

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

Annual Report Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

For the fiscal year ended
December 31, 2004

Commission File
Number 1-7107

Louisiana-Pacific Corporation

(Exact name of registrant as specified in its charter)

DELAWARE
(State of Incorporation)

93-0609074
(I.R.S. Employer Identification No.)

414 Union Street, Suite 2000 Nashville, TN 37219
(Address of principal executive offices)

Registrant's telephone number (including area code)
615-986-5600

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of Each Class</u>	<u>Name of Each Exchange on Which Registered</u>
Common Stock, \$1 par value	New York Stock Exchange
Preferred Stock Purchase Rights	New York Stock Exchange

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes No

State the aggregate market value of the voting stock held by nonaffiliates of the registrant: \$2,831,900,000 as of March 3, 2005.

Indicate the number of shares outstanding of each of the registrant's classes of common stock: 110,763,517 of Common Stock, \$1 par value, outstanding as of March 3, 2005.

Documents Incorporated by Reference

Definitive Proxy Statement for 2004 Annual Meeting: Part III

Except as otherwise specified and unless the context otherwise requires, references to "LP", the "Company", "we", "us", and "our" refer to Louisiana-Pacific Corporation and its subsidiaries.

ABOUT FORWARD-LOOKING STATEMENTS

Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 provide a "safe harbor" for forward-looking statements to encourage companies to provide prospective information about their businesses and other matters as long as those statements are identified as forward-looking and are accompanied by meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those discussed in the statements. This report contains, and other reports and documents filed by us with the Securities and Exchange Commission may contain, forward-looking statements. These statements are or will be based upon the beliefs and assumptions of, and on information available to, our management.

The following statements are or may constitute forward-looking statements: (1) statements preceded by, followed by or that include words like "may," "will," "could," "should," "believe," "expect," "anticipate," "intend," "plan," "estimate," "potential," "continue" or "future" or the negative or other variations thereof and (2) other statements regarding matters that are not historical facts, including without limitation, plans for product development, forecasts of future costs and expenditures, possible outcomes of legal proceedings, completion of anticipated asset sales and the adequacy of reserves for loss contingencies.

Factors that could cause actual results to differ materially from those expressed or implied by the forward-looking statements include, but are not limited to the following:

- changes in general economic conditions;
- changes in the cost and availability of capital;
- changes in the level of home construction activity;
- changes in competitive conditions and prices for our products;
- changes in the relationship between supply of and demand for building products, including the effects of industry-wide increases in manufacturing capacity;
- changes in the relationship between supply of and demand for raw materials, including wood fiber and resins, used in manufacturing our products;
- changes in tax laws, and interpretations thereof;
- changes in the cost of and availability of energy, primarily natural gas, electricity and diesel fuel;
- changes in other significant operating expenses;
- changes in exchange rates between the U.S. dollar and other currencies, particularly the Canadian dollar, EURO and the Chilean peso;
- changes in general and industry-specific environmental laws and regulations;
- changes in circumstances giving rise to environmental liabilities or expenditures;

- the resolution of product-related litigation and other legal proceedings; and
- acts of God or public authorities, war, civil unrest, fire, floods, earthquakes and other matters beyond our control.

In addition to the foregoing and any risks and uncertainties specifically identified in the text surrounding forward-looking statements, any statements in the reports and other documents filed by us with the Commission that warn of risks or uncertainties associated with future results, events or

circumstances identify important factors that could cause actual results, events and circumstances to differ materially from those reflected in the forward-looking statements.

ABOUT THIRD PARTY INFORMATION

In this report, we rely on and refer to information regarding industry data obtained from market research, publicly available information, industry publications, U.S. government sources and other third parties. Although we believe the information is reliable, we cannot guarantee the accuracy or completeness of the information and have not independently verified it.

PART I

ITEM 1. *Business*

General

Our company, headquartered in Nashville, TN, is a leading manufacturer and distributor of building products. As of December 31, 2004, we had approximately 6,500 employees and operated 34 facilities in the U.S. and Canada and one facility in Chile. Our focus is on delivering innovative, high-quality commodity and specialty building products to retail, wholesale, home building and industrial customers. Our products are used primarily in new home construction, repair and remodeling, and manufactured housing.

Business Segments

We operate in three segments: Oriented Strand Board (OSB); Siding; and Engineered Wood Products (EWP). In general, our businesses are affected by the level of housing starts; the level of home repairs; the availability and cost of financing; changes in industry capacity; changes in the prices we pay for raw materials and energy; and other operating costs.

OSB

Our OSB segment manufactures and distributes OSB structural panel products.

OSB is an innovative, affordable and environmentally smart product made from wood strands arranged in layers and bonded with resin. OSB serves many of the same uses as unsanded plywood, including roof decking, sidewall sheathing and floor underlayment, but can be produced at a significantly lower cost. In the past decade, land use regulations, endangered species and environmental concerns have resulted in reduced supplies and higher costs for domestic timber, causing many plywood mills to close or divert their production to other uses. OSB has replaced most of the volume lost from these mills. It is estimated that OSB accounts for approximately 60% of the structural panel consumption with plywood accounting for the remainder. We estimate that the overall North American structural panel market is 44 billion square feet with the OSB market comprising an estimated 26 billion square feet of this market. Based upon our production capacity of 6.1 billion square feet, we account for 23% of the OSB market and 14% of the overall North American structural panel market. We believe we are the largest and one of the most efficient producers of OSB in North America.

Siding

Our siding offerings fall into three categories: (1) SmartSide® siding products and related accessories; (2) hardboard siding and accessory products; and (3) vinyl siding products and accessories.

The SmartSide® Products Our SmartSide® products consist of a full line of OSB-based sidings, trim, soffit and fascia. These products have quality and performance characteristics similar to solid wood at more attractive prices due to lower raw material and production costs.

Hardboard Siding Products Our hardboard siding product offerings include a number of lap and panel products in a variety of patterns and textures, as well as trim products.

Vinyl Siding Products. We manufacture a variety of vinyl siding products and accessories. Our product line covers a broad spectrum of styles, colors and price points to satisfy customers' needs.

Additionally, as market demand warrants, minor amounts of commodity OSB are produced and sold in this segment.

Engineered Wood Products

Our Engineered Wood Products (EWP) segment manufactures and distributes I-joists and laminated veneer lumber (LVL) and other related products. We believe that in North America we are one of the top four producers of I-joists and LVL. A plywood mill associated with our LVL operations in British Columbia is also included in this segment.

We believe that our engineered I-joists, which are used primarily in residential and commercial flooring and roofing systems and other structural applications, are stronger, lighter and straighter than conventional lumber joists. Our LVL is a high-grade, value-added structural product used in applications where extra strength is required, such as headers and beams. It is also used, together with OSB and lumber, in the manufacture of engineered I-joists.

Other Products

Our other products category includes our composite decking, decorative moulding and Chilean OSB operations. Additionally, our other products category includes timber and timberlands not associated with other segments or businesses to be divested, an OSB operation in Ireland (which we sold in April 2002), and other minor products and services and other operations closed prior to January 1, 2002.

Sales, Marketing and Distribution

Our sales and marketing efforts are primarily focused on traditional two-step distribution, professional building products dealers, home centers, third-party wholesale buying groups and other retailers. The wholesale distribution channel includes a variety of specialized and broad-line wholesale distributors and dealers focused primarily on the supply of products for use by professional builders and contractors. The retail distribution channel includes large retail chains catering to the do-it-yourself (DIY) and repair and remodeling markets as well as smaller independent retailers.

Customers

We seek to maintain a broad customer base and a balanced approach to national distribution through both wholesale and retail channels. In 2004, our top 10 customers accounted for approximately 37% of our continuing sales, with the largest customer accounting for no more than 8% of our revenues. Because a significant portion of our sales are from OSB that is a commodity product sold primarily on the basis of price and availability, we are not dependent on any one customer. Our principal customers include the following:

- Wholesale distribution companies, which supply building materials to retailers on a regional, state or local basis;
- Two-step distributors who provide building materials to smaller retailers, contractors and others;
- Building materials professional dealers, that specialize in sales to professional builders, remodeling firms and trade contractors that are involved in residential home construction and light commercial building;
- Retail home centers, that provide access to consumer markets with a broad selection of home improvement materials and increasingly serve professional builders, remodelers and trade contractors;
- Manufactured housing producers, who design, construct and distribute prefabricated residential and light commercial structures, including fully manufactured, modular and panelized structures, for consumer and professional markets.

Seasonality

Our business is subject to seasonal variances, with demand for many of our products tending to be greater during the building season in the second and third quarters. From time to time, we engage in promotional activities designed to stimulate demand for our products, such as reducing our selling prices and providing extended payment terms, particularly at times when demand is otherwise relatively soft. We do this in an effort to better balance supply with demand, manage our inventory levels and allow our production facilities to run efficiently.

Competitors

The building products industry is highly competitive. We compete internationally with several thousand forest and building products firms, ranging from very large, fully integrated firms to smaller enterprises that may manufacture only one or a few items. We also compete less directly with firms that manufacture substitutes for wood building products. Some competitors have substantially greater financial and other resources than we do that could, in some instances, give them a competitive advantage over us.

Raw Materials

Wood fiber is the primary raw material used in most of our operations, and the primary source of wood fiber is timber. The primary end-markets for timber harvested in the U.S. are manufacturers who supply: (1) the housing market where it is used in the construction of new housing and the repair and remodeling of existing housing; (2) the pulp and paper market; and (3) export markets. The supply of timber is limited by access to timber and by the availability of timberlands. The availability of timberlands, in turn, is limited by several factors, including forest management policies, alternate uses of land, and loss to urban or suburban real estate development.

During 2003, we sold our remaining fee timberland. This wood fiber largely supplied our plywood business that we divested in September 2002. In Canada, we harvest enough timber annually under long-term harvest rights with various Canadian governments and other third parties to support our Canadian production facilities. The average remaining life of our Canadian timber rights is 20 years with provisions for regular renewal.

We purchase approximately 69% of our wood fiber requirements on the open market, through either private cutting contracts or purchased wood arrangements. Our remaining wood fiber requirements (31%) are fulfilled through government contracts, principally in Canada. Because wood fiber is subject to commodity pricing, the cost of various types of timber that we purchase in the market has at times fluctuated greatly due to weather, governmental, economic or other industry conditions. However, our mills are generally located in areas that are in close proximity to large and diverse supplies of timber. Our mills generally have the ability to procure wood fiber at competitive prices from third-party sources.

In addition to wood fiber, we use a significant quantity of various resins in our manufacturing processes. Resin product costs are influenced by changes in the prices of raw materials used to produce resin, primarily petroleum products, as well as demand for resin products.

While the majority of our energy requirements are generated at our plants through the conversion of wood waste, we also purchase substantial amounts of energy in our operations, primarily electricity and natural gas. Energy prices have experienced significant volatility in recent years, particularly in deregulated markets. We attempt to control our exposure to energy price changes through the use of long-term supply contract agreements.

Environmental Compliance

Our operations are subject to many environmental laws and regulations governing, among other things, discharges of pollutants and other emissions on or into land, water and air, the disposal of hazardous substances or other contaminants, the remediation of contamination and the restoration and reforestation of timberlands. In addition, certain environmental laws and regulations impose liability and responsibility on present and former owners, operators or users of facilities and sites for contamination at such facilities and sites without regard to causation or knowledge of contamination. Compliance with environmental laws and regulations can significantly increase the costs of our operations and otherwise result in significant costs and expenses. In some cases, plant closures can result in more onerous compliance requirements becoming applicable to a facility or a site. Violations of environmental laws and regulations can subject us to additional costs and expenses, including defense costs and expenses and civil and criminal penalties. We cannot assure you that the environmental laws and regulations to which we are subject will not become more stringent, or be more stringently implemented or enforced, in the future.

Our policy is to comply fully with all applicable environmental laws and regulations. In recent years, we have devoted increasing management attention to achieving this goal. In addition, from time to time, we undertake construction projects for environmental control facilities or incur other environmental costs that extend an asset's useful life, improve efficiency or improve the marketability of certain properties.

The U.S. government has enacted regulations related to Maximum Achievable Control Technology (MACT). We anticipate, based upon our current facilities, that we will be required to spend between \$7 million and \$15 million over the next several years to comply with these regulations.

Additional information concerning environmental matters is set forth under Item 3, Legal proceedings, and in Note 18 of the Notes to the financial statements included in item 8 of this report.

Employees

We employ approximately 6,500 people, approximately 1,800 of whom are members of unions. We consider our relationship with our employees generally to be good. During 2002, work stoppages occurred at two facilities. A work stoppage at our Dawson Creek, British Columbia OSB facility occurred from March 2002 through April 2002 when it was settled. A work stoppage at our Chambord, Quebec OSB facility began in May 2002 and continued through June 2003. There can be no assurance that additional work stoppages will not occur. During 2005, union contracts relating to two manufacturing facilities in Canada will expire.

Available Information

We will make available our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act free of charge through our internet website at <http://www.lpcorp.com> as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission.

Segment and Price Trend Data

The following table sets forth, for each of the last three years: (1) production volumes; (2) the average wholesale price of selected building products in the United States; and (3) logs used in production by source. In addition, information concerning our: (1) consolidated net sales by business segment; (2) our consolidated profit (loss) by business segment; (3) identifiable assets by segment; (4) depreciation, amortization and cost of timber harvested; (5) capital expenditures; and (6) geographic segment information is included at Note 24 of the Notes to the financial statements included in item 8 of this report and information concerning our sale by product line is included in item 7. Management Discussion and Analysis.

Product Information Summary For Years Ended December 31

	2004	2003	2002
PRODUCTION VOLUMES			
OSB, ³ / ₈ " basis, million square feet	5,548	5,526	5,123
Wood-based siding, ³ / ₈ " basis, million square feet	1,033	871	786
Engineered I-joists, million lineal feet	89	91	84
Laminated veneer lumber, thousand cubic feet	11,860	10,070	8,394
Composite decking, thousand lineal feet	40,044	32,119	21,991
Vinyl siding, squares(1)	2,882	2,792	2,419
INDUSTRY PRODUCT PRICE TRENDS(2)			
OSB, MSF, ⁷ / ₁₆ " - ²⁴ / ₁₆ " span rating (North Central price)	\$ 370	\$ 293	\$ 160
% LOGS BY SOURCES(3)			
Fee owned lands	—	5	11
Private cutting contracts	11	18	12
Government contracts	31	22	20
Purchased logs	58	55	57
Total volumes - million board feet	2,367	2,490	2,683

(1) A square is defined as 100 square feet of material with an average weight of 42 pounds.

(2) Prices represent yearly averages stated in dollars per thousand square feet (MSF). Source: *Random Lengths*.

(3) Stated as a percentage of total log volume.

ITEM 2. Properties

Information regarding our principal properties and facilities is set forth in the following tables. Information regarding production capacities is based on normal operating rates and normal production mixes under current market conditions, taking into account known constraints such as log supply. Market conditions, fluctuations in log supply, and the nature of current orders may cause actual production rates and mixes to vary significantly from the production rates and mixes shown.

ORIENTED STRAND BOARD Oriented Strand Board Panel Plants 14 plants—6,065 million square feet annual capacity, ³/₈" basis 3 shifts per day, 7 days per week

	Square feet in millions
Athens, GA	390
Carthage, TX	450
Chambord, Quebec, Canada	470
Dawson Creek, BC, Canada	390
Hanceville, AL	390
Hayward, WI	520
Houlton, ME	280
Jasper, TX	450
Maniwaki, Quebec, Canada	600

Roxboro, NC	450
Sagola, MI	390
St. Michel, Quebec, Canada	500
Swan Valley, Manitoba, Canada	525
Woodland, ME	260

SIDING
Oriented Strand Board Siding and Specialty Plants

4 plants—715 million square feet annual capacity, 32 ^{3/8} " basis	
3 shifts per day, 7 days per week	Square feet in millions
Newberry, MI	135
Silsbee, TX	300
Tomahawk, WI	135
Two Harbors, MN	145

Hardboard plants	
2 plants—545 million squares feet capacity, surface measure	
3 shifts per day, 7 days per week	Square feet in millions
Roaring River, NC	245
East River, Nova Scotia	300

Vinyl Siding	
Plants 2 plants—3.5 million squares annual capacity	
2 shifts per day, 7 days per week	Squares in millions
Acton, Ontario, Canada	2.0
Holly Springs, MS	1.5

- (1) The Silsbee TX OSB siding facility produces both commodity OSB as well as OSB siding.
(2) The Roaring River, NC plant produces only hardboard siding products.
(3) The East River, Nova Scotia plant produces both hardboard panel products and hardboard siding products.

ENGINEERED WOOD PRODUCTS

I-joist Plants	
2 plants—100 million lineal feet annual capacity	
1 to 3 shifts per day, 5 days per week	Lineal feet in millions
Red Bluff, CA	80
Wilmington, NC	20

LVL Plants	
3 plants—12,100 thousand cubic feet annual capacity	
1 to 3 shifts per day, 5 days per week	Cubic feet in thousands
Hines, OR	4,000
Golden, BC, Canada	3,500
Wilmington, NC	4,600

OTHER	
Plastic Mouldings Plant	
1 plant—290 million lineal feet annual capacity	
3 shifts per day, 7 days per week	Lineal feet in millions
Middlebury, IN	290

Wood Composite Decking	
2 plants—61 million lineal feet capacity	
1 shift per day, 7 days per week	Lineal feet in millions
Meridian, ID	37
Selma, AL	24

OSB	Panguipulli, Chile
Plywood	Golden, BC, Canada
Lumber	St. Michel, Quebec, Canada

MILLS HELD FOR SALE	
Lumber	
1 to 3 shifts per day, 5 days per week	Board feet in millions
Gwinn, MI	170
Malakwa, BC (cedar)	

- (4) We sell an additional 60 million lineal feet of I-Joist which is produced by our joint venture with Abitibi-Consolidated.

CANADIAN TIMBERLAND LICENSE AGREEMENTS	
Location	Acres
British Columbia	7,900,000
Manitoba	6,300,000
Nova Scotia	900,000
Quebec	28,900,000
Total timberlands under license agreements in Canada	<u>44,000,000</u>

We also have timber-cutting rights under long-term contracts (five years or longer) on approximately 11,000 acres and approximately 118,000 acres on short-term contracts (less than one year), on government and privately owned timberlands in the U.S.

Our Canadian subsidiary has arrangements with four Canadian provincial governments which give our subsidiary the right to harvest a volume of wood off public land from defined forest areas under supply and forest management agreements, long-term pulpwood agreements, and various other timber licenses. The acreage noted above is the gross amount of the licenses and is not reflective of the amount of timber acreage that we currently manage. This subsidiary also obtains wood from private parties in certain cases where the provincial governments require us to obtain logs from private parties prior to harvesting from the licenses to meet our raw materials needs.

ITEM 3. Legal Proceedings

Certain environmental matters and legal proceedings are discussed below.

ENVIRONMENTAL MATTERS

We are involved in a number of environmental proceedings and activities, and may be wholly or partially responsible for known or unknown contamination existing at a number of other sites at which we have conducted operations or disposed of wastes. Based on the information currently available, management believes that any fines, penalties or other costs or losses resulting from these matters will not have a material adverse effect on our financial position, results of operations, cash flows or liquidity.

SIDING MATTERS

Settlement agreements relating to a nationwide class action suit involving OSB Siding manufactured by us and installed prior to January 1, 1996, a related class action in Florida and a nationwide class action suit involving hardboard siding manufactured or sold by corporations acquired by us in 1999 and installed prior to May 15, 2000, were approved by the applicable courts in 1996, 1995 and 2000, respectively. We continue to have payment and other obligations related to the hardboard siding settlement, but have satisfied all of our obligations under the under the nationwide and Florida OSB siding settlements. Additional information regarding these matters is set forth in Note 18 of the Notes to the financial statements included in item 8 of this report.

On October 15, 2002, a jury returned a verdict of \$29.6 million against us in a Minnesota State Court action entitled *Lester Building Systems, a division of Butler Manufacturing Company, and Lester's of Minnesota, Inc., v. Louisiana-Pacific Corporation and Canton Lumber Company*. On December 13, 2002, the District of Oregon, which maintains jurisdiction over the nationwide OSB class action permanently enjoined the Minnesota state trial court from entering judgment against us with respect to \$11.2 million of the verdict that related to siding that was subject to the nationwide OSB siding settlement. Lester's had appealed this injunction to the Ninth Circuit Court of Appeals. Subsequently, on January 27, 2003, the Minnesota state trial court entered judgment against us in the amount of \$20.1 million, representing the verdict amount plus costs and interest less the enjoined amount. That judgment became final and we satisfied that judgment during the second quarter of 2004. The enjoined amount was not paid as part of that satisfaction of judgment because the injunction remains in place pending the appeal by Lester's. Based

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upon the information currently available, we believe that any further liability related to this case is remote and will not have a material adverse effect on our financial position, results of operations, cash flows or liquidity.

NATURE GUARD CEMENT SHAKES MATTERS

We are a defendant in a class action lawsuit, captioned as *Nature Guard Cement Roofing Shingle Cases*, that is pending in the Superior Court for Stanislaus County, California. The plaintiffs in this action are a class of persons owning structures on which Nature Guard Fiber Cement Shakes were installed as roofing. The complaint in this action asserts claims for breach of express and implied warranties, unfair business practices, and violation of the Consumer Legal Remedies Act and seeks general, compensatory, special and punitive damages, disgorgement of profits and the establishment of a fund to provide restitution to the purported class members.

We no longer manufacture or sell fiber cement shakes. The dollar amount of the referenced claims cannot presently be determined. The complaint in this action does not quantify the relief sought by the plaintiffs individually or on behalf of the class, discovery in this action has not been completed, no determination of liability has been made and no process for the submission of individual claims in connection with this action has been established. We believe that we have substantial defenses to this action and are unable to predict the potential financial impact of this action.

OTHER PROCEEDINGS

During the third quarter of 2004, we received a letter from a law firm purporting to represent more than 1,400 potential plaintiffs who allegedly experienced various personal injuries and property damages as a result of the alleged release of chemical substances from our wood treatment facility in Lockhart, Alabama during the period from 1953 to 1998. The letter is characterized as a "pre-litigation settlement demand" to us and Pactiv Corporation, from whom we acquired the facility in 1983. We intend to defend vigorously any legal proceedings that may be commenced against us by the potential plaintiffs. As of the date of this report, we and the potential plaintiffs have agreed to refrain from commencing any legal proceedings in respect of the potential plaintiffs' allegations and to the tolling of applicable statutes of limitations. These agreements are terminable by either party upon 30 days notice. We are not currently able to quantify its financial exposure, if any, relating to the matters alleged in the letter, and the potential plaintiffs have not specified the amount of compensation sought.

