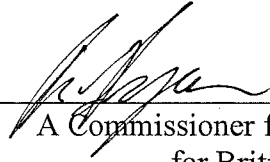


This is **Exhibit "J"** referred to in the Affidavit #1 of Brian Baarda made before me at Vancouver, British Columbia this 31st day of January 2012.



A Commissioner for the taking Affidavits
for British Columbia

January 13, 2012

CATALYST PAPER CORPORATION
 2nd Floor, 3600 Lysander Lane
 Richmond, British Columbia V7B 1C3
 Attention: Brian Baarda – Chief Financial Officer
 Alistair MacCallum – Treasurer
 David Adderley – General Counsel

Re: Commitment Letter

Ladies and Gentlemen:

You have advised J.P. Morgan Securities LLC ("JPMorgan Securities") and JPMorgan Chase Bank, N.A., Toronto Branch ("JPMorgan"), that Catalyst Paper Corporation (the "Company", and together with each of Catalyst Paper, Catalyst Paper Holdings Inc. and Catalyst Paper (Snowflake) Inc., the "Borrowers") and its subsidiaries (collectively, the "CCAA Applicants") intend to apply to (i) the Supreme Court of British Columbia sitting at Vancouver, British Columbia (the "CCAA Court") for an order (as extended or amended, the "CCAA Initial Order") that the CCAA Applicants are entitled to relief under the *Companies' Creditors Arrangement Act* (Canada) (the "CCAA") and granting initial minimal required availability under the DIP Facility (as defined below) and (ii) the U.S. Bankruptcy Court for the District of Delaware (the "U.S. Bankruptcy Court") under Chapter 15 of the U.S. Bankruptcy Code (11 U.S.C. § 1501, et seq. "Chapter 15") seeking (x) entry of an order recognizing the CCAA proceedings and enforcing the CCAA Initial Order and a final CCAA order, and (y) pending entry of those U.S. Bankruptcy Court orders, an order of the US Bankruptcy Court granting provisional relief pursuant to § 1519 of the US Bankruptcy Code (such provisional relief order as extended or amended, the "US Initial Order", and collectively with the CCAA Initial Order, the "Initial Orders").

For purposes of providing for general working capital needs and general corporate purposes of the CCAA Applicants and to pay for all expenses associated with the DIP Facility (as defined below) and the cases of the CCAA Applicants under the CCAA and Chapter 15 (collectively, the "Proceedings"), all in accordance with the Revised Cash Flow Forecast (as defined in the Term Sheet) as approved by the Administrative Agent and the CCAA Court and the U.S. Bankruptcy Court, you have requested that JP Morgan Securities agree to structure, arrange and syndicate a senior revolving debtor-in-possession credit facility to provide to the Borrowers a senior secured super-priority debtor-in-possession credit facility comprised of a revolving facility of up to CDN\$175 million, including a letter of credit sub-facility of up to CDN\$50 million and a U.S. dollar sublimit for the U.S. Borrowers of up to CDN\$20 million (the "DIP Facility" or the "Financing") during the course of the Proceedings, and that JPMorgan commit to provide the DIP Facility and to serve as administrative agent for the DIP Facility, in each case subject to the terms and conditions set forth or referred to in this commitment letter, including the Summary of Indicative Terms and Conditions for the Financing attached hereto as Exhibit A (the "Term Sheet", and together with this letter, the "Commitment Letter"). Unless otherwise indicated, all references to dollars are references to Canadian dollars.

JPMorgan is pleased to advise you of its commitment to provide the entire amount of the DIP Facility, in each case upon the terms and subject to the conditions set forth or referred to in this Commitment Letter. It is agreed that JPMorgan will act as the sole and exclusive administrative agent, and that JP Morgan Securities will act as the sole and exclusive Lead Arranger and Bookrunner (in such capacities, the "Sole Lead Arranger") for the DIP Facility; provided that the Borrowers acknowledge and agree that the commitments of JPMorgan to act as administrative agent and to provide a portion of the DIP Facility may be assumed by an affiliated bank and JPMorgan may assign some or all of its rights and

delegate some or all of its responsibilities hereunder to one of its affiliates. You agree that no other agents, co-agents or arrangers will be appointed, no other titles will be awarded and no compensation (other than that expressly contemplated by the Term Sheet and the Fee Letter referred to below) will be paid in connection with the DIP Facility unless you and we shall so agree.

We intend to syndicate the DIP Facility to a group of financial institutions (together with JPMorgan, the "Lenders") identified by us in consultation with you. JPMorgan Securities intends to commence syndication efforts promptly upon the execution of this Commitment Letter, and Borrowers agree actively to assist JPMorgan Securities in completing a syndication satisfactory to it. Such assistance shall include, as and when reasonably required in order to facilitate the syndication process (a) Borrowers using commercially reasonable efforts to ensure that the syndication efforts benefit materially from your existing lending relationships, (b) direct contact between senior management and advisors of the Borrowers and the proposed Lenders, (c) the hosting, with JPMorgan Securities, of one or more meetings of prospective Lenders and (d) as set forth in the next paragraph, assistance in the preparation of materials to be used in connection with the syndication (collectively with the Term Sheet, the "Information Materials"). It is JPMorgan Securities' expectation that lenders under the Existing Credit Agreement (as defined in the Term Sheet) will be afforded the opportunity to participate in the DIP Facility.

Borrowers will assist us in preparing Information Materials, including a Confidential Information Memorandum, for distribution to prospective Lenders. Before distribution of any Information Materials, Borrowers agree to execute and deliver to us a letter in which you authorize distribution of the Information Materials to a prospective Lender's employees ("Private-Siders") willing to receive material non-public information with respect to the Borrowers, their affiliates and any of their securities.

The Borrowers agree that the following documents may be distributed to Private-Siders: (a) administrative materials prepared by JPMorgan Securities for prospective Lenders (such as a lender meeting invitation, bank allocation, if any, and funding and closing memoranda), (b) notification of changes in the DIP Facility's terms and (c) other materials intended for prospective Lenders after the initial distribution of Information Materials.

The Borrowers hereby authorizes JPMorgan Securities to distribute drafts of definitive documentation with respect to the DIP Facility to Private-Siders.

As the Sole Lead Arranger, JPMorgan Securities will manage all aspects of the syndication, including decisions as to the selection of institutions to be approached and when they will be approached, when their commitments will be accepted, which institutions will participate, the allocations of the commitments among the Lenders (as defined below) and the amount and distribution of fees among the Lenders. In acting as the Sole Lead Arranger, JPMorgan Securities will have no responsibility other than to arrange the syndication as set forth herein and shall in no event be subject to any fiduciary or other implied duties. Additionally, the Borrowers acknowledge and agree that, as Sole Lead Arranger, JPMorgan Securities is not advising the Borrowers as to any legal, tax, investment, accounting or regulatory matters in any jurisdiction. The Borrowers shall consult with their own advisors concerning such matters and shall be responsible for making its own independent investigation and appraisal of the transactions contemplated hereby, and JPMorgan Securities shall have no responsibility or liability to the Borrowers with respect thereto. Any review by JPMorgan Securities of the Borrowers, the transactions contemplated hereby or other matters relating to such transactions will be performed solely for the benefit of JPMorgan Securities and JPMorgan and shall not be on behalf of the Borrowers.

To assist JPMorgan Securities in its syndication efforts, Borrowers agree promptly to prepare and provide to JPMorgan Securities and JPMorgan all information with respect to the Borrowers and the transactions contemplated hereby, including all financial information and projections (the "Projections"), as we may reasonably request in connection with the arrangement and syndication of the DIP Facility

(including the Revised Cash Flow Forecast, as defined in the Term Sheet). Borrowers hereby represent and covenant (and if we so request, your chief financial officer shall certify) that (a) all information and data other than the Projections (the "Information") that has been or will be made available to JPMorgan or JPMorgan Securities by you or any of your representatives in connection with the Proceedings and the DIP Financing 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 (b) the Projections that have been or will be made available to JPMorgan or JPMorgan Securities by you or any of your representatives have been or will be prepared in good faith based upon reasonable assumptions. Borrowers understand that in arranging and syndicating the DIP Facility we may use and rely on the Information and Projections without independent verification thereof.

