

recently ended fiscal months divided by (b) total gross sales for the twelve (12) most recently ended fiscal months.

**"Dilution Reserve"** shall mean, at any date, (i) the amount by which the Dilution Ratio exceeds five percent (5%) multiplied by (ii) the Eligible Accounts on such date.

**"Directors' Charge"** shall have the meaning given such term in Section 2.24.

**"Discount Rate"** shall mean with respect to a Discount Rate Loan: (a) made by a Canadian Revolving Lender which is a Schedule I Bank, the greater of (x) 3.5% and (y) the CDOR Rate, and (b) made by a Canadian Revolving Lender which is not a Schedule I Bank, the greater of (x) 3.5% and (y) the CDOR Rate plus 10 basis points per annum.

**"Discount Rate Loan"** shall mean any Loan bearing interest at a rate determined by reference to the Discount Rate in accordance with the provisions of ARTICLE 2.

**"Dollars"** and **"US\$"** shall mean lawful money of the United States of America.

**"Domestic Subsidiary"** shall mean any Subsidiary of the U.S. Borrower organized under the laws of the United States or any political subdivision thereof.

**"Downtime Credit"** shall mean a credit for production downtime, if any, in excess of downtime identified in the Budget delivered on or prior to the Closing Date, in an amount equal to US\$2,500,000 for every 10,000 tons of production downtime in excess of downtime identified in the Budget taken in any month ending on or prior to July 31, 2009 (other than, in any event, downtime associated with maintenance activity in the ordinary course of business), provided that the cumulative amount of the Downtime Credit during all periods shall not exceed US\$20,000,000. In the event the amount of production downtime in excess of downtime identified in the Budget is more or less than 10,000 tons, the Downtime Credit for such month shall be prorated based upon the actual number of tons of production downtime in excess of the downtime identified in the Budget (but in any event not to exceed the US\$20,000,000 cap set forth above).

**"Effective Date"** shall mean the date identified as the effective date of a Reorganization Plan of the Loan Parties that is confirmed or sanctioned pursuant to an order of the Bankruptcy Court or Canadian Court, as the case may be, in the Cases.

**"Eighteen Month Facility Extension Option"** shall have the meaning given such term in Section 2.31.

**"Eligible Accounts"** means, at any time, the Accounts of a Loan Party which the Applicable Agent determines in its Permitted Discretion are eligible as the basis for the extension of Loans and the issuance of Letters of Credit hereunder. Without limiting the Applicable Agent's discretion provided herein, Eligible Accounts shall not include any Account:

- (a) which is not subject to a first priority perfected Lien in favor of the Applicable Agent for the benefit of the Secured Parties subject only to (i) the CCAA Charges and (ii) an unregistered Lien in respect of Priority Payables that are not yet due and payable;

(b) which is subject to any Lien other than (i) a Lien in favor of the Applicable Agent for the benefit of the Secured Parties, (ii) a Lien (if any) permitted by the Loan Documents which does not have priority over the Lien in favor of the Applicable Agent for the benefit of the Secured Parties, (iii) a Lien contemplated by clause (iv) of the definition of Permitted Liens, and (iv) an unregistered Lien in respect of Priority Payables that are not yet due and payable;

(c) which (i) is unpaid more than 90 days after the date of the original invoice therefor, or (ii) has been written off the books of the Loan Party or otherwise designated as uncollectible (in determining the aggregate amount from the same Account Debtor that is unpaid hereunder there shall be excluded the amount of any net credit balances relating to Accounts due from an Account Debtor which are unpaid more than 90 days from the date of invoice);

(d) which is owing by an Account Debtor for which more than 50% of the Accounts owing from such Account Debtor and its Affiliates are ineligible hereunder;

(e) which is owing by an Account Debtor to the extent the aggregate amount of Accounts owing from such Account Debtor and its Affiliates to the Loan Parties exceeds 10% of the aggregate amount of Eligible Accounts of the Loan Parties;