We are parties to other legal proceedings. Based on the information currently available, we believe that the resolution of such proceedings will not have a material adverse effect on our financial position, results of operations, cash flows or liquidity.

CONTINGENCY RESERVES

We maintain reserves for the estimated cost of the legal and environmental matters referred to above. However, as with any estimate, there is uncertainty of predicting the outcomes of claims and litigation and environmental investigations and remediation efforts that could cause actual costs to vary materially from current estimates. Due to various uncertainties, we cannot predict to what degree actual payments will exceed the recorded liabilities related to these matters. However, it is possible that, in either the near term or the longer term, revised estimates or actual payments will significantly exceed the recorded liabilities.

For information regarding our financial statement reserves for the estimated costs of the environmental and legal matters referred to above, see Note 18 of the Notes to financial statements included in item 8 in this report.

ITEM 4. Submission of Matters to a Vote of Security Holders

No matter was submitted to a vote of LP's security holders during the fourth quarter of 2004.

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PART II

ITEM 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuers Purchases of Equity Securities

The common stock of LP is listed on the New York Stock Exchange with the ticker symbol "LPX." The Dow-Jones newspaper quotations symbol for the common stock is "LaPac." Information regarding the high and low sales prices for the common stock for each quarter of the last two years is as follows:

HIGH AND LOW STOCK PRICES	1ST QTR	2ND QTR	3RD QTR	4TH QTR
2004 High	\$ 25.92	\$ 26.93	\$ 26.71	\$ 28.31
Low	17.96	21.25	21.05	23.34
2003 High	\$ 9.11	\$ 11.43	\$ 15.35	\$ 19.25
Low	7.10	7.88	10.80	13.70

As of March 7, 2005, there were approximately 11,661 holders of our common stock. We did not pay any dividends on our common stock in 2003. In February 2004, LP's Board of Director's reinstated a quarterly dividend. For the year ended December 31, 2004, LP paid cash dividends of \$0.30 per share.

The following table provides information regarding the Company's purchases of Common Stock during the fourth quarter of 2004:

	Total Number of Shares Purchased (thousands)	Average Price per Share (\$)	Number of Shares Purchased Under Program (thousands)	Open Authorization Remaining Shares (1) (millions)
October 1, 2004 - October 31, 2004	—		—	
November 1, 2004 - November 30, 2004	63	\$ 24.01	63	19,853
December 1, 2004 - December 31, 2004	—		—	—
Total:	<u>63</u>	<u>\$ 24.01</u>		

(1) On November 1, 2003, LP's Board of Directors authorized LP's management to purchase from time to time up to 20,000,000 shares of its outstanding stock in the open market or in privately negotiated transactions.

ITEM 6. Selected Financial Data

Dollar amounts in millions, except per share

Year ended December 31	2004	2003(2)	2002(1)	2001	2000
SUMMARY INCOME STATEMENT DATA					
Net sales	\$ 2,849.4	\$ 2,280.7	\$ 1,576.2	\$ 1,591.6	\$ 2,197.4
Income (loss) from continuing operations before cumulative effect of change in accounting principle	423.5	284.9	(3.8)	(128.8)	12.9
Income (loss) from discontinued operations	(2.8)	(12.5)	(54.4)	(42.8)	(26.7)
Net income (loss)	420.7	272.5	(62.0)	(171.6)	(13.8)
Income (loss) from continuing operations before cumulative effect of change in accounting principle per share—basic	\$ 3.91	\$ 2.70	\$ (0.03)	\$ (1.23)	\$ 0.12
Net income (loss) per share—basic	\$ 3.88	\$ 2.58	\$ (0.59)	\$ (1.64)	\$ (0.13)
Income (loss) from continuing operations before cumulative effect of change in accounting principle per share—diluted	\$ 3.87	\$ 2.68	\$ (0.03)	\$ (1.23)	\$ 0.12
Net income (loss) per share—diluted	\$ 3.84	\$ 2.56	\$ (0.59)	\$ (1.64)	\$ (0.13)
Average shares of common stock outstanding (millions)					
Basic	108.3	105.5	104.6	104.4	104.1
Diluted	109.6	106.5	104.6	104.4	104.1
SUMMARY BALANCE SHEET INFORMATION					
Total assets	\$ 3,450.6	\$ 3,204.4	\$ 2,780.0	\$ 3,014.0	\$ 3,374.7
Long-term debt, excluding current portion	\$ 622.5	\$ 1,020.7	\$ 1,077.0	\$ 1,152.0	\$ 1,183.8
Contingency reserves, excluding current portion	\$ 42.1	\$ 55.6	\$ 106.1	\$ 135.1	\$ 126.6
Stockholders' equity	\$ 1,767.8	\$ 1,310.9	\$ 1,006.2	\$ 1,080.9	\$ 1,295.2

1 As of January 1, 2002, LP adopted the Statement of Financial Accounting Standards (SFAS) No. 142, "Goodwill and Other Intangible Assets". See Note 1 of the Notes to the financial statements included in item 8 of this report for further information.

2 As of January 1, 2003, LP adopted SFAS No. 143, "Asset Retirement Obligations". See Note 1 of the Notes to the financial statements included in item 8 of this report for further information.

ITEM 7. Management's Discussion and Analysis

OVERVIEW

General

Our products are used primarily in new home construction, repair and remodeling, and manufactured housing. We also market and sell our products in light industrial and commercial construction, have a modest export business for some of our specialty building products, and operate a facility in Chile.

To serve these markets, we operate in three segments: Oriented Strand Board (OSB); Siding; and Engineered Wood Products (EWP). OSB is the most significant segment, accounting for 61% of continuing sales in 2004, 59% in 2003 and 47% in 2002.

In 2002 and 2003, we adopted and implemented a plan to sell selected businesses and assets in order to improve our operating results, reduce our debt and increase our financial flexibility. The plan involved divesting LP's U.S. plywood, industrial panel and lumber businesses, fee timber and timberlands, wholesale operations and distribution businesses. We believe that these divestitures, which had been substantially completed at December 31, 2003, enable us to focus our attention exclusively on our retained businesses, and to develop strategies to make them stronger through cost reductions, increased efficiencies and appropriate capacity expansions. Our retained businesses have several common characteristics that include significant scale in the categories in which they compete, strong growth potential in the future and competitive cost structures.

During 2004, we saw significant improvement in our operating results primarily driven by the continued strength of OSB pricing, as well as continued penetration in EWP and other market areas. Additionally, we continue to focus on improving efficiency and reducing our product costs.

Our most significant product, OSB, is sold as a commodity for which sales prices fluctuate daily based on market factors over which we have little or no control. We cannot predict whether the prices of our products will remain at current levels, increase or decrease in the future. During 2004, OSB prices reached record levels driven by product demand outstripping the industry's ability to supply the product during the peak building season. This imbalance was caused by increased housing starts, which created more demand, coupled with limited new capacity coming on line.

Factors Affecting Our Results

Revenues and Operating Costs.

We derive our revenues from sales of our products. The unit volumes of products sold and the prices at which sales are made determine the amount of our revenues. These volumes and prices are affected by the overall level of demand for, and supply of, products of the type we sell and comparable or substitute products, and by competitive conditions in our industry.

Our operating results reflect the relationship between the amount of our revenues and our costs of production and other operating costs and expenses. Our costs of production are affected by, among other factors, costs of raw materials (primarily wood fiber and various petroleum-based resins) and energy costs, which in turn are affected by the overall market supply of and demand for these manufacturing inputs. The Canadian dollar strengthened significantly against the U.S. dollar in 2004, causing our costs, as reported in U.S. dollars, to rise.

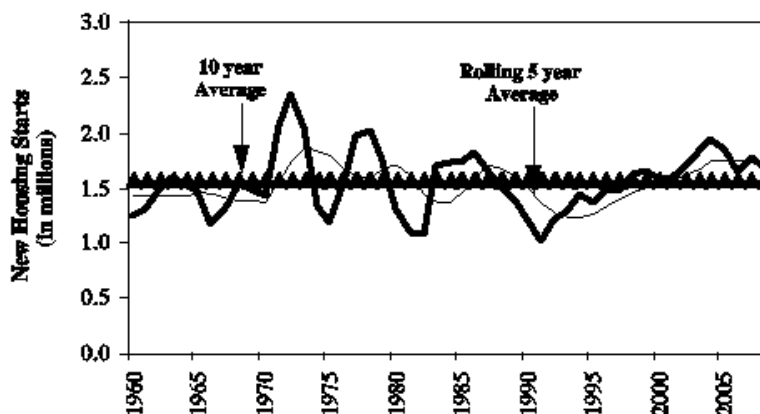
Demand for Building Products.

Demand for our products correlates to a significant degree to the level of residential construction activity in North America, which historically has been characterized by significant cyclicality. This activity

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can be further delineated into three areas: (1) new home construction; (2) repair and remodeling; and (3) manufactured housing.

New Home Construction. During the last three years, there has been significant housing activity driven by a combination of increased demand due to the demographics of the U.S. population and a very low interest rate environment. The chart below provides a graphical summary of new housing starts in the U.S. since 1960. Several conclusions can be drawn from this data. First, it is clear that the level of volatility in housing starts has moderated in recent years. We believe that this is largely due to the continued consolidation among the big homebuilders, shortage of construction laborers and more lengthy processes to obtain appropriate zoning. Second, the line of the chart that depicts a rolling five-year average housing starts clearly shows an upward trend in the number of homes being built.



Source: Resource International Systems, Inc. (RISI)

Repair and Remodeling. Demand for building materials to support home improvement projects is largely tied to the size and age of the existing housing stock in North America. As can be seen from the chart above, the 1970s and 1980s had some of the highest levels of building activity. This puts these homes at an age of 25-35 years, which has been shown to be consistent with the highest per home expenditure rate on repair and remodeling. With the rise in the number and scale of home improvement stores in North America, individuals now have ready and convenient access to obtain the building materials needed for repair and remodeling, as well as increased access to installation services. We believe that the growth rate over the last three years has been in the 4-6% range, and has been driven by increased store-to-store sales and the addition of new stores.

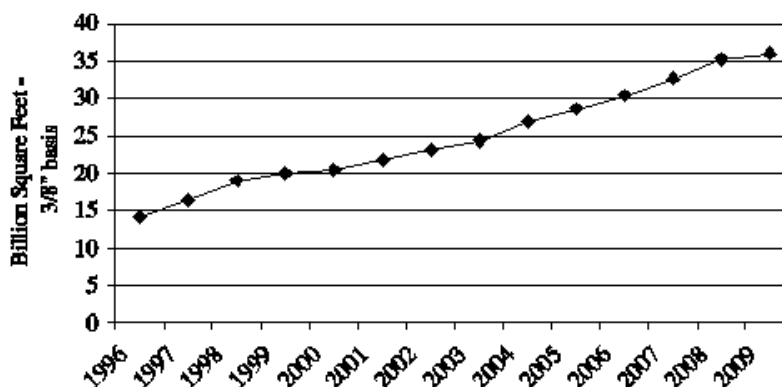
Manufactured Housing. While new home construction activity has been robust in the last three years, manufactured housing has suffered. There are several factors that have led to the decline in the number of manufactured housing units produced, including a lack of available financing, increased ability of potential customers to switch to site-built starter homes and financial difficulties at some of the larger manufactured housing producers.

Supply of Building Products.

OSB is a commodity product, and all of our products are subject to competition from manufacturers worldwide. Product supply is influenced primarily by fluctuations in available manufacturing capacity. According to Resource International Systems Inc. (RISI), an economic consulting firm, total North

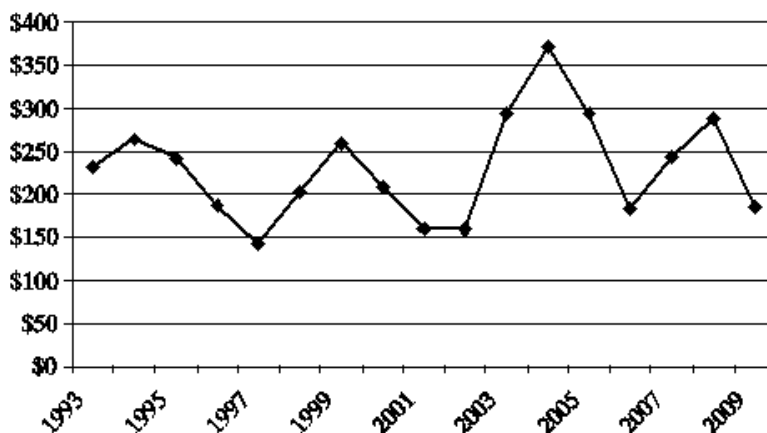
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American OSB annual production is projected to increase by approximately 7.5 billion square feet in the period from 2004 to 2007.



Product Pricing.

Historical prices for our products have been volatile, and we, like other participants in the building products industry, have limited influence over the timing and extent of price changes for our products. According to *Random Lengths*, an industry publication, the average North Central wholesale price for OSB (per thousand square feet ^{7/16} basis) for the last ten years is presented below. Additionally, according to RISI (as of February 2005), the forecast for average North Central wholesale price for OSB (per thousand square feet ^{7/16} basis) through 2009 is also included.



CRITICAL ACCOUNTING POLICIES

Presented in Note 1 of the Notes to financial statements in item 8 of this report is a discussion of our significant accounting policies. The discussion of each of the policies outlines the specific accounting treatment related to each of these accounting areas. While all of these are important to understand when reading our financial statements, there are several policies that we have adopted and implemented from among acceptable alternatives that could lead to different financial results had another policy been chosen:

Inventory valuation. We use the LIFO (last-in, first-out) method for some of our log inventories with the remaining inventories valued at FIFO (first-in, first-out) or average cost. Our inventories would have been approximately \$2.7 million higher if the LIFO inventories were valued at average cost as of December 31, 2004.

Property, plant and equipment. We principally use the units of production method of depreciation for machinery and equipment that amortizes the cost of machinery and equipment over the estimated units that will be produced during its estimated useful life.

Stock options. We have chosen to report our stock based compensation using the intrinsic value method prescribed by Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" under which no compensation cost for stock options is recognized for stock options granted at or above fair market value. As permitted, we apply only the disclosure provisions of Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-Based Compensation" which establishes a fair value approach to measuring compensation expense related to employee stock compensation plans. Had compensation expense for our stock-based compensation plans been determined based upon the fair value at the grant dates under those plans consistent with SFAS No. 123, our net income would have been lower or our net loss would have been greater. For 2004, had we recorded this compensation expense, our net income would have been lower by \$1.6 million. During 2004, the FASB issued SFAS No. 123R, which will require us to use the fair value method beginning in mid-2005.

SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS

Throughout the preparation of the financial statements, we employ significant judgments in the application of accounting principles and methods. These judgments are primarily related to the assumptions used to arrive at various estimates. For 2004, these significant accounting estimates and judgments include:

Legal Contingencies. Our estimates of our loss contingencies for legal proceedings are based on various judgments and assumptions regarding the potential resolution or disposition of the underlying claims and associated costs. In making judgments and assumptions regarding legal contingencies for ongoing class action settlement we consider, among other things, discernible trends in the rate of claims asserted and related damage estimates, information obtained through consultation with statisticians and economists, including statistical analyses of potential outcomes based on experience to date and the experience of third parties who have been subject to product-related claims judged to be comparable. Due to the numerous variables associated with these judgments and assumptions, both the precision and reliability of the resulting estimates of the related loss contingencies are subject to substantial uncertainties. We regularly monitor our estimated exposure to these contingencies and, as additional information becomes known, may change our estimates significantly.

Environmental Contingencies. Our estimates of our loss contingencies for environmental matters are also based on various judgments and assumptions. These estimates typically reflect judgments and assumptions relating to the probable nature, magnitude and timing of required investigation, remediation and/or monitoring activities and the probable cost of these activities, and in some cases reflect judgments and assumptions relating to the obligation or willingness and ability of third parties to bear a proportionate

or allocated share of the cost of these activities, including third parties who purchased assets from us subject to environmental liabilities. We consider the ability of third parties to pay their apportioned cost when developing our estimates. In making these judgments and assumptions related to the development of our loss contingencies, we consider, among other things, the activity to date at particular sites, information obtained through consultation with applicable regulatory authorities and third-party consultants and contractors and our historical experience at other sites that are judged to be comparable. Due to the numerous variables associated with these judgments and assumptions, and the effects of changes in governmental regulation and environmental technologies, both the precision and reliability of the resulting estimates of the related contingencies are subject to substantial uncertainties. We regularly monitor our estimated exposure to environmental loss contingencies and, as additional information becomes known, may change our estimates significantly. At December 31, 2004, we excluded from our estimates approximately \$6 million of potential environmental liabilities that we estimate will be allocated to third parties pursuant to existing and anticipated future cost sharing arrangements.

Impairment of Long-Lived Assets. We review the long-lived assets held and used by us (primarily property, plant and equipment and timber and timberlands) for impairment when events or changes in circumstances indicate that the carrying amount of assets may not be recoverable. Identifying these events and changes in circumstances, and assessing their impact on the appropriate valuation of the affected assets under accounting principles generally accepted in the U.S., requires us to make judgments, assumptions and estimates. In general, on assets held and used, impairments are recognized when the book values exceed our estimate of the undiscounted future net cash flows associated with the affected assets. The key assumptions in estimating these cash flows include future production volumes and pricing of commodity products and future estimates of expenses to be incurred. Our assumptions regarding pricing are based upon the average pricing over the commodity cycle (generally five years) due to the inherent volatility of commodity product pricing. These prices are estimated from information gathered from industry research firms, research reports published by investment analysts and other published forecasts. Our estimates of expenses are based upon our long-range internal planning models and our expectation that we will continue to reduce product costs that will offset inflationary impacts.

When impairment is indicated, the book values of the assets to be held and used are written down to their estimated fair value that is generally based upon discounted future cash flows. Assets to be disposed of are written down to their estimated fair value, less estimated sales costs. Consequently, a determination to dispose of particular assets can require us to estimate the net sales proceeds expected to be realized upon such disposition, which may be less than the estimated undiscounted future net cash flows associated with such assets prior to such determination, and thus require an impairment charge. In situations where we have experience in selling assets of a similar nature, we may estimate net sales proceeds on the basis of that experience. In other situations, we hire independent appraisers to estimate net sales proceeds. Due to the numerous variables associated with our judgments and assumptions relating to the valuation of assets in these circumstances, and the effects of changes in circumstances affecting these valuations, both the precision and reliability of the resulting estimates of the related impairment charges are subject to substantial uncertainties and, as additional information becomes known, we may change our estimates significantly.

Income Taxes. The determination of the provision for income taxes, and the resulting current and deferred tax assets and liabilities, involves significant management judgment, and is based upon information available to management at the time of such determination. The final income tax liability to any taxing jurisdiction with respect to any calendar year will ultimately be determined long after our financial statements have been published for that year. We maintain reserves for known estimated tax exposures in federal, state and international jurisdictions; however, actual results may differ materially from our estimates.

Judgment is also applied in determining whether deferred tax assets will be realized in full or in part. When we consider it to be more likely than not that all or some portion of a deferred tax asset will not be realized, a valuation allowance is established for the amount of the deferred tax asset that is estimated not to be realizable. As of December 31, 2004, we had established valuation allowances against certain deferred tax assets, primarily related to state net operating loss and credit carryovers and foreign capital loss carryovers. We have not established valuation allowances against other deferred tax assets based upon expected future taxable income and/or tax strategies planned to mitigate the risk of impairment of these assets. Accordingly, changes in facts or circumstances affecting the likelihood of realizing a deferred tax asset could result in the need to record additional valuation allowances.

Goodwill. Goodwill and other intangible assets that are deemed to have an indefinite life are no longer amortized. However, these indefinite life assets are tested for impairment on an annual basis, and otherwise when indicators of impairment are determined to exist, by applying a fair value based test. The process of evaluating the potential impairment of goodwill is highly subjective and requires significant judgments at many points during the analysis. In testing for potential impairment, the estimated fair value of the reporting unit, as determined based upon cash flow forecasts, is compared to the book value of the reporting unit. The key assumptions in estimating these cash flows include future production volumes and pricing of commodity products and future estimates of expenses to be incurred. Our assumptions regarding pricing are based upon the average pricing over the commodity cycle (generally five years) due to the inherent volatility of commodity product pricing. These prices are estimated from information gathered from industry research firms, research reports published by investment analysts and other published forecasts. Our estimates of expenses are based upon our long-range internal planning models and our expectation that we will reduce product costs that will offset inflationary impacts.

Due to the numerous variables associated with our judgments and assumptions relating to the valuation of assets in these circumstances, and the effects of changes in circumstances affecting these valuations, both the precision and reliability of the resulting estimates of the related impairment charges, if any, are subject to substantial uncertainties and, as additional information becomes known, we may change our estimates significantly.

Pension Plans. Most of our U.S. employees and many of our Canadian employees participate in defined benefit pension plans sponsored by LP. We account for the consequences of our sponsorship of these plans in accordance with accounting principles generally accepted in the U.S., which require us to make actuarial assumptions that are used to calculate the related assets, liabilities and expenses recorded in our financial statements. While we believe we have a reasonable basis for these assumptions, which include assumptions regarding long-term rates of return on plan assets, life expectancies, rates of increase in salary levels, rates at which future values should be discounted to determine present values and other matters, the amounts of our pension related assets, liabilities and expenses recorded in our financial statements would differ if we used other assumptions. See further discussion related to pension plans below under the heading "Defined Benefit Plans" and in Note 13 of the Notes to the financial statements included in item 8 of this report.

RESULTS OF OPERATIONS

We earned net income of \$420.7 million (\$3.84 per diluted share) in 2004, which was comprised of income from continuing operations of \$423.5 million (\$3.87 per diluted share) and a loss from discontinued operations of \$2.8 million (\$0.03 per diluted share). This compares to a net income of \$272.5 million (\$2.56 per diluted share) in 2003, which was comprised of income from continuing operations of \$284.9 million (\$2.68 per diluted share), a loss from discontinued operations of \$12.5 million (\$0.12 per diluted share) and a cumulative effect of a change in accounting principle of \$0.1 million. We lost \$62.0 million (\$0.59 per diluted share) in 2002 that was comprised of a loss from continuing operations of \$3.8

million (\$0.03 per diluted share), a loss from discontinued operations of \$54.4 million (\$0.53 per diluted share) and a cumulative effect of a change in accounting principle of \$3.8 million (\$0.03 per diluted share).