As consideration for JPMorgan's commitment hereunder and JPMorgan Securities' agreement to perform the services described herein, Borrowers agree, jointly and severally, to pay to JPMorgan the nonrefundable fees set forth in Annex I to the Term Sheet and in the Fee Letter dated the date hereof and delivered herewith (the "Fee Letter").

JPMorgan's commitment hereunder and JPMorgan Securities' agreement to perform the services described herein are subject to (a) our satisfaction that after the date hereof neither the Borrowers nor any of the other CCAA Applicants shall have or shall have attempted to, or shall have announced or authorized the announcement of the entering into by the Borrower of any other debtor-in-possession facilities, other than the DIP Facility; (b) material compliance by you with the terms of this Commitment Letter and the Fee Letter, including for greater certainty payment of all fees, costs and expenses which this Commitment Letter and the Fee Letter provide are then due and payable; (c) the negotiation, preparation and execution of definitive documentation with respect to the DIP Facility in form and substance consistent with the terms of this Commitment Letter and satisfactory to JPMorgan and its counsel on or before the date that is 30 days from the date of this Commitment Letter; (d) our being satisfied that the Initial Orders have been obtained in form and substance satisfactory to us; (d) none of the Information containing any untrue statement of a material fact or any statements which are misleading in any material respect in light of the circumstances under which such statements were made and the Projections having been prepared in good faith based upon reasonable assumptions; (e) no event or condition having occurred or becoming known to JPMorgan or JPMorgan Securities after the date hereof that in our judgment would reasonably be expected to render it impossible for the Borrowers to satisfy any condition to our obligations under this Commitment Letter or the Term Sheet; (f) compliance with all applicable laws and regulations (including compliance of this Commitment Letter and with all Canadian and U.S. federal, state and provincial banking and securities laws, rules and regulations) and receipt of all consents, and evidence of delivery of any notices, required in connection with the Proceedings; (g) our having received unaudited consolidated financial statements of the Borrowers and the other CCAA Applicants for any interim quarterly periods that have ended since the most recent of such audited financial statements, which in each case, shall not be materially inconsistent with the information provided to the Sole Lead Arranger or JPMorgan prior to the date hereof; (h) our satisfaction that, as of the Closing Date, there has been (x) except for the commencement of the Proceedings, since December 31, 2010, no material adverse change in the business, prospects, financial condition or operations of the CCAA Applicants, taken as a whole, or the collateral which will be subject to the security interest granted to the Administrative Agent for the benefit of the Lenders, and (y) no litigation commenced which has not been stayed by the Initial Orders and which, if successful, would have a material adverse impact on the CCAA Applicants, taken as a whole, their business or ability to repay the DIP Facility, or which would challenge the transactions under consideration; and (i) the other conditions set forth or referred to in the Term Sheet. The terms and conditions of JPMorgan's commitment hereunder and of the DIP Facility are not limited to those set forth herein and in the Term Sheet. Such matters that are not covered by the provisions hereof and of the Term Sheet are subject to the approval and agreement of JPMorgan, JPMorgan Securities and the Borrowers.

Borrowers agree, jointly and severally, (a) to indemnify and hold harmless JPMorgan, JPMorgan Securities and their affiliates and their respective officers, directors, employees, advisors, and agents (each, an "indemnified person") from and against any and all losses, claims, damages and liabilities to which any such indemnified person may become subject arising out of or in connection with this Commitment Letter, the Fee Letter, the DIP Facility, the advances thereunder, the use of the proceeds thereof, the Proceedings, or any related transaction or any claim, litigation, investigation or proceeding relating to any of the foregoing, regardless of whether any indemnified person is a party thereto and whether or not any claim, litigation, investigation or proceeding is initiated or brought by or on behalf of any of the CCAA Applicants or any of their affiliates, and to reimburse each indemnified person upon demand for any reasonable legal or other expenses incurred in connection with investigating or defending any of the foregoing, provided that the foregoing indemnity will not, as to any indemnified person, apply to losses, claims, damages, liabilities or related expenses to the extent they are found by a final, non-appealable judgment of a court to arise from the willful misconduct or gross negligence of such indemnified person, and (b) to reimburse JPMorgan, JPMorgan Securities and their affiliates on demand for all reasonable out-of-pocket expenses (including reasonable due diligence expenses, syndication expenses, consultant's fees and expenses (if any), travel expenses, and reasonable fees, charges and disbursements of counsel) incurred in connection with the DIP Facility and any related documentation (including this Commitment Letter, the Term Sheet, the Fee Letter and the definitive financing documentation) or the administration, amendment, modification or waiver thereof. No indemnified person shall be liable for any indirect or consequential damages in connection with its activities related to the DIP Facility. No indemnified person shall be liable for any damages arising from the use by others of Information or other materials obtained through electronic, telecommunications or other information transmission systems or for any special, indirect, consequential or punitive damages in connection with the DIP Facility.

This Commitment Letter shall not be assignable by Borrowers without the prior written consent of JPMorgan and JPMorgan Securities (and any purported assignment without such consent shall be null and void), is intended to be solely for the benefit of the parties hereto and is not intended to confer any benefits upon, or create any rights in favor of, any person other than the parties hereto. This Commitment Letter may not be amended or waived except by an instrument in writing signed by you, JPMorgan and JPMorgan Securities. This Commitment Letter may be executed in any number of counterparts, each of which shall be an original, and all of which, when taken together, shall constitute one agreement. Delivery of an executed signature page of this Commitment Letter by facsimile transmission or electronic mail shall be effective as delivery of a manually executed counterpart hereof. This Commitment Letter, the Term Sheet and the Fee Letter set forth the entire understanding of the parties with respect thereto. This Commitment Letter shall be governed by, and construed in accordance with, the laws of the Province of British Columbia and the applicable laws of Canada. The Borrowers consent to the non-exclusive jurisdiction and venue of the courts located in the province of British Columbia or the state or federal courts located in the city of New York. EACH PARTY HERETO IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, (A) ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATING TO THIS COMMITMENT LETTER, THE FEE LETTER, THE TERM SHEET OR THE TRANSACTIONS CONTEMPLATED HEREBY OR THEREBY (WHETHER BASED ON CONTRACT, TORT OR ANY OTHER THEORY) AND (B) ANY OBJECTION THAT IT MAY NOW OR HEREAFTER HAVE TO THE LAYING OF VENUE OF ANY SUCH LEGAL PROCEEDING IN THE STATE OR FEDERAL COURTS LOCATED IN THE CITY OF NEW YORK. THE BORROWER, JPMORGAN AND JPMORGAN SECURITIES IRREVOCABLY AGREE TO WAIVE TRIAL BY JURY IN ANY SUIT, ACTION, PROCEEDING, CLAIM OR COUNTERCLAIM BROUGHT BY OR ON BEHALF OF ANY PARTY RELATED TO OR ARISING OUT OF THE TRANSACTIONS, THIS COMMITMENT LETTER, THE TERM SHEET OR THE FEE LETTER OR THE PERFORMANCE OF SERVICES HEREUNDER.

