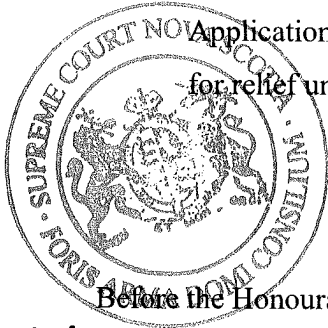
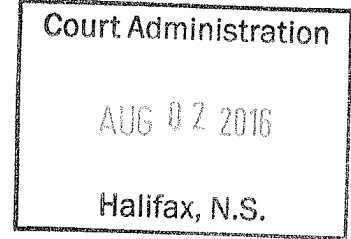


Supreme Court of Nova Scotia



Application by Hefler Forest Products Limited (the "Applicant")
for relief under the *Companies' Creditors Arrangement Act*



Order

Before the Honourable Justice Glen G. McDougall in chambers

G McD, J

By Notice of Application in Chambers filed on July 20th, 2016, the Applicant sought an Initial Order under the *Companies Creditors Arrangement Act* ("CCAA") which among other relief sought:

- a) A stay pursuant to section 11.02(1) of the CCAA until August 19, 2016; and
- b) Approval of Debtor in Possession ("**DIP**") financing.

The Order granted and issued on July 22, 2016 (the "**Initial Order**"), provided for a stay only to August 2, 2016. The Applicant's application for DIP financing and consideration of whether the stay should be extended beyond August 2, 2016 were adjourned for hearing at the Law Courts, Halifax on August 2, 2016 at the hour of 9:30 am.

The following parties, represented by the following counsel, made submission on August 2, 2016 at the adjourned hearing:

Party	Counsel
Applicant	Carl A, Holm, Q.C.
Royal Bank of Canada	Maurice Chiasson, Q.C.
Business Development Bank of Canada	Tim Hill, Q.C.
The Monitor, Green Landers Ltd.	Bruce Clarke, Q.C.

On motion of the Applicant the following is ordered and declared:

Extension of Stay

1. The Stay Period as set out in paragraph 11 of the Initial Order is extended up to and including September 22, 2016 on which date the Applicant shall and the other parties represented herein and any other interested party to these proceedings may appear before me at the hour of 11:00 am in the forenoon to consider an application by the Applicant for an order further extending the Stay Period and for such other Orders or Relief as may be deemed appropriate, subject to the right of the creditors of the Applicant to request a review and reconsideration of this.

DIP Financing and Charge

2. The Applicant is hereby authorized and empowered to obtain and borrow under a credit facility from Allen MacPhee (the “DIP Lender”) in order to finance the Company’s working capital requirement and other general corporate purposes and capital expenditures, provided that borrowings under such credit facility shall not exceed \$1,000,000 (the “DIP Facility”) unless permitted by further order of this Court.

3. The DIP Facility shall be substantially on the terms and subject to the conditions set forth in the interim financing term sheet (the “DIP Term Sheet”) annexed hereto as Schedule “A”, as same may be amended from time to time with the Monitor’s written consent provided any amendment may not affect a secured creditor’s rights without further order of this Court.

4. The Company is hereby authorized and empowered to execute and deliver such credit agreements, mortgages, charges, hypothecs, and other security documents, guarantees, and other definitive documents (collectively, the “DIP Documents”), as are contemplated by the DIP Term Sheet or as may be reasonably required by the DIP Lender pursuant to the terms thereof, or as consented to by the Monitor, and the Company is hereby authorized and directed to pay and perform all of its indebtedness, interest, fees, liabilities, and obligation to the DIP Lender under

the DIP Term Sheet as and when the same become due and are to be performed, notwithstanding any other provision of this Order.

5. The DIP Lender shall be entitled to the benefit of and is hereby granted a charge (the “DIP Lender’s Charge”) on the Property, as defined in the Initial Order, as security for any and all obligations of the Company under or pursuant to the DIP Facility and the DIP Term Sheet, which charge shall not exceed the aggregate amount owed to the DIP Lender under the DIP Facility and the DIP Term Sheet. The DIP Lender’s Charge shall have the priority set out herein.