Sales in 2004 were \$2.8 billion, an increase of 25% from 2003 sales of \$2.3 billion. Sales in 2003 as compared to 2002 were higher by 45%.

Our results of operations for each of our segments are discussed below as our results of operations for the "other" category which is comprised of other product lines that are not individually significant. See Note 24 of the Notes to the financial statements included in item 8 of this report for further information regarding our segments.

OSB

Our OSB segment manufactures and distributes OSB structural panels.

Our strategy to continue to enhance our industry leading position in the OSB business involves: (1) increasing investment in our existing facilities in order to reduce costs and improve throughput and recovery by continuing to focus on efficiency; (2) improving net realizations relative to weighted-average OSB regional pricing; (3) leveraging our expertise in OSB to capitalize on new opportunities for revenue growth through new product lines; and (4) expanding capacity to meet growing OSB demand through internal growth at existing facilities, selected acquisitions that meet specific criteria and by building new, low-cost manufacturing facilities to serve particular markets.

OSB is manufactured through the use of wood strands arranged in layers and bonded with resins and wax. Significant cost inputs to produce OSB and approximate breakdown percentages include wood (36%), resin and wax (15%), labor and burden (15%), utilities (7%) and manufacturing and other (27%).

Segment profits and related depreciation, amortization and cost of timber harvested for this segment are as follows:

	Year ended December 31,			Increase (decrease)	
	2004	2003	2002	2004-2003	2003-2002
	(in millions)				
Sales	\$ 1,749.0	\$ 1,335.6	\$ 740.4	31%	80%
Operating profits	\$ 829.7	\$ 503.4	61.6	65%	717%
Depreciation, amortization and cost of timber harvested	\$ 94.0	\$ 78.4	\$ 75.7		

Percent changes in average sales prices and unit shipments for the year ended 2004 compared to 2003 and 2003 compared to 2002 are as follows:

	2004 versus 2003		2003 versus 2002	
	Average Net Selling Price	Unit Shipments	Average Net Selling Price	Unit Shipments
OSB	27%	3%	70%	7%

2004 compared to 2003

OSB prices increased during 2004 compared to 2003 due to strong market demand. Higher average selling prices accounted for substantial increases in net sales and operating profits of approximately \$350 million for the year ended December 31, 2004 compared to 2003. Increased demand coupled with limited additional industry capacity that has been put into service over the last year were largely responsible for this price increase.

Compared to prior year, the primary factor for increased operating profits was the higher average selling prices and volumes, which were partially offset by an increase in operating costs for the year. The increase in operating costs at the mills was primarily due to higher wood, resin and energy costs. Additionally, because of the strengthening Canadian dollar, operating costs at our Canadian OSB mills were negatively affected when Canadian dollar denominated costs were translated into US dollars.

2003 compared to 2002

OSB prices increased significantly during 2003 compared to 2002 due to strong market demand and a shortage of available product in the second half of the year. An important factor in 2003 was the weather. In the spring, unusually poor weather conditions in much of the U.S. delayed the start of the building season. Additionally, these conditions limited logging activities in many regions with the result that several producers had to curtail operations of their structural panel facilities due to log outages. The result of these factors was increased demand within a shorted time span when inventories were low and industry capacity was limited. During 2003, all of our OSB mills were operating including our Woodland, Maine mill that was acquired through an exchange in September 2002.

While the profitability of our OSB segment did increase significantly due to higher sales prices in 2003, both the industry and us generally experienced increases in cost of sales. As mentioned above, weather conditions limited logging activity that had the effect of increasing the cost of available logs. Other cost increases were related to petroleum-based raw materials (resins) and energy. Finally, because of the strengthening of the Canadian dollar against the U.S. dollar, the operating results of our Canadian OSB mills were negatively affected because the input costs were in Canadian dollars and the majority of the sales were in U.S. dollars.

Siding

Our siding segment produces and markets siding (both wood and vinyl based) and related accessories, interior hardboard products and specialty OSB products.

Our siding segment is following a strategy based upon multiple product offerings to be the "one stop" supplier of choice for most segments of these markets: new home construction, repair and remodeling, and manufactured housing markets. We believe that we are the leading wood composite exterior cladding producer in North America. We manufacture exterior siding and other cladding products for the residential and commercial building markets. Additionally, we are seeking to optimize our current capacity by extending the hardboard lifecycle through innovative new products and features.

Our strategy is to drive product innovation by utilizing our technological expertise in wood, wood composites and plastics to better address the needs of our customers. We intend to increase our product offerings and production capacity of higher margin, value-added products through the addition of lower cost plants or the conversion of OSB plants from commodity structural panel production to OSB-based exterior siding products.

Segment profits and related depreciation, amortization and cost of timber harvested for this segment are as follows:

Year ended December 31,	2004	2003	2002	Increase (decrease)	
				2004-2003	2003-2002
	(in millions)				
Sales	\$ 554.1	\$ 523.9	\$ 430.9	6%	22%
Operating profits	\$ 54.2	\$ 61.0	\$ 44.5	-11%	37%
Depreciation, amortization and cost of timber harvested	\$ 18.9	\$ 18.7	\$ 18.6		

Sales in this segment are broken down as follows:

Year ended December 31,	2004	2003	2002
	(in millions)		
OSB-based exterior products (includes commodity OSB)	\$ 260.5	\$ 261.7	\$ 191.9
Vinyl siding	123.4	116.4	96.6
Hardboard siding	170.2	145.8	142.4
Total	\$ 554.1	\$ 523.9	\$ 430.9

Percent changes in average sales prices and unit shipments for the year ended 2004 compared to 2003 and 2003 compared to 2002 are as follows:

	2004 versus 2003		2003 versus 2002	
	Average Net Selling Price	Unit Shipments	Average Net Selling Price	Unit Shipments
OSB-based exterior products	5%	21%	1%	11%
Commodity OSB	27%	-80%	70%	22%
Vinyl siding	6%	-%	6%	13%
Hardboard siding	8%	7%	8%	-3%

2004 compared to 2003

Sales volume continued to increase over the prior year in our OSB-based exterior products due to continued market penetration and brand awareness. Volumes also increased in our hardboard siding and doorskin business due to the addition of several new customers as one of our competitors exited the business. Sales volumes in our vinyl business remained flat. Sales prices in the OSB-based exterior products, hardboard and vinyl siding businesses showed increases in price due to both changes in product mix as well as general price increases implemented to help offset higher raw material costs in all of these lines of business.

During the three-year period ended December 31, 2004, one of our specialty OSB facilities (Silsbee, Texas) also produced commodity OSB. The commodity OSB volume declined significantly in 2004 as market demand for OSB-based exterior products increased. See the discussion of our OSB segment above for a discussion of changes in commodity OSB pricing.

Overall, the decline in 2004 operating results for our siding segment compared to 2003 was primarily due to the reduction in commodity OSB sales and profits, which were sold at a higher margin than our OSB-based exterior products during this period and increases in operating costs, (including higher wood fiber, resin and energy costs) not offset by price increases.

2003 compared to 2002

Sales volume in 2003 increased over 2002 in our OSB-based exterior products and vinyl siding due to increased market penetration and brand awareness. Sales prices in the OSB-based exterior products remained relatively flat with the comparable period. Volumes in our hardboard siding and doorskin business declined due to reduced demand in one of our key markets and slackening demand elsewhere. Sales prices in our hardboard business increased over 2002 due to a higher mix of hardboard siding versus doorskins. In our vinyl siding business, sales prices increased in 2003 over 2002 due partially to an increase in sales volumes for our premium siding product (56% increase for the year) that "richened" the mix. Additionally, we implemented a general price increase to offset a portion of the increased cost of the primary raw material.

Overall, the improvement in 2003 operating results for our siding segment compared to 2002 was primarily due to the significant increase in commodity OSB pricing, which was slightly offset by increases in operating costs, including higher wood fiber, resin and energy costs. During 2003 as compared to 2002, volumes of commodity OSB increased due to productivity improvements.

Engineered Wood Products

Our engineered wood products (EWP) segment manufactures and distributes laminated veneer lumber (LVL), I-joists and other related products.

Our strategy is to strengthen our brand name recognition in the EWP industry by enhancing our product mix and quality, providing superior technical support for our customers and leveraging our sales and marketing relationships to cross-sell our EWP products. Additionally, we are seeking to drive costs down by rationalizing production capacity across geographic areas and improving operating efficiencies in our manufacturing facilities.

Segment profits (losses) and related depreciation, amortization and cost of timber harvested for this segment are as follows:

Year ended December 31,	2004	2003	2002	Increase (decrease)	
	(in millions)			2004-2003	2003-2002
Sales	\$ 394.7	\$ 290.6	\$ 225.7	36%	29%
Operating profits	7.2	\$ (1.5)	\$ 7.3	580%	-121%
Depreciation, amortization and cost of timber harvested	\$ 15.1	\$ 13.5	\$ 12.6		

Sales in this segment are broken down as follows:

Year ended December 31,	2004	2003	2002
	(in millions)		
LVL	\$ 164.7	\$ 115.2	\$ 82.4
I-joist	174.7	134.2	109.9
Plywood	28.7	18.1	13.7
Related products	26.6	23.1	19.7
Total	\$ 394.7	\$ 290.6	\$ 225.7

Percent changes in average sales prices and unit shipments for the year ended 2004 compared to 2003 and 2003 compared to 2002 are as follows:

	2004 versus 2003		2003 versus 2002	
	Average Net Selling Price	Unit Shipments	Average Net Selling Price	Unit Shipments

LVL	12%	27%	-1%	43%
I-joist	13%	15%	1%	21%

2004 compared to 2003

During 2004, we continued to grow our engineered wood products segment. We saw significant growth in both LVL and I-joist with the addition of several new distributors and expanded our presence with large production builders. During the later half of 2004, we implemented several significant price increases to offset the increased raw material costs. Our focus continues to be on reductions in conversion costs, better geographic manufacturing and distribution, and maintaining customer relationships. Included in this segment is a plywood mill, which primarily produces plywood as a by-product from the LVL production process. Given the significant price increase in plywood (which typically follows OSB) we operated this facility at higher levels during 2004.

The results of operations of our EWP segment improved primarily due to significant price increases which were necessary to mitigate increases in raw material costs (primarily veneer, OSB and lumber).

2003 compared to 2002

During 2003, we continued to grow our engineered wood products segment. We saw significant growth in both LVL and I-joist with the addition of several new distributors and expanded presence with large production builders. Sales prices were relatively flat with 2002 with a small decline in LVL prices and a small increase in I-joist prices.

The results of operations of our EWP segment declined primarily due to increases in raw material costs (primarily veneer, OSB and lumber) and operating costs, as well as the impact of the strengthening Canadian dollar on the Canadian dollar denominated operating costs of our EWP facilities in British Columbia.

Other Products

Our other products category includes our moulding, composite decking business and Chilean operations which are not individually material. Additionally, this category includes our former OSB operation in Ireland (which we sold in April 2002), timber and timberlands not associated with other segments or businesses to be divested, pulp and other minor products and services and other operations closed prior to January 1, 2002. Mills that were closed prior to January 1, 2002 that are included in the businesses that we are divesting are included in the "Other Products" category.

Profits (losses) for this category and related depreciation, amortization and cost of timber harvested for this category are as follows:

Year ended December 31,	2004	2003	2002	Increase (decrease)	
				2004-2003	2003-2002
		(in millions)			
Sales	\$ 161.6	\$ 164.1	\$ 198.1	-2%	-17%
Operating profits (losses)	\$ 14.7	\$ 9.7	\$ 13.8	52%	-30%
Depreciation, amortization and cost of timber harvested	\$ 7.4	\$ 10.7	\$ 18.4		

Sales in this category are broken down as follows:

Year ended December 31,	2004	2003	2002
Mouldings	\$ 42.2	\$ 38.6	\$ 37.8
Chilean operation	26.5	15.7	11.5
Decking	67.1	41.4	17.6
Other	25.8	68.4	131.2
Total	<u>\$ 161.6</u>	<u>\$ 164.1</u>	<u>\$ 198.1</u>

For decking and moulding, percent changes in average sales prices and unit shipments for the year ended 2004 compared to 2003 and 2003 compared to 2002 are as follows:

	2004 versus 2003		2003 versus 2002	
	Average Net Selling Price	Unit Shipments	Average Net Selling Price	Unit Shipments
Moulding	6%	4%	-1%	2%
Decking	6%	58%	32%	58%

2004 compared to 2003

During 2004, we continued to grow our moulding, decking and Chilean businesses while our other businesses in this category all showed a decline. In our mouldings product line, we continued to see increases in both unit shipments and sales prices due to continued strength in retail activity in home centers. In our composite decking business, we saw increased volumes as a result of continued marketing efforts to gain new customers as well as increased production due to capital expansion at one of our facilities. In our Chilean operation, we continued to see increased sales due to both increases in commodity OSB pricing as well as increased volumes through increased acceptance of OSB in the local markets. The declines in our other businesses are primarily due to the reduction in sales primarily attributable to the divestiture of most of our lumber facilities thus reducing the sales through VMI and reload locations. Additionally, sales of logs sold to third parties from our timberlands or related timber contracts declined significantly with the sale of our remaining fee timberlands in October of 2003. Overall, the results of this category improved due to the improved profitability of our moulding and decking businesses.

2003 compared to 2002

During 2003, our mouldings product line, we saw a slight increase in unit shipments due to increased retail activity in the home centers; however sales prices declined slightly due to competitive pricing pressure. In our composite decking business sales prices increased significantly as a result of a general price increase instituted as of January 1, 2003 for all our decking products. Additionally, our sales and production volumes increased significantly as a result of continued marketing efforts to gain new customers that allowed us to run both of our decking facilities in 2003, while our Meridian plant was shut down for a portion of 2002. In our Chilean operation, we saw increased sales volume due to improved productivity and increases in commodity OSB pricing (see OSB pricing discussion in the OSB segment). Offsetting this, was a reduction in sales attributable to the divestiture, contribution or closure of mills as well as lower lumber sales through VMI and reloads due to these divestitures. Overall, the results of this category declined from 2002 due to the significantly lower lumber sales as well as reduced log sales as we completed the divestiture of our fee timberlands.

GENERAL CORPORATE AND OTHER EXPENSE, NET

Net general corporate expense was \$104 million in 2004 as compared to \$102 million in 2003 and \$81 million in 2002. General corporate and other expenses primarily consist of corporate overhead such as

wages and benefits for corporate personnel, professional fees, insurance, non-product specific marketing and other expenses. The increase in 2004 as compared to 2003 was primarily related to higher stock compensation expenses due to meeting vesting acceleration targets for some awards, higher management bonuses due to improved operating results, and costs associated with compliance, notably Sarbanes-Oxley implementation. The increase in 2003 as compared to 2002 was primarily attributed to increased expense associated with triggering vesting accelerators and meeting performance targets on several stock compensation programs (see discussion at Note 14 of the notes to the financial statements included in item 8 of this report), management compensation bonuses tied to significantly improved financial performance as well as increases in legal, professional fees and insurance.

OTHER OPERATING CREDITS AND CHARGES, NET

For a discussion of other operating credits and charges, net, refer to Notes 1 and 16 of the Notes to the financial statements included in item 8 of this report.

GAIN (LOSS) ON SALES OF AND IMPAIRMENTS OF LONG-LIVED ASSETS

For a discussion of gain (loss) on sales of and impairments of long-lived assets, refer to Notes 1 and 17 of the Notes to the financial statements included in item 8 of this report

INTEREST, NET

In 2004, 2003 and 2002, net interest expense was \$19.7 million, \$54.6 million and \$63.0 million. The decline in net interest expense in 2004 as compared to 2003 and 2003 compared to 2002 was due to significantly higher cash balances as well as lower outstanding debt.

EQUITY IN EARNINGS OF UNCONSOLIDATED AFFILIATES

Over the last three years, we have entered into several joint venture arrangements. These include: (1) a joint venture with Casella Waste Management Systems, Inc. to produce cellulose insulation; (2) a joint venture with Canfor Corporation to construct and operate an OSB mill in British Columbia; and (3) a joint venture with Abitibi-Consolidated to construct and operate an I-joist facilities in Quebec. The joint venture with Canfor had not commenced operations as of December 31, 2004.

In August 2000, together with Casella Waste Management Systems, Inc., we each contributed most of the assets of our respective cellulose insulation operations to a joint venture, U.S. GreenFiber, LLC (GreenFiber). Pursuant to the Limited Liability Company Agreement, each company owns 50% of GreenFiber. GreenFiber elected to be treated as a partnership for income tax purposes and therefore the entity is not taxed directly. GreenFiber's operations improved significantly in 2004 and 2003 due to lower raw material costs and increased market penetration.

In November 2002, we sold some of our I-joist manufacturing equipment to our joint venture with Abitibi-Consolidated to construct and operate an I-joist facility in Eastern Canada. Pursuant to the joint venture agreement, each company owns 50% of the venture. During 2003, this venture commenced operations. The operating results of this venture improved in 2004. In 2004, we initiated the construction of a second I-joist facility with Abitibi-Consolidated that at December 31, 2004 had not commenced operations.

DISCONTINUED OPERATIONS

Included in discontinued operations for 2004, 2003 and 2002 are the results of the operations of mills that have been or are anticipated to be divested under our divestiture plan. These operations include our

U.S. plywood, lumber and industrial panels mills, wholesale operations and distribution centers. The results of operations for these locations are as follows:

Year ended December 31,	2004	2003 (in millions)	2002	Increase (decrease)	
				2004 - 2003	2003 - 2002
Sales	\$144.9	\$351.9	\$691.9	(59)%	(49)%
Operating profits (losses)	\$ (4.6)	\$ (20.6)	\$ (88.7)	78%	77%

2004 compared to 2003

Overall, sales for these operations declined significantly in 2004 as compared to 2003. This decline is primarily related to timing on the sale, transfer or permanent closure of locations. During 2004, we sold two lumber mills, and two related interior industrial panel facilities.

Included in the operating losses of discontinued operations for 2004, we recorded impairment charges of \$9.9 million to reduce the carrying values of these assets to their estimated fair value less estimated cost to sell; a loss of \$2.3 million associated with the settlement of an existing liability related to an operating lease on one of our facilities and a gain of \$1.2 million on long-term timber contracts associated with our divested facilities. Additionally, we recorded a loss of \$3.8 million on the sale of these assets including two related industrial panel facilities and an interior industrial panel facility. We recognized a \$3.7 million gain associated with the liquidation of certain LIFO inventories due to reduced log and lumber inventories at sites sold or closed.

2003 compared to 2002

Overall, sales for these operations declined significantly in 2003 as compared to 2002. This decline is primarily related to timing on the sale, transfer or permanent closure of locations as well as lower sales prices for these commodity products, primarily lumber. During 2003, we sold six lumber mills, a veneer facility and an industrial panel facility.

Included in the operating losses of discontinued operations for 2003, we recorded impairment charges of \$27.9 million to reduce the carrying values of these assets to their estimated fair value less estimated cost to sell; a loss of \$2.5 million related to severance costs associated with these facilities; a loss of \$2.5 million associated with a curtailment of a defined benefit pension plan as a result of expected divestitures; a loss of \$15.0 million associated with an operating lease on one of our facilities and a loss of \$0.9 million on long-term timber contracts associated with two of our divested facilities. Additionally, we recorded a gain of \$8.4 million on the sale of these assets including an industrial panel facility, a veneer facility and six lumber mills. We recognized a \$30 million gain associated with the liquidation of certain LIFO inventories due to reduced log and lumber inventories at sites sold or closed.

INCOME TAXES

In total, we recorded a tax provision of \$277.9 million in 2004, \$225.8 million in 2003 and a tax benefit of \$21.5 million in 2002. Our effective tax rate was 40 percent for 2004; 45 percent for 2003 and (26) percent for 2002. These rates are affected primarily by state income taxes, the effects of foreign exchange gains, and revisions to estimates recorded in prior years. We have paid approximately \$184 million in cash taxes for 2004 and expect a refund of \$29 million for 2004.

DEFINED BENEFIT PENSION PLANS

We maintain several qualified and non-qualified defined benefit pension plans in the U.S. and Canada that cover a substantial portion of our employees. We account for all of these plans and provide aggregated disclosures about these plans in the Notes to our financial statements as required by SFAS No. 87

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“Employers’ Accounting for Pensions”, SFAS No. 88 “Employers’ Accounting and Settlement and Curtailments of Defined Benefit Plans and for Termination Benefits” and SFAS No. 132 “Employers’ Disclosures about Pensions and Other Post Retirement Benefits (revised 2003)”. See Note 13 of the Notes to the financial statements included in item 8 of this report. We estimate that our defined benefit pension expense for 2005 will be approximately \$14 million. That estimate assumes that we have no curtailment or settlement expenses in 2005. If a curtailment or settlement does occur in 2005, this estimate may change significantly. We estimate that we will contribute approximately \$15 million to \$20 million to these plans in 2005. At December 31, 2004, we have an unrecognized loss of \$93 million associated with our defined benefit pension plans. The amortization of this unrecognized loss will account for approximately 48% of our 2005 pension expense.

The calculation of defined benefit pension plan expense is based on numerous actuarial assumptions. Our pension expense is most sensitive to changes in our assumptions regarding the long-term rate of return on assets and the discount rate.

For our U.S. plans, which account for more than 85% of the total assets of our defined benefit plans, we used a long-term rate of return assumption of 8.0% to calculate the 2004 pension expense. This assumption is based on information supplied by our investment advisors for our U.S. plans based on the expected returns on the portfolio of assets in those plans. We will continue to monitor the expected long-term rate of return of our pension plan investments and adjust our assumed rate of return as necessary. We recently added real return and absolute return investments to the portfolio and expect to add real estate investments in the near future. Additionally, to reduce the impact of market value fluctuations on the pension expense, we use an asset smoothing method that recognizes annual investment gains and losses over four years. A change of 0.5% in the long-term rate of return assumption would change our 2005 estimated pension expense by approximately \$1.0 million.

For our U.S. plans, we used a discount rate assumption of 5.5% at October 31, 2004, which is our measurement date. This rate is intended to reflect the rates at which the obligations could be effectively settled at that date. We use corporate bond yields published by a recognized financial institution as an indicator of potential settlement rates. More than 85% of our total benefit obligations are related to our U.S. pension plans. The rate from the October 31, 2003 measurement date of 6.0% was used in the determination of the 2004 pension expense. A change of 0.5% in the discount rate assumption would change our 2005 estimated pension expense by approximately \$1.3 million.

