. In particular, the Debtor waives all rights, benefits and protection given by the *Civil Enforcement Act* and sections 47 to 50 of the *Law of Property Act* of the Province of Alberta insofar as they extend to or relate to any of the Collateral. The *Limitation of Civil Rights Act* of the Province of Saskatchewan shall not apply to the security interests hereby created or any of the rights, remedies or powers of the Agent or any Receiver.

9.7 Provisions Reasonable.

The Debtor acknowledges that the provisions of this Security Agreement and, in particular, those respecting rights, remedies and powers of the Agent and any Receiver against the Debtor, its business and any Collateral upon an Event of Default, are commercially reasonable and not manifestly unreasonable.

9.8 Further Assurances.

The Debtor shall at all times, do, execute, acknowledge and deliver or cause to be done, executed, acknowledged or delivered all such further acts, deeds, transfers, assignments, security agreements and assurances as the Agent may reasonably require in order to give effect to the provisions hereof and for the better granting, transferring, assigning, charging, setting over, assuring, confirming or perfecting the security interests hereby created and the priority accorded to them by law or under this Security Agreement.

9.9 Notices.

- (a) Every notice, demand and other communication in connection with this Security Agreement (including, without limitation, notices required or permitted under the *Bankruptcy and Insolvency Act*) and all legal process in regard hereto shall be validly given, made or served if in writing and delivered to, or mailed, postage prepaid, or facsimiled or sent by other similar form of communication (collectively "Electronic Communication") to the intended recipient at its address first written above or to such other address or person as the other party may from time to time designate by notice.
- (b) Any notice, requisition, demand or other instrument, (including, without limitation, notices required or permitted under the *Bankruptcy and Insolvency Act*) if delivered, shall be deemed to have been given or made on the day on which it was delivered and if sent by Electronic Communication shall be deemed to have been given or made on the business day next following the day on which it was so sent, and if mailed shall be deemed to have been given or made on the third business day following the day on which it was so mailed. Any party hereto may give written notice of a change of address in the same manner, in which event any notice shall thereafter be given to it as above provided at such changed address.

9.10 Discharge.

Upon payment and performance by the Debtor of the Obligations secured hereby the Agent shall upon request in writing by the Debtor deliver up this Security Agreement to the Debtor and shall at the expense of the Debtor cancel and discharge the security interests hereby created and execute and deliver to the Debtor such documents as shall be requisite to discharge the security interests hereby created.

9.11 Amalgamation.

In the event of the amalgamation of the Debtor, this Security Agreement and all other security delivered by the Debtor in connection with this Security Agreement shall be binding on the amalgamated corporation and charge its present and future undertaking, property and assets to secure the present and future Obligations of the amalgamated corporation, all as if the amalgamated corporation had originally executed and delivered those documents; provided nothing in this paragraph shall be construed as a consent or a permission for the Debtor to amalgamate.

9.12 Delivery of Copy/Waiver.

The Debtor hereby acknowledges receiving a copy of this Security Agreement. The Debtor waives all rights to receive from the Agent a copy of any financing statement or financing change

statement registered or verification statement issued at any time in respect of this Security Agreement.

9.13 Release of Information.

The Debtor hereby authorizes the Agent to provide a copy of this Security Agreement and such other information (including full details of the Obligations) as may be requested of the Agent by persons entitled thereto under the PPSA.

9.14 Inspection, Management and Repairs.

The Debtor covenants and agrees that the Agent may, but shall be under no obligation to, at such time or times as the Agent deems necessary and without the concurrence of the Debtor or any other person make such arrangements for the repairing, finishing and putting in order of the Business Premises, including, without limitation, such repairs, replacements and Improvements as are necessary so that the Debtor and the Business Premises comply with Environmental Laws, and all reasonable costs, charges and expenses including an allowance for the time and services of the Agent, the Agent's servants or agents or any other person or persons appointed for the above purposes including, without limitation, the full amount of all legal fees, disbursements, costs, charges and expenses incurred by the Agent and any amount due hereunder shall be payable forthwith to the Agent, shall be deemed an advance to the Debtor by the Agent, shall be deemed to be Obligations, and shall bear interest at the highest rate per annum from time to time charged by the Agent on any of the other Obligations until paid.

9.15 Authorization of Inquiries.

The Debtor hereby authorizes the Agent to make enquiries from time to time of any governmental authority with respect to the Debtor's compliance with Environmental Laws and the Debtor agrees that the Debtor will from time to time provide to the Agent with such written authorization as the Agent may reasonably require in order to facilitate the obtaining of such information.

9.16 Indemnification.

- (a) The Debtor shall indemnify, reimburse and save harmless the Secured Parties and any receiver and their respective directors, officers, employees, agents, successors and assigns, from any and all liabilities, actions, damages, claims, losses, costs and expenses whatsoever (including without limitation, the full amount of all legal fees, costs, charges and expenses and the cost of removal, treatment, storage and disposal of any Hazardous Materials and remediation of the Business Premises) which may be paid, incurred or asserted against the Secured Parties or any receiver for, with respect to or as a direct or indirect result of the presence on or under, or the escape, seepage, leakage, spillage, discharge, emission or release from, the Business Premises or into or upon any other land, the atmosphere or any watercourse, body of water or wetland of any Hazardous Materials.
- (b) Any amount owing by the Debtor hereunder shall, from the date of disbursement until the date the recipient receives reimbursement, be deemed advanced to the Debtor by the Secured Parties, shall be deemed to be obligations and shall bear interest at the highest rate per annum from time to time charged by the Secured Parties on any of the other Obligations until paid.

- (c) The Debtor agrees that the indemnity obligations hereunder shall survive the release of the security of this Security Agreement and the payment and satisfaction of the indebtedness and liabilities hereby secured, but only insofar as such indemnity obligations relate to liabilities, actions, damages, claims, losses, costs and expenses arising in connection with Hazardous Material that were on the Business Premises prior to such release, payment and satisfaction.

Section 10

INTERPRETATION

10.1 Entire Agreement/Amendment.

This Security Agreement contains the entire agreement between the parties relating to the security interests hereby created. Any amendment of this Security Agreement shall not be binding unless in writing and signed by the Agent and the Debtor. The Debtor confirms that there are no representations, warranties, covenants or acknowledgements affecting, or relied upon in entering this Security Agreement.