(f) which, for any Account Debtor, exceeds the applicable credit limit, if any, determined by the Loan Parties, to the extent of such excess, as determined in a manner mutually acceptable to the Loan Parties and the Applicable Agent;

(g) with respect to which any covenant, representation, or warranty contained in this Agreement or in the Collateral Documents has been breached or is not true in any material respect;

(h) which (i) does not arise from the sale of goods or performance of services in the ordinary course of business, (ii) is not evidenced by an invoice or other documentation satisfactory to the Applicable Agent which has been sent to the Account Debtor, (iii) represents a progress billing, (iv) is contingent upon any Loan Party's completion of any further performance, (v) represents a sale on a bill-and-hold, guaranteed sale, sale-and-return, sale on approval, consignment, cash-on-delivery or any other repurchase or return basis or (vi) relates to payments of interest, in each case determined in a manner mutually acceptable to the Loan Parties and the Applicable Agent;

(i) for which the goods giving rise to such Account have not been shipped to the Account Debtor or for which the services giving rise to such Account have not been performed by a Loan Party or if such Account was invoiced more than once, in each case determined in a manner mutually acceptable to the Loan Parties and the Applicable Agent;

(j) which is owed by an Account Debtor which has (i) applied for, suffered, or consented to the appointment of any receiver, custodian, trustee, or liquidator of its assets, (ii) has had possession of all or a material part of its property taken by any receiver, custodian, trustee or liquidator, (iii) filed, or had filed against it, any request or petition for liquidation, reorganization, arrangement, adjustment of debts, adjudication as bankrupt, winding-up, or voluntary or involuntary case under any state, provincial or federal bankruptcy laws, (iv) has

admitted in writing its inability, or is generally unable to, pay its debts as they become due, (v) become insolvent, or (vi) ceased operation of its business;

(k) which is owed by any Account Debtor which has sold all or a substantially all of its assets;

(l) which is owed by an Account Debtor which (i) does not maintain its chief executive office or have material business operations in the U.S. or Canada or (ii) is not organized and existing under applicable law of the U.S. or Canada or, in either case any political subdivision thereof, unless, in either case, such Account is backed by a Letter of Credit acceptable to the Applicable Agent which is in the possession of, has been assigned to and is directly drawable by, the Applicable Agent;

(m) which is owed in any currency other than Dollars or Canadian Dollars;

(n) (A) with respect to the U.S. Borrowing Base, which is owed by (i) the government (or any department, agency, public corporation, or instrumentality thereof) of any country other than the U.S. unless such Account is backed by a Letter of Credit acceptable to the Applicable Agent which is in the possession of the Applicable Agent, or (ii) the government of the U.S., or any department, agency, public corporation, or instrumentality thereof, unless the Federal Assignment of Claims Act of 1940, as amended (31 U.S.C. § 3727 et seq. and 41 U.S.C. § 15 et seq.), and any other steps necessary to perfect the Lien of the Applicable Agent for the benefit of the Secured Parties in such Account have been complied with to the Applicable Agent's satisfaction; and (B) with respect to the Canadian Borrowing Base, which is owed by (i) the government (or any department, agency, public corporation, or instrumentality thereof) of any country other than Canada unless such Account is backed by a Letter of Credit acceptable to the Applicable Agent which is in the possession of the Applicable Agent, or (ii) the government of Canada, or any department, agency, public corporation, or instrumentality thereof, unless the Financial Administration Act (Canada) or similar provincial or territorial legislation or municipal ordinance of similar purpose, in each case as amended, and any other steps necessary to perfect the Lien of the Applicable Agent for the benefit of the Secured Parties in such Account have been complied with to the Applicable Agent's satisfaction;

(o) which is owed by any Affiliate, employee, officer, director, agent, holder of more than 2% of the issued and outstanding capital stock of the Parent or any stockholder of any other Loan Party;

(p) which is owed by an Account Debtor or any Affiliate of such Account Debtor to which any Loan Party is indebted, but only to the extent of such indebtedness or is subject to any security, deposit, progress payment, retainage or other similar advance made by or for the benefit of an Account Debtor, in each case to the extent thereof;