6. Notwithstanding any other provision of this Order:

(a) The DIP Lender may take such steps from time to time as it may deem necessary or appropriate to file, register, record or perfect the DIP Lender’s Charge or the DIP Term Sheet or any of the DIP Documents;

(b) upon the occurrence of an event of default under the DIP Term Sheet or DIP Documents of the DIP Lender’s Charge, the DIP Lender upon three (3) days’ notice to the Company and the Monitor, may, with leave of the Court, exercise any and all of its right and remedies against the Company or the Property under or pursuant to the DIP Term Sheet, DIP Documents and the DIP Lender’s Charge; and

(c) the foregoing rights and remedies of the DIP Lender shall be enforceable against any trustee in bankruptcy, interim receiver, receiver or receiver and manager of the Company or the Property.

7. The Company is enjoined from making a proposal under the *Bankruptcy and Insolvency Act* (Canada) (the “BIA”) by which any advance made under the DIP Term Sheet or the DIP Documents could be repaid at less than one hundred cents on the dollar, or by which any claims or other rights of the DIP Lender under any agreement related to the DIP Facility could be compromised, unless the DIP Lender agrees otherwise in writing.

Validity and Priority of Charges Created by the Initial Order as Amended hereby

8. Paragraphs 45-50 of the Initial Order concerning the validity and priority of charges created are deleted and the following paragraphs 9-16 are substituted therefor.

9. The priorities of the Director's Charge, Administration Charge, the Critical Supplier Charge and the DIP Lender's Charge as among them, and as against the existing security held by any secured creditor prior to the issuance of this Order (the "Existing Security"), including the Royal Bank of Canada, the Business Development Bank of Canada, 3263403 Nova Scotia Limited and AML Communications Inc. (for amounts advanced prior to the date of this Order), shall be as follows:

(a) First – Administration Charge;

(b) Second – DIP Lender's Charge;

(c) Third – Directors' Charge;

(d) Fourth – Critical Supplier Charge; and

(e) Fifth – Existing Security in such priority as they currently have.

10. The filing, registration, or perfection of the Directors' Charge, the Administration Charge, the Critical Supplier Charge and the DIP Lender's Charge (collectively, the "Charges") shall not be required, and the Charges shall be valid and enforceable for all purposes, including as against any right, title, or interest filed, registered, recorded or perfected subsequent to the Charges coming into existence, notwithstanding any such failure to file, register, record, or perfect.

11. Each of the Charges, all as constituted and defined herein, shall constitute a charge on the Property and such Charges shall rank in priority to other security interests, trusts, liens, charges, and encumbrances, statutory or otherwise (collectively, "Encumbrances") in favour of any person.

12. Except as otherwise expressly provided for herein, or as may be approved by this Court, the Company shall not grant any Encumbrances over any Property that rank in priority to, or pari

passu with, the Existing Security or any of the Charges, unless the Company also obtains the prior written consent of the Monitor, its existing secured creditors, and the beneficiaries of the Charges (the “Chargees”), or further order of this Court.

13. The Charges, the DIP Term Sheet, and the DIP Documents shall not be rendered invalid or unenforceable and the rights and remedies of the Chargees shall not otherwise be limited or impaired in any way by (i) the pendency of these proceedings and the declarations of insolvency made herein; (ii) any application for a bankruptcy order issued pursuant to BIA, or any bankruptcy order made pursuant to such applications; (iii) the filing of any assignments for the general benefit of the creditors made pursuant to the BIA; or (iv) any negative covenants, prohibitions or other similar provisions with respect to borrowings, incurring debt, or the creation of Encumbrances, contained in any Agreement which binds the Company, and notwithstanding any provision to the contrary in any Agreement:

- (a) neither the creation of the Charges nor the execution, delivery, perfection, registration, or performance of the DIP Term Sheet or the DIP Documents shall create or be deemed to constitute a breach by the Company of any Agreement to which it is a party;
- (b) none of the Chargees shall have any liability to any Person whatsoever as a result of any breach of any Agreement caused by or resulting from the Company entering into the DIP Term Sheet, the creation of the Charges, or the execution, delivery or performance of the DIP Documents; and
- (c) the payments made by the Company pursuant to this Order, the DIP Term Sheet or the DIP Documents, and the granting of the Charges, do not and will not constitute fraudulent preferences, fraudulent conveyances, oppressive conduct, settlements, or other challengeable, voidable, or reviewable transaction under any applicable law.