10.2 Severability.

Any provision of this Security Agreement prohibited by law or otherwise ineffective shall be ineffective only to the extent of such prohibition or ineffectiveness and shall be severable without invalidating or otherwise affecting the remaining provisions hereof.

10.3 Joint and Several Liability.

If more than one person executes this Security Agreement as Debtor, their obligations hereunder and the liability resulting therefrom shall be joint and several.

10.4 Headings.

All headings and titles in this Security Agreement are for reference only and are not to be used in the interpretation of the terms hereof.

10.5 Included Words.

Wherever the singular or the masculine are used herein, the same shall be deemed to include the plural or the feminine or the body politic or corporate where the context or the parties so require.

10.6 Applicable Law.

This Security Agreement shall be construed and enforceable under and in accordance with the laws of British Columbia and the laws of Canada applicable therein. The Debtor hereby irrevocably submits and attorns to the jurisdiction of the British Columbia Supreme Court sitting at Vancouver, British Columbia.

10.7 Binding Effect.

This Security Agreement shall be binding on the Debtor and its successors, heirs, administrators and executors and shall enure to the benefit of the Agent and its successors and assigns.

Executed by the Debtor this ___ day of _____, _____.

CANFOR PULP HOLDING INC.,
as general partner for and on behalf of the partners of,
CANFOR PULP LIMITED PARTNERSHIP,
by its authorized signatory:

SCHEDULE A
SPECIFIC EQUIPMENT DESCRIPTION

SCHEDULE B

DEBTOR'S PLACES OF BUSINESS

Intercontinental Pulp Mill
2533 Pulp Mill Road, Prince George, British Columbia, V2N 2K3

Northwood Pulp Mill
5353 Northwood Pulp Mill Road, Prince George, BC V2L 4W2

Prince George Pulp & Paper Mill
2789 Pulp Mill Road, Prince George, BC V2N 2K3

Executive and Sales & Marketing Offices
Suite 230, 1700 West 75th Avenue, Vancouver, BC V6P 6G2

SECURITY AGREEMENT
(Canfor Pulp Products Inc.)

THIS SECURITY AGREEMENT dated for reference November 5, 2013.

Section 1

DEFINITIONS

1.1 Defined Terms.

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

- (a) **"Agent"** means HSBC Bank Canada, and its successors, as administrative agent under the Credit Agreement and any successor administrative agent appointed under the Credit Agreement.
- (b) **"Business Premises"** means real property which the Debtor uses in its business, if any.
- (c) **"Collateral"** means all present and after-acquired personal property and other property, assets, rights and undertaking owned, leased, licensed, possessed or acquired by the Debtor, or in which the Debtor has rights, including all present and after-acquired Goods (including Equipment and Inventory), Investment Property, Instruments, Documents of Title, Chattel Paper, Intangibles (including Accounts), Money, crops and fixtures, owned, leased, licensed, possessed or acquired by the Debtor, or in which the Debtor has rights, and all Proceeds of that property, but specifically excludes the Excluded Collateral.
- (d) **"Contracts"** means all contracts, licenses and agreements to which the Debtor is at any time a party or pursuant to which the Debtor has at any time acquired rights, as those contracts, licenses and agreements may be amended, restated, supplemented or replaced, and includes all rights of the Debtor:
 - (i) to receive money due and to become due to it in connection with a contract, licence or agreement;
 - (ii) to damages arising out of, or for breach or default in respect of, a contract, licence or agreement; and
 - (iii) to perform and exercise all remedies in connection with a contract, licence or agreement.
- (e) **"Credit Agreement"** means the amended and restated credit agreement dated for reference November 5, 2013 among, *inter alia*, Canfor Pulp Limited Partnership as borrower, HSBC Bank Canada as co-lead arranger, co-bookrunner and administrative agent, Canadian Imperial Bank of Commerce as co-lead arranger, co-bookrunner and syndication agent, Export Development Canada as

documentation agent and the Lenders as defined therein, as may be amended, supplemented, restated or replaced from time to time.

- (f) **"Debtor"** means Canfor Pulp Products Inc., a British Columbia corporation, and its successors.
- (g) **"Environmental Laws"** means any laws, regulations, orders, by-laws, permits or lawful requirements of any governmental authority with respect to environmental protection or regulating hazardous materials;
- (h) **"Equipment"** means, collectively, all Goods in which the Debtor now or hereafter has rights other than Inventory or Consumer Goods and any part thereof, including, without limitation, all tools, apparatus, fixtures, plant, machinery, furniture, chattels, vehicles, vessels, air conditioning, heating, ventilating, electrical, mechanical, plumbing, communications and data systems, elevators, escalators and other conveyancing devices, boilers, furnaces, carpets, blinds, window coverings, curtains, awnings, lighting fixtures, doors, windows, demising walls and partitions, wiring, pipes, conduits, seasonal decorations, and the equipment described in Schedule A hereto or any schedule hereafter annexed hereto.
- (i) **"Event of Default"** means the occurrence of (i) an Event of Default as defined in the Credit Agreement, (ii) a "default," "event of default" or similar circumstance identified in any Secured Agreement that entitles the Debtor's counterparty to enforce its rights under that Secured Agreement, (iii) the failure of the Debtor to pay any of the Obligations when due, or (iv) any demand for payment validly made by any Secured Party pursuant to any Secured Agreement that is not met in accordance with the terms of the demand or within any applicable grace period.
- (j) **"Excluded Collateral"** means Consumer Goods and any Intellectual Property Right, Permit or Contract which would be breached or terminated if a security interest was granted in it without the consent of a third party, unless that consent is obtained, but does not include Accounts.
- (k) **"Hazardous Materials"** means any asbestos material, urea formaldehyde, explosives, radioactive materials, pollutants, contaminants, hazardous substances, corrosive substances, toxic substances, special waste or waste of any kind including, without limitation, compounds known as chlorobiphenyls and any substance the storage, manufacture, disposal, treatment, generation, use, transport, remediation or release of which into the environment is prohibited, controlled or licensed under Environmental Laws.
- (l) **"Intellectual Property Rights"** means all industrial and intellectual property rights, including copyrights, patents, trade-marks, industrial designs, know how and trade secrets, and all Contracts related to those industrial and intellectual property rights.
- (m) **"Obligations"** means all debts, liabilities and obligations of the Debtor to the Secured Parties under or in connection with the Secured Agreements, whether present or future, direct or indirect, absolute or contingent, matured or not, at any time owing or remaining unpaid by the Debtor to the Secured Parties in any currency under or in connection with the Secured Agreements, whether arising from dealings between the Secured Parties and the Debtor or from other dealings