LEGAL AND ENVIRONMENTAL MATTERS

For a discussion of legal and environmental matters involving us and the potential impact thereof on our financial position, results of operations and cash flows, see Item 3 in this report as well as Note 18 in the Notes to the financial statements included in item 8 of this report.

Hardboard Siding Litigation Update

The following discussion updates should be read in conjunction with the discussion of our hardboard siding litigation set forth in Note 18 in the Notes to the financial statements included in item 8 of this report.

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Cumulative statistics as of December 31, 2004, 2003 and 2002 under hardboard settlements are as follows:

	<u>December 31, 2004</u>	<u>December 31, 2003</u>	<u>December 31, 2002</u>
Requests for claims	39,300	31,700	25,600
Completed claims received	24,400	18,800	13,200
Completed claims pending	2,600	2,700	2,000
Claims dismissed	6,600	5,300	3,900
Claims settled	15,200	10,800	7,300

The average payment amount for settled claims as of December 31, 2004, 2003 and 2002 was approximately \$1,300, \$1,400 and \$1,500. Dismissal of claims is typically the result of claims for product not produced by LP or claims that lack sufficient information or documentation after repeated efforts to correct those deficiencies.

LIQUIDITY AND CAPITAL RESOURCES

Overview

Our principal sources of liquidity are existing cash and investment balances (including cash and cash equivalents, short-term and long-term investments), cash generated by our operations and our ability to borrow under credit facilities. During 2003, we sold significant assets pursuant to a divestiture plan that had been substantially completed at December 31, 2003. We may also from time to time issue and sell equity or debt securities or engage in other capital market transactions.

Our principal uses of liquidity are paying the costs and expenses associated with our operations, servicing outstanding indebtedness, making capital expenditures and paying dividends to our stockholders. We may also from time to time prepay or repurchase outstanding indebtedness, repurchase shares of our common stock and acquire assets or businesses that are complementary to our operations.

During 2004, we increased our cash position through operations. We expect to be able to meet the future cash requirements of our existing businesses through existing cash balances (including short-term and long-term investments and restricted cash) of approximately \$1.2 billion, existing credit facilities that could provide additional liquidity of up to \$250 million and cash expected to be generated from operations. The following discussion provides further details of our liquidity and capital resources.

Operating Activities

During 2004, we generated \$602 million from operating activities compared to \$509 million in 2003. The increase in cash provided by operations in 2004 was primarily a result of continued improved operating results in our OSB business.

During 2003, we generated \$509 million from operating activities compared to \$89 million in 2002. The increase in cash provided by operations in 2003 was primarily a result of improved operating results in our OSB business.

We paid out \$50 million in 2004 and \$52 million in each of 2003 and 2002 related to litigation settlements.

Investing Activities

During 2004, we used \$774 million in cash in investing activities as compared to cash provided by investing activities of \$443 million in 2003. The use of cash in 2004 consisted of the purchase of short-term and long-term marketable security investments of \$638 million, net of sales. Additionally, we invested \$148 million in capital expenditures for property, plant and equipment, which were primarily used for capital

projects to reduce production costs in certain OSB facilities and expand our composite decking capacities. We also invested \$32 million to fund capital for our joint venture in British Columbia to build an OSB mill. Additionally, we received \$40 million from the sale of various assets including the sales of three lumber mills and two related industrial hardboard facilities.

During 2003, we generated \$443 million in cash from investing activities which primarily consisted of the sale of our timber and timberlands. The cash associated with asset sales in 2003 was \$129 million which is comprised of \$85 million on the sale of timber and timberlands and \$44 million on the sale of various other assets and six lumber mills, a veneer and an industry panel facility. Additionally, we received \$366 million as a return of capital from an unconsolidated subsidiary (see Note 12 of the notes to the financial statements included in item 8 of this report and "Off Balance Sheet and Other Financing Arrangements" below) in connection with the timber sales transactions. Capital expenditures for property, plant and equipment increased for 2003 to \$87 million and were primarily used for capital projects to reduce production costs in certain OSB facilities and to fund capital for our joint venture in Eastern Canada. Additionally, as explained below in 2003, we converted our secured line of credit facility to a cash collateralized letter of credit facility. As a result of this conversion, we no longer were required to deposit the net proceeds of our asset sales into a restricted cash account and therefore reclassified this cash as unrestricted cash.

During 2002, we generated \$72 million from investing activities. The cash associated with asset sales in 2002 was \$149 million, which is comprised of \$103 million on the sale of timber and timberlands and \$46 million on the sale of various other assets and facilities (sale of an OSB mill located in Ireland, several distribution centers, two industrial panels facilities and several non-operating facilities and other equipment). Capital expenditures for property, plant and equipment were \$42 million in 2002 and were primarily for the purchase and installation of capital equipment at existing mills.

Capital expenditures in 2005 are expected to be about \$170 million on projects to reduce our energy, raw materials and resin costs in our current OSB mills as well as expansion projects in our decking and siding operations. Additionally, we expect to invest \$60 million in our JV project with Canfor Corporation to complete construction of an OSB mill in British Columbia, Canada.

Financing Activities

In 2004, net cash used in financing activities was \$216 million as compared to \$165 million in 2003. In 2004, we repaid \$6 million under our revolving credit facility associated with our Chilean operations and \$260 million of our long-term debt. These long-term debt payments included a premium on the early extinguishment of senior and subordinated notes of approximately \$42 million. Additionally, we generated \$41 million in proceeds from the sale of common stock under our various equity compensation plans and paid cash dividends of \$33 million. Additionally, we reduced our restricted cash associated with secured letters of credit by \$45 million.

In 2003, we reduced our borrowing under our secured revolving credit facility by \$32 million and repaid \$53 million in other long-term debt. Additionally, we generated \$19 million in proceeds from the sale of common stock under our various equity compensation plans. During 2003, we converted our secured revolving credit facility into a secured letter of credit facility. Benefits from the conversion included the elimination of \$187 million of unneeded committed borrowing capacity (and the obligation to pay related fees), a \$37 million reduction in cash collateral and a more favorable rate for letters of credit (which are cash collateralized under the facility).

In 2002, net cash used in financing activities was \$85 million. In 2002, we reduced our borrowings under our revolving line of credit by \$40 million and repaid \$33 million in long-term debt.

Financing Obligations

During 2004, we entered into a new five-year revolving credit facility and terminated our former secured letter of credit facility. The new facility, which will expire in September 2009, provides for committed borrowing capacity of \$150 million. Subject to the willingness of existing or new lenders under the credit facility to advance additional funds, we may increase our borrowing capacity under the facility by up to an additional \$100 million. The facility allows us to cash collateralize the facility, at our option, in order to lower the cost of such borrowings. At December 31, 2004, we had no borrowings outstanding under the facility. Letters of credit issued and outstanding totaled approximately \$59 million as December 31, 2004 and were cash collateralized with \$62 million.

We also have a \$10 million (Canadian) revolving credit facility under which \$3 million of letters of credit were outstanding at December 31, 2004. This facility matures in September 2005, and letters of credit can extend up to September 2006. This facility requires LP to pledge, as security for its reimbursement obligations under the facility, cash collateral in an amount equal to 105% of the face amount of the letters of credit outstanding under the facility at any time.

Additionally, we have an accounts receivable securitization facility which, as extended in October 2004, will expire in November 2007. The facility provides for maximum borrowings of up to of \$100 million. The maximum available to be borrowed under this facility changes based upon the amount of eligible receivables, as defined, concentration of eligible receivables and other factors. Additionally, the facility contains a provision under which specified downgrades of our long-term unsecured senior debt rating could cause an amortization event under this facility. At December 31, 2004, we had no borrowings outstanding under this facility.

The indenture under which our senior subordinated notes were issued restricts our ability and our restricted subsidiaries (as defined in the indenture) to, among other things: (1) incur debt; (2) incur liens; (3) make acquisitions; (4) make investments, including loans and advances; (5) engage in mergers, consolidations or sales of assets; (6) enter into sale and leaseback transactions; (7) engage in transactions with affiliates; and (8) pay dividends or engage in stock redemptions. In particular, this indenture restricts our ability to incur debt unless we have a pro forma fixed charge coverage ratio (calculated as provided in the indenture) of at least 2.00 to 1.00 (although we are permitted to incur specific types and amounts of debt without satisfying this fixed charge coverage ratio). The indenture also restricts or limits our ability to make investments, including investing our cash balances, and other restricted payments (although we are permitted to make specific types and amounts of investments and other payments without restriction). In connection with our repurchase of a majority of these notes, substantially all of the restrictive covenants contained in the indenture are suspended so long we maintain a credit rating of BB- or above with S&P and Ba3 or above with Moody's, which suspension will become permanent if such credit ratings are maintained for twelve consecutive months from March 25, 2004. See the table below for current debt ratings.

The following details our current debt ratings as of March 1, 2005:

	<u>Moody's Investor Service</u>	<u>Standard & Poor's</u>
Senior Notes	Baa3	BBB-

As of December 31, 2004, we were in compliance with all of the covenants contained in the indentures.

Contingency reserves, which represent an estimate of future cash needs for various contingencies (principally, payments for siding litigation settlements), totaled \$54 million at December 31, 2004, of which \$12 million is estimated to be payable within one year. As with all accounting estimates, there is inherent uncertainty concerning the reliability and precision of such estimates. As described above and in Note 18

of the Notes to the financial statements included in item 8 of this report, the amounts ultimately paid in resolving these contingencies could exceed the current reserves by a material amount.

The table below summarizes our contractual obligations as of December 31, 2004 over the next several years. See discussion above concerning provisions that could accelerate the due dates on our long-term debt.

Contractual obligations	Payments due by period				
	2005	2006	2007	2008	2009
	Dollars amounts in millions				
Long-term debt(1)	\$ 233.4	\$ 114.5	\$ 42.1	\$ 113.1	\$ 63.7
Operating leases	6.9	6.4	5.6	5.2	5.2
Purchase obligations(2)	23.7	6.3	5.8	5.9	5.4
Other long-term obligations(3)	83.9	15.3	16.6	17.7	18.7
Total contractual cash obligations	\$ 347.9	\$ 142.5	\$ 70.1	\$ 141.9	\$ 93.0

- (1) Includes expected interest payments as well as debt maturities.
- (2) The majority of our purchase obligations are take-or-pay contracts made in the ordinary course of business related to raw materials and utility contracts. Other significant items included in the above table reflect purchase obligations related to legally binding commitments for capital projects and our investment in our joint venture with Canfor. Purchase orders made in the ordinary course of business are excluded from the above table and are cancelable without significant penalty.
- (3) Represents other long-term liability amounts reflected in our consolidated balance sheet that have known payment streams including items such as pension contributions.

Off-balance sheet and other financing arrangements

In connection with the sale of southern timber and timberlands, we received \$26 million in cash and \$410 million in notes receivable from the purchasers of such timber and timberlands. In order to borrow funds in a cost-effective manner: (i) the notes receivable were contributed by us to a Qualified Special Purpose Entity (QSPE) as defined under SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," (ii) the QSPE issued to unrelated third parties bonds supported by a bank letter of credit and the QSPE's reimbursement obligations which are secured by the notes receivable, and (iii) the QSPE distributed to LP, as a return of capital, substantially all of the proceeds realized by the QSPE from the issuance of its bonds. The QSPE has no sources of liquidity other than the notes receivable. Generally the cash flow generated by the notes receivable will be dedicated to the payment of the bonds issued by the QSPE, and the QSPE's creditors generally will have no recourse to us for the QSPE's obligations (subject to the limited exception described below).

Pursuant to the arrangement described above, during 2003, we contributed the \$410.0 million of the notes receivable to the QSPE, the QSPE issued \$368.7 million of its bonds to unrelated third parties and distributed \$365.8 million to LP as a return of capital.

The principal amount of the QSPE's borrowings is approximately 90% of the principal amount of the notes receivable contributed by LP to the QSPE. Our retained interest in the excess of the notes receivable contributed to the unconsolidated subsidiary over the amount of capital distributed by the unconsolidated subsidiary, in the form of an investment in the QSPE, represented \$44.5 million of the "Investments in and advances to affiliates" reflected on our consolidated balance sheet as of December 31, 2004.

In accordance with SFAS No. 140, the QSPE is not included in our consolidated financial statements and the assets and liabilities of the QSPE are not reflected on our consolidated balance sheet. The QSPE's assets have been removed from our control and are not available to satisfy claims of our creditors (except to the extent of our retained interest, if any, remaining after the claims of QSPE's creditors are satisfied).

In general, the creditors of the QSPE have no recourse to our assets, other than our retained interest. However, under certain circumstances, we may be liable for certain liabilities of the QSPE (including liabilities associated with the marketing or remarketing of its bonds and reimbursement obligations associated with the letter of credit supporting the bonds) in an amount not to exceed 10% of the aggregate principal amount of the notes receivable pledged by the QSPE. Our maximum exposure in this regard was approximately \$41 million as of December 31, 2004.

As discussed previously, we have an accounts receivable secured borrowing program. L-P Receivables Corporation (LPRC) is our wholly owned subsidiary and is the special purpose entity into which the receivables of participating domestic subsidiaries are sold. LPRC, in turn, sells an interest in the receivables to various banks and entities. This program is accounted for as a secured borrowing. The receivables outstanding under these programs and the corresponding debt, if any, are included as both Receivables and Long-term debt in our financial statements included in item 8 of this report. Accordingly, there were no amounts associated with this program that were off balance sheet during the three years ended December 31, 2004. As collections reduce previously pledged interest, new receivables may be pledged.

In connection with the sales of timberlands in California in 1997 and 1998, we received notes from the purchasers totaling \$403.8 million. The notes receivable were monetized through the issuance of note payable in a private placement secured by the notes. Proceeds from the notes receivable from the purchasers will be used to fund payments required for the notes payable. The notes receivable are classified as "Notes receivable from asset sales" and the notes payable are classified as "Limited recourse notes payable" on the financial statements included in item 8 of this report.

DIVIDEND

On November 5, 2001, we announced that our Board of Directors had suspended the quarterly cash dividend. LP resumed paying quarterly dividends in 2004, with dividends of \$0.05, \$0.075, \$0.075 and \$0.10 per share being declared in February, May, August and November, respectively, and dividends for the year totaling \$32.6 million.

POTENTIAL IMPAIRMENTS

We continue to review certain operations for potential impairments. Management currently believes we have adequate support for the carrying value of each of these assets based upon the anticipated cash flows that result from our estimates of future demand, pricing and production costs assuming certain levels of planned capital expenditures. However, should the markets for our products deteriorate to levels significantly below cycle average pricing or should we decide to invest capital in alternative projects, it is possible that we will be required to record further impairment charges.

We also review from time to time possible dispositions of various assets in light of current and anticipated economic and industry conditions, our strategic plan and other relevant circumstances. Because a determination to dispose of particular assets can require management to make assumptions regarding the transaction structure of the disposition and to estimate the net sales proceeds, which may be less than previous estimates of undiscounted future net cash flows, we may be required to record impairment charges in connection with decisions to dispose of assets.

As part of the sale of our Samoa, California pulp mill to Samoa Pacific Cellulose LLC, there are several contingent liabilities, primarily concerning environmental remediation, associated with these operations that, under certain circumstances, could become our liabilities. We have not fully recorded an accrual for these liabilities, as we do not believe payment is likely to occur. Subsequent to year-end, we entered into multi-party agreements whereby we were released from remaining liabilities associated with the pulp mill with the exception of a tidelands lease.

PROSPECTIVE ACCOUNTING PRONOUNCEMENTS

See Note 1 for discussion of prospective accounting pronouncement in the Notes to the financial statements included in item 8 of this report.

OUTLOOK: ISSUES AND UNCERTAINTIES

While management is optimistic about our long-term prospects, the following issues and uncertainties should be considered in evaluating our Company.

Cyclical industry conditions and commodity pricing have and may continue to adversely affect our financial conditions and results of operations. Our operating results reflect the general cyclical pattern of the building products industry. Our primary product, OSB, and a significant portion of our raw materials are globally traded commodity products. In addition, our products are subject to competition from manufacturers worldwide. Historical prices for our products have been volatile, and we, like other participants in the building products industry, have limited influence over the timing and extent of price changes for our products. Product pricing is significantly affected by the relationship between supply and demand in the building products industry. Product supply is influenced primarily by fluctuations in available manufacturing capacity. Demand is affected by the state of the economy in general and a variety of other factors. The level of new residential construction activity and home repair and remodeling activity primarily affects the demand for our building products. Demand is also subject to fluctuations due to changes in economic conditions, interest rates, population growth, weather conditions and other factors. We are not able to predict with certainty market conditions and selling prices for our products. We cannot assure you that prices for our products will not decline from current levels. A prolonged and severe weakness in the markets for one or more of our principle products, particularly OSB, could seriously harm our financial condition and results of operations and our ability to satisfy our cash requirements, including the payment of interest and principal on our debt.

We have a high degree of product concentration. OSB accounted for about 61% of our sales in 2004, 59% in 2003 and 47% in 2002, and we expect OSB sales to continue to account for a substantial portion of our revenues and profits in the future. Additionally, OSB commodity prices reached record highs during the second quarter of 2004, but fluctuated significantly thereafter. Concentration of our business in the OSB market further increases our sensitivity to commodity pricing and price volatility. We cannot assure you that pricing for OSB or our other products will not decline from current levels.

Increased industry production capacity for OSB could constrain our operating margins for the foreseeable future. According to Resource Information Systems, Inc. (RISI), an industry market research organization, total North American OSB annual production capacity increased by about 4 billion square feet from 1998 to 2002 on a ³/₈-inch equivalent basis and is projected to increase by approximately 9 billion square feet in the 2004 to 2009 period. RISI has projected that total North American demand for OSB will increase by about 6.3 billion square feet during the same 2004 to 2009 period. If increases in OSB production capacity exceed increases in OSB demand, OSB could have constrained operating margins in the foreseeable future.

Intense competition in the building products industry could prevent us from increasing or sustaining our net sales and from sustaining profitability. The markets for our products are highly competitive. Our competitors range from very large, fully integrated forest and building products firms to smaller firms that may manufacture only one or a few types of products. We also compete less directly with firms that manufacture substitutes for wood building products. Many of our competitors have greater financial and other resources than we do, and certain of the mills operated by our competitors may be lower-cost producers than the mills operated by us.

Our results of operations may be harmed by increases in raw material costs. The most significant raw material used in our operations is wood fiber. We currently obtain about 70% of our wood fiber requirements in the open market. Wood fiber is subject to commodity pricing, which fluctuates on the basis of market factors over which we have no control. In addition, the cost of various types of wood fiber that we purchase in the market has at times fluctuated greatly because of governmental, economic or industry conditions. In addition to wood fiber, we also use a significant quantity of various resins in our manufacturing processes. Resin product costs are influenced by changes in the prices of raw materials used to produce resins, primarily petroleum products, as well as demand for resin products. Selling prices of our products have not always increased in response to raw material cost increases. We are unable to determine to what extent, if any, we will be able to pass any future raw material cost increases through to our customers through product price increases. Our inability to pass increased costs through to our customers could have a material adverse effect on our financial condition, results of operations and cash flow.

Our operations require substantial capital and our capital resources may not be adequate to provide for all of our cash requirements. Our operations require substantial capital. Capital expenditures for expansion or replacement of existing facilities or equipment or to comply with future changes in environmental laws and regulations may be substantial. Although we maintain our production equipment with regular periodic and scheduled maintenance, we cannot assure you that key pieces of equipment in our various production processes will not need to be repaired or replaced or that we will not incur significant additional costs associated with environmental compliance. The costs of repairing or replacing such equipment and the associated downtime of the affected production line could have a material adverse effect on our financial condition, results of operations and cash flow. Based on our current operations, we believe our cash flow from operations and other capital resources will be adequate to meet our operating needs, capital expenditures and other cash requirements for the foreseeable future. If for any reason we are unable to provide for our operating needs, capital expenditures and other cash requirements on economic terms, we could experience a material adverse effect on our business, financial condition, results of operations and cash flow.

We are subject to significant environmental regulation and environmental compliance expenditures and liabilities. Our businesses are subject to many environmental laws and regulations, particularly with respect to discharges of pollutants and other emissions on or into land, water and air, and the disposal, remediation of hazardous substances or other contaminants and, in the past, the restoration and reforestation of timberlands. Compliance with these laws and regulations is a significant factor in our business. We have incurred and expect to continue to incur significant expenditures to comply with applicable environmental laws and regulations. Moreover, some or all of the environmental laws and regulations to which we are subject could become more stringent in the future. Our failure to comply with applicable environmental laws and regulations and permit requirements could result in civil or criminal fines or penalties or enforcement actions, including regulatory or judicial orders enjoining or curtailing operations or requiring corrective measures, installation of pollution control equipment or remedial actions.

Some environmental laws and regulations impose liability and responsibility on present and former owners, operators or users of facilities and sites for contamination at such facilities and sites without regard to causation or knowledge of contamination. In addition, we occasionally evaluate various alternatives with respect to our facilities, including possible dispositions or closures. Investigations undertaken in connection with these activities may lead to discoveries of contamination that must be remediated, and closures of facilities may trigger compliance requirements that are not applicable to operating facilities. Consequently, we cannot assure you that existing or future circumstances or developments with respect to contamination will not require significant expenditures by us.

We are involved in various environmental matters and legal proceedings. The outcome of these matters and proceedings and the magnitude of related costs and liabilities are subject to uncertainties. The conduct

of our business involves the use of hazardous substances and the generation of contaminants and pollutants. In addition, the end-users of many of our products are members of the general public. We currently are and from time to time in the future will be involved in a number of environmental matters and legal proceedings, including legal proceedings involving warranty or non-warranty product liability claims. These matters and proceedings, including class action settlements relating to certain of our products, have in the past caused and in the future may cause us to incur substantial costs. We have established contingency reserves in our consolidated financial statements with respect to the estimated costs of existing environmental matters and legal proceedings to the extent that our management has determined that such costs are both probable and reasonably estimable as to amount. However, such reserves are based upon various estimates and assumptions relating to future events and circumstances, all of which are subject of inherent uncertainties. We regularly monitor our estimated exposure to environmental and litigation loss contingencies and, as additional information becomes known, may change our estimates significantly. However, no estimate of the range of any such change can be made at this time. We may incur costs in respect of existing and future environmental matters and legal proceedings as to which no contingency reserves have been established. We cannot assure you that we will have sufficient resources available to satisfy the related costs and expenses associated with these matters and proceedings.