14. Any Charge created by this Order over leases of real property in Canada shall only be a Charge on the Company’s interest in such real property leases.

15. The Monitor, in addition to its prescribed rights and obligations under the CCAA and under this Order, is hereby directed and empowered to:

- (a) assist the Company to the extent required by the Company, in its dissemination to the DIP Lender and its counsel on a monthly basis of financial and other information as agreed to between the Company and the DIP Lender which may be used in these proceedings including reporting on a basis to be agreed with the DIP Lender; and
- (b) advise or assist the Company in its preparation of the Company's cash flow statements and reporting required by the DIP Lender, which information shall be reviewed with the Monitor and delivered to the DIP Lender and its counsel on a periodic basis, but not less than monthly, or as otherwise agreed to by the DIP Lender.

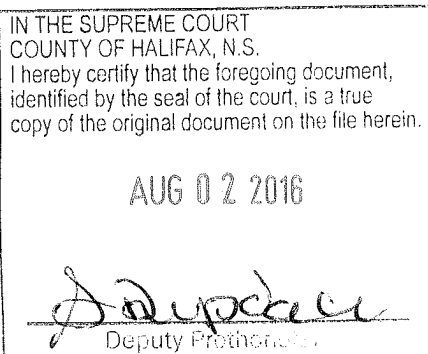
16. Any amounts actually advanced or expended pursuant to any of the Charges shall have the priority as provided for herein regardless of the time of advance or the use to which funds were actually put.

Issued August 2, 2016



Prothonotary

SARAH DRYSDALE
Deputy Prothonotary



SARAH DRYSDALE
Deputy Prothonotary

Schedule A

INTERIM FINANCING TERM SHEET

Dated as of July 27, 2016

WHEREAS, the Borrower (as defined below) has requested that the Interim Lender (as defined below) provide financing to fund certain of the Borrower's obligations during the Borrower's proceedings (the "**CCAA Proceedings**") under the *Companies' Creditors Arrangement Act* (Canada) (the "**CCAA**") to be commenced before the Nova Scotia Supreme Court (the "**Court**") and in accordance with the terms and conditions set out herein;

AND WHEREAS, the Interim Lender has agreed to provide financing in order to fund certain obligations of the Borrower in the context of its CCAA Proceedings in accordance with the terms set out herein:

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

- Borrower:** Hefler Forest Products Limited ("Borrower")
- Interim Lender:** Allen MacPhee of Halifax or a company designated by him (the "Interim Lender")
- Facility:** **Demand Revolving Loan** ("DRL") Facility in the maximum amount of \$1,000,000. The DRL will be drawn and advanced in tranches for amounts requested by the Borrower and approved by the Monitor. Amounts outstanding under the DRL shall bear interest at eleven per cent (11 %) per annum payable monthly on the last day of each month during which any portion of the DRL remains outstanding.
- Purpose:** To provide Debtor in Possession funding ("DIP Financing") and provide working capital financing, as evidenced in Borrower's cash flow projections provided to the Interim Lender.
- Term:** Twelve (12) months
- The DRL Facility herein can be repaid in full, without penalty at any time, provided that a 30-day prior written notice is given to the Interim Lender.

Repayment: On demand.

Repayment of the DRL Facility herein is expected from refinancing of Borrower, new equity investments cash flow or liquidation of certain assets of Borrower. Notwithstanding compliance with the covenants section contained herein and without restricting its demand nature, the DRL Facility herein shall be repaid in full no later than July 27, 2017.

Fees: Work fee and due diligence fee of \$10,000.00 non-refundable, payable as follows: on granting of the Order approving the DIP Loan and the DIP Charge.