or proceedings by which the Secured Parties may be or become in any manner whatever creditors of the Debtor under or in connection with the Secured Agreements, and wherever incurred, and whether incurred by the Debtor alone or with another or others and whether as principal or surety and all interest, fees, commissions and legal and other costs, charges and expenses owing or remaining unpaid by the Debtor to the Secured Parties in any currency under or in connection with the Secured Agreements.

- (n) **"Permits"** means all authorizations, registrations, permits, licenses, consents, quotas, grants, approvals, franchises, rights-of-way, easements and entitlements that the Debtor has, or is required to have, to own, possess or operate any of its property, or to operate and carry on any part of its business.
- (o) **"PPSA"** means the *Personal Property Security Act* (British Columbia), as amended, supplemented or replaced and includes all regulations made under that legislation.
- (p) **"Records"** means, collectively, all books, papers, documents, writings, tapes, magnetic or other machine readable data and records, and all other information, however stored, recording or relating to any of the Collateral.
- (q) **"Secured Agreements"** means the Credit Agreement, the Guarantee Agreement executed by the Debtor, and all present and future agreements under which Canfor Hedging Obligations or Bank Products Obligations arise, as such agreements may be amended, supplemented, restated and replaced from time to time, and any reference to "the Secured Agreements" in this Agreement shall be interpreted as referring to "the Secured Agreements or any of them."
- (r) **"Secured Parties"** means each person that from time to time (i) is defined as a "Lender" or as the "Administrative Agent" under the Secured Agreements or (ii) is a Lender or affiliate of a Lender to whom Canfor Hedging Obligations or Bank Products Obligations are owed, in each case in its capacity as a creditor under the Secured Agreements. Any reference to the "Secured Parties" shall be interpreted as referring to "the Secured Parties or any of them." If a Lender ceases to be a Lender by reason of assigning all of its rights and obligations under the Secured Agreements or having the Obligations owing to it under or in connection with the Secured Agreements paid in full as a Declining Lender, then that Lender and any affiliate to whom Canfor Hedging Obligations or Bank Products Obligations are owed shall cease to be Secured Parties under this Agreement.
- (s) **"STA"** means the *Securities Transfer Act* (British Columbia) as amended, supplemented or replaced and includes all regulations made under that legislation.

Capitalized terms that are used but not defined in this Security Agreement have the meanings defined in the Credit Agreement, the PPSA and the STA, as applicable.

Section 2

SECURITY INTEREST

2.1 Creation of Security Interest.

The Debtor, having its chief executive office at Suite 230, 1700 West 75th Avenue, Vancouver, British Columbia, V6P 6G2, as continuing security for the payment and performance of each of the Obligations, grants to the Agent for the benefit of the Secured Parties, having an office at Suite 200, 885 West Georgia Street, Vancouver, British Columbia, V6C 3G1, a continuing, specific and fixed mortgage, charge and security interest in, and a security interest is taken in, all of the Debtor's right, title and interest in and to the Collateral.

2.2 Floating Charge.

As security for the payment and performance of each of the Obligations, the Debtor grants a floating charge to the Agent for the benefit of the Secured Parties on and over all the Debtor's right, title and interest in and to real property, whether in fee or of a lesser estate, including without limitation, all leasehold property, easements, rights of way, fixtures, crops and improvements, both present and future, other than such as are validly and effectively charged under Section 2.1 or excluded under Section 2.4.

2.3 Attachment.

The Debtor acknowledges that value has been given. The security interests created hereby are intended to attach, as to all of the Collateral in which the Debtor has rights or interests, forthwith when the Debtor executes this Security Agreement, and, as to all Collateral in which the Debtor acquires any right or interest after the execution of this Security Agreement, when the Debtor acquires such right or interest.

2.4 Exception – Leases

The last day of any term reserved by any lease, verbal or written, or any agreement therefor, now held or hereafter acquired by the Debtor is hereby excepted out of the mortgages, charges and security interests created hereby. The Debtor shall assign and dispose of such last day of any term reserved by any such lease in such manner as the Agent may from time to time direct in writing. Upon any sale, assignment, sublease or other disposition of such lease or agreement to lease, the Agent shall, for the purpose of vesting the aforesaid residue of any such term in any purchaser, assignee, sublessee or such other acquirer of the lease, agreement to lease or any interest therein, be entitled by deed or other written instrument to assign to such other person, the aforesaid residue of any such term in place of the Debtor and to vest the same freed and discharged from any obligation whatsoever respecting the same.

2.5 Intellectual Property.

Nothing in Section 2.1 is to be construed as constituting an absolute transfer or assignment of any present or future Intellectual Property Rights, but those sections are to be construed as granting to the Secured Parties a security interest in and a charge on all of the Debtor's present and after-acquired Intellectual Property Rights.

2.6 Where Consent Required.

Nothing herein shall constitute an assignment or attempted assignment of any right, privilege, benefit, policy or other document or instrument, including any Contract or Permit, which by the provisions thereof or by law is not assignable or which requires the consent of any third party to its assignment unless and until such consent is obtained or is waived by the third party. In each such case the Debtor shall, unless the Agent otherwise agrees in writing, forthwith obtain the consent of any necessary third party to its assignment hereby and for its further assignment by the Agent to any third party who may acquire same as a result of the Agent's exercise of remedies after an Event of Default. Upon such consents being obtained or waived, this Security Agreement shall apply thereto without regard to this Section 2.6 and without the necessity of any further assurance to effect the assignment thereof.