(q) which is subject to any counterclaim, deduction, defense, setoff or dispute but only to the extent of any such counterclaim, deduction, defense, setoff or dispute;

(r) which is evidenced by any promissory note, chattel paper, or instrument or subject to a payment plan;

(s) with respect to which such Loan Party has made any agreement with the Account Debtor for any reduction thereof, other than discounts and adjustments given in the ordinary course of business, or any Account which was partially paid and such Loan Party created a new receivable for the unpaid portion of such Account, or any unpaid portion of any partially paid Account to the extent of such unpaid portion;

(t) which does not comply in all material respects with the requirements of all applicable laws and regulations, whether federal, state, provincial or local, including without limitation the Federal Consumer Credit Protection Act, the Federal Truth in Lending Act and Regulation Z of the Board;

(u) which is for goods that have been sold under a purchase order or pursuant to the terms of a contract or other agreement or understanding (written or oral) that indicates or purports that any Person other than such Loan Party has or has had an ownership interest in such goods, or which indicates any party other than such Loan Party as payee or remittance party, in each case determined in a manner mutually acceptable to the Loan Parties and the Applicable Agent; or

(v) which was created on cash on delivery terms.

In the event that an Account which was previously an Eligible Account ceases to be an Eligible Account hereunder, such Loan Party shall notify the Applicable Agent thereof on and at the time of submission to the Applicable Agent of the next Borrowing Base Certificate. Except as otherwise set forth above, the amount of an Eligible Account shall be determined based on the face amount of such Account; provided that the face amount of an Account may, in the Applicable Agent's Permitted Discretion, be reduced by, without duplication, to the extent not reflected in such face amount, (i) the amount of all accrued and actual discounts, claims, credits or credits pending, promotional program allowances, price adjustments, finance charges or other allowances (including any amount that such Loan Party may be obligated to rebate to an Account Debtor pursuant to the terms of any agreement or understanding (written or oral)) and (ii) the aggregate amount of all cash received in respect of such Account but not yet applied by such Loan Party to reduce the amount of such Account.

"Eligible Equipment" means the equipment owned by a Loan Party located at the Loan Parties' facilities described on Schedule 1.1, as updated from time to time with the consent of the Administrative Agent, and meeting each of the following requirements:

(a) such Loan Party has good title to such equipment;

(b) such Loan Party has the right to subject such equipment to a Lien in favor of the Applicable Agent for the benefit of the Secured Parties; such equipment is subject to a first priority perfected Lien in favor of the Applicable Agent for the benefit of the Secured Parties and is free and clear of all other Liens of any nature whatsoever (except for (i) Permitted Liens which do not have priority over the Lien in favor of the Applicable Agent for the benefit of the Secured Parties, (ii) unregistered Liens in respect of Priority Payables that are not yet due and payable, (iii) the CCAA Charges and (iv) Liens permitted by clause (iv) of the definition of Permitted Liens);

(c) the full purchase price for such equipment has been paid by such Loan Party;

(d) such equipment is located on premises (i) owned by such Loan Party, which premises are subject to a first priority perfected Lien in favor of the Applicable Agent for the benefit of the Secured Parties, or (ii) leased by such Loan Party where (x) the lessor has delivered to the Applicable Agent a Landlord Lien Waiver or (y) a Reserve for rent, charges, and other amounts due or to become due with respect to such facility has been established by the Applicable Agent in its Permitted Discretion;

(e) such equipment is in good working order and condition (ordinary wear and tear excepted) and is used or held for use by such Loan Party in the ordinary course of business of the Loan Party;

(f) such equipment is not subject to any agreement which restricts the ability of such Loan Party to use, sell, transport or dispose of such equipment or which restricts the Applicable Agent's ability to take possession of, sell or otherwise dispose of such equipment; and

(g) such equipment does not constitute "fixtures" under the applicable laws of the jurisdiction in which such equipment is located.