This Commitment Letter is delivered to you on the understanding that neither this Commitment Letter, the Term Sheet or the Fee Letter nor any of their terms or substance shall be disclosed, directly or indirectly, to any other person except (a) to Borrowers' officers, agents and advisors (other than commercial lenders) who are directly involved in the consideration of this matter or (b) as may be compelled in a compulsory legal process or as otherwise required by law based on the advice of legal counsel (in which cases under this clause (b) you agree to inform us promptly thereof and to co-operate with us in securing a protective order in the event of compulsory disclosure, and any such disclosure made pursuant to public filings shall be subject to our prior review and subject to such permissible redaction as shall be satisfactory to us). Officers, directors, employees and agents of JPMorgan Securities and JPMorgan and their affiliates shall at all times have the right to share amongst themselves information received from Borrowers and Borrowers' respective affiliates and Borrowers' respective officers, directors, employees and agents.

Borrowers acknowledge that JPMorgan Securities, JPMorgan and any of their affiliates may be providing debt financing, equity capital or other services (including financial advisory services) to other companies in respect of which the Borrowers may have conflicting interests regarding the transactions described herein and otherwise. Neither JPMorgan Securities nor JPMorgan nor any of their affiliates will use confidential information obtained from any Borrower by virtue of the transactions contemplated by this letter or their other relationships with Borrowers in connection with the performance by JPMorgan Securities or JPMorgan or any of their affiliates of services for other companies, and neither JPMorgan Securities nor JPMorgan nor any of their affiliates will furnish any such information to other companies. Borrowers also acknowledge that JPMorgan Securities, JPMorgan and their affiliates have no obligation to use in connection with the transactions contemplated by this letter, or to furnish to Borrowers, confidential information obtained from other companies.

The compensation, reimbursement, indemnification and confidentiality provisions contained herein and in the Fee Letter shall remain in full force and effect regardless of whether definitive financing documentation shall be executed and delivered or the proposed restructuring of the CCAA Applicants pursuant to the Proceedings is consummated and notwithstanding the termination of this Commitment Letter or JPMorgan's commitment hereunder.

Borrowers hereby authorize JPMorgan Securities and JPMorgan, at their respective sole expense, but without any prior approval by any Borrower, to publish such tombstones and give such other publicity to the DIP Facility as each may from time to time determine in its sole discretion. The foregoing authorization shall remain in effect unless the Borrowers notify each of JPMorgan Securities and JPMorgan in writing that such authorization is revoked.

If the foregoing correctly sets forth our agreement, please indicate your acceptance of the terms hereof and of the Term Sheet and the Fee Letter by returning to us executed counterparts hereof and of the Fee Letter not later than 11:59 p.m. Pacific time, on January 13, 2012. JPMorgan's commitment and JPMorgan Securities' agreements herein will expire at such time in the event JPMorgan has not received such executed counterparts in accordance with the immediately preceding sentence. This Commitment Letter and Term Sheet supersede any and all prior versions hereof and thereof.

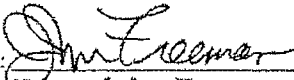
JPMorgan and JPMorgan Securities are pleased to have been given the opportunity to assist you in connection with this important financing.

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EXECUTION COPY

Very truly yours,

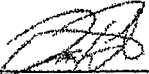
JPMORGAN CHASE BANK, N.A., TORONTO
BRANCH

By: 
Name: **John Freeman**
Title: *Senior Vice President*

By: _____
Name:
Title:

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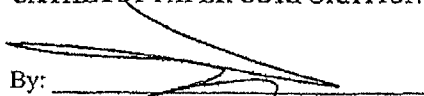
J.P. MORGAN SECURITIES LLC

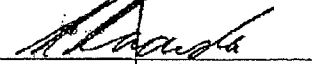
By: 
Name: *Dan Barba*
Title: *Executive Director*

EXECUTION COPY

Accepted and agreed to as of
the date first written above by:


CATALYST PAPER CORPORATION


By: 
Name: David L. Adderley
Title: Vice President and General Counsel

By: 
Name: BRIAN BARODA
Title: VICE PRESIDENT FINANCE & CFO

EXECUTION COPY


CATALYST PAPER, by its Managing
Partner, CATALYST PAPER
CORPORATION

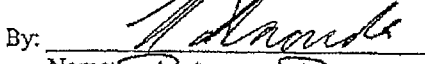
By: 
Name: David L. Adderley
Title: Vice President and General Counsel

By: 
Name: BRIAN BAARDA
Title: VICE PRESIDENT, FINANCE & CFD

EXECUTION COPY


CATALYST PAPER HOLDINGS INC.

By: 
Name: David L. Adderley
Title: Corporate Secretary and Legal Counsel

By: 
Name: BRIAN BAARDA
Title: VICE PRESIDENT FINANCE & CFO

EXECUTION COPY

CATALYST PAPER (SNOWFLAKE) INC.

By: 
Name: David L. Adderley
Title: Corporate Secretary and Legal Counsel

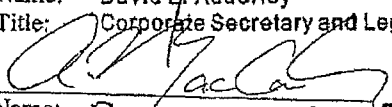
By: 
Name: ALISTAIR MACCALLUM
Title: TREASURER

EXHIBIT A
DIP CREDIT FACILITY

Term Sheet
January 13, 2012

This Term Sheet is delivered with a commitment letter of even date herewith (the "Commitment Letter") from JPMorgan Chase Bank, N.A., Toronto Branch ("JPMorgan") and J.P. Morgan Securities LLC ("JPMorgan Securities") to the Borrowers in connection with the DIP Facility described below. Capitalized terms used herein and not otherwise defined herein shall have the meanings attributed to such terms in the Commitment Letter, and if not defined therein, in the credit agreement dated as of May 31, 2011 between, inter alia, the Borrowers, JPMorgan as administrative agent and the Lenders party thereto (as amended, modified or supplemented from time to time, the "Existing Credit Agreement"). It is anticipated that the definitive DIP Loan Documents will follow the form and substance of the Existing Credit Agreement and related loan and security documents, except for changes thereto (i) which are expressly contemplated in the Commitment Letter and this term sheet or (ii) which are reasonably believed to be required or customary for reasons particular to a debtor in possession financing, such changes to be on terms and conditions negotiated between the parties (the "Documentation Principle"). Unless otherwise indicated, all references to dollars are references to Canadian dollars.

I. Parties

Borrower:	Catalyst Paper Corporation (the " <u>Company</u> ") and Catalyst Paper (by its managing partner, Catalyst Paper Corporation) (the " <u>Canadian Borrowers</u> ") and Catalyst Paper Holdings Inc. and Catalyst Paper (Snowflake) Inc. (the " <u>U.S. Borrowers</u> " and together with the Canadian Borrowers, the " <u>Borrowers</u> ").
Guarantors:	All material subsidiaries of the Borrowers (which subsidiaries are anticipated to be all of the loan parties under the Existing Credit Agreement) including all the CCAA Applicants (collectively with the Borrowers, the " <u>Loan Parties</u> "). ¹
Sole Lead Arranger and Bookrunner:	J.P. Morgan Securities Inc. (" <u>JPMorgan Securities</u> " and in such capacity, the " <u>Sole Lead Arranger</u> ").
Administrative Agent:	JPMorgan Chase Bank, N.A., Toronto Branch (" <u>JPMorgan</u> " and in such capacity, the " <u>Administrative Agent</u> ").
Lenders:	A syndicate of banks, financial institutions and other entities, including JPMorgan, arranged by the Sole Lead Arranger in consultation with the Borrowers (collectively, the " <u>Lenders</u> ").

II. DIP Credit Facility

¹ Note – unlimited cross-guarantees anticipated as between Canadian estate and US estate. If necessary, issues concerning inter-estate burden to be addressed using readjustment mechanism upon indefeasible payment of the DIP Facility.

Type and Amount of Facility: 18 months debtor-in-possession revolving credit facility (the "DIP Facility") in the amount of \$175,000,000 (the "DIP Commitment" and the loans thereunder, the "Loans") available in Canadian dollars or US dollars to the Canadian Borrowers. A portion of the DIP Facility not in excess of \$20,000,000 at any one time outstanding (the "U.S. Sublimit") shall be available to the U.S. Borrowers denominated in U.S. dollars only.