2.7 Pending Consent.

In any case to which Section 2.6 applies, unless and until consent to assignment is obtained as therein provided, the Debtor shall, to the extent it may do so by law or pursuant to the provisions of the document or instrument therein referred to, hold all benefit to be derived therefrom in trust for the Agent as additional security for the payment and performance of the Obligations and shall deliver up all such benefit to the Agent forthwith upon demand by the Agent.

Section 3

OBLIGATIONS SECURED

3.1 Obligations Secured.

The Collateral constitutes and will constitute continuing security for Obligations.

3.2 Reduction of Obligations.

The Obligations may be reduced to zero from time to time without affecting the validity, perfection or enforceability of this Security Agreement or the security interests created hereby until this Security Agreement is discharged in accordance with Section 8.10.

Section 4

DEBTOR'S REPRESENTATIONS AND WARRANTIES

4.1 General.

The Debtor represents and warrants to and for the benefit of the Secured Parties and so long as this Security Agreement remains in effect shall be deemed to continuously represent and warrant as set out in this Section 4.

4.2 Incorporation, Qualifications and Corporate Power.

The Debtor is a body corporate, duly incorporated, properly organized and validly existing under the laws of the Province of British Columbia and is duly registered and qualified to do business under the laws of each jurisdiction in which the character of the properties owned by it or the nature of the activities conducted by it make such registration or qualification advisable or necessary.

4.3 Enforceability.

This Security Agreement constitutes a valid and legally binding obligation of the Debtor enforceable against the Debtor in accordance with its terms, subject only to bankruptcy, insolvency or other statutes or judicial decisions affecting the enforcement of creditors' rights generally and to general principles of equity.

4.4 Name.

The full legal name of the Debtor (including any French or French/English form of its legal name), and any other name under which it conducts its business, is correctly specified on the signature page of this Security Agreement.

4.5 Survival and Reliance.

All representations and warranties of the Debtor made herein or in any certificate or other document delivered by or on behalf of the Debtor for the benefit of the Agent are material, shall survive the execution and delivery of this Security Agreement and shall continue in full force and effect without time limit. The Agent is deemed to have relied upon each such representation and warranty notwithstanding any investigation made by or on behalf of the Agent at any time.

Section 5

DEBTOR'S COVENANTS

5.1 General.

Unless compliance with the following covenants is waived by the Secured Parties in writing or unless non-compliance with any such covenants is otherwise consented to by the Secured Parties by written agreement with the Debtor, the Debtor covenants and agrees with the Secured Parties to observe and perform each of the covenants set out in this Section 5.

5.2 Keep Collateral in Good Repair.

The Debtor will keep the Collateral in good order, condition and repair.

5.3 Conduct of Business.

The Debtor will carry on and conduct its business in a proper and efficient manner so as to protect and preserve the Collateral.

5.4 Compliance with Agreements and Laws.

The Debtor will not use the Collateral in violation of this Security Agreement or any other agreement relating to the Collateral or any policy insuring the Collateral or any applicable statute, law, by-law, rule, regulation, court order or ordinance.

5.5 Inspection of Records and Collateral.

The Debtor will at all times keep accurate and complete records of the Collateral as well as proper books of account for its business all in accordance with generally accepted accounting principles, consistently applied. The Debtor will permit the Agent or its authorized agents to have access to all premises occupied by the Debtor or any place where the Collateral may be found to inspect the Collateral and to examine the books of accounts, financial records and reports of the Debtor and to have temporary custody of, make copies of and take extracts from such books, records and reports.

5.6 Access to Computer Information.

In the event that the use of a computer system is required to access any information and data which the Agent is entitled to access and examine hereunder, the Debtor will allow the Agent the use of its computer system for such purpose and will provide assistance in that regard. If for any reason such information and data cannot be accessed and retrieved at the Debtor's premises the Agent may remove the medium in which such information or data is stored from the Debtor's premises to any other place which has a computer system that will give the Agent the opportunity to retrieve, record or copy such information and data. The Agent is hereby authorized to reproduce and retain a copy of any such information and data in any format whatsoever.

5.7 Delivery of Documents.

The Debtor will promptly deliver to the Agent upon request:

- (a) **Documents of Title.** Any Chattel Paper, Instruments, Investment Property, and Documents of Title, and upon such delivery, where applicable, duly endorse the same for transfer in blank or as the Agent may direct;
- (b) **Books of Account.** All computer software, tapes, discs, drums and cards, all books of account and all records, ledgers, reports, correspondence, schedules, documents, statements, lists and other writings relating to the Collateral or the Debtor's business for the purpose of inspecting, auditing or copying the same;
- (c) **Agreements.** All agreements, licenses, permits and consents relating to the Collateral and the Debtor's business; and
- (d) **Other Information.** Such information concerning the Collateral as the Agent may request.

5.8 Proceeds In Trust.

The Debtor will and shall be deemed to hold all Proceeds in trust, separate and apart from other Money, Instruments or property, for the benefit of the Agent until all amounts owing by the Debtor under the Credit Agreement have been paid in full and all obligations of the Debtor under the Credit Agreement have been terminated.

5.9 Performance and Default by Debtor.

The Debtor will observe and perform all the obligations imposed on the Debtor by or in respect of the Collateral, maintain the Collateral in good standing and not do or permit to be done anything to impair, and not omit to do anything that would prevent the impairment of, the security interests hereby created. The Debtor will give to the Agent prompt notice of any default by the Debtor in the performance of its covenants under this Security Agreement.

Section 6

COLLECTION OF ACCOUNTS.

6.1 Collection of Accounts.

The Agent may, whether before or after default under this Security Agreement, notify and direct any Account Debtor to make all payments whatever to the Agent. The Agent may hold all amounts acquired from any Account Debtor and any Proceeds as part of the Collateral.

6.2 Trust Provision.

Any payments received by the Debtor after notification to Account Debtors, shall be held by the Debtor in trust for the Agent in the same medium in which received, shall not be commingled with any assets of the Debtor and shall, at the request of the Agent, be turned over to the Agent not later than the next business day following the day of their receipt.

Section 7

DEFAULT

7.1 Default.

The occurrence of an Event of Default will constitute an "Event of Default" under this Security Agreement.