Settlements of tax exposures may exceed the amounts we have reserved for known estimated tax exposures. We maintain reserves for known estimated tax exposures in federal, state and international jurisdictions. Significant income tax exposures may include potential challenges to intercompany pricing, the treatment of financing, acquisition and disposition transactions, the use of hybrid entities, and the use of the installment sale method of accounting for tax purposes and other matters. These exposures are settled primarily through the closure of audits with the taxing jurisdictions and, on occasion, through the judicial process, either of which may produce a result inconsistent with past estimates. We believe that we have appropriate liabilities established for known estimated exposures, however, if actual results differ materially from our estimates we could experience a material adverse affect on our financial condition, results of operation and cash flow.

Fluctuations in foreign currency exchange rates could result in currency exchange losses. A significant portion of the Company's operations are conducted through foreign subsidiaries. The functional currency for the Company's Canadian subsidiary is the U.S. dollar. The financial statements of this foreign subsidiary is remeasured into U.S. dollars using the historical exchange rate for property, plant and equipment, timber and timberlands, goodwill, equity and certain other non-monetary assets and liabilities and related depreciation and amortization on these assets and liabilities. These transaction gains or losses are recorded in foreign exchange gains (losses) in the income statement. The functional currency of LP's Chilean subsidiary is the Chilean Peso. Translation adjustments, which are based upon the exchange rate at the balance sheet date for assets and liabilities and the weighted average rate for the income statement, are recorded in the Accumulated Comprehensive Income (Loss) section of Stockholders' Equity. Therefore, a strengthening of the Canadian dollar or the Chilean Peso relative to the U.S. dollar may have a material adverse affect the Company's financial condition and results of operations.

Changes in foreign currency exchange rates could result in a greater than expected tax expense. We have intercompany debt between our U.S. and Canadian subsidiary which is denominated in Canadian dollars. Because this debt is denominated in Canadian dollars, it is subject to translation gains and losses in terms of U.S. dollars. While the gains and loss due to translation are eliminated in consolidation for financial reporting purposes, the tax effect is not because the translation of the Canadian balance into U.S. dollars occurs outside of the tax reporting entities and therefore creates a tax difference. If exchange rates increase in the future, it could result in our tax expense being higher than expected, and the converse would be true.

ITEM 7A. Quantitative and Qualitative Disclosures about Market Risk

A portion of our outstanding debt bears interest at variable rates and accordingly is sensitive to changes in interest rates. Interest rate changes would result in gains or losses in the market value of our debt portfolio due to differences in market interest rates and the rates at the inception of the debt agreements. Based upon our indebtedness at December 31, 2004, a 100 basis point interest change would impact pre-tax net income and cash flows by \$0.2 million annually. Based upon our indebtedness at December 31, 2004, the fixed and variable portions of our debt and the expected maturity dates are as follows:

	Expected maturity date						Total	Fair Value
	2005	2006	2007	2008	2009	Thereafter		
	in millions							
Long-term debt:								
Fixed rate debt	\$ 178.0	\$ 70.6	\$ 0.7	\$ 74.3	\$ 20.8	\$ 433.3	\$ 777.7	\$ 800.0
Average interest rate	8.6%	7.0%	5.6%	7.1%	7.3%	7.9%	7.9%	
Variable rate debt	—	—	—	—	\$ 7.6	\$ 15.2	\$ 22.8	\$ 22.8
Average interest rate	—	—	—	—	2.0%	2.5%	2.3%	

Additionally, we have long-term notes receivable that contain fixed interest rates. Based upon these notes at December 31, 2004, the fixed portion of our receivables and the expected maturity dates are as follows:

	Expected maturity date						Total	Fair Value
	2005	2006	2007	2008	2009	Thereafter		
	in millions							
Long-term receivables:								
Fixed rate receivables	—	\$ 70.8	—	74.4	20.0	\$ 238.6	\$ 403.8	\$ 433.0
Average interest rate	—	6.8%	—	7.0%	7.0%	7.1%	7.0%	

Our international operations create exposure to foreign currency rate risks, primarily due to fluctuations in the Canadian dollar. We historically have not entered into material currency rate hedges with respect to our exposure from operations, although we may do so in the future.

As of December 31, 2004, we had \$988 (Canadian) million in intercompany debt between our U.S. and Canadian subsidiaries. This debt is denominated in Canadian dollars and therefore is subject to translation gains and losses in terms of U.S. dollars. While the gains and losses due to translation are eliminated in consolidation for financial reporting purposes, the tax effect is not because the translation of the Canadian balance into U.S. dollars occurs outside of the tax reporting entities and therefore creates a tax difference. For each \$.01 increase in the exchange rate, our annual tax expense increases by \$3.9 million and the converse would be true.

Some of our products are sold as commodities and therefore sales prices fluctuate daily based on market factors over which we have little or no control. The most significant commodity product we sell is OSB. Based upon an assumed annual production capacity of 6.1 billion square feet (²Q₈ basis) or 5.2 billion square feet (⁷Q₁₆ basis), a \$1 change in the annual average price on ⁷Q₁₆ basis would change annual pre-tax profits by approximately \$5.2 million.

We historically have not entered into material commodity futures and swaps, although we may do so in the future.

ITEM 8. Financial Statements and Supplementary Data

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Louisiana-Pacific Corporation

We have audited the accompanying consolidated balance sheets of Louisiana-Pacific Corporation and subsidiaries (the "Company") as of December 31, 2004 and 2003, and the related consolidated statements of income, stockholders' equity, comprehensive income, and cash flows for each of the three years in the period ended December 31, 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Louisiana-Pacific Corporation and subsidiaries at December 31, 2004 and 2003, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2004, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the financial statements, the Company adopted Statements of Financial Accounting Standards No. 142 *Goodwill and Other Intangible Assets*, and No. 144 *Accounting for the Impairment or Disposal of Long-Lived Assets*, on January 1, 2002 and No. 143, *Accounting for Asset Retirement Obligations*, on January 1, 2003.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of December 31, 2004, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 9, 2005 expressed an unqualified opinion on management's assessment of the effectiveness of the Company's internal control over financial reporting and an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Deloitte + Touche LLP
DELOITTE & TOUCHE LLP
Nashville, Tennessee
March 9, 2005

Consolidated Balance Sheets
Dollar amounts in millions

	December 31	
	2004	2003
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 544.7	\$ 925.9
Short-term investments	608.2	—
Receivables, net	185.5	136.1
Inventories	215.7	177.5
Prepaid expenses and other current assets	15.9	11.1
Deferred income taxes	26.7	51.7
Current assets of discontinued operations	7.4	22.8
Total current assets	<u>1,604.1</u>	<u>1,325.1</u>
Timber and timberlands	91.8	94.8
Property, plant and equipment, at cost:		
Land, land improvements and logging roads, net of road amortization	101.4	102.1
Buildings	229.3	230.5
Machinery and equipment	1,430.6	1,390.2
Construction in progress	42.1	55.5
	<u>1,803.4</u>	<u>1,778.3</u>
Accumulated depreciation	(1,027.8)	(988.2)
Net property, plant and equipment	<u>775.6</u>	<u>790.1</u>
Goodwill, net of amortization	276.7	276.7
Other intangible assets, net of amortization	6.9	10.0
Notes receivable from asset sales	403.8	403.8
Investments in and advances to affiliates	132.7	98.8
Long-term investments	30.2	—
Restricted cash	65.5	110.7
Other assets	30.7	39.1
Long-term assets of discontinued operations	32.6	55.3
Total assets	<u>\$ 3,450.6</u>	<u>\$ 3,204.4</u>

See Notes to Financial Statements

Consolidated Balance Sheets (Continued)
Dollar amounts in millions, except per share

	December 31	
	2004	2003
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	\$ 178.0	\$ 8.3
Accounts payable and accrued liabilities	250.0	251.3
Current portion of contingency reserves	12.0	43.0
Total current liabilities	<u>440.0</u>	<u>302.6</u>
Long-term debt, excluding current portion:		
Limited recourse notes payable	396.5	396.5
Other debt	226.0	624.2
Total long-term debt	<u>622.5</u>	<u>1,020.7</u>
Deferred income taxes	517.5	407.7
Contingency reserves, excluding current portion	42.1	55.6
Other long-term liabilities	60.7	106.9
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$1 par value, 15,000,000 shares authorized, no shares issued	—	—
Common stock, \$1 par value, 200,000,000 shares authorized, 116,937,022 shares issued	116.9	116.9
Additional paid-in capital	440.0	442.3
Retained earnings	1,406.2	1,018.1
Treasury stock, 6,795,867 shares and 10,474,514 shares, at cost	(127.4)	(195.2)
Accumulated comprehensive loss	(67.9)	(71.2)
Total stockholders' equity	<u>1,767.8</u>	<u>1,310.9</u>
Total liabilities and stockholders' equity	<u>\$ 3,450.6</u>	<u>\$ 3,204.4</u>

See Notes to Financial Statements

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Consolidated Statements of Income
Amounts in millions, except per share

	Year ended December 31		
	2004	2003	2002
Net sales	<u>\$ 2,849.4</u>	<u>\$ 2,280.7</u>	<u>\$ 1,576.2</u>
Operating costs and expenses:			
Cost of sales	1,741.7	1,512.2	1,264.0
Depreciation, amortization and cost of timber harvested	143.6	132.3	136.0
Selling and administrative	166.2	167.2	134.1
Other operating credits and charges, net	28.7	15.2	29.5
(Gain) loss on sale of and impairment of long-lived assets, net	18.3	(118.2)	(61.3)
Total operating costs and expenses	<u>2,098.5</u>	<u>1,708.7</u>	<u>1,502.3</u>
Income from operations	<u>750.9</u>	<u>572.0</u>	<u>73.9</u>
Non-operating income (expense):			
Interest expense, net of capitalized interest	(65.3)	(88.5)	(95.8)
Interest income	45.6	33.8	32.8
Loss on early extinguishment of debt	(41.5)	(1.5)	—
Foreign exchange gains (losses)	9.7	1.0	(3.2)
Total non-operating income (expense)	<u>(51.5)</u>	<u>(55.2)</u>	<u>(66.2)</u>
Income from continuing operations before taxes, minority interest and equity in earnings of unconsolidated affiliates	699.4	516.8	7.7
Provision for income taxes	279.7	233.8	15.2
Minority interest in net loss of consolidated subsidiaries	—	—	(0.9)
Equity in (earnings) of unconsolidated affiliates	(3.8)	(1.9)	(2.8)
Income (loss) from continuing operations before cumulative effect of change in accounting principle	423.5	284.9	(3.8)
Loss from discontinued operations before taxes	(4.6)	(20.6)	(88.7)
Income tax benefit	(1.8)	(8.1)	(34.3)
Loss from discontinued operations	(2.8)	(12.5)	(54.4)
Income (loss) before cumulative effect of change in accounting principle	420.7	272.4	(58.2)
Cumulative effect of change in accounting principle, net of tax	—	0.1	(3.8)
Net income (loss)	<u>\$ 420.7</u>	<u>\$ 272.5</u>	<u>\$ (62.0)</u>
Basic net income (loss) per share:			
Income (loss) per share from continuing operations	\$ 3.91	\$ 2.70	\$ (0.03)
Income (loss) per share from discontinued operations	(0.03)	(0.12)	(0.53)
Cumulative effect of change in accounting principle per share	—	—	(0.03)
Net income (loss) per share	<u>\$ 3.88</u>	<u>\$ 2.58</u>	<u>\$ (0.59)</u>
Diluted net income (loss) per share:			
Income (loss) per share from continuing operations	\$ 3.87	\$ 2.68	\$ (0.03)
Income (loss) per share from discontinued operations	(0.03)	(0.12)	(0.53)
Cumulative effect of change in accounting principle per share	—	—	(0.03)
Net income (loss) per share	<u>\$ 3.84</u>	<u>\$ 2.56</u>	<u>\$ (0.59)</u>

Cash dividends per share of common stock	\$ 0.30	\$ —	\$ —
Average shares of common stock used to compute net income (loss) per share:			
Basic	108.3	105.5	104.6
Diluted	109.6	106.5	104.6

See Notes to Financial Statements.

Consolidated Statements of Cash Flows

Dollar amounts in millions

	Year ended December 31		
	2004	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income (loss)	\$ 420.7	\$ 272.5	\$ (62.0)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation, amortization and cost of timber harvested	145.1	141.3	157.6
Minority interest in net loss of consolidated subsidiaries	—	—	(0.9)
Earnings of unconsolidated affiliates	(4.3)	(1.9)	(2.8)
Other operating credits and charges, net	15.2	6.6	3.6
(Gain) loss on sale of and impairment of long-lived assets	12.3	(98.7)	(10.7)
Exchange (gain) loss on remeasurement	(13.9)	6.9	1.0
Loss on early extinguishment of debt	41.5	1.5	—
Tax effect of exercise of stock options	13.7	2.7	—
Cumulative effect of change in accounting principle	—	(0.1)	6.3
Cash settlements of contingencies	(50.4)	(52.4)	(52.3)
Increase in contingency reserves	5.6	30.0	27.2
Other adjustments	(46.2)	(17.9)	(1.1)
Decrease (increase) in receivables	(47.0)	4.5	50.0
Decrease (increase) in inventories	(26.0)	0.4	2.1
Decrease (increase) in prepaid expenses	(5.0)	0.5	7.6
Increase (decrease) in accounts payable and accrued liabilities	(0.3)	33.7	(20.4)
Increase (decrease) in deferred income taxes	140.5	179.8	(16.7)
Net cash provided by operating activities	601.5	509.4	88.5
CASH FLOWS FROM INVESTING ACTIVITIES			
Property, plant, and equipment and timber additions	(147.7)	(86.6)	(41.8)
Proceeds from timber and timberlands sales	—	84.5	103.3
Proceeds from asset sales	40.4	44.0	45.8
Return of capital from unconsolidated subsidiary	—	365.8	—
(Increase) decrease in restricted cash from asset sales	—	37.1	(37.1)
Cash paid for purchase of investments	(2,598.1)	—	—
Proceeds from sale of investments	1,960.4	—	—
Acquisitions	—	—	(3.3)
Investments in and advances to affiliates	(32.0)	(1.6)	—
Other investing activities, net	3.4	(0.2)	4.8
Net cash provided by (used in) investing activities	(773.6)	443.0	71.7
CASH FLOWS FROM FINANCING ACTIVITIES			
Net payments under revolving credit lines	(6.0)	(32.0)	(40.0)
Long-term borrowings	—	0.4	—
Repayment of long-term debt	(260.0)	(53.0)	(32.6)
Cash dividends	(32.6)	—	—
Sale of common stock under equity plans	41.2	19.2	—
Increase (decrease) in restricted cash under letters of credit	45.2	(102.9)	—
Other financing activities, net	(3.6)	2.9	(11.9)
Net cash used in financing activities	(215.8)	(165.4)	(84.5)
EFFECT OF EXCHANGE RATE ON CASH	6.7	1.6	—
Net increase (decrease) in cash and cash equivalents	(381.2)	788.6	75.7
Cash and cash equivalents at beginning of year	925.9	137.3	61.6
Cash and cash equivalents at end of year	\$ 544.7	\$ 925.9	\$ 137.3

See Notes to Financial Statements.

Consolidated Statements of Stockholders' Equity

Dollar and share amounts in millions, except per share amounts

	Common Stock		Treasury Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Comprehensive Loss	Total Stockholders' Equity
	Shares	Amount	Shares	Amount				
BALANCE AS OF								
DECEMBER 31, 2001	116.9	\$ 116.9	12.4	\$ (230.6)	440.9	\$ 807.6	\$ (53.9)	\$ 1,080.9
Net loss	—	—	—	—	—	(62.0)	—	(62.0)
Issuance of shares for employee stock plans and for other purposes	—	—	—	0.4	6.1	—	—	6.5
Other comprehensive loss	—	—	—	—	—	—	(19.2)	(19.2)

BALANCE AS OF	116.9	116.9	12.4	(230.2)	447.0	745.6	(73.1)	1,006.2
DECEMBER 31, 2002								
Net income						272.5		272.5
Issuance of shares for employee stock plans and for other purposes, and other transactions	—	—	(1.9)	35.0	(4.7)	—	—	30.3
Other comprehensive income	—	—	—	—	—	—	1.9	1.9
BALANCE AS OF								
DECEMBER 31, 2003	116.9	116.9	10.5	(195.2)	442.3	1,018.1	(71.2)	1,310.9
Net income	—	—	—	—	—	420.7	—	420.7
Issuance of shares for employee stock plans and for other purposes, and other transactions	—	—	(3.8)	71.3	(16.0)	—	—	55.3
Cash dividends, \$0.30 per share	—	—	—	—	—	(32.6)	—	(32.6)
Purchase of shares for treasury	—	—	0.1	(3.5)	—	—	—	(3.5)
Tax benefit of employee stock plan transactions	—	—	—	—	13.7	—	—	13.7
Other comprehensive income	—	—	—	—	—	—	3.3	3.3
BALANCE AS OF								
DECEMBER 31, 2004	116.9	\$ 116.9	6.8	\$ (127.4)	\$ 440.0	\$ 1,406.2	\$ (67.9)	\$ 1,767.8

See Notes to Financial Statements.

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Consolidated Statements of Comprehensive Income

Dollar amounts in millions

	Year ended December 31		
	2004	2003	2002
Net income (loss)	\$ 420.7	\$ 272.5	\$ (62.0)
Other comprehensive income (loss), net of tax (see Note 23)			
Foreign currency translation adjustments	2.2	4.4	(5.2)
Minimum pension liability and intangible asset adjustments	0.6	(2.7)	(15.2)
Unrealized gain on derivative financial instruments	0.7	0.1	1.0
Other	(0.2)	0.1	0.2
Other comprehensive income (loss), net of tax	3.3	1.9	(19.2)
Comprehensive income (loss)	\$ 424.0	\$ 274.4	\$ (81.2)

See Notes to Financial Statements.

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NOTES TO THE FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature Of Operations

Louisiana-Pacific Corporation and its subsidiaries (collectively LP or the Company) are principally engaged in the manufacture of building products. In addition to our U.S. operations, the Company also maintains manufacturing facilities in Canada and Chile through foreign subsidiaries and joint ventures. The principal customers for the Company's building products are retail home centers, builders, manufactured housing producers, distributors and wholesalers in North America, with minor sales to Asia, Europe and South America.

On May 8, 2002, LP announced that its board of directors had approved a plan to sell selected businesses and assets (the divestiture plan) in order to focus operations in selected business segments and to significantly reduce LP's debt. In July 2003, LP announced further divestitures. See Note 22 for further discussion on divestitures.

See Note 24 below for further information regarding LP's products and segments.

Use Of Estimates In The Preparation Of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the U.S. requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. See discussion of specific estimates in the Notes entitled "Income Taxes," "Retirement Plans and Postretirement Benefits," "Stockholders' Equity," "Other Operating Credits and Charges, Net," "Gain (Loss) on Sale of and Impairment of Long-Lived Assets, Net" and "Contingencies."

Consolidation

The consolidated financial statements include the accounts of LP and its majority-owned subsidiaries. Intercompany transactions are eliminated and net earnings are reduced by the portion of the net earnings of subsidiaries applicable to minority interest. The equity method of accounting is used for joint ventures and investments in associated companies over which LP has significant influence but does not have effective control. Significant influence is deemed to exist generally when the Company has an ownership interest in the voting stock of an investee of between 20% and 50%. The cost method of accounting is used for investments when LP has less than 20% ownership interest or the Company does not have the ability to exercise significant influence, and for investments in Qualified Special Purpose Entities. Those investments are carried at cost and are adjusted only for other-than temporary declines in their fair value. The carrying value of these investments is on LP's Consolidated Balance Sheet under the heading "Investments in and advances to affiliates". LP's equity in the income and losses of these investments is shown in the income statement under the heading "Equity in (earnings) loss of unconsolidated affiliates." See Note 8 for further discussion of these investments and advances. LP does not consolidate Qualified Special Purpose Entities, as defined in SFAS 140 (see Note 12 for further discussion).

Earnings Per Share

Basic earnings per share are based on the weighted average number of shares of common stock outstanding. Diluted earnings per share are based upon the weighted average number of shares of common stock outstanding plus all potentially dilutive securities that were assumed to be converted into common shares at the beginning of the period under the treasury stock method. This method requires that

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the effect of potentially dilutive common stock equivalents (stock compensation plans) be excluded from the calculation of diluted earnings per share for the periods in which losses from continuing operations are reported because the effect is anti-dilutive. The following table sets forth the computation of basic and diluted earnings per share:

	Year ended December 31		
	2004	2003	2002
	Dollar and share amounts in millions, except per share amounts		
Numerator:			
Income attributed to common shares:			
Income from continuing operations	\$ 423.5	\$ 284.9	\$ (3.8)
Income (loss) from discontinued operations	(2.8)	(12.5)	(54.4)
Cumulative effect of change in accounting principle	—	0.1	(3.8)
Net income (loss)	<u>\$ 420.7</u>	<u>\$ 272.5</u>	<u>\$ (62.0)</u>
Denominator:			
Basic—weighted average common shares outstanding	108.3	105.5	104.6
Dilutive effect of employee stock plans	1.3	1.0	—
Diluted shares outstanding	<u>109.6</u>	<u>106.5</u>	<u>104.6</u>
Basic earnings per share:			
Income (loss) from continuing operations	\$ 3.91	\$ 2.70	\$ (0.03)
Income (loss) from discontinued operations	(0.03)	(0.12)	(0.53)
Effect of change in accounting principle	—	—	(0.03)
Net income (loss) per share	<u>\$ 3.88</u>	<u>\$ 2.58</u>	<u>\$ (0.59)</u>
Diluted earnings per share:			
Income (loss) from continuing operations	\$ 3.87	\$ 2.68	\$ (0.03)
Income (loss) from discontinued operations	(0.03)	(0.12)	(0.53)
Effect of change in accounting principle	—	—	(0.03)
Net income (loss) per share	<u>\$ 3.84</u>	<u>\$ 2.56</u>	<u>\$ (0.59)</u>

As of December 31, 2004, 2003 and 2002, LP had 208,000, 2,720,000 and 6,840,000 shares and stock options outstanding that were considered anti-dilutive or not in-the-money for the purpose of LP's earnings per share calculation.