Availability: The DIP Facility shall be available on a revolving basis during the period commencing on the Closing Date and ending on the day which is the earliest to occur of the following (the "DIP Credit Termination Date"):

- (a) 18 months from the Closing Date;
- (b) the date which is 45 days after the entry of the CCAA Initial Order if the Conditions to Final Availability (as defined below in part VII) have not been achieved and the term of the stay of proceedings against the CCAA Applicants shall not have been extended by further order of the CCAA Court by such date;
- (c) the effective date of any plan of reorganization or arrangement that is sanctioned by the CCAA Court;
- (d) the date on which any of the Initial Orders expires without being extended or on which the Proceedings under the CCAA shall be dismissed or converted to a proceeding under the *Bankruptcy and Insolvency Act* (Canada);
- (e) the U.S. Bankruptcy Court refuses to recognize any order made in the Proceedings under the CCAA which the Administrative Agent determines in its sole discretion is material;
- (f) the date of termination of the commitment with respect to the DIP Facility in accordance with the DIP Loan Documents; and
- (g) the U.S. Bankruptcy Court does not enter an order pursuant to §1519 of the US Bankruptcy Code (the "US Initial Order") on or before the 7th day after the entry of the CCAA Initial Order.

From the Closing Date until the Conditions to Final Availability have been satisfied, availability under the DIP Facility ("Initial Availability") shall be limited to the lesser of (i) Availability as otherwise determined below, and (ii) a maximum amount of \$97,000,000², as authorized under the CCAA Initial Order consistent with the cash needs of the Borrowers during such period as set forth in the Revised Cash Flow Forecast approved by the Administrative Agent (the "Initial Maximum Amount"), subject to

² Amount shown will apply if date of the CCAA Initial Order occurs on or before January 20th, 2012, otherwise an amount to be agreed by the Administrative Agent and the Company, based on the Revised Cash Flow Forecast approved by the Administrative Agent to be delivered for closing, calculated on the same basis and applying the same principles as were applied in determining the applicable maximum amount prior to January 20th.

the US Availability Block; provided that, for the period from the Closing Date until the date of the return of the motion seeking the CCAA Final DIP Order and the extension of the CCAA Initial Order (such date expected to be no later than January 27, 2012) the Initial Maximum Amount shall be \$27,000,000³ (excluding the amount of any undrawn Letters of Credit issued under the DIP Facility to replace any letters of credit outstanding under the Existing Credit Agreement at the time of initial filing) and such reduced Initial Maximum Amount shall not be subject to the US Availability Block. "US Availability Block" shall mean an amount of US\$20,000,000 to be applied against Initial Availability until the US Initial Order has been granted by the U.S. Bankruptcy Court in form and substance satisfactory to the Administrative Agent and has not been stayed, appealed or varied.

On and after the Closing Date and provided the Conditions to Final Availability have been satisfied within 45 days of obtaining the CCAA Initial Order, the DIP Facility will have full Availability subject to the Borrowing Base referred to below ("Final Availability").

"Availability" means, at any time, an amount equal to (i) the lesser of the DIP Commitment and the Borrowing Base *minus* (ii) the sum of the aggregate outstanding amount of borrowings under the DIP Facility plus the undrawn amount of outstanding Letters of Credit issued for the account of the Borrowers *and minus* an availability block equal to the outstanding exposure of the lenders under the Existing Credit Agreement (including Revolving Exposure and other Secured Obligations as defined therein, the "Prepetition ABL Exposure"), which availability block shall reduce on a dollar for dollar basis as proceeds from the accounts receivable of the Loan Parties are applied to reduce, or (as described in the following sentence) cash collateralize, Prepetition ABL Exposure. Prepetition ABL Exposure consisting of Derivatives Secured Obligations (as defined in the Existing Credit Agreement) in respect of derivatives transactions not terminated on the filing date and LC Exposure (as defined in the Existing Credit Agreement) in respect of issued but undrawn letters of credit not released or replaced on or before the filing date (collectively, the "Prepetition ABL Contingent Exposure") shall be cash collateralized with the proceeds of such accounts receivable in the amount of (x) in the case of such LC Exposure, 105% of the face amount thereof, and (y) in the case of such Derivatives Secured Obligations, such amounts to be agreed with the applicable derivatives lenders (but not to exceed the applicable Allocated Amounts, as described in the Existing Credit Agreement). The proceeds of accounts receivable of the Loan

³ Amount shown will apply if date of the CCAA Initial Order occurs on or before January 20th, 2012, otherwise an amount to be agreed by the Administrative Agent and the Company, based on the Revised Cash Flow Forecast approved by the Administrative Agent to be delivered for closing, calculated on the same basis and applying the same principles as were applied in determining the applicable maximum amount prior to January 20th.

Parties, when received in the blocked accounts (as described under the heading "Cash Dominion" below), shall be applied to reduce or cash collateralize (as applicable) such Prepetition ABL Exposure, in the order of application as required in the Existing Credit Agreement. The CCAA Initial Order shall order that the cash collateral provided under clauses (x) and (y) above to secured Prepetition ABL Contingent Exposure shall be free and clear from any Lien, charge or deemed trust or security that is capable of ranking in priority to or pari passu with the Liens and security securing the Prepetition ABL Exposure under the Existing Credit Agreement except for the DIP Charge.

Letters of Credit:

A portion of the DIP Facility not in excess of \$50,000,000 shall be available for the issuance of letters of credit (the "Letters of Credit") by JPMorgan (in such capacity, the "Issuing Lender"), on customary terms and conditions, which shall be substantially similar to those provided in the Existing Credit Agreement (including Letters of Credit to be available to the U.S. Borrowers in U.S. dollars under the US Sublimit). No Letter of Credit shall have an expiration date after the earlier of (a) one year after the date of issuance and (b) five business days prior to the DIP Credit Termination Date unless, on or before such 5th business day preceding the DIP Credit Termination Date, such Letters of Credit are made subject to satisfactory cash collateral arrangements equal to 105% of the face amount thereof (such cash collateral to be deposited on the DIP Credit Termination Date) and having the priority of the DIP Charge ("LC Cash Collateral") and on terms to be agreed and subject to approval under the CCAA Initial Order, provided that any Letter of Credit with a one-year tenor may provide for the renewal thereof for an additional one-year period if, as a condition precedent to such renewal, such Letter of Credit is subject to satisfactory arrangements to provide such LC Cash Collateral being approved by the CCAA Court.

Drawings under any Letter of Credit shall be reimbursed by the Borrowers (whether with their own funds or with the proceeds of Loans) on the same business day. To the extent that a Borrower does not so reimburse the Issuing Lender, the Lenders under the DIP Facility shall be irrevocably and unconditionally obligated to reimburse the Issuing Lender on a pro rata basis.

If necessary, letters of credit issued under the Existing Credit Agreement may be replaced with Letters of Credit issued under the DIP Facility on Closing, subject to Initial Availability, upon terms satisfactory to the Administrative Agent, the Borrowers and the Issuing Lender.

Swing Line Loans:

A portion of the DIP Facility not in excess of \$20,000,000 in respect of the Canadian Borrowers shall be available for swing line loans (the "Swing Line Loans") from the Administrative Agent (in such capacity, the "Swing Line Lender"). The Swing Line Lender, in its sole discretion, may create Swing Line Loans by advancing to the Borrower, on behalf of the Lenders, floating rate Loans requested by

the Borrower. Settlement of such Swing Line Loans will occur weekly. Any such Swing Line Loans will reduce availability under the DIP Facility on a dollar-for-dollar basis. Each Lender under the DIP Facility shall acquire, under certain circumstances, an irrevocable and unconditional pro rata participation in each Swing Line Loan.