7.2 Crystallization.

The floating charge created by Section 2.2 shall become a fixed charge as soon as:

- (a) the Agent gives notice to that effect to the Debtor;
- (b) the Agent takes any step to accelerate or demand payment of the Obligations, or gives notice of its intention or takes any steps to enforce its security; or
- (c) an Event of Default occurs in respect of the Debtor.

7.3 Demand Obligations.

The fact that this Security Agreement provides for Events of Default and rights of acceleration shall not derogate from the demand nature of any Obligation payable on demand.

7.4 Waiver not to Affect Subsequent Breach.

The Secured Parties may waive default or any breach by the Debtor of any of the provisions contained in this Security Agreement. No waiver shall extend to a subsequent breach or default, whether or not the same as or similar to the breach or default waived. No act or omission of the Secured Parties shall extend to or be taken in any manner whatsoever to affect any subsequent breach or default of the Debtor or the rights of the Secured Parties resulting therefrom. Any such waiver must to be in writing and signed by the Agent to be effective.

Section 8

AGENT'S REMEDIES ON DEFAULT

8.1 Indebtedness Due and Rights and Remedies.

Upon the occurrence of an Event of Default, all of the Obligations shall become immediately due and payable without notice to the Debtor, and the Agent may, at its option, proceed to enforce payment of same and to exercise any or all of the rights and remedies contained herein, including, without limitation, the signification and collection of the Debtor's Accounts, or otherwise afforded by law, in equity or otherwise. The Agent shall have the right to enforce one or more remedies successively or concurrently in accordance with applicable law and the Agent expressly retains all rights and remedies not inconsistent with the provisions herein including all the rights it may have under the PPSA, and, without restricting the generality of the foregoing, the Agent may upon such Event of Default:

- (a) **Appointment of Receiver.** Appoint by instrument in writing a receiver, receiver-manager or receiver and manager (herein a "Receiver") of the Debtor and of all or any part of the Collateral and remove or replace such Receiver from time to time or may institute proceedings in any court of competent jurisdiction for the appointment of a Receiver. Any Receiver appointed by the Agent so far as concerns responsibility for its acts shall be deemed the agent of the Debtor and not of the Agent. Where the Agent is referred to in this Section the reference includes, where the context permits, any Receiver so appointed and the officers, employees, servants or agents of such Receiver;
- (b) **Enter and Repossess.** Immediately and without notice enter the Debtor's premises and repossess, disable or remove the Collateral and the Debtor hereby grants to the Agent a licence to occupy any premises of the Debtor for the purpose of storage of the Collateral;
- (c) **Retain the Collateral.** Retain and administer the Collateral in the Agent's sole and unfettered discretion, which the Debtor hereby acknowledges is commercially reasonable;
- (d) **Dispose of the Collateral.** Dispose of any Collateral by public auction, private tender or private contract with or without notice, advertising or any other formality, all of which are hereby waived by the Debtor. The Agent may, at its discretion establish the terms of such disposition, including, without limitation, terms and conditions as to credit, upset, reserve bid or price. The Agent may also lease the Collateral on such terms as it deems appropriate. The payments for Collateral, whether on a disposition or lease, may be deferred. All payments made pursuant to such dispositions shall be credited against the Obligations only as they are

actually received. The Agent may buy in, rescind or vary any contract for the disposition of any Collateral and may dispose of any Collateral again without being answerable for any loss occasioned thereby. Any such disposition may take place whether or not the Agent has taken possession of the Collateral;

- (e) **Foreclose.** Foreclose upon the Collateral in satisfaction of the Obligations. The Agent may designate any part of the Obligations to be satisfied by the foreclosure of particular Collateral which the Agent considers to have a net realizable value approximating the amount of the designated part of the Obligations, in which case only the designated part of the Obligations shall be deemed to be satisfied by the foreclosure of the particular Collateral;
- (f) **Carry on Business.** Carry on or concur in the carrying on of all or any part of the business of the Debtor and may, in any event, to the exclusion of all others, including the Debtor, enter upon, occupy and use all premises of or occupied or used by the Debtor and use any of the personal property (which shall include fixtures) of the Debtor for such time and such purposes as the Agent sees fit. The Agent shall not be liable to the Debtor for any neglect in so doing or in respect of any rent, costs, charges, depreciation or damages in connection therewith;
- (g) **Payment of Encumbrances.** Pay any Lien that may exist or be threatened against the Collateral. In any such case the amounts so paid together with costs, charges and expenses incurred in connection therewith shall be added to the Obligations secured by this Security Agreement;
- (h) **Payment of Deficiency.** If the proceeds of realization are insufficient to pay all monetary Obligations, the Debtor shall forthwith pay or cause to be paid to the Agent any deficiency and the Agent may sue the Debtor to collect the amount of such deficiency; and
- (i) **Dealing with Collateral.** Subject to applicable law seize, collect, realize, borrow money on the security of, release to third parties, sell (by way of public or private sale), lease or otherwise deal with the Collateral in such manner, upon such terms and conditions, at such time or times and place or places and for such consideration as may seem to the Agent advisable and without notice to the Debtor. The Agent may charge on its own behalf and pay to others sums for expenses incurred and for services rendered (expressly including legal services, consulting, receivers and accounting fees) in or in connection with seizing, collecting, realizing, borrowing on the security of, selling or obtaining payment of the Collateral and may add such sums to the Obligations secured by this Security Agreement.

8.2 Assemble the Collateral.

To assist the Agent in the implementation of such rights and remedies the Debtor will, at its own risk and expense and at the Agent's request, assemble and prepare for removal such Items of the Collateral as are selected by the Agent as shall, in the Agent's sole judgment, have a value sufficient to cover all the Obligations.

8.3 Agent Not Liable for Failure to Exercise Remedies.

The Agent shall not be liable or accountable for any delay or failure to exercise its remedies, take possession of, seize, collect, realize, sell, lease or otherwise dispose of or obtain payment for the Collateral. The Agent shall not be bound to institute proceedings for such purposes or for the purpose of preserving any rights, remedies or powers of the Agent, the Debtor or any other person in respect of the Collateral or against any Account Debtor.

8.4 Allocation of Proceeds.

All monies collected or received by the Agent in respect of the Collateral may be held by the Agent and may be applied on account of such parts of the Obligations at the sole discretion of the Agent.