Cash And Cash Equivalents

LP considers all highly liquid securities with maturities of three months or less at the time of purchase to be cash equivalents.

Investments

LP's short-term and long-term investments are classified as available-for-sale as defined by SFAS No. 115 "Accounting for Certain Investments in Debt and Equity Securities" and are stated at estimated fair value. Unrealized gains and losses, net of tax, on these investments are reported as a separate component of accumulated comprehensive income (loss) in stockholders' equity until realized. Realized gains and losses are recorded within the consolidated statements of income under the caption non-operating income or expense. For purposes of computing realized gains and losses, cost is identified on a specific identification basis. See Note 2 for further discussion.

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Fair Value of Financial Instruments

LP has, where appropriate, estimated the fair value of financial instruments. These fair value amounts may be significantly affected by the assumptions used, including the discount rate and estimates of cash flow. Accordingly, the estimates presented are not necessarily indicative of the amounts that could be realized in a current market exchange. When these estimates approximate carrying value, no separate disclosure is shown.

Inventory

Inventories are valued at the lower of cost or market. Inventory costs include materials, labor and operating overhead. The LIFO (last-in, first-out) method is used for most log and lumber inventories with the remaining inventories valued at FIFO (first-in, first-out) or average cost.

Timber And Timberlands

Timber and timberlands is comprised of timber deeds and allocations of purchase price to Canadian timber harvesting licenses. Timber deeds are transactions in which LP purchases timber, but not the underlying land. The cost of timber deeds are capitalized in timber and timberlands and charged to cost of timber harvested as the volume is removed. The values associated with timber licenses were allocated in the purchase price allocations for both Le Groupe Forex (Forex) and the assets of Evans Forest Products (\$131 million at the dates of acquisition). These licenses have a life of twenty to twenty-five years and are renewable every five years. These licenses are amortized on a straight-line basis over the original life of the license. Cost of timber harvested also includes the amortization of the timber licenses.

Property, Plant And Equipment

Property, plant and equipment, including capitalized interest, are recorded at cost. Depreciation for financial statement purposes is provided principally using the units of production method for machinery and equipment which amortizes the cost of equipment over the estimated units that will be produced during its useful life. Provisions for depreciation of buildings, land improvements and the remaining machinery and equipment have been computed using straight-line rates based on the estimated service lives. The effective straight-line lives for the principal classes of property range from three to twenty years.

Logging road construction costs are capitalized and included in land and land improvements. These costs are amortized as the timber volume adjacent to the road system is harvested.

LP capitalizes interest on borrowed funds during construction periods. Capitalized interest is charged to machinery and equipment accounts and amortized over the lives of the related assets. Interest capitalized during 2004, 2003, and 2002 was \$4.2 million, \$0.4 million and \$0.1 million.

Asset Impairments

In accordance with Statement of Financial Accounting Standards (SFAS) No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," which LP adopted in January 2002, long-lived assets to be held and used by LP (primarily property, plant and equipment and timber and timberlands) are reviewed for impairment when events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. Losses are recognized when the book values exceed expected undiscounted future net cash flows from the use and eventual disposition of the asset. These undiscounted cash flows are based upon management's estimate of future cash inflows and outflows. The key assumptions in estimating these cash flows include future pricing of commodity products and future estimates of expenses to be incurred. When impairment is indicated, the book values of the assets are written down to their estimated fair value. See Note 17 for a discussion of charges in 2004, 2003, and 2002 related to impairments of

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property, plant and equipment. Long-lived assets that are held for sale are written down to the estimated sales proceeds less cost to sell unless the estimated net proceeds exceed the carrying value.

Deferred Income Taxes

Deferred income taxes, reflecting the impact of temporary differences between the carrying values of assets and liabilities for financial reporting and tax purposes, are based upon tax laws enacted. Deferred tax assets are reduced by a valuation allowance when it is more likely than not that some portion of the deferred tax assets will not be realized. See Note 10 for further discussion of deferred taxes.

Stock-Based Compensation

Stock options and other stock-based compensation awards are accounted for using the intrinsic value method prescribed by Accounting Principles Board Opinion (APB) No. 25, "Accounting for Stock Issued to Employees," and related interpretations. See Note 14 for further discussion of LP's stock plans. The following table illustrates the effect on net income (loss) and net income (loss) per share that would have resulted if LP had applied the fair value recognition provisions of SFAS No. 123, "Accounting for Stock-Based Compensation," to stock-based employee compensation. See additional discussion below under the heading "Recent and Prospective Accounting Pronouncements."

	Year Ended December 31,		
	2004	2003	2002
	Dollar amounts in millions, except per share amounts		
Net income (loss), as reported	\$ 420.7	\$ 272.5	\$ (62.0)
Add: Stock-based employee compensation included in reported net income (loss), net of related income tax effects	9.5	5.2	2.2
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(11.1)	(8.4)	(4.2)
Pro forma net income (loss)	\$ 419.1	\$ 269.3	\$ (64.0)
Net income (loss) per share—basic, as reported	\$ 3.88	\$ 2.58	\$ (0.59)
Net income (loss) per share—diluted, as reported	\$ 3.84	\$ 2.56	\$ (0.59)
Net income (loss) per share—basic, pro forma	\$ 3.87	\$ 2.55	\$ (0.61)
Net income (loss) per share—diluted, pro forma	\$ 3.82	\$ 2.53	\$ (0.61)

Treasury Stock

LP records treasury stock purchased at cost. In August and November 2004, LP repurchased 83,824 shares and 63,000 shares of common stock at \$23.62 and \$24.01 per share for its treasury at an aggregate cost of \$3.5 million.

Derivative Financial Instruments

To reduce foreign currency exchange and interest rate risks, LP occasionally utilizes derivative financial instruments. LP has established policies and procedures for risk assessment and approving, reporting and monitoring of derivative financial instrument activities. Gains and losses on forward exchange contracts used to hedge the currency fluctuations on transactions denominated in foreign currencies and the offsetting losses and gains on the hedged transactions are recorded in the income statement. In general, LP does not utilize financial instruments for trading or speculative purposes.

For all periods presented, LP utilized forward purchase contracts in the normal course of its operations as a means of managing price risks on the purchase of energy. These contracts generally meet the definition of "normal purchases" under SFAS No. 133, "Accounting for Derivative Instruments and

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Hedging Activities," as amended, and are therefore not required to be recorded at fair value. In the event that a contract does not meet the definition of a "normal purchase" as a result of LP's inability to use all of the energy under the contract, LP records such contracts at the estimated fair value with the corresponding gain or loss recorded in cost of sales (which resulted in a loss of \$2.6 million for the year ended December 31, 2003). In the event that a contract does not meet the definition of a "normal purchase" as a result of unforeseen circumstances outside of LP's control, LP records such contracts at their fair value with the corresponding gain or loss recorded in other operating credits and charges, net. One such contract was subsequently cancelled in 2002 and LP recorded a gain of \$7.4 million for the year ended December 31, 2002.

U.S. GreenFiber, LLC (GreenFiber), a fifty percent owned joint venture between LP and Casella Waste Management, Inc. (accounted for under the equity method of accounting), entered into a swap contract for the purchase of raw material inventory. As of December 31, 2004, GreenFiber recognized \$5.5 million in other comprehensive income to adjust these contracts to fair market value and, accordingly, LP has recorded its share (\$2.75 million) in LP's other comprehensive income. Additionally to date, LP has provided deferred taxes of \$0.9 million associated with this hedge.

Foreign Currency Translation

The functional currency for the Company's Canadian subsidiaries is the U.S. dollar. The financial statements of these foreign subsidiaries are remeasured into U.S. dollars using the historical exchange rate for property, plant and equipment, timber and timberlands, goodwill, equity and certain other non-monetary assets and liabilities and related depreciation and amortization on these assets and liabilities. LP uses the exchange rate at the balance sheet date for the remaining assets and liabilities, including deferred taxes. A weighted-average exchange rate is used for each period for revenues and expenses. These transaction gains or losses are recorded in foreign exchange gains (losses) in the income statement. The functional currency of LP's Chilean subsidiary is the Chilean Peso. Translation adjustments, which are based upon the exchange rate at the balance sheet date for assets and liabilities and the weighted average rate for the income statement, are recorded in the Accumulated Comprehensive Income (Loss) section of Stockholders' Equity.

Goodwill

In June 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 142, "Goodwill and Other Intangible Assets." This statement addresses financial accounting and reporting for goodwill and other intangible assets. Under this standard, goodwill and other intangible assets that are deemed to have an indefinite life are no longer being amortized. However, these indefinite life assets are tested for impairment on an annual basis, and when indicators of impairment are determined to exist, by applying a fair value based test. Also, under this statement, goodwill associated with an equity method investee is no longer amortized; however impairment of the investment (including goodwill) should be evaluated based upon Accounting Principles Board (APB) No. 18, "The Equity Method of Accounting for Investments in Common Stock" which requires an impairment test when factors indicate an impairment may exist. SFAS No. 142 was effective for LP beginning January 1, 2002. See Note 6 for discussion of the impact of LP's adoption of this statement. LP performs the annual goodwill impairment test as of October 1 each year. LP completed its testing on all reporting units as of October 1, 2004 and determined that no impairment charges were required with respect to reported goodwill as of that date.

Restricted Cash

In accordance with LP's credit facilities, discussed at Note 11, LP established restricted cash accounts. As of December 31, 2004, a majority of the restricted cash secures letter of credit under LP's revolving

credit facility. Under this facility, LP may use cash in an amount equal to 105% of the outstanding letters of credit as collateral for such letters of credit in exchange for lower fees.

Revenue Recognition

Revenue is recognized when customers receive products and title has passed. The following criteria establish these facts: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred or services have been rendered; (3) the price to the buyer is fixed or determinable; and (4) the collection is reasonably assured.

Asset Retirement Obligations

As of January 1, 2003, LP adopted SFAS No. 143, "Accounting for Asset Retirement Obligations." This statement requires that LP record future asset retirement obligations, which consist primarily of monitoring costs on closed landfills and timber reforestation obligations associated with LP's timber licenses in Canada, in the period in which the obligation is incurred. These costs are recorded at fair value. When the related liability is initially recorded, LP capitalizes the cost by increasing the carrying amount of the related long-lived asset. Over time, the liability is accreted to its settlement value and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the liability, LP recognizes a gain or loss for any difference between the settlement amount and the liability recorded. See Note 15 for further discussion.

Non-Cash Transactions

During 2003, in connection with the sale of various timberlands, LP received \$410.0 million in notes receivable from the purchasers of such timber and timberlands. In a subsequent transaction, these notes were contributed to a Qualified Special Purpose Entity (QSPE) in an off-balance sheet transaction. See Note 12 for further discussion of this off-balance sheet transaction.

Other Operating Credits And Charges, Net

LP classifies significant amounts that management considers unrelated to core operating activities as Other operating credits and charges, net in the income statement. Such items include, but are not limited to, amounts related to restructuring charges (including severance charges), charges to establish litigation or environmental reserves, gains from insurance recoveries and gains or losses from settlements with governmental or other organizations. Due to the nature of these items, amounts in the income statement can fluctuate from year to year. The determination of which items are considered significant and unrelated to core operations is based upon management's judgment. See Note 16 for a discussion of specific amounts in 2004, 2003, and 2002.

Comprehensive Income

SFAS No. 130, "Reporting Comprehensive Income," establishes standards for the reporting and presentation of comprehensive income and its components in financial statements. SFAS No. 130 states that all items required to be recognized under accounting standards as components of comprehensive income be reported in a financial statement with the same prominence as other financial statements. Comprehensive income consists of net earnings, the net unrealized gains or losses on available-for-sale marketable securities, foreign currency translation adjustments, minimum pension liability and related intangible adjustments, and unrealized gains and losses on financial instruments qualifying for hedge accounting, and is presented in the accompanying Consolidated Statement of Comprehensive Income in accordance with SFAS No. 130. See Note 23 for further discussion.

Recent and Prospective Accounting Pronouncements

The FASB issued Interpretation No. 46 (FIN46), "Consolidation of Variable Interest Entities" effective December 31, 2003. This interpretation requires that an enterprise's consolidated financial statements include subsidiaries in which the enterprise has a controlling financial interest. In December 2003, the FASB published a revision to FIN 46 ("FIN 46R") to clarify some of the provisions of the interpretation and defer the effective date of implementation for certain entities. Under the guidance of FIN 46R, entities that do not have interests in structures that are commonly referred to as special purpose entities were required to apply the provisions of the interpretation in financial statements for periods ending after March 14, 2004. LP does not have interests in any variable interest entities that are covered by FIN 46.

In March 2004, the Emerging Issues Task Force (EITF) reached a consensus on Issue No. 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments." EITF 03-1 provides guidance on other-than-temporary impairment models for marketable debt and equity securities accounted for under SFAS 115 and non-marketable equity securities accounted for under the cost method. The EITF developed a basic three-step model to evaluate whether an investment is other-than-temporarily impaired. In September 2004, the FASB approved the issuance of FASB Staff Position EITF 03-1-1, which delays the effective date

until additional guidance is issued for the application of the recognition and measurement provisions of EITF 03-1 to investments in securities that are impaired. The adoption of this accounting principle is not expected to have a significant impact on LP's financial position or results of operations.

In November 2004, the FASB issued SFAS No. 151, "Inventory Costs—an Amendment of ARB No. 43, Chapter 4." This statement clarifies the accounting for abnormal amounts of idle facility expense, freight, handling costs and spoilage, requiring these items be recognized as current-period charges. In addition, this statement requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. The provisions of this statement are effective for inventory costs incurred during fiscal years beginning after June 15, 2005 and will become effective for LP beginning in 2006. The adoption of this accounting principle is not expected to have a significant impact on our financial position or results of operations.

In December 2004, the FASB issued SFAS No. 123R, "Share-Based Payment (Revised 2004)." This statement addresses the accounting for share-based payment transactions in which a company receives employee services in exchange for the company's equity instruments or liabilities that are based on the fair value of the company's equity securities or may be settled by the issuance of these securities. SFAS No. 123R eliminates the ability to account for share-based compensation using APB 25 and generally requires that such transactions be accounted for using a fair value method. The provisions of this statement are effective for financial statements issued for fiscal periods beginning after June 15, 2005 and will become effective for LP beginning with the third quarter of 2005. LP has yet to determine a transition method to adopt SFAS 123R or which valuation method to use. The full impact that the adoption of this statement will have on our financial position and results of operations will be determined by share-based payments granted in future periods, the transition method and valuation model used.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation. As a result of change in management organization structure in November of 2004, LP modified its segment reporting under SFAS No. 131, "Disclosures about Segments of Enterprise and Related Information."

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2. INVESTMENTS

Short-term and long-term investments held by LP are debt securities classified as available-for-sale. LP invests in publicly traded, highly liquid securities including U.S. treasuries, bank obligations, corporate obligations, auction rate securities and commercial paper. Under LP's investment criteria, bank and corporate obligations carry a rating of at least A-1 and commercial paper must have the highest rating obtainable from one or more rating agencies. As of December 31, 2003, LP had no short-term or long-term cash investments in marketable securities. The following is a summary of the available for sale securities as of December 31, 2004:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Dollar amounts in millions				
At December 31, 2004				
U.S. treasury and government agency securities	\$ 126.7	\$ —	\$ 0.1	\$ 126.6
Commercial paper	131.6	—	—	131.6
Corporate obligations	99.1	—	0.3	98.8
Auction rate securities	281.4	—	—	281.4
Total marketable securities	<u>\$ 638.8</u>	<u>\$ —</u>	<u>\$ 0.4</u>	<u>\$ 638.4</u>

All of these securities are available for immediate sale. The amortized cost and fair value of investments at December 31, 2004, by contractual maturity are shown below:

	Amortized Cost	Fair Value
Dollar amounts in millions		
At December 31, 2004		
Due in one year or less	\$ 608.4	\$ 608.2
Due in one to five years	30.4	30.2
Total marketable securities	<u>\$ 638.8</u>	<u>\$ 638.4</u>

Proceeds from sales and maturities of short-term investments totaled \$2.0 billion for 2004 with \$1.7 billion resulting from auction rate securities which effectively mature on a 28 or 35 day cycle. The gross realized gains and losses related to the sales of short-term investments were not material for the year ended December 31, 2004. Net unrealized gains and losses are reported as a separate component of accumulated other comprehensive income.

The following table provides a summary of the securities in a gross unrealized loss position, aggregated by investment category and length of time the individual securities have been in an unrealized loss position at December 31, 2004:

	Less than 12 months		More than 12 months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Dollar amounts in millions						
At December 31, 2004						
U.S. treasury and government agency securities	\$ 109.6	\$ 0.1	\$ —	\$ —	\$ 109.6	\$ 0.1
Commercial paper	108.4	—	—	—	108.4	—
Corporate obligations	91.5	0.3	—	—	91.5	0.3
Total marketable securities	<u>\$ 309.5</u>	<u>\$ 0.4</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 309.5</u>	<u>\$ 0.4</u>

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LP believes that the unrealized losses above are minor, resulting from differences in market value and amortized cost of the securities. These unrealized losses are considered temporary, as LP expects to recover substantially all of its costs related to these investments prior to sale or maturity.

3. RECEIVABLES

	December 31,	
	2004	2003
Dollar amounts in millions		
Trade receivables	\$ 118.5	\$ 89.5

Income tax receivables	29.0	—
Interest receivables	4.4	3.9
Other receivables	35.8	45.0
Allowance for doubtful accounts	(2.2)	(2.3)
	<u>\$ 185.5</u>	<u>\$ 136.1</u>

As described in Note 11, the majority of LP's trade receivables secure borrowings under a revolving credit facility. Other receivables at December 31, 2004 and 2003, primarily consist of insurance settlements, short term notes receivable, Canadian sales tax receivables and other items.

4. INVENTORIES

Inventories consisted of the following (work-in-process is not material):

	December 31,	
	2004	2003
	Dollar amounts in millions	
Logs	\$ 56.7	\$ 39.5
Other raw materials	40.2	23.5
Finished products	113.7	105.7
Supplies	7.8	12.9
LIFO reserve	(2.7)	(4.1)
Total	<u>\$ 215.7</u>	<u>\$ 177.5</u>
Inventory included in current assets of discontinued operations		
Logs	\$ 3.4	\$ 9.6
Other raw materials	—	11.3
Finished products	3.8	4.0
Supplies	0.2	1.6
LIFO reserve	—	(3.7)
Total	<u>\$ 7.4</u>	<u>\$ 22.8</u>

A reduction in LIFO inventories in 2004 resulted in a reduction in cost of sales of \$1.1 million. Additionally, a reduction in LIFO inventories included in current assets of discontinued operations resulted in a reduction to cost of sales included in income (loss) from discontinued operations of \$3.7 million for the year ended December 31, 2004 and \$30 million for year ended December 31, 2003.

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5. NOTES RECEIVABLE FROM ASSET SALES

Notes receivable from asset sales are related to transactions that occurred during 1997 and 1998. These notes receivable provide collateral for LP's limited recourse notes payable (see Note 11). LP monitors the collectibility of these notes on a regular basis.

	Interest Rate	December 31,	
		2004	2003
		Dollar amounts in millions	
Notes Receivable (unsecured), maturing 2008 - 2012, interest rates fixed	5.6 - 7.5%	\$ 49.9	\$ 49.9
Notes Receivable (secured), maturing 2006 - 2018, interest rates fixed	6.8 - 7.3%	353.9	353.9
		<u>\$ 403.8</u>	<u>\$ 403.8</u>

The weighted average interest rate for all notes receivable from asset sales at December 31, 2004 and 2003 was approximately 7.0 percent. The notes mature as follows:

	Dollar amounts in millions
Year ended December 31	
2005	\$ —
2006	70.8
2007	—
2008	74.4
2009	20.0
2010 and after	238.6
Total	<u>\$ 403.8</u>

LP estimates that the fair value of these notes at December 31, 2004 and 2003 was approximately \$433 million and \$442 million, respectively.

6. GOODWILL

Goodwill by operating segment is as follows:

	December 31,	
	2004	2003
	Dollar amounts in millions	
OSB	\$ 232.5	\$ 232.5
Siding	35.6	35.6
Other	8.6	8.6
	<u>\$ 276.7</u>	<u>\$ 276.7</u>

As part of the initial impairment test required under SFAS No. 142, LP determined that \$6.3 million of goodwill recorded in the Engineered Wood Products segment was impaired as of January 1, 2002 based upon the net present value of estimated future cash flows. The resulting charge of \$3.8 million was recorded as a "cumulative effect of change in accounting principle, net of taxes" as of January 1, 2002.

7. OTHER INTANGIBLE ASSETS

LP has recorded intangible assets (other than goodwill) in its Consolidated Balance Sheets, as follows:

	December 31,	
	2004	2003
	Dollar amounts in millions	
Goodwill associated with equity investment in GreenFiber (recorded in Investments in and advances to affiliates)	\$ 16.6	\$ 16.6
SFAS No. 87 pension intangible asset	4.7	7.4
Other	2.2	2.6
Total other intangible assets	6.9	10.0
Total intangible assets	<u>\$ 23.5</u>	<u>\$ 26.6</u>

See Note 13 for discussion of the SFAS No. 87, "Employers Accounting for Pension" intangible asset.

8. INVESTMENTS IN AND ADVANCES TO AFFILIATES

LP has investments in affiliates that are accounted for under both the equity method and the cost method based upon the specific terms of the agreement as well as advances to affiliates. The significant components of these investments and advances are as follows:

	December 31,	
	2004	2003
	Dollar amounts in millions	
Investments accounted for under the equity method	\$ 59.1	\$ 52.9
Investments accounted for under the cost method (see Note 12)	44.5	44.5
Advances to equity method investees	29.1	1.4
	<u>\$ 132.7</u>	<u>\$ 98.8</u>

At December 31, 2004, LP's significant equity method investees, its approximate ownership interest and principle business activity in each investee were as follows:

	Ownership%	
U.S. GreenFiber	50%	Established to manufacture and sell cellulose insulation products
Abitibi—LP	50%	Established to construct and operate jointly owned I-Joist facilities in Eastern Canada.
Canfor—LP	50%	Established to construct and jointly operate an OSB facility in British Columbia, Canada.

These investments do not meet the Regulation S-X significance test requiring the inclusion of the separate investee financial statements or summarized financial information.