Borrowing Base:

The "Borrowing Base" will be determined in accordance with the Documentation Principle subject to the changes proposed herein, and for greater certainty, shall equal the sum of:

100% of a cash collateral reserve amount held in a designated collateral account maintained with the Administrative Agent pledged solely to secure obligations under the DIP Facility; plus

85% of Borrowers' eligible domestic accounts receivable; plus

90% of eligible insured accounts receivable or accounts receivable insured by acceptable letter of credit; plus

75% of eligible foreign accounts receivable (uninsured and not otherwise secured by acceptable letter of credit) up to \$10,000,000; plus

the lesser of (i) up to 75% of Borrowers' eligible inventory consisting of raw materials and finished goods (valued at the lower of cost (FIFO) or market) and (ii) the product of up to 85% *multiplied by* the net orderly liquidation value percentage identified in the most recent inventory appraisal ("NOLV") ordered by the Administrative Agent *multiplied by* the Borrower's eligible inventory consisting of raw materials and finished goods (valued at the lower of cost (FIFO) or market); plus

85% of the appraised NOLV of eligible inventory consisting of work in process (not to exceed \$2,000,000), spare parts (not to exceed \$20,000,000) and supplies;

less, in each case subject to the Administrative Agent's Permitted Discretion, (i) a derivatives exposure reserve to the extent of any post-petition derivatives transactions with Lenders or their affiliates as determined by the Administrative Agent in its Permitted Discretion with reference to the mark to market exposure thereof subject to the DIP Charge, (ii) a banking services reserve in an amount to be agreed to the extent of any such banking services provided by Lenders or their affiliates subject to the DIP Charge, (iii) Acceptable Rent Reserves (determined in a manner consistent with the Existing Credit Agreement), (iv) an amount with respect to all priority payables and other reserves, to be determined by the Administrative Agent in its Permitted Discretion, including, but not limited to (A) to the extent such amounts are not expressly primed by the DIP Charge under the applicable Orders (or, if applicable, to the extent ranking or capable of ranking in priority to the unpaid Prepetition ABL Exposure or any outstanding cash collateral in

respect thereof) availability reserves for unpaid wages, vacation pay and pension claims, determined in a manner consistent with the Existing Credit Agreement without regard to any availability thresholds therein, and (B) a reserve for amounts approved in the Orders in respect of the Permitted Priority Claims and any reserves established for other obligations if the Administrative Agent is not satisfied as to the effective priority of the DIP Charge over such obligations pursuant to the Orders as a result of notice not being served on such persons or otherwise.

Eligibility: The definition of eligible accounts receivable and eligible inventory will be as such terms are defined in the Existing Credit Agreement, subject to such conforming changes as are necessary or customary in the context of the DIP Financing.

In addition, the Administrative Agent would retain the right, from time to time to establish additional standards of eligibility and reserves against eligibility and adjust reserves used in computing the Borrowing Base in its Permitted Discretion. "Permitted Discretion" means a determination made in good faith and in the exercise of reasonable (from the perspective of a secured asset based lender) business judgment.

Maturity: The DIP Credit Termination Date. All outstanding amounts under the DIP Facility, together with all interest accrued in respect thereof and all other amounts owing under the DIP Loan Documents, shall be payable in full on the DIP Credit Termination Date. Subject to the provisions above applicable to Letters of Credit, on or before the DIP Credit Termination Date, the Borrowers will immediately provide LC Cash Collateral to each applicable LC Issuer equal to 105% of the face amount of any Letters of Credit that will remain issued and outstanding under the DIP Facility on or after the DIP Credit Termination Date.

III.

V. Purpose; Certain Payment Provisions

Purpose: The proceeds of the DIP Facility shall be used for purposes of providing for general working capital needs (including without limitation, capital expenditures) and general corporate purposes of the CCAA Applicants and to pay for all expenses associated with the DIP Facility and the Proceedings, all in accordance with the Revised Cash Flow Forecast as approved by the Administrative Agent and the CCAA Court and the U.S. Bankruptcy Court.

Fees and Interest Rates: Terms and definitions to be substantially similar to the Existing Credit Agreement. The DIP Facility will bear interest in accordance with the following pricing grid:

Level	Average Availability Tested Quarterly	Canadian Prime	CBFR	Eurodollar /CDOR Margin
I	= \$105 million	-25 bps	-50 bps	225 bps
II	= \$70 million but < \$105 million	0 bps	-25 bps	250 bps
III	= \$35 million but < \$70 million	25 bps	0 bps	275 bps
IV	< \$35 million	50 bps	25 bps	300 bps

provided that until the completion of the first full Fiscal Quarter following the Closing Date, pricing will be determined by Level II. "Average Availability" will be determined for each Fiscal Quarter, in the manner provided in the Existing Credit Agreement.

The Unused Line Fee will be (a) 0.375% when the utilization of the Revolving Credit Line is $\geq 50\%$, and (b) 0.500% when the utilization of the Revolving Credit Line is $< 50\%$.

Agent and Arranger Fees: Such additional fees payable to the Administrative Agent and the Sole Lead Arranger as are specified in the fee letter dated as of the date hereof, among the Administrative Agent, the Sole Lead Arranger and the Borrower.

Mandatory Prepayments : In addition to payment due on the DIP Credit Termination Date, the Credit Agreement will contain a mandatory prepayment provision consistent with that contained in the Existing Credit Agreement, which will require a prepayment of amounts outstanding under the DIP Facility (without a concurrent reduction of the DIP Commitment): when there is an availability shortfall under the DIP Facility; and upon receipt of insurance proceeds or condemnation awards. The amount and application of such mandatory prepayments will be consistent with the Existing Credit Agreement, except for changes thereto to be negotiated.

Voluntary Prepayments: Substantially similar to the Existing Credit Agreement.

VI. Collateral and Other Credit Support

Collateral: The obligations of the Loan Parties under the DIP Loan Documents shall be secured by a fully perfected first-ranking (except as to certain claims otherwise contemplated herein as Permitted Priority Claims as defined below) court-ordered charge under the CCAA and recognition thereof under Chapter 15 (collectively, the "DIP Charge") on all Collateral (as defined below), pursuant to orders of the CCAA Court and the U.S. Bankruptcy Court in form and substance satisfactory to the Administrative Agent and pursuant to the definitive DIP Loan Documents (subject to the Initial Conditions and Conditions to Final Availability as set forth below). "Collateral" means all of the existing and after acquired real and personal, tangible and intangible, assets of the Loan Parties,

excluding the equity interests in Powell River Energy Inc. and Powell River Energy Limited Partnership and other equity interests in joint ventures with non-Loan Parties (collectively, together with Powell River Energy Inc. and Powell River Energy Limited Partnership, the "JVs"), and assets of any such JVs (or any interest therein) held by a Loan Party as nominee for any such JV or any party thereto or as tenant in common with any non-Loan Party, to the extent consent of arms' length third parties is required to grant a Lien in such JV assets but is not obtained. The obligations of the Loan Parties secured by the DIP Charge on Collateral may also include, at the election of the Administrative Agent, amounts owing to any Lender or its affiliates in respect of post-filing swap transactions and banking services obligations (in the case of all such obligations, ranking subordinate in order of payments to other obligations owing to the Lenders in respect of the DIP Facility).