8.5 Extension of Time.

The Secured Parties may grant extensions of time and other indulgences, take and give up securities, accept compositions, grant releases and discharges, release the Collateral to third parties and otherwise deal with the Debtor's guarantors or sureties and others and with the Collateral and other securities as the Agent may see fit without prejudice to the liability of the Debtor to the Secured Parties, or the Agent's rights, remedies and powers under this Security Agreement.

8.6 Forbearance is not Waiver.

No extension of time, forbearance, indulgence or other accommodation now, heretofore or hereafter given by the Agent to the Debtor shall operate as a waiver, alteration or amendment of the rights of the Agent or otherwise preclude the Agent from enforcing such rights.

8.7 Effect of Appointment of Receiver.

As soon as the Agent takes possession of any Collateral or appoints a Receiver, all powers, functions, rights and privileges of the directors and officers of the Debtor with respect to that Collateral shall cease, unless specifically continued by the written consent of the Agent or the Receiver.

8.8 Limitation of Liability.

The Agent shall not be liable by reason of any entry into or taking possession of any of the Collateral hereby charged or intended so to be or any part thereof, to account as mortgagee in possession or for anything except actual receipts or be liable for any loss on realization or any act or omission for which a secured party in possession might be liable. The Debtor acknowledges and agrees that any and all payments, responsibilities, obligations and liabilities in respect of the Collateral shall remain those of the Debtor and no such payments, responsibilities, obligations or liabilities are assigned hereby nor are assumed or incurred by the Agent hereunder.

8.9 Release by Debtor.

The Debtor hereby releases and discharges the Secured Parties and the Receiver from every claim of every nature, whether sounding in damages or not, which may arise or be caused to the Debtor or any person claiming through or under the Debtor by reason or as a result of any act or omission of the Agent or any successor or assign claiming through or under the Secured Parties

or the Receiver under the provisions of this Security Agreement unless such claim is the result of dishonesty or gross neglect.

8.10 Performance by Agent.

Nothing herein shall obligate the Agent to assume or perform any obligation of the Debtor to any third party in respect or arising out of the Collateral. The Debtor agrees to indemnify and save harmless the Agent from any and all claims of such third parties. The Agent may however at its option assume or perform any such obligations which the Agent considers necessary or desirable to obtain the benefit of the Collateral, or any part thereof, free of any set off, deduction or abatement and any money so expended by the Agent shall form part of the Obligations and shall bear interest at the highest rate per annum from time to time charged by the Agent on any of the other Obligations.

Section 9

MISCELLANEOUS

9.1 Costs.

The Debtor will indemnify and reimburse the Agent on demand for all interest, commissions, costs of realization and other costs and expenses (including the full amount of all legal fees and expenses paid by the Agent) incurred by the Agent or any Receiver in connection with:

- (a) the perpetual registration of any financing statement registered in connection with the security interests hereby created;
- (b) the preparation, execution, perfection, protection, enforcement of and advice with respect to this Security Agreement;
- (c) the realization, disposition of, retention, protection, insuring or collection of any Collateral;
- (d) the protection or enforcement of the rights, remedies and powers of the Agent or any Receiver, including, without limitation, participation, preparation and advice with respect to any actions or proceedings commenced or threatened by or against the Debtor or any person who from time to time guarantees, assumes or otherwise becomes liable for the Obligations or who covenants and agrees to indemnify the Agent for any loss, costs or damages as a result of the Debtor's failure to perform the Obligations;
- (e) the inspection of the Collateral;
- (f) investigating title to the Collateral;
- (g) the compliance by the Agent with all demands made upon the Agent to amend, extend, cancel or discharge any registrations and filings related hereto; and
- (h) any other cost related hereto.

All amounts for which the Debtor is required hereunder to reimburse the Agent or any Receiver shall, from the date of disbursement until the date the Agent or the Receiver receives reimbursement, be deemed advanced to the Debtor by the Agent, shall be deemed to be

Obligations and shall bear interest at the highest rate per annum from time to time charged by the Agent on any of the other Obligations.

9.2 Appointment of Attorney.

The Debtor hereby constitutes and appoints the Agent, or any Receiver, the true and lawful attorney of the Debtor irrevocably with full power of substitution to do, make and execute all such assignments, documents, acts, matters or things with the right to use the name of the Debtor whenever and wherever it may be deemed necessary or expedient. The Debtor hereby declares that the irrevocable power of attorney granted hereby, being coupled with an interest, is given for valuable consideration.

9.3 No Obligation to Make Advances.

Nothing herein shall obligate the Secured Parties to make any advance or loan or further advance or extend credit to the Debtor and, in particular, nothing herein shall obligate the Secured Parties to advance any unadvanced portion of any loan or credit to the Debtor after the occurrence of an Event of Default. Except to the extent that the Agent:

- (a) by accepting bills of exchange drawn on it by the Debtor; or
- (b) by issuing letters of credit or letters of guarantee on the application of the Debtor,

is required to advance monies on the maturity of those bills or pursuant to those letters of credit or letters of guarantee, as the case may be, none of the preparation, execution, perfection or registration of this Security Agreement or the advance of any monies by the Agent shall bind the Agent to make any further advance.

9.4 Security Interests Effective Immediately.

Neither the execution of, nor any filing with respect to, this Security Agreement shall bind the Agent to grant any credit to the Debtor, but the security interests hereby created shall take effect forthwith upon the execution of this Security Agreement by the Debtor.

9.5 Security in Addition and not in Substitution, Remedies Cumulative.

The rights, remedies and powers conferred by this Security Agreement are in addition to, and not in substitution for, any other rights, remedies or powers the Agent may have under this Security Agreement, at law, in equity or by or under the PPSA or any other statute. The Agent may proceed by way of any action, suit or other proceeding at law or in equity and no right, remedy or power of the Agent shall be exclusive of or dependent on any other. The Agent may exercise any of its rights, remedies or powers separately or in combination and at any time.