Covenants: Borrower agrees:

1. to pay all sums of money due under this agreement on demand;
2. not to change its name or merge, amalgamate or consolidate with any other corporation without the prior written consent of the Interim Lender;
3. not to make any capital expenditures, acquisitions or incur any debt outside of Court approved cash flows, without prior written consent of the Interim Lender;
4. to give the Interim Lender prompt notice of any Event of Default or any event which with notice or lapse of time or both would constitute an Event of Default;
5. not to make and payments to any shareholder or director of the Borrower without the prior consent of the Interim Lender;
6. not to seek or support the granting of any Order which provides for a security interest in any of the assets of the Borrower ranking in priority to that in favour of the Interim Lender, other than the Admin Charge described below.

Conditions: The obligation of the Interim Lender to make the Facility available shall be subject to and conditional upon each of the following:

- Borrower shall have obtained an Order (the "Order") of the Supreme Court that provides for *inter alia*:
 - the creation of an Interim Lender DIP Charge on terms satisfactory to the Interim Lender;

- the ongoing communication regarding the Borrower and the CCAA process of information by the Monitor to the Interim Lender;
- the Order shall not have been stayed, vacated or otherwise caused to be ineffective or amended, restated or modified in a way that adversely impacts the rights and interests of the Interim Lender;
- the Interim Lender and its advisors shall be provided with and the Interim Lender shall be satisfied with Borrower's proposed and future cash flow projections (as the same may be amended in form and substance satisfactory to the Interim Lender the "Cash Flow");
- Borrower shall be in compliance with the Initial Order, the Order and any amendments thereto and the Borrower's operating results shall substantially comply with the Cash Flow;
- the Interim Lender's security interest under the Order ranking first over all assets of Borrower, except for:
 - an Admin charge as provided in the Initial Order not exceeding \$150,000.00;
- Borrower agrees to furnish all assistance and information, to perform such acts as the Interim Lender reasonably requests, and to grant to the Interim Lender or its authorized agents, not acting unreasonably, access to Borrower's premises and to all places where assets may be located, during normal business hours, to verify the accounts receivable, inventory and fixed assets and the general condition of the business of the Borrower;
- the Interim Lender to be provided with any other reporting reasonably requested .

Reporting:

Monthly within 30 days of month end

The Borrower shall provide to the Interim Lender, on a monthly basis, within 15 days of the end of each month:

1. Aged list of accounts receivable of Borrower;
2. Aged list of accounts payable of Borrower;
3. Bank statements of Borrower;
4. Summary Inventory listing of Borrower with a breakdown by category;

5. Evidence of payment of government remittances (i.e.: employee source deductions, HST, etc.);
6. Internally prepared financial statements comprising balance sheet and income statement for Borrower

Annually within 60 days of fiscal year

The Borrower shall provide to the Interim Lender, within 60 days of the Borrower's fiscal year:

1. Accountant prepared financial statements of Borrower.

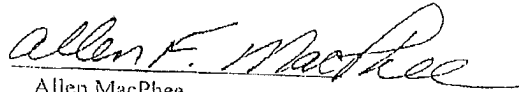
Expenses:

All reasonable costs incurred by the Interim Lender including legal fees, professional fees, search and registration fees, etc. in implementing or attempting to implement this Facility, any ongoing charges incurred in maintaining or reviewing this Facility or the security requirements of the Interim Lender, plus any costs of collection, enforcement, realization, and / or subsequent discharges, are for the account of Borrower. Such costs shall bear interest at the rate set out above, from the date on which they are incurred by the Interim Lender.

This Agreement may be signed in counterparts and each of such counterparts shall constitute and original document and all of which counterparts taken together shall constitute one and the same agreement.

Copies of this Agreement provided by facsimile transmission or email transmission shall be conclusively be deemed to have been executed and delivered and shall be binding on the party delivering such copy.

In witness whereof the parties hereto have executed these presents all as at the 27th day of July, 2016.



Allen MacPhee,
The Interim Lender

HEFLER FOREST PRODUCTS LIMITED

Per: _____