LP sells products and raw materials to these entities as well as purchases products for resale. LP eliminates profits on these sales and purchases, to the extent the inventory has not been sold through to third parties, on the basis of its 50% interest. For the year ended December 31, 2004, LP sold \$22.1 million of OSB to Abitibi-LP and purchased \$62.5 million of I-joist from Abitibi-LP.

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	December 31,	
	2004	2003
	Dollar amounts in millions	
Accounts payable	\$ 139.5	\$ 118.9
Salaries and wages payable	44.1	46.9
Taxes other than income taxes	9.0	11.7
Workers' compensation	12.8	11.7
Accrued interest	13.2	16.2
Other accrued liabilities	27.2	26.9
Income taxes payable	4.2	19.0
	<u>\$ 250.0</u>	<u>\$ 251.3</u>

Other accrued liabilities at December 31, 2004 and 2003 primarily consist of accrued rent, timber liabilities, current portion of warranty liabilities and other items.

10. INCOME TAXES

Income (loss) before taxes was taxed in domestic and foreign jurisdictions, as follows:

	Year Ended December 31,		
	2004	2003	2002
	Dollar amounts in millions		
Domestic	\$ 482.0	\$ 481.7	\$ 7.0
Foreign	216.6	16.6	(90.5)
	<u>\$ 698.6</u>	<u>\$ 498.3</u>	<u>\$ (83.5)</u>

Income (loss) before taxes is reflected in the Consolidated Statements of Income as follows:

	Year Ended December 31,		
	2004	2003	2002
	Dollar amounts in millions		
Income from continuing operations before taxes, minority interest and equity in earnings of unconsolidated affiliates	\$ 699.4	\$ 516.8	\$ 7.7
Minority interest in net income (loss) of consolidated subsidiary	—	—	(0.9)
Equity in earnings of unconsolidated affiliates	(3.8)	(1.9)	(2.8)
Income (loss) from continuing operations	703.2	518.7	11.4
Income (loss) from discontinued operations	(4.6)	(20.6)	(88.7)
Cumulative effect of change in accounting principle	—	0.2	(6.2)
	<u>\$ 698.6</u>	<u>\$ 498.3</u>	<u>\$ (83.5)</u>

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Provision (benefit) for income taxes includes the following:

	Year Ended December 31,		
	2004	2003	2002
	Dollar amounts in millions		
<i>Current tax provision (benefit):</i>			
U.S. federal	\$ 46.8	\$ 40.4	\$ (4.2)
State and local	5.1	2.4	0.7
Foreign	92.3	9.2	11.2
Net current tax provision (benefit)	<u>144.2</u>	<u>52.0</u>	<u>7.7</u>
<i>Deferred tax provision (benefit):</i>			
U.S. federal	123.5	130.6	(5.1)
State and local	13.0	13.8	(0.5)
Foreign	(2.8)	29.4	(23.6)
Net deferred tax provision (benefit)	<u>133.7</u>	<u>173.8</u>	<u>(29.2)</u>
Total income tax provision (benefit)	<u>\$ 277.9</u>	<u>\$ 225.8</u>	<u>\$ (21.5)</u>

The income tax provision (benefit) has been allocated in accordance with SFAS No. 109, "Accounting for Income Taxes," and has been recorded in the financial statements as follows:

	Year Ended December 31,		
	2004	2003	2002
	Dollar amounts in millions		
Continuing operations	\$ 279.7	\$ 233.8	\$ 15.2
Discontinued operations	(1.8)	(8.1)	(34.3)
Cumulative effect of accounting change	—	0.1	(2.4)
Total income tax provision (benefit)	<u>\$ 277.9</u>	<u>\$ 225.8</u>	<u>\$ (21.5)</u>

Income tax paid (received) during 2004, 2003, and 2002 was \$183.5 million, \$29.9 million and \$(41.6) million, respectively. Additionally, included in LP's Consolidated Balance Sheet at December 31, 2004 is an income tax receivable of \$29 million.

The income tax effects of LP's share of the income or loss of GreenFiber and Canfor-LP OSB Limited Partnership in 2004, 2003 and 2002 are recorded in the line item "Provision (benefit) for income taxes" in LP's consolidated income statement, while LP's share of the pre-tax income (loss) is recorded in the line item "Equity in (earnings) loss of unconsolidated affiliate."

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The tax effects of significant temporary differences creating deferred tax (assets) and liabilities at December 31 were as follows:

	December 31,	
	2004	2003
	Dollar amounts in millions	
Property, plant and equipment	\$ 123.8	\$ 121.3
Timber and timberlands	41.7	41.2
Inventories	(7.5)	(7.0)
Accrued liabilities	(64.2)	(86.5)
Contingency reserves	(.8)	(1.0)
Benefit of capital loss and NOL carryovers	(18.0)	(61.2)
Benefit of foreign ITC carryover	—	(1.4)
Benefit of state tax credit carryover	(1.9)	(1.7)
Benefit of U.S. alternative minimum tax credit	(25.6)	(41.5)
Installment sale gain deferral	268.1	268.1
Tax on undistributed foreign income	144.3	95.1
Deferred financial income	16.6	17.8
Other	1.0	4.5
Valuation allowance	<u>13.3</u>	<u>8.3</u>
Net deferred tax liability	490.8	356.0
Net current deferred tax assets	<u>(26.7)</u>	<u>(51.7)</u>
Net non-current deferred tax liabilities	<u>\$ 517.5</u>	<u>\$ 407.7</u>

The \$18 million of capital loss and net operating loss (NOL) carryovers included in the above table consists of \$7 million of state NOL carryovers, net of federal tax, which will expire in various years through 2022 and \$11 million of Canadian capital loss carryovers which may be carried forward indefinitely. LP has recorded a valuation allowance against the entire Canadian capital loss carryover; \$1 million of the state NOL carryover; and \$1 million of the state tax credit carryover.

U.S. taxes have not been provided on approximately \$396.0 million of undistributed earnings of LP's foreign subsidiaries, which under existing law, are not subject to U.S. tax until distributed as dividends. These earnings have been, and are intended to be, indefinitely reinvested in its foreign operations. Quantification of the deferred tax liability, if any, associated with indefinitely reinvested earnings is not practical. Furthermore, any taxes paid to the foreign governments on these earnings may be used, in whole or in part, as credits against the U.S. tax on any dividends distributed from such earnings.

Management is currently evaluating recent tax law changes under the American Jobs Creation Act of 2004, which created a temporary incentive for U.S. corporations to repatriate accumulated income earned abroad by providing an 85 percent dividends-received deduction for certain dividends from controlled foreign corporations. The deduction is subject to a number of limitations as well as uncertainty as to how to interpret numerous provisions in the Act. As of this time, LP has not concluded its analysis to determine whether, and to what extent, it might repatriate these unremitted foreign earnings. Based on LP's analysis to date, it is possible that it may repatriate funds of \$0 to \$400 million, with a respective tax liability ranging from \$0 to \$50 million. LP has recognized a deferred tax liability for some of its prior and current years' unremitted foreign earnings that it has determined are not to be indefinitely reinvested in its foreign operations, and shall continue doing so during the period in which it evaluates the effect of the Act. Until its analysis is complete, LP is not able to determine what impact, if any, repatriation of unremitted foreign earnings would have on its deferred tax liability. It is possible that a repatriation of foreign earnings would

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result in a net decrease to LP's recorded deferred tax liabilities. LP expects to be able to finalize its assessment by the quarter ending September 30, 2005.

LP's reserve for tax contingencies related to issues in the United States and foreign locations was \$6.0 million at December 31, 2004 and \$7.6 million at December 31, 2003. This balance is the Company's best estimate of the potential liability for known tax contingencies. The decline in the tax contingency reserve was primarily due to the closure of audits in the United States, partially offset by current year requirements for asserted and unasserted items. Inherent uncertainties exist in the process of estimating tax contingencies for various reasons, including, but not limited to, the complexity of tax laws and regulations and changing interpretations of such laws and regulations through administrative processes and the tax court systems of the various taxing jurisdictions. Based upon information currently available, management believes that resolution of tax contingencies will not have a material adverse effect on the financial position, results of operations, cash flows or liquidity of LP.

The following table summarizes the differences between the statutory U.S. federal and effective income tax rates:

	Year ended December 31		
	2004	2003	2002
Federal tax rate	35%	35%	(35)%
State and local income taxes	3	4	(1)
Revisions to estimates recorded in prior years	—	—	5
Effect of foreign exchange gain (loss)	3	6	3
Other, net	(1)	—	2
	<u>40%</u>	<u>45%</u>	<u>(26)%</u>

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11. LONG-TERM DEBT

	Interest Rate	December 31,	
		2004	2003
		Dollar amounts in millions	
<i>Debentures:</i>			
Senior notes, maturing 2005, interest rates fixed	8.5%	\$ 170.4	\$ 174.1
Senior notes, maturing 2010, interest rates fixed	8.875	199.5	199.4
Senior subordinated notes, maturing 2008, interest rates fixed (callable November 2005)	10.875	6.4	200.0
<i>Bank credit facilities:</i>			
Chilean term credit facility, repaid in 2004, interest rate variable	—	—	6.0
Accounts receivable securitization, expiring in 2007, interest rate variable	—	—	—
U.S. revolving credit facility, expiring in 2009, interest rates variable	—	—	—
Canadian revolving credit facility, expiring in 2006, interest rates variable	—	—	—
<i>Limited recourse notes payable:</i>			
Senior notes, payable 2008-2012, interest rates fixed	7.1 - 7.5	47.9	47.9
Senior notes, payable 2006-2018, interest rates fixed	6.8 - 7.3	348.6	348.6
<i>Project revenue financing:</i>			
Project revenue bond financings, payable through 2022, interest rates variable	1.23 - 1.25	22.8	30.8
<i>Other financings:</i>			
Other, interest rates vary		4.9	22.2
Total		<u>800.5</u>	<u>1,029.0</u>
Current portion		(178.0)	(8.3)
Net long-term debt		<u>\$ 622.5</u>	<u>\$ 1,020.7</u>

LP believes the carrying amounts of its variable rate long-term debt approximates fair market value. LP estimates the limited recourse notes payable have a fair value of approximately \$431 million and \$436 million at December 31, 2004 and 2003. LP estimates the Senior notes maturing in 2005 and 2010 have a fair market value of \$175 million and \$238 million at December 31, 2004 and \$187 million and \$235 million at December 31, 2003 based upon market indications. LP estimates the senior subordinated notes have a fair market value of \$7 million and \$237 million at December 31, 2004 and December 31, 2003 based upon market quotes.

The underlying assets of the related manufacturing facility typically secure project revenue financings.

In 1997, LP issued \$47.9 million of senior notes in a private placement to institutional investors. The notes mature in principal amounts of \$20 million in 2008, \$20 million in 2009, and \$7.9 million in 2012. They are secured by \$50 million in notes receivable from Sierra Pacific Industries. In the event of a default by Sierra Pacific Industries, LP is fully liable for the notes payable.

LP issued \$348.6 million of senior debt in June 1998 in a private placement to institutional investors. The notes mature in principal amounts of \$69.7 million in 2006, \$53.5 million in 2008, \$113.4 million in 2010, \$90.0 million in 2013 and \$22.0 million in 2018. The notes are secured by \$353.9 million of notes receivable from Simpson Timber Company. Pursuant to the terms of the notes payable, in the event of a default by Simpson, LP would be liable to pay only 10% of the indebtedness represented by the notes payable.

LP's borrowing arrangements and, in particular, the indenture associated with the \$200 million (\$6.4 million outstanding at December 31, 2004) of 10.875% senior subordinated notes due 2008, contain a number of covenants, which restrict LP's activities. In addition, most of LP's debt agreements contain cross-default or cross-acceleration clauses to LP's other significant debt agreements.

In connection with LP's issuance of senior subordinated notes, LP entered into an indenture that restricts LP's ability and the ability of its restricted subsidiaries (as defined in the indenture) to, among other things: (1) incur debt; (2) incur liens; (3) make acquisitions; (4) make investments, including loans and advances; (5) engage in mergers, consolidations or sales of assets; (6) enter into sale and leaseback transactions; (7) engage in transactions with affiliates; and (8) pay dividends or engage in stock redemptions. In connection with the repurchase of a majority of these notes, substantially all of the restrictive covenants contained in the indenture are suspended so long as LP maintains a credit rating of BB- or above with S&P and Ba3 or above with Moody's, which suspension will become permanent if such credit ratings are maintained for twelve consecutive months from March 25, 2004. As of December 31, 2004, LP's credit rating were

	<u>Moody's Investor Service</u>	<u>Standard & Poor's</u>
Senior Notes	Baa3	BBB -

In September 2004, LP entered into a new five-year revolving credit facility and terminated its former secured letter of credit facility. The new facility, which will expire in September 2009, provides for committed borrowing capacity of \$150 million. Subject to the willingness of existing or new lenders under the credit facility to advance additional funds, LP may increase its borrowing capacity under the facility by up to an additional \$100 million. The facility allows LP to cash collateralize the borrowings and letters of credit outstanding under the facility, at its option, in order to lower the cost of such borrowings and letters of credit. At December 31, 2004, LP had no borrowings outstanding under the facility. Letters of credit issued and outstanding totaled approximately \$58.9 million as December 31, 2004 and were cash collateralized with approximately \$62.1 million.

In November 2004, LP renewed an accounts receivable secured revolving credit facility providing for up to \$100 million (at December 31, 2004) of borrowing capacity. At December 31, 2004, there were no outstanding borrowings under this facility. The structure of this facility required LP to maintain a wholly owned non-qualifying special purpose entity, which is consolidated in accordance with SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." This entity purchases accounts receivable from LP and borrows from a third party using the receivables as collateral. The transaction is treated as a secured borrowing because the Company has the right to terminate early any borrowings outstanding, allowing LP to retain effective control over the receivables. The pledged receivables outstanding and the corresponding debt are included as Receivables and Long-term Debt on LP's Consolidated Balance Sheet. At December 31, 2004, borrowings under this facility bore interest at approximately commercial paper rates plus 0.5%. The maximum amount available for borrowing under this facility changes based upon the amount of eligible receivables, concentration of eligible receivables and other factors. The facility contains a provision under which specified downgrades of LP's long-term unsecured senior debt rating could cause an amortization event under this facility.

Louisiana Pacific Canada Ltd (LP Canada) has a \$10 million (Canadian) unsecured revolving credit facility. LP's ability to obtain letters of credit under this facility ends in January 2006, and the facility expires in January 2007. The facility allows LP Canada to cash collateralize the borrowings and letters of credit outstanding under the facility, at its option, in order to lower the cost of such borrowings and letters of credit. At December 31, 2004, LP Canada had no borrowings outstanding under the facility. Letters of credit issued and outstanding totaled approximately \$3.2 million as December 31, 2004 and were cash collateralized with \$3.3 million.

In December 2000, Louisiana Pacific Chile SA entered into a five-year term credit facility with a Chilean bank. The facility is for an amount up to \$10 million. At December 31, 2004, no borrowings were outstanding. The facility bears interest at LIBOR plus .9%. The proceeds from the facility were used to fund working capital of an OSB plant in Chile. The facility required us to maintain a funded debt to capitalization ratio, each as defined, of not more than .55 to 1.0. Borrowings under the facility were secured.

The weighted average interest rate for all long-term debt at December 31, 2004 and 2003 was approximately 7.7 percent and 8.1 percent. Required repayment of principal for long-term debt is as follows:

<u>Year ended December 31</u>	<u>Dollar amounts in millions</u>
2005	\$ 178.0
2006	70.6
2007	0.7
2008	74.3
2009	28.4
2010 and after	448.5
Total	<u>\$ 800.5</u>

Cash paid during 2004 and 2003 for interest (net of capitalized interest) was \$68.3 million and \$89.8 million.

During the years ended December 31, 2004 and 2003, LP repurchased \$197.4 million of its publicly traded debt obligations (\$193.6 million of the 10.875% Subordinated Notes and \$3.8 million of the 8.5% Senior Notes) and \$15.7 million (\$15.7 million of the 8.5% Senior Notes). In connection with these repurchases, LP recorded charges of \$41.5 million and \$1.5 million to reflect the premiums paid and certain transaction costs for the years ended December 31, 2004 and 2003.

12. OFF-BALANCE SHEET ARRANGEMENT

In connection with the sale of LP's southern timber and timberlands in 2003, LP received cash of \$26.4 million and notes receivable of \$410.0 million from the purchasers of such timber and timberlands. In order to borrow funds in a cost-effective manner: (i) LP contributed the notes receivable to a Qualified Special Purpose Entity (QSPE) as defined under SFAS No. 140, (ii) the QSPE issued to unrelated third parties bonds and supported by a bank letter of credit which are secured by the notes

receivable, and (iii) the QSPE distributed to LP, as a return of capital, substantially all of the proceeds realized by the QSPE from the issuance of its bonds. The QSPE has no sources of liquidity other than the notes receivable, the cash flow generated by the notes receivable generally will be dedicated to the payment of the bonds issued by the QSPE, and the QSPE's creditors generally will have no recourse to LP for the QSPE's obligations (subject to the limited exception described below).

Pursuant to the arrangement described above, during 2003, LP contributed the \$410.0 million of notes receivable to the QSPE, the QSPE issued \$368.7 million of its bonds to unrelated third parties and distributed \$365.8 million to LP as a return of capital.

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The principal amount of the QSPE's borrowings is approximately 90% of the principal amount of the notes receivable contributed by LP to the QSPE. LP's retained interest in the excess of the notes receivable contributed to the unconsolidated subsidiary over the amount of capital distributed by the unconsolidated subsidiary, in the form of an investment in the QSPE, represented \$44.5 million of the "Investments in and Advances to Affiliates" reflected on LP's Consolidated Balance Sheet as of December 31, 2004. Management believes the book value of this investment approximates market value, as the interest rates on the notes receivable are variable.

In accordance with SFAS No. 140, the QSPE is not included in LP's consolidated financial statements and the assets and liabilities of the QSPE are not reflected on LP's consolidated balance sheet. The QSPE's assets have been removed from LP's control and are not available to satisfy claims of LP's creditors except to the extent of LP's retained interest, if any, remaining after the claims of QSPE's creditors are satisfied. In general, the creditors of the QSPE have no recourse to LP's assets, other than LP's retained interest. However, under certain circumstances, LP may be liable for certain liabilities of the QSPE (including liabilities associated with the marketing or remarketing of its bonds and reimbursement obligations associated with the letter of credit supporting the bonds) in an amount not to exceed 10% of the aggregate principal amount of the notes receivable pledged by the QSPE. LP's maximum exposure in this regard was approximately \$41 million as of December 31, 2004. The estimated fair value of this guarantee is not material.

13. RETIREMENT PLANS AND POSTRETIREMENT BENEFITS

LP sponsors various defined benefit and defined contribution retirement plans that provide retirement benefits to substantially all of its employees. Vesting generally occurs after 3 to 5 years of service. Most regularly scheduled employees are eligible to participate in these plans except those covered by a collective bargaining agreement, unless the collective bargaining agreement specifically allows for participation in LP's plans. LP contributes to multiple employer and multiemployer plans for certain employees covered by collective bargaining agreements.

Defined Benefit Plans

Contributions to the qualified defined benefit pension plans are based on actuarial calculations of amounts to cover current service costs and amortization of prior service costs over periods ranging up to 20 years. Benefit accruals under the two most significant plans, which account for more than 85% of the assets and benefit obligations in the tables below, are credited at a rate of 5% of eligible compensation with an interest credit based on the 30-year U.S. Treasury rate. The remaining defined benefit pension plans use a variety of benefit formulas.

LP also maintains a Supplemental Executive Retirement Plan (SERP), an unfunded, non-qualified defined benefit plan intended to provide supplemental retirement benefits to key executives. Benefits are generally based on compensation in the years immediately preceding normal retirement. LP has established a grantor trust that provides funds for the benefits payable under the SERP. The assets of the grantor trust are invested in corporate-owned life insurance policies. At December 31, 2004 and 2003, the trust assets were valued at \$14.4 million and \$13.5 million and are included in other assets in LP's Consolidated Balance Sheet. LP did not contribute to this trust in 2004 and contributed \$1.6 million in 2003.

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The following table sets forth the change in the benefit obligation, the change in plan assets, the funded status and the amounts recognized in the consolidated balance sheet for LP sponsored plans:

	December 31,	
	2004	2003
	Dollar amounts in millions	
<i>Change in benefit obligation:</i>		
Benefit obligation—beginning of year	\$ 251.2	\$ 231.6
Service cost	10.0	10.6
Interest cost	14.6	15.0
Actuarial (gain) loss	8.3	19.1
Curtailements/settlements	.5	(1.3)
Foreign exchange rate changes	2.4	4.3
Benefits paid	(28.7)	(28.1)
Benefit obligation—end of year	<u>\$ 258.3</u>	<u>\$ 251.2</u>
<i>Change in assets:</i>		
Fair value of assets—beginning of year	\$ 179.0	\$ 145.4
Actual return on plan assets	16.0	25.1
Employer contribution	48.6	33.1
Foreign exchange rate changes	2.0	3.5
Benefits paid	(28.7)	(28.1)
Fair value of assets—end of year	<u>\$ 216.9</u>	<u>\$ 179.0</u>
<i>Reconciliation of funded status:</i>		
Funded status	\$ (41.4)	\$ (72.2)
Unrecognized actuarial loss	92.7	92.0
Unrecognized prior service cost	5.4	5.7
Unrecognized asset at transition	0.2	0.2
Prepaid benefit cost	<u>\$ 56.9</u>	<u>\$ 25.7</u>
<i>Amounts recognized in the balance sheet consist of:</i>		
Prepaid benefit cost	\$ 3.1	\$ 1.6
Accrued benefit liability	(28.4)	(60.3)
Intangible asset	4.7	5.6
Accumulated other comprehensive income (pre-tax)	77.5	78.8
Net amount recognized	<u>\$ 56.9</u>	<u>\$ 25.7</u>

Increase (decrease) in minimum liability included in other comprehensive income (net of income taxes):	\$ (2.1)	\$ (2.7)
<i>Weighted-average assumptions for obligations as of October 31(measurement date):</i>		
Discount rate for obligations	5.59%	6.05%
Rate of compensation increase	4.06%	4.08%

The accumulated benefit obligation for all defined benefit plans was \$243.4 million at October 31, 2004. There were no significant plans with plan assets in excess of benefit obligations at December 31, 2004.