9.6 Statutory Waivers.

To the fullest extent permitted by law, the Debtor waives all of the rights, benefits and protection given by the provisions of any existing or future statute which imposes limitations upon the rights, remedies or powers of the Agent or upon the methods of realization of security, including any seize or sue or anti-deficiency statute or any similar provisions of any other statute. In particular, the Debtor waives all rights, benefits and protection given by the *Civil Enforcement Act* and sections 47 to 50 of the *Law of Property Act* of the Province of Alberta insofar as they extend to or relate to any of the Collateral. The *Limitation of Civil Rights Act* of the Province of Saskatchewan

shall not apply to the security interests hereby created or any of the rights, remedies or powers of the Agent or any Receiver.

9.7 Provisions Reasonable.

The Debtor acknowledges that the provisions of this Security Agreement and, in particular, those respecting rights, remedies and powers of the Agent and any Receiver against the Debtor, its business and any Collateral upon an Event of Default, are commercially reasonable and not manifestly unreasonable.

9.8 Further Assurances.

The Debtor shall at all times, do, execute, acknowledge and deliver or cause to be done, executed, acknowledged or delivered all such further acts, deeds, transfers, assignments, security agreements and assurances as the Agent may reasonably require in order to give effect to the provisions hereof and for the better granting, transferring, assigning, charging, setting over, assuring, confirming or perfecting the security interests hereby created and the priority accorded to them by law or under this Security Agreement.

9.9 Notices.

- (a) Every notice, demand and other communication in connection with this Security Agreement (including, without limitation, notices required or permitted under the *Bankruptcy and Insolvency Act*) and all legal process in regard hereto shall be validly given, made or served if in writing and delivered to, or mailed, postage prepaid, or facsimiled or sent by other similar form of communication (collectively "Electronic Communication") to the intended recipient at its address first written above or to such other address or person as the other party may from time to time designate by notice.
- (b) Any notice, requisition, demand or other instrument, (including, without limitation, notices required or permitted under the *Bankruptcy and Insolvency Act*) if delivered, shall be deemed to have been given or made on the day on which it was delivered and if sent by Electronic Communication shall be deemed to have been given or made on the business day next following the day on which it was so sent, and if mailed shall be deemed to have been given or made on the third business day following the day on which it was so mailed. Any party hereto may give written notice of a change of address in the same manner, in which event any notice shall thereafter be given to it as above provided at such changed address.

9.10 Discharge.

Upon payment and performance by the Debtor of the Obligations secured hereby the Agent shall upon request in writing by the Debtor deliver up this Security Agreement to the Debtor and shall at the expense of the Debtor cancel and discharge the security interests hereby created and execute and deliver to the Debtor such documents as shall be requisite to discharge the security interests hereby created.

9.11 Amalgamation.

In the event of the amalgamation of the Debtor, this Security Agreement and all other security delivered by the Debtor in connection with this Security Agreement shall be binding on the

amalgamated corporation and charge its present and future undertaking, property and assets to secure the present and future Obligations of the amalgamated corporation, all as if the amalgamated corporation had originally executed and delivered those documents; provided nothing in this paragraph shall be construed as a consent or a permission for the Debtor to amalgamate.

9.12 Delivery of Copy/Waiver.

The Debtor hereby acknowledges receiving a copy of this Security Agreement. The Debtor waives all rights to receive from the Agent a copy of any financing statement or financing change statement registered or verification statement issued at any time in respect of this Security Agreement.

9.13 Release of Information.

The Debtor hereby authorizes the Agent to provide a copy of this Security Agreement and such other information (including full details of the Obligations) as may be requested of the Agent by persons entitled thereto under the PPSA.

9.14 Inspection, Management and Repairs.

The Debtor covenants and agrees that the Agent may, but shall be under no obligation to, at such time or times as the Agent deems necessary and without the concurrence of the Debtor or any other person make such arrangements for the repairing, finishing and putting in order of the Business Premises, including, without limitation, such repairs, replacements and improvements as are necessary so that the Debtor and the Business Premises comply with Environmental Laws, and all reasonable costs, charges and expenses including an allowance for the time and services of the Agent, the Agent's servants or agents or any other person or persons appointed for the above purposes including, without limitation, the full amount of all legal fees, disbursements, costs, charges and expenses incurred by the Agent and any amount due hereunder shall be payable forthwith to the Agent, shall be deemed an advance to the Debtor by the Agent, shall be deemed to be Obligations, and shall bear interest at the highest rate per annum from time to time charged by the Agent on any of the other Obligations until paid.

9.15 Authorization of Inquiries.

The Debtor hereby authorizes the Agent to make enquiries from time to time of any governmental authority with respect to the Debtor's compliance with Environmental Laws and the Debtor agrees that the Debtor will from time to time provide to the Agent with such written authorization as the Agent may reasonably require in order to facilitate the obtaining of such information.

9.16 Indemnification.

- (a) The Debtor shall indemnify, reimburse and save harmless the Secured Parties and any receiver and their respective directors, officers, employees, agents, successors and assigns, from any and all liabilities, actions, damages, claims, losses, costs and expenses whatsoever (including without limitation, the full amount of all legal fees, costs, charges and expenses and the cost of removal, treatment, storage and disposal of any Hazardous Materials and remediation of the Business Premises) which may be paid, incurred or asserted against the Secured Parties or any receiver for, with respect to or as a direct or indirect result of the presence on or under, or the escape, seepage, leakage, spillage, discharge,

emission or release from, the Business Premises or into or upon any other land, the atmosphere or any watercourse, body of water or wetland of any Hazardous Materials.

- (b) Any amount owing by the Debtor hereunder shall, from the date of disbursement until the date the recipient receives reimbursement, be deemed advanced to the Debtor by the Secured Parties, shall be deemed to be obligations and shall bear interest at the highest rate per annum from time to time charged by the Secured Parties on any of the other Obligations until paid.
- (c) The Debtor agrees that the indemnity obligations hereunder shall survive the release of the security of this Security Agreement and the payment and satisfaction of the indebtedness and liabilities hereby secured, but only insofar as such indemnity obligations relate to liabilities, actions, damages, claims, losses, costs and expenses arising in connection with Hazardous Material that were on the Business Premises prior to such release, payment and satisfaction.