**"Eligible Inventory"** means, at any time, the Inventory of a Loan Party which the Applicable Agent determines in its Permitted Discretion is eligible as the basis for the extension of Loans and the issuance of Letters of Credit hereunder. Without limiting the Applicable Agent's discretion provided herein, Eligible Inventory shall not include any Inventory:

(a) which is not subject to a first priority perfected Lien in favor of the Applicable Agent for the benefit of the Secured Parties subject only to (i) the CCAA Charges and (ii) an unregistered Lien in respect of Priority Payables that are not yet due and payable;

(b) which is subject to any Lien other than (i) a Lien in favor of the Applicable Agent for the benefit of the Secured Parties, (ii) a Lien (if any) permitted by the Loan Documents which does not have priority over the Lien in favor of the Applicable Agent for the benefit of the Secured Parties, (iii) a Lien contemplated by clause (iv) of the definition of Permitted Liens, and (iv) an unregistered Lien in respect of Priority Payables that are not yet due and payable;

(c) which is, in the Applicable Agent's opinion, slow moving, obsolete, unmerchantable, defective, used, unfit for sale, not salable at prices approximating at least the cost of such Inventory in the ordinary course of business or unacceptable due to age, type, category or quantity;

(d) with respect to which any covenant, representation, or warranty contained in this Agreement or the Collateral Documents been breached or is not true in any material respect and which does not conform in any material respect to all standards imposed by any Governmental Authority;

(e) in which any Person other than such Loan Party shall (i) have any direct or indirect ownership, interest or title to such Inventory or (ii) be indicated on any purchase order or invoice with respect to such Inventory as having or purporting to have an interest therein;

(f) which is not Work-in-Process, Raw Materials or Finished Goods or which constitutes spare or replacement parts, subassemblies, packaging supplies and shipping material, manufacturing supplies, samples, prototypes, displays or display items, bill-and-hold goods, goods that are returned or marked for return, repossessed goods, defective or damaged goods, goods held on consignment, or goods which are not of a type held for sale in the ordinary course of business, including, but not limited to, fuels, chemicals, starches, ink and adhesives;

(g) which is not located in the United States or Canada or is in transit (other than between locations in the United States or Canada controlled by Loan Parties, to the extent included in current perpetual inventory reports of any Loan Party);

(h) which is located in any location leased by such Loan Party unless (i) the lessor has delivered to the Applicable Agent a Landlord Lien Waiver or (ii) a Reserve for rent, charges, and other amounts due or to become due with respect to such facility has been established by the Applicable Agent in its Permitted Discretion;

(i) which is located in any third party warehouse or is in the possession of a bailee (other than a third party processor) and is not evidenced by a document (other than bills of lading issued with respect to Inventory in transit between locations in the United States or Canada controlled by Loan Parties), unless (i) such warehouseman or bailee has delivered to the Applicable Agent a Landlord Lien Waiver and such other documentation as the Applicable Agent may require or (ii) an appropriate Reserve has been established by the Applicable Agent in its Permitted Discretion;

(j) which is being processed offsite at a third party location or outside processor, or is in-transit to or from said third party location or outside processor;

(k) which is a discontinued product or component thereof;

(l) which is the subject of a consignment by such Loan Party as consignor;

(m) which contains or bears any intellectual property rights licensed to such Loan Party unless the Applicable Agent is satisfied that it may sell or otherwise dispose of such Inventory without (i) infringing the rights of such licensor, (ii) violating any contract with such licensor, or (iii) incurring any liability with respect to payment of royalties other than royalties incurred pursuant to sale of such Inventory under the current licensing agreement;

(n) which is not reflected in a current inventory report of such Loan Party (unless such Inventory is reflected in a report to the Applicable Agent as "in transit" Inventory);

(o) for which reclamation rights have been asserted by the seller; or

(p) any portion of the cost of such Inventory is attributable to intercompany profit between any Loan Party and any of its Affiliates (but only to the extent of such portion).