Permitted Priority Claims:

"Permitted Priority Claims" shall mean the following (to the extent, in each case, that such claims are not subordinated to claims over which the DIP Charge has priority):

(a) with respect to Collateral other than ABL First-Lien Collateral (as defined in the Existing Credit Agreement) the existing valid and, in the case of Liens on personal property, perfected (and in the case of Liens on real property, registered or recorded) Liens granted by the Loan Parties prior to the date of acceptance of the Commitment Letter, specifically contemplated in the Existing Credit Agreement and securing (i) Noteholder Secured Obligations (as defined in the Existing Credit Agreement) up to the amount thereof as of the Closing Date ranking ahead of the Prepetition ABL Exposure outstanding (such amount not to exceed the Senior Notes Cap as defined in the Existing Credit Agreement) as set forth in the DIP Loan Documents, and (ii) those purchase-money equipment loans, financing leases, and real property mortgages which are listed in the DIP Loan Documents as agreed by the Administrative Agent and the Borrowers and which shall collectively, shall not exceed amounts to be specified therein as so agreed;

(b) with respect to all Collateral (except for any cash collateral provided in respect of Prepetition ABL Contingent Exposure), an administration charge in an amount not to exceed \$1,500,000, for the CCAA Applicants' and the Monitor's customary CCAA professional expenses (the "Administration Charge"), as is customary in Proceedings; and

(c) with respect to all Collateral, deemed trusts under subsections 227(4) or (4.1) of the *Income Tax Act* (Canada), subsections 23(3) or (4) of the Canada Pension Plan or subsection 86(2) of the *Employment Insurance Act* (Canada).

Only the Permitted Priority Claims, to the extent agreed to by the Administrative Agent in the DIP Loan Documents and as set forth in the Initial Orders, shall be permitted to rank in priority to the DIP Charge with respect to the Collateral referenced therein, and all

other Permitted Encumbrances (as defined below) shall rank subordinate to the DIP Charge. For greater certainty, subject only to Permitted Priority Claims referred to in clause (c) above, the DIP Charge shall rank in priority to all statutory liens and deemed trusts provided for under provincial or federal statutes or other applicable laws including the *Pension Benefits Standards Act* (British Columbia) or any other provincial legislation securing pension obligations or otherwise concerning pension plans.

Permitted Encumbrances: All Collateral will be free and clear of all other Liens except for the following:

- (a) Permitted Priority Claims
- (b) with respect to certain Collateral, including the ABL First Lien Collateral, the Liens in favour of JPMorgan as agent under the Existing Credit Agreement securing the Prepetition ABL Exposure; and
- (c) other Liens, the details of which shall be set forth in the DIP Loan Documents, subject to the approval of the Administrative Agent, which Liens shall be consistent with the Documentation Principle.

Guarantees: Each Loan Party shall unconditionally guarantee all of the indebtedness, obligations and liabilities of each other Loan Party arising under or in connection with the DIP Loan Documents.

VII. Certain Conditions

Initial Conditions: Initial Availability of the DIP Facility on closing shall be conditioned upon satisfaction of, among other things, the following conditions precedent (the date upon which all such conditions precedent shall have been either satisfied or waived by the Administrative Agent and the applicable Lenders and the DIP Facility made available to be drawn upon by the Borrowers, the "Closing Date") on or before the date which is 30 days after the date of the Commitment Letter:

- (a) The Loan Parties shall have executed and delivered satisfactory definitive financing documentation with respect to the DIP Facility, including a credit agreement (the "Credit Agreement"), security documents (as contemplated in paragraph (l) below) and other legal documentation (as contemplated in paragraph (c) below) (collectively, together with the Credit Agreement, the "DIP Loan Documents"), all of which shall be subject to the Documentation Principle, mutually satisfactory to the Loan Parties and the Administrative Agent and Lenders.
- (b) The Lenders, the Administrative Agent and the Sole Lead Arranger shall have received all fees required to be paid under the

Fee Letter, and all reasonable fees and expenses for which invoices have been presented, on or before the Closing Date.

(c) The Administrative Agent shall have received such closing documents as are customary for transactions of this type or as it may reasonably request, including but not limited to resolutions, good standing certificates, incumbency certificates, insurance certificates, loss payable and additional insured endorsements, opinions of counsel, organizational documents, blocked account agreements and financing statements, all in form and substance reasonably acceptable to the Administrative Agent, the Sole Lead Arranger and their counsel.

(d) [Intentionally deleted]

(e) [Intentionally deleted]

(f) The Administrative Agent shall have received a Borrowing Base Certificate as of a date specified by the Administrative Agent with customary supporting documentation and supplemental reporting to be agreed upon between the Administrative Agent and the Borrower.

(g) [Intentionally deleted]

(h) All legal (including tax implications) and regulatory matters shall be satisfactory to the Administrative Agent and Lenders, including but not limited to compliance with all applicable requirements of Regulations U, T and X of the Board of Governors of the Federal Reserve System.

(i) Minimum excess Availability at closing of not less than an amount calculated as 80% of projected Availability consistent with the Revised Cash Flow Forecast as approved by the Administrative Agent for closing.

(j) issuance of the CCAA Initial Order (and any other required orders in the Proceedings), satisfactory in form and substance to the Administrative Agent, approving and authorizing the CCAA Applicants to file for protection under the CCAA, approving the DIP Facility and approving advances thereunder up to the Initial Maximum Amount, granting of the DIP Charge with the priority contemplated herein, authorizing the payment by the DIP Loan Parties of all of the fees provided for in respect of the DIP Facility, authorizing the application of all collections of accounts receivable first be applied to permanently reduce (or cash collateralize, as applicable) Prepetition ABL Exposure, and granting all relief customarily associated with such a filing including the provision of stays against the Borrowers' creditors, and such orders being in full force and effect, unamended and unstayed.

(k) The Administrative Agent shall be satisfied in its sole discretion with all motion and application materials to be filed by the Loan Parties in connection with the Initial Orders and the US

Final Recognition Order (as defined below) and that sufficient and proper notices have been delivered to all applicable secured creditors likely to be affected by the granting of the DIP Charge and the priority thereof contemplated herein.

(l) perfected Liens in the Collateral with the priorities described above (free and clear of all Liens other than those described above, and subject to customary and limited exceptions to be agreed upon) pursuant to the CCAA Initial Order, together with the execution and delivery of guarantees from all Loan Parties and personal property security documentation from all Loan Parties formed under the laws of Canada or the United States of America or any state, province or territory thereof (the "Granting Loan Parties") and applicable PPSA and UCC perfection filings from the applicable Granting Loan Parties where practicable on or before the Closing Date (completion of such filings and any other personal property security filings, the "Perfection Condition").

(m) receipt by the Administrative Agent, for and on behalf of the Lenders, of an updated initial 13 week and monthly (through the end of 2012) cash flow forecast, updated not more than 7 days prior to the Closing Date, in form and substance satisfactory to the Administrative Agent, including as to all assumptions (such initial cash flow forecast, together with the rolling weekly updated 13 week cash flow forecasts to be delivered by the Borrowers thereafter, the "Revised Cash Flow Forecast").

(n) absence of defaults and events of default as certified by the Company's vice president and chief financial officer, vice president, treasurer and controller or vice president and general counsel.

Conditions to Final
Availability:

Provided the Closing Date has occurred, Final Availability of the DIP Facility shall be conditioned upon satisfaction of, among other things, the following conditions precedent within 45 days of the CCAA Initial Order ("Conditions to Final Availability"):

(a) issuance of an order of the CCAA Court approving service and/or substitute service, approving full availability of the DIP Facility (as amended, extended or replaced from time to time, the "CCAA Final DIP Order") secured by the DIP Charge, priming all other charges, liens, deemed trusts and other security other than Permitted Priority Claims, and the order of the U.S. Bankruptcy Court recognizing such order of the CCAA Court (as amended, extended or replaced from time to time, the "US Final Recognition Order" and collectively with the CCAA Final DIP Order, the "Final DIP Orders"), and any other required orders in the Proceedings, satisfactory in form and substance to the Administrative Agent, approving and authorizing Final Availability and priority of the DIP Charge, and such Orders have not been vacated, reversed, modified, amended or stayed;

(b) all appeal periods with respect to the Orders shall have expired with no notice of appeal, or motion to vary, amend, stay, reverse or otherwise affect any of the Orders (to the extent that such appeal, or the subject of such motion is materially adverse to the interests of the Lenders, as determined in the sole discretion of the Administrative Agent or the Required Lenders) having been filed and pending;

(c) completion of the Perfection Condition to the extent not otherwise required to be completed as Initial Conditions; and

(d) absence of defaults and events of default as certified by the Company's vice president and chief financial officer, vice president, treasurer and controller or vice president and general counsel.