Section 10

INTERPRETATION

10.1 Entire Agreement/Amendment.

This Security Agreement contains the entire agreement between the parties relating to the security interests hereby created. Any amendment of this Security Agreement shall not be binding unless in writing and signed by the Agent and the Debtor. The Debtor confirms that there are no representations, warranties, covenants or acknowledgements affecting, or relied upon in entering this Security Agreement.

10.2 Severability.

Any provision of this Security Agreement prohibited by law or otherwise ineffective shall be ineffective only to the extent of such prohibition or ineffectiveness and shall be severable without invalidating or otherwise affecting the remaining provisions hereof.

10.3 Joint and Several Liability.

If more than one person executes this Security Agreement as Debtor, their obligations hereunder and the liability resulting therefrom shall be joint and several.

10.4 Headings.

All headings and titles in this Security Agreement are for reference only and are not to be used in the interpretation of the terms hereof.

10.5 Included Words.

Wherever the singular or the masculine are used herein, the same shall be deemed to include the plural or the feminine or the body politic or corporate where the context or the parties so require.

10.6 Applicable Law.

This Security Agreement shall be construed and enforceable under and in accordance with the laws of British Columbia and the laws of Canada applicable therein. The Debtor hereby irrevocably submits and attorns to the jurisdiction of the British Columbia Supreme Court sitting at Vancouver, British Columbia.

10.7 Binding Effect.

This Security Agreement shall be binding on the Debtor and its successors, heirs, administrators and executors and shall enure to the benefit of the Agent and its successors and assigns.

Execution Date

Officer Signature(s)

Name:

Y	M	D

Transferor(s) Signature(s)

CANFOR PULP PRODUCTS INC.
by its authorized signatory:

OFFICER CERTIFICATION:

Your signature constitutes a representation that you are a solicitor, notary public or other person authorized by the *Evidence Act*, R.S.B.C. 1979, c.116, to take affidavits for use in British Columbia and certifies the matters set out in Part 5 of the *Land Title Act* as they pertain to the execution of this instrument.

SCHEDULE A

SPECIFIC EQUIPMENT DESCRIPTION

SCHEDULE B

DEBTOR'S PLACES OF BUSINESS

Intercontinental Pulp Mill

2533 Pulp Mill Road, Prince George, British Columbia, V2N 2K3

Northwood Pulp Mill

5353 Northwood Pulp Mill Road, Prince George, BC V2L 4W2

Prince George Pulp & Paper Mill

2789 Pulp Mill Road, Prince George, BC V2N 2K3

Executive and Sales & Marketing Offices

Suite 230, 1700 West 75th Avenue, Vancouver, BC V6P 6G2

ACKNOWLEDGEMENT, CONSENT AND AGREEMENT

Dated as of November 5, 2013.

For good and valuable consideration (the receipt and sufficiency of which is hereby acknowledged by each of the undersigned), each of the undersigned hereby:

1. agrees that terms "Secured Agreements" and "Secured Parties" used in this Acknowledgement, Consent and Agreement have the respective meanings assigned to them in its Guarantee Agreement and that other terms used in this Acknowledgement, Consent and Agreement that are defined in the Amended and Restated Credit Agreement dated for reference November 5, 2013 to which this Acknowledgement, Consent and Agreement is attached (the "**A&R Credit Agreement**") shall have the respective meanings assigned to them in the A&R Credit Agreement;
2. acknowledges, agrees and consents to the terms and conditions of the A&R Credit Agreement and, without limiting the generality of the foregoing, consents and agrees to be bound by and to observe and perform all of the obligations and agreements set forth in the A&R Credit Agreement that it has agreed to observe and perform or that Canfor has agreed to cause it to observe and perform;
3. acknowledges its continuing covenants, obligations and liabilities to the Secured Parties under its Guarantee Agreement, all of which are hereby ratified and confirmed;
4. agrees that, notwithstanding the amendments made to the Existing Credit Agreement as recorded in the A&R Credit Agreement, including without limitation those made to the Credit Facility, its Guarantee Agreement shall remain in full force and effect and continue to be valid and binding upon and enforceable against the undersigned in accordance with its terms;
5. agrees that immediately prior to the winding up of Canfor Pulp Limited Partnership pursuant to the Reorganization, all references in its Guarantee Agreement and any related documents thereto to "Borrower" or "Debtor" shall be deemed to be a reference to GP as if it was the original borrower under the A&R Credit Agreement and other Secured Agreements with the express intention and purpose that its Guarantee shall extend to and be a continuing guarantee of all debts, liabilities and obligations of GP, in whatever capacity they may be or have been incurred, to the Secured Parties under or in connection with the Secured Agreements, whether present or future, direct or indirect, absolute or contingent, matured or not, at any time owing or remaining unpaid by GP to the Secured Parties in any currency under or in connection with the Secured Agreements, whether arising from dealings between the Secured Parties and GP or from other dealings or proceedings by which the Secured Parties may be or become in any manner whatever creditors of GP under or in connection with the Secured Agreements, and wherever incurred, and whether incurred by GP alone or with another or others and whether as principal or surety and all interest, fees, commissions and legal and other costs, charges and expenses owing or remaining unpaid by GP to the Secured Parties in any currency under or in connection with the Secured Agreements;
6. agrees that it will from time to time, without further consideration, do and perform all such further acts and things and execute and deliver all such further agreements, assurances, assignments and other documents as may be reasonably required by the Administrative Agent to more fully give effect to the intent and purpose of this

Acknowledgement, Consent and Agreement and as may otherwise be required by the Administrative Agent in connection with the A&R Credit Agreement and the Reorganization;

7. agrees that this Acknowledgement, Consent and Agreement is binding upon the undersigned and its successors and assigns; and
8. agrees that this Acknowledgement, Consent and Agreement shall be governed by and construed in accordance with the laws of the Province of British Columbia and the federal laws of Canada applicable therein.

IN WITNESS WHEREOF, each of the undersigned has caused this Acknowledgement, Consent and Agreement to be executed by its duly authorized officers.

CANFOR PULP AND PAPER SALES LTD.

Per: ARWichSI

CANFOR PULP PRODUCTS INC.

Per: ARWichSI

CANFOR PULP INTERNATIONAL LTD.

Per: ARWichSI