On-Going Conditions:

The making of each extension of credit shall be conditioned upon (a) the accuracy of all representations and warranties in the Loan Documents; (b) there being no default or event of default in existence at the time of, or after giving effect to the making of, such extension of credit; (c) the Administrative Agent shall have received and approved the Revised Cash Flow Forecast covering the period in which such extension of credit is to be used; and (d) after giving effect to the extensions of credit request, the total extensions of credit under the DIP Facility shall not exceed Initial Availability (prior to the satisfaction of Conditions to Final Availability) or Final Availability (thereafter).

VIII. Certain Documentation Matters

The Loan Documents shall contain representations, warranties, covenants and events of default consistent with the Documentation Principle and with such modifications as are necessary or customary for debtor-in-possession financings and other terms (including dollar thresholds and permitted baskets) to be negotiated by the parties, including without limitation the following:

Representations and Warranties:

Financial statements; no material adverse change; existence and standing, authorization and validity; compliance with law; corporate power and authority; enforceability of Loan Documents; no conflict with law or contractual obligations; no material litigation; no default; ownership of property; liens; intellectual property; no burdensome restrictions; taxes; insurance; Federal Reserve regulations; Canadian pension matters; ERISA; Investment Company Act; subsidiaries; environmental matters; labor matters; accuracy of disclosure.

Affirmative Covenants:

Delivery of monthly, quarterly and annual financial statements, monthly compliance certificates and weekly 13-week cash flow projections and variance analysis reports, monthly collateral reporting (including agings and inventory reports) and monthly borrowing base certificates and other information requested by the Lenders (provided that, all collateral reporting will be delivered on a weekly basis so

long as excess Availability is less than 15% of the DIP Commitments; payment of obligations; continuation of business and maintenance of existence and material rights and privileges; compliance with laws; maintenance of property and insurance; maintenance of books and records; right of the Lenders to inspect property and books and records; notices of defaults, litigation and other material events; compliance with environmental laws; depository banks; casualty and condemnation; and use of proceeds. All collections of accounts receivable shall first be applied to permanently reduce (or, as applicable, cash collateralize) Prepetition ABL Exposure.

The Borrowers shall ensure that: (a) the consolidated weekly expenses and disbursements made by the Loan Parties for the previous specified weekly periods (as set forth in the grid below) will not have exceeded the forecast operating disbursements for the Borrowers for such period as set forth in the Revised Cash Flow Forecast (as approved by the Administrative Agent) by more than the applicable variance percentage as set forth below, tested every Thursday for the previous specified weekly period ended Sunday, and (b) the aggregate receipts of the Borrowers for the previous specified weekly periods (as set forth in the grid below) will not have been less than the forecast receipts for the Borrowers for such period as set forth in the Revised Cash Flow Forecast (as approved by the Administrative Agent) by more than the applicable variance percentage as set forth in the grid below, tested every Thursday for the previous specified weekly period ended Sunday, all as determined in accordance with the grid set forth below:

Weekly Periods following the Closing Date	Variance Percentage (expenses and disbursements)	Variance Percentage (receipts)
2-week period ending Week 2 following the Closing Date	25%	25%
3-week period ending Week 3 following the Closing Date	20%	20%
4-week period ending Week 4 following the Closing Date, and each week thereafter for the previous 4-week rolling period	12.5%	15%

Financial Covenants:

Minimum fixed charge coverage of 1.1x when excess Availability falls below 12.5% of DIP Commitments (\$21.875 million).

Negative Covenants:

Limitations (subject to exceptions, as appropriate, to be negotiated) on: indebtedness (including guarantee obligations and preferred stock of subsidiaries); liens; mergers, consolidations, liquidations and dissolutions; sales of assets; payment of restricted payments (dividends and other payments in respect of capital stock and indebtedness); investments (including acquisitions), loans and

advances; sale and leaseback transactions; swap agreements; optional payments and modifications of subordinated and other debt instruments; transactions with affiliates; changes in fiscal year; negative pledge clauses; and amendment of material documents.

Cash Dominion:

The Company and its subsidiaries will be subject to full cash dominion as of the Closing Date, which shall be converted to springing cash dominion thereafter and for the life of the DIP Facility, subject to the following terms. From and after the Closing Date, funds deposited into any depository account will be swept on a daily basis into a blocked account(s) with the Administrative Agent until such time as the Prepetition ABL Exposure is paid (or, as applicable, cash collateralized) in full; provided that, after the Prepetition ABL Exposure is paid (or, as applicable, cash collateralized) in full, so long as excess Availability is greater than 15% of the DIP Commitments, collections which are received into the blocked accounts with the Administrative Agent shall be deposited into the Company's operating account rather than being used to reduce amounts owing under the DIP Facility. The Borrower's principal depository and disbursement bank shall be one or more of the Lenders. The appropriate documentation, including blocked account and/or lockbox agreements acceptable to the Administrative Agent, will be required for all depository accounts of the Borrower and its subsidiaries.

Events of Default:

Nonpayment of principal when due; nonpayment of interest, fees or other amounts after three business days; representations and warranties are incorrect in any material respect; violation of covenants; cross-default to occurrence of a default (whether or not resulting in acceleration) under any other agreement governing post-petition indebtedness, in excess of an amount to be agreed upon, of the Borrower or any of its subsidiaries; bankruptcy events (other than the Proceedings and issuance of the Initial Orders and Final DIP Orders as contemplated herein); material judgments that are unstayed for a period to be agreed; any of the Loan Documents shall cease to be in full force and effect or any party thereto shall so assert; any interests created by the security documents shall cease to be enforceable and of the same priority purported to be created thereby and by the DIP Charge; a change of control (the definition of which is to be consistent with the Existing Credit Agreement); and including, without limitation, each of the following:

- (a) The filing of an application for leave to appeal, notice of appeal or an appeal in respect of: (a) the Final DIP Orders, or (b) any provision of the Initial Orders or any other Orders made in the Proceedings respecting the approval of the DIP Facility or the priority of the DIP Charge or other charges or liens attaching to the Collateral or the Administrative Agent's or the Lenders' rights, remedies, liens, charges, priorities, benefits or protections under any or all of the DIP Loan Documentation, applicable Initial Orders, Final DIP Orders or any other Orders made in the Proceeding;

(b) any order which (i) is made without the Administrative Agent's prior written consent and (ii) which varies, amends, supplements, stays, reverses or otherwise modifies or affects the Initial Orders, the Final DIP Order or any other order made by the CCAA Court or U.S. Bankruptcy Court by way of appeal, by way of variation or other relief, that, in the sole judgement of the Administrative Agent, adversely affects the Administrative Agent's or the Lenders' rights, remedies, liens, charges, priorities, benefits or protections under any or all of the applicable Initial Orders or Final DIP Orders, the DIP Loan Documentation or any other Order made in the Proceeding or any Loan Party shall file a motion or other pleading or support a motion or other pleading filed by another person seeking, or failing to contest in a timely manner, any of the foregoing;

(c) the filing of any plan of reorganization or liquidation or disclosure statement, or any amendment to such plan or disclosure statement to which the Administrative Agent does not consent, provided that such consent shall not be required for any such plan that provides for payment of the obligations under the DIP Facility in full and in cash on the effective date of the plan;

(d) the entry of an order in any of the Proceedings confirming a plan of reorganization or liquidation that does not contain a provision for termination of all financing commitments under the DIP Loan Documents and repayment in full in cash of all of the obligations thereunder by such plan's effective date or order confirming such plan;

(e) the payment of, or application for authority to pay, any pre-petition claim without consent of the Administrative Agent unless permitted by the DIP Loan Documents;

(f) (i) the Proceedings under the CCAA shall be dismissed or converted to a proceeding under the Bankruptcy and Insolvency Act (Canada) or the converted to a case under Chapter 7 of the US Bankruptcy Code, or a receiver, receiver-manager, trustee, liquidator or administrator is appointed for any of the Loan Parties, or any Loan Party shall file a motion or other pleading or support a motion or other pleading filed by any other Person seeking, or fail to contest in a timely and appropriate manner, any of the foregoing actions or proceedings; (ii) the CCAA Court shall enter any order or orders granting relief from any stay that, in the sole judgement of the Administrative Agent, could adversely affect the Administrative Agent's or the Lenders' rights, remedies, liens, charges, priorities, benefits or protections under any or all of the DIP Loan Documentation, applicable Initial Orders or Final DIP Orders, or any Loan Party shall file a motion or other pleading or support a motion or other pleading filed by any other Person seeking, or fail to contest in a timely and appropriate manner, any of the foregoing orders; or (iii) an application shall be filed by the Borrower or any Loan Party for the approval of any other Lien in any of the Proceedings which is pari passu with or senior to the claims of the

Administrative Agent and the Lenders against any Loan Parties pursuant to the Loan Documents and the Initial Orders or the Final DIP Orders, or there shall arise or be granted any such *pari passu* or senior Lien other than the Liens contemplated herein, to the extent of the scope and priority provided therein; or (iv) a motion shall be filed by the Borrower or any Loan Party for the approval of any other priority charge in any of the CCAA Cases which is *pari passu* with or senior to the Lenders' Charge against the Loan Parties, or there shall arise or be granted any such *pari passu* or senior charge; or (iv) any of the Initial Orders expire without being extended;

(g) any Loan Party shall bring a motion in the Proceedings: (i) to obtain financing from any Person other than Lenders; or (ii) to obtain financing for such Loan Party from any Person other than the Lenders or with respect to the existence of any charge, in each case which is or which is claimed to be senior to or *pari passu* with the DIP Charge; or (iii) to effect any other action or actions adverse to the Administrative Agent or Lenders or their rights and remedies hereunder or their interest in the Collateral that would, individually or in the aggregate, have a Material Adverse Effect; or

(h) default in any material respect shall be made by the Borrower or any Guarantor in the due observance or performance of any term or condition contained in the Initial Orders or the Final DIP Orders.

Notwithstanding the rights and remedies that may be available to the Administrative Agent and the Lenders upon the occurrence of an Event of Default, whether contemplated herein or arising under the Credit Agreement or otherwise at law, upon the occurrence of one or more of the Events of Default described in paragraph (a) above (and provided no other Events of Default have occurred which are continuing), the Administrative Agent and the Lenders shall have no obligation to make further advances under the DIP Facility, but shall not be entitled to exercise any right to accelerate or otherwise demand payment of the indebtedness and liabilities owing under the DIP Facility or take any steps to enforce the DIP Charge or any security granted in favour of the Administrative Agent under any DIP Loan Document until the earlier of (i) an application for leave to appeal has been granted, and (ii) leave to appeal or appeal proceedings have been outstanding and shall not have been dismissed for 14 days.

Voting:

Amendments, waivers and consents with respect to the Loan Documents shall require the approval of Lenders holding not less than 66 2/3% of the commitments under the DIP Facility, except that (a) the consent of each Lender directly affected thereby shall be required with respect to (i) reductions in the amount or extensions of the scheduled date of final maturity of any loan or reduce the amount or extend the payment date for, any required mandatory payments, (ii) reductions in the rate of interest or any fee or extensions of any due date thereof and (iii) increases in the amount or extensions of the expiry date of any Lender's commitment and (b)

the consent of each Lender shall be required to (i) increase the advance rates set forth in the definition of Borrowing Base, (ii) modify the pro rata sharing requirements of the Loan Documents, (iii) permit any loan party to assign its rights under the Credit Agreement, (iv) modify any of the voting percentages, (v) release any guarantor of any credit extension, except as otherwise permitted in the Loan Documents; or (vi) release all or substantially all of the Collateral.

Assignments and Participations: Provisions shall be substantially similar to the Existing Credit Agreement; except that the Lenders shall be permitted to assign all or a portion of their loans and commitments solely with the consent, not to be unreasonably withheld, of (a) the Administrative Agent and (b) the Issuing Lender. In the case of partial assignments (other than to another Lender, to an affiliate of a Lender or an approved fund), the minimum assignment amount shall be \$5,000,000, unless otherwise agreed by the Borrower and the Administrative Agent. The Lenders shall also be permitted to sell participations in their loans. Participants shall have the same benefits as the Lenders with respect to yield protection and increased cost provisions. Voting rights of participants shall be limited to those matters with respect to which the affirmative vote of the Lender from which it purchased its participation would be required. Pledges of loans in accordance with applicable law shall be permitted without restriction. Each Lender may disclose information to prospective participants and assignees.

Yield Protection:

The Loan Documents shall contain customary provisions substantially similar to those in the Existing Credit Agreement (a) protecting the Lenders against increased costs or loss of yield resulting from changes in reserve, tax, capital adequacy and other requirements of law and from the imposition of or changes in withholding or other taxes and (b) indemnifying the Lenders for "breakage costs" incurred in connection with, among other things, any prepayment of a Eurodollar Loan or a CDOR Rate Loan on a day other than the last day of an interest period with respect thereto.

Field Examinations:

Field examinations will be conducted on an ongoing basis annually (that is, no more than once every 12 months) at the discretion of the Administrative Agent, to ensure the adequacy of Borrowing Base collateral and related reporting and control systems; provided that that up to two field examinations per year will be conducted if excess Availability is less than 25% of the DIP Commitments; and *provided* that there shall be no limitation on the number or frequency of field examinations if a default shall have occurred and be continuing.

Appraisals:

Collateral appraisals will be conducted on an annual basis (that is, no more than once every 12 months) at the discretion of the Administrative Agent; provided that that up to two appraisals per year will be conducted if excess Availability is less than 25% of the DIP Commitments; and *provided* that there shall be no limitation on the number or frequency of Collateral appraisals if a default shall have occurred and be continuing.

Expenses and
Indemnification:

The Loan Documents shall contain customary provisions substantially similar to those in the Existing Credit Agreement providing that the Borrower shall pay (a) all reasonable out-of-pocket expenses of the Administrative Agent and the Sole Lead Arranger associated with the syndication of the DIP Facility and the preparation, execution, delivery and administration of the Loan Documents and any amendment or waiver with respect thereto (including the reasonable fees, disbursements and other charges of counsel), (b) all out-of-pocket expenses of the Administrative Agent and the Lenders (including the fees, disbursements and other charges of counsel) in connection with the enforcement of the Loan Documents and (c) fees and expenses associated with collateral monitoring, collateral reviews and appraisals (including field examination fees currently equal to \$125 per hour per examiner, plus out of pocket expenses), environmental reviews and fees and expenses of other advisors and professionals engaged by the Administrative Agent or the Sole Lead Arranger.

The Administrative Agent, the Sole Lead Arranger and the Lenders (and their affiliates and their respective officers, directors, employees, advisors and agents) will have no liability for, and will be indemnified and held harmless against, any loss, liability, cost or expense incurred in respect of the financing contemplated hereby or the use or the proposed use of proceeds thereof (except to the extent found in a final judgment by a court of competent jurisdiction to have resulted from the gross negligence or willful misconduct of the indemnified party).

Governing Law:

This Term Sheet and any related commitment letter and fee letter are, and the principal Loan Documents will be, governed by the laws of the Province of British Columbia and the laws of Canada applicable therein.

Counsel to the Administrative
Agent and the Sole Lead
Arranger:

McMillan LLP
Bryan Cave LLP (U.S. counsel)