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Net periodic pension cost included the following components:

	Year Ended December 31,		
	2004	2003	2002
	Dollar amounts in millions		
Service cost	\$ 10.0	\$ 10.6	\$ 11.3
Interest cost	14.6	15.0	15.2
Expected return on plan assets	(15.5)	(14.9)	(15.5)
Amortization of prior service cost and net transition asset	0.9	1.1	1.3
Recognized net actuarial loss	5.6	5.3	2.2
Net periodic pension cost	\$ 15.6	\$ 17.1	\$ 14.5
Loss due to curtailment	\$ 2.4	\$ 2.5	\$ 4.4
<i>Weighted-average assumptions for periodic pension cost:</i>			
Discount rate for pension cost	6.06%	6.25%	6.96%
Expected long-term rate of return on plan assets	7.86%	8.32%	8.62%

The expected long-term rate of return on plan assets reflects the weighted-average expected long-term rates of return for the broad categories of investments currently held in the plans (adjusted for expected changes), based on historical rates of return for each broad category, as well as factors that may constrain or enhance returns in the broad categories in the future. The expected long-term rate of return on plan assets is adjusted when there are fundamental changes in expected returns in one or more broad asset categories and when the weighted-average mix of assets in the plans changes significantly.

Plan Assets

The following table presents the weighted-average asset allocations as of the measurement dates of LP's plans:

Asset category	2004	2003
	Dollar amounts in millions	
Equity securities	65.4%	59.3%
Debt securities	25.5	39.4
Other, including cash and cash equivalents	9.1	1.3
Total	<u>100.0%</u>	<u>100.0%</u>

LP's investment policies for the defined benefit pension plans provide target asset allocations by broad categories of investment and ranges of acceptable allocations. These policies are set by an administrative committee with the goal of maximizing long-term investment returns within acceptable levels of volatility and risk. LP's U.S. plans have recently added hedge funds and real return investment strategies to increase returns and reduce volatility and plan to invest in real estate in the future for the same reasons. LP's plans do not currently invest in derivative securities, although such investments may be considered in the future to increase returns and/or reduce volatility.

Cash Flows

LP expects to contribute \$15 million to \$20 million to its defined benefit plans in 2005.

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The following table reflects the expected benefit payments from the plans:

Year	Pension Benefits Dollar amounts in millions
2005	\$ 13.7
2006	15.3
2007	16.6
2008	17.7
2009	18.7
2010 - 2014	106.4

Defined Contribution Plans

LP also sponsors defined contribution plans in the U.S. and Canada. In the U.S., these plans are primarily 401(k) plans for hourly and salaried employees that allow for pre-tax employee deferrals and a company match of up to 3.5% of an employee's eligible wages (subject to certain limits). Under the profit sharing feature of these plans, LP may elect to contribute a discretionary amount as a percentage of eligible wages. Included in the assets of the 401(k) and profit sharing plans are 2.9 million shares of LP common stock that represented approximately 34% of the total market value of plan assets at December 31, 2004.

In Canada, these plans are both defined contribution plans and Registered Retirement Savings Plans for hourly and salaried employees that allow for pre-tax employee deferrals. LP provides a base contribution of 2.5% of eligible earnings for most employees and matches 50% of an employee's deferrals up to a maximum of 3%

of each employee's eligible earnings (subject to certain limits).

Expenses related to defined contribution plans and multi-employer plans in 2004, 2003 and 2002 were \$11.9 million, \$10.9 million and \$6.8 million.

Postretirement Benefits

LP has several plans that provide minimal postretirement benefits other than pensions, primarily for salaried employees in the US and certain groups of Canadian employees. The accrued postretirement benefit cost at December 31, 2004 was \$8.7 million. Net expense related to these plans was not significant.

14. STOCKHOLDERS' EQUITY

Preferred Stock

The Company is authorized to issue up to 15,000,000 shares of preferred stock at \$1.00 par value. At December 31, 2004, no shares of preferred stock have been issued; however, 2,000,000 shares of Series A Junior Participating Preferred Stock have been reserved for issuance in connection with the Company's Shareholder Rights Plan. Additional series of preferred stock may be designated and the related rights and preferences fixed by action of the Board of Directors.

Shareholder Rights Plan

In May 1998, the Board of Directors approved a shareholder rights plan and declared a dividend of one preferred share purchase right for each outstanding common share. Each right represents the right to purchase one hundredth of a share of Preferred Stock, at an exercise price of \$100.00, subject to adjustment. The rights are only exercisable ten days after a person or group acquires, or commences a

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tender or exchange offer to acquire, beneficial ownership of 15% or more of the Company's outstanding common stock.

Subject to the terms of the shareholder rights plan and the discretion of the Board of Directors, each right would entitle the holder to purchase a number of additional shares of common stock of LP having a total market value of twice the exercise price of each right. The rights expire in June 2008, but may be redeemed by action of the Board of Directors prior to that time at \$.01 per right.

Stock Compensation Plans

LP grants options to key employees and directors to purchase LP common stock. The options are granted at 100 percent of market price at the date of grant. The options become exercisable over 3 years beginning one year after the grant date and expire 10 years after the date of grant. At December 31, 2004, 8,935,641 shares were available under the current stock award plan for future option grants and all other stock-based awards.

Changes in options outstanding and exercisable and weighted average exercise price were as follows:

	Number of Shares		
	For the Year Ended December 31,		
	2004	2003	2002
Share amounts in thousands			
<i>Outstanding options</i>			
Options outstanding at January 1	5,860	6,372	4,929
Options granted	529	1,771	1,888
Options exercised	(3,326)	(1,856)	—
Options cancelled	(309)	(427)	(445)
Options outstanding at December 31	<u>2,754</u>	<u>5,860</u>	<u>6,372</u>
Options exercisable at December 31	<u>1,511</u>	<u>2,897</u>	<u>3,702</u>
<i>Exercise price</i>			
Options granted	\$ 21.36	\$ 7.52	\$ 8.11
Options exercised	\$ 12.39	\$ 10.25	—
Options cancelled	\$ 13.32	\$ 16.12	\$ 15.66
Options outstanding	\$ 14.35	\$ 12.52	\$ 13.51
Options exercisable	\$ 16.94	\$ 16.99	\$ 16.39
<i>Fair value at date of grant</i>			
Options granted	\$ 9.46	\$ 2.67	\$ 3.08

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model using the actual option terms with the following assumptions: 1.1 percent to 3.5 percent dividend yield; volatility of 46 percent in 2004, 45 percent in 2003 and 45 percent in 2002; and an average risk free interest rate of 3.9 percent in 2004, 3.9 percent in 2003 and 5.4 percent in 2002.

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Summary information about the Company's stock options outstanding at December 31, 2004, is as follows:

Range of exercise prices	OUTSTANDING			EXERCISABLE	
	Outstanding December 31, 2004 (in thousands)	Weighted Average Contractual Periods in Years	Weighted Average Exercise Price	Exercisable at December 31, 2004 (in thousands)	Weighted Average Exercise Price
\$6.75 - \$7.50	678	8.08	\$ 7.29	29	\$ 7.16
\$7.51 - \$8.10	463	7.09	8.10	218	8.09
\$8.11 - \$12.00	121	7.02	10.61	98	10.80
\$12.01 - \$14.00	216	5.17	12.40	211	12.37
\$14.01 - \$22.00	997	6.13	20.05	712	19.58
\$22.01 - \$28.00	279	2.51	24.65	243	24.74
\$6.75 - \$28.00	<u>2,754</u>	<u>6.37</u>	<u>\$ 14.35</u>	<u>1,511</u>	<u>\$ 16.94</u>

Performance-Contingent Stock Awards

LP has granted performance-contingent stock awards to senior executives as allowed under the current stock award plan. The awards entitle the participant to receive a number of shares of LP common stock determined by comparing LP's cumulative total stockholder return to the mean total stockholder return of five other forest products companies for the four-year period beginning in the year of the award. Awards were initially granted at a target share level. No awards have been granted since 2000. Depending on LP's four-year total stockholder return, the actual number of shares issued at the end of the four-year period could range from zero to 200 percent of this target. LP did not record any compensation expense related to these awards in 2002 or before based on the cumulative stockholders return for the applicable periods, however due to the disability of one of the participants, LP was required to issue 23,102 shares in 2002 and recorded \$0.2 million in expense. During 2003, due to LP's stockholder return compared to the mean total stockholder return of four other forest products, LP recorded compensation expense of \$1.6 million and \$0.7 million in 2004. In 2004, the Compensation Committee of the Board of Directors approved the stock award at the 200% level. LP issued fifty percent of these shares (54,458 shares) on an unrestricted basis in early 2004 with the remaining award (54,458 shares) being issued as restricted stock with a vesting period of two years. Under the terms of the retirement of LP's former Chief Executive Officer, 39,146 of these shares were further accelerated and restrictions on these shares were eliminated.

Incentive Share Awards

Beginning in 2001, LP has granted incentive share stock awards to selected senior executives as allowed under the current stock award plan. The awards entitle the participant to receive a specified number of shares of LP common stock at no cost to the participant. These awards vest over a five-year period, subject to vesting acceleration upon the achievement of various stock price targets. The stock price targets were reached for all grants except for fifty percent of the 2004 grants. Of these shares, 643,628 were issued in 2004 and 131,560 shares will vest and be issued on the anniversary of the original grant in January 2005. For the remaining awards related to 2004, if LP's stock trades at or above \$29.78 per share for five consecutive days prior to the end of the five-year period, the remaining awards will automatically vest. LP recorded compensation expense related to these awards in 2004, 2003 and 2002 of \$2.9 million, \$2.0 million and \$0.5 million.

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Changes in incentive stock awards were as follows:

	Number of Shares		
	Year Ended December 31,		
	2004	2003	2002
Incentive stock awards outstanding at January 1	675,309	409,950	193,550
Incentive stock awards granted	196,829	316,259	305,850
Incentive stock award shares issued	(643,628)	—	(7,550)
Incentive stock awards cancelled or forfeited	(41,246)	(50,900)	(81,900)
Incentive stock awards outstanding at December 31	<u>187,264</u>	<u>675,309</u>	<u>409,950</u>

Executive Loan Program

In November 1999, the subcommittee of the Compensation Committee approved an Executive Loan Program under which LP offered up to 1,700,000 shares of LP's common stock for purchase prior to January 23, 2000, by LP's executive officers, and other executives designated by its chief executive officer. In November 2000, this subcommittee of the Compensation Committee authorized additional loans under the Executive Loan Program during the 60-day period which ended January 23, 2001. Subsequent to this time, there have been no additional loans made. New loans are not permitted to be made to executive officers under provisions of the Sarbanes-Oxley Act of 2002.

Each loan was initially recorded as an offset to paid-in capital. In anticipation of loan forgiveness in 2004 through 2006 as described below, LP amortizes each loan and its accrued interest to expense over the period between its inception and the anticipated forgiveness dates. Under the terms of the agreement, if the executive remains continuously employed by LP through the following dates, the loan balance at that date will be forgiven in the following percentages: January 23, 2004, 50% of the original principal; January 23, 2005, an additional 25% of the principal plus 50% of the accrued interest; and January 23, 2006, all remaining principal and accrued interest. In addition, if LP's common stock has traded on the NYSE for at least five consecutive trading days at specified price levels or above during the 12-month period immediately preceding January 23, 2004 or 2005 and the executive remains employed by LP, the following additional percentages of the loan balance will be forgiven: January 23, 2004, 25% of the principal and 50% of the accrued interest at a price level of \$16.00 per share or 50% of the principal and 100% of the accrued interest at a price level of \$20.00 per share; and January 23, 2005, all remaining principal and accrued interest at a price level of \$18.00 per share. In January 2004, LP's stock traded above \$20.00 for five consecutive days and therefore as of January 23, 2004, the outstanding balance of the loans were completely forgiven. As a result, LP recorded compensation expense of \$2.6 million in the 2004.

15. ASSET RETIREMENT OBLIGATIONS

In June of 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." This statement addresses financial accounting and reporting obligations associated with the retirement of tangible long-lived assets and the associated retirement costs. SFAS No. 143 was effective for LP beginning January 1, 2003. As part of this implementation, LP recognized a gain of \$0.2 million (before taxes). This change was primarily associated with the treatment of the monitoring costs on closed landfills and timber reforestation obligations associated with LP's timber licenses in Canada.

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The activity in LP's asset retirement obligation liability for 2004 and 2003 is summarized in the following table.

	Year ended December 31,	
	2004	2003
	Dollar amounts in millions	
Beginning balance	\$ 2.6	\$ 4.3
Accretion expense	0.1	0.2
Reversal of liability due to asset sales	—	(1.0)
Payments made	(0.5)	(1.0)
Other	—	0.1
Ending balance	<u>\$ 2.2</u>	<u>\$ 2.6</u>

16. OTHER OPERATING CREDITS AND CHARGES, NET

The major components of "Other operating credits and charges, net" in the Consolidated Statements of Income for the years ended December 31 are reflected in the table below and described in the paragraphs following the table:

	Year ended December 31,		
	2004	2003	2002
	Dollar amounts in millions		
Additions to litigation reserves	\$ (6.0)	\$ (13.0)	\$ (2.0)
Additions to product related contingency reserves	—	(6.7)	(27.2)
Revisions to environmental contingency reserves	2.8	(2.7)	(1.6)
Gain on insurance recoveries	—	29.3	1.9
Gain on substantial liquidation of LP's investment in LP's Chetwynd, British Columbia pulp mill	—	—	3.1
Loss on contract	—	(4.4)	—
Charges associated with corporate relocation	(12.5)	(1.7)	—
Charges associated CEO retirement	(13.1)	—	—
Loss related to assets and liabilities transferred under contractual obligation	—	(16.0)	—
Severance	—	—	(2.1)
Other	0.1	—	(1.6)
	<u>\$ (28.7)</u>	<u>\$ (15.2)</u>	<u>\$ (29.5)</u>

2004

During 2004, LP recorded \$28.7 million in Other operating credits and charges, net. The components of the net charges include:

- an increase to litigation reserves of \$6.0 million;
- a gain of \$2.8 million associated with the reversal of previously recorded environmental reserves;
- a loss of \$13.1 million associated with certain compensation arrangements impacted by the retirement of LP's Chief Executive Officer; and
- a loss of \$12.5 million associated with the relocation and consolidation of LP's corporate offices to Nashville, Tennessee.

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2003

During 2003, LP recorded \$15.2 million in Other operating credits and charges, net. The components of the net charges include:

- an increase to litigation reserves of \$13.0 million;
- a loss of \$16.0 million related to assets and liabilities transferred under contractual arrangement due to the increase in a valuation allowance associated with notes receivable from Samoa Pacific Cellulose (SPC) (see Note 18 for further discussion);
- a loss of \$6.7 million from increases in product related contingency reserves associated with the National OSB class action settlement (see Note 18 for further discussion);
- a loss of \$2.7 million associated with environmental reserves at LP's Ketchikan Pulp Company (KPC) operations;
- a loss of \$4.4 million related to an energy contract associated with SPC
- a gain of \$29.3 million related to insurance recoveries for environmental costs incurred in prior years; and
- a loss of \$1.7 million associated with the relocation and consolidation of LP's corporate offices to Nashville, Tennessee.

2002

During 2002, LP recorded \$29.5 million in Other operating credits and charges, net. The components of the net charges include:

- an increase to litigation reserves of \$2 million;
- an increase to product related contingency reserves of \$27.2 million associated with the hardboard siding class action settlement (see in Note 18 for further discussion);
- an increase in environmental contingency reserves of \$1.6 million associated with KPC's former log transfer facilities;
- a gain of \$1.9 million from business interruption insurance recoveries related to incidents at facilities that occurred in past years;
- a gain of \$3.1 million on the substantial liquidation of a LP's investment in LP's Chetwynd, British Columbia pulp mill;
- a loss of \$2.1 million due to severance incurred associated with the corporate restructuring that accompanied the divestiture plan; and
- a loss of \$1.6 million associated with a sublease on LP's corporate headquarters.

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Severance

Over the course of the last three years, LP has entered into several restructuring plans in an effort to reduce overall expenses. The detail of the severance accrual and related expense and payments for the last three years is as follows:

	Year ended December 31,		
	2004	2003	2002
	Dollar amounts in millions		
Beginning balance	\$ 3.1	\$ 4.7	\$ 6.4
Charged to expense, continuing operations	3.1	3.3	2.1
Charged to expense, discontinued operations	0.3	2.5	7.6
Payments	(4.7)	(7.4)	(11.4)
Ending balance	<u>\$ 1.8</u>	<u>\$ 3.1</u>	<u>\$ 4.7</u>

The balance of the accrued severance is included in the caption Accounts payable and accrued liabilities on the Consolidated Balance Sheets. The balance as of December 31, 2004 is payable under contract through 2005. The majority of the severance expense is non-segment related.

17. GAIN (LOSS) ON SALE OF AND IMPAIRMENT OF LONG-LIVED ASSETS, NET

The major components of "Gain (loss) on sale of and impairment of long-lived assets, net" in the Consolidated Statements of Income are reflected in the table below and are described in the paragraphs following the table.

	Year ended December 31,		
	2004	2003	2002
	Dollar amounts in millions		
Impairment charges on long-lived assets	\$(17.7)	\$ (1.6)	\$(19.6)
Gain on sale of timber	—	117.9	73.8
Gain (loss) on sale of other long-lived assets	(0.6)	1.9	7.1
	<u>\$(18.3)</u>	<u>\$118.2</u>	<u>\$ 61.3</u>

2004

During 2004, LP recorded a net loss on sale of and impairment of long-lived assets of \$18.3 million. This net loss includes the following items:

- an impairment charge of \$13.0 million on manufacturing equipment that is held for sale to reduce the carrying value of this equipment to its estimated sales price, net of related selling expenses, and \$4.7 million on the write off of capitalized interest associated with facilities which were closed or sold in prior years; and
- a net loss of \$0.6 million on the sale of various other assets.

2003

During 2003, LP recorded a net gain on sale of and impairment of long-lived assets of \$118.2 million. This net gain includes the following items:

- a gain of \$117.9 million on the sale of LP's timberlands as part of LP's divestiture plan;
- an impairment charge of \$1.6 million on manufacturing equipment that is held for sale to reduce the carrying value of this equipment to its estimated sales price; and
- a gain of \$1.9 million on the sale of various other assets.

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2002

During 2002, LP recorded a net gain on sale of and impairment of long-lived assets of \$61.3 million. This net gain includes the following items:

- a gain of \$73.8 million on the sale of LP's timberlands as part of LP's divestiture plan;
- a gain of \$4.1 million on the sale of certain corporate assets;
- a gain of \$3.0 million on the sale of various other assets;
- an impairment charge of \$16.8 million on a timber license and other costs associated with a cancelled OSB project in Quebec. This impairment charge is equal to the amount that was originally allocated to this project as part of the purchase price allocation in connection with the purchase of LeGroupe Forex in 1999;
- an impairment charge of \$1.3 million based upon the then anticipated sale of LP's Chetwynd British Columbia pulp mill. This impairment charge was based upon the difference between the carrying value of the assets minus the liabilities assumed by the buyer and the estimated sales price based upon a non-binding letter of intent; and
- an impairment charge of \$1.5 million on a closed plywood location to reduce the carrying value to its estimated sales price less selling costs.

18. CONTINGENCIES

LP maintains reserves for various contingent liabilities as follows:

	As of December 31,	
	2004	2003
	Dollar amounts in millions	
Environmental reserves	\$ 11.4	\$ 17.9
OSB siding reserves	0.6	16.7
Hardboard siding reserves	37.2	43.7
Other	4.9	20.3
Total contingencies	<u>54.1</u>	<u>98.6</u>
Current portion	(12.0)	(43.0)
Long-term portion	<u>\$ 42.1</u>	<u>\$ 55.6</u>

Environmental Proceedings

LP is involved in a number of environmental proceedings and activities, and may be wholly or partially responsible for known or unknown contamination existing at a number of other sites at which it has conducted operations or disposed of wastes. Based on the information currently available, management believes that any fines, penalties or other costs or losses resulting from these matters will not have a material adverse effect on the financial position, results of operations, cash flows or liquidity of LP.

LP maintains a reserve for undiscounted estimated environmental loss contingencies. This reserve is primarily for estimated future costs of remediation of hazardous or toxic substances at numerous sites currently or previously owned by the Company. LP's estimates of its environmental loss contingencies are based on various assumptions and judgments, the specific nature of which varies in light of the particular facts and circumstances surrounding each environmental loss contingency. These estimates typically reflect assumptions and judgments as to the probable nature, magnitude and timing of required investigation, remediation and/or monitoring activities and the probable cost of these activities, and in some cases reflect assumptions and judgments as to the obligation or willingness and ability of third parties to bear a

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proportionate or allocated share of the cost of these activities. Due to the numerous uncertainties and variables associated with these assumptions and judgments, and the effects of changes in governmental regulation and environmental technologies, both the precision and reliability of the resulting estimates of the related contingencies are subject to substantial uncertainties. LP regularly monitors its estimated exposure to environmental loss contingencies and, as additional information becomes known, may change its estimates significantly. However, no estimate of the range of any such change can be made at this time.

In those instances in which LP's estimated exposure reflects actual or anticipated cost-sharing arrangements with third parties, LP does not believe that it will be exposed to additional material liability as a result of non-performance by such third parties. There are three forms of cost-sharing arrangements under which costs are apportioned to others and are therefore not reflected in LP's environmental reserves. The amounts involved, the number of sites and a description of each are as follows:

- Approximately \$2 million of costs, relating to three sites, pursuant to formal cost-sharing arrangements between LP and one or more third parties.
- Approximately \$4 million of costs, related to four transactions each covering multiple sites, pursuant to agreements contained in purchase and sale documents where LP has sold an asset to a third party and that third party has assumed responsibility for all or a portion of any remediation costs required for the sold asset.
- Approximately \$0.2 million of costs, related to one site undergoing cleanup pursuant to federal or state environmental laws, where multiple parties are involved.

LP considers the financial condition of third parties subject to the cost sharing arrangements discussed above in determining the amounts to be reflected in LP's environmental reserves. In addition, LP is a party to clean-up activities at two additional sites for which LP does not believe that the failure of a third party to discharge its allocated responsibility would significantly increase LP's financial responsibility based on the manner in which financial responsibility has been, or is expected to be, allocated.

LP's estimates of its environmental loss contingencies do not reflect potential future recoveries from insurance carriers except to the extent that recovery may from time to time be deemed probable as a result of a carrier's agreement to payment terms.

The activity in LP's reserve for estimated environmental loss contingency reserves for the last three years is summarized in the following table.

	Year ended December 31,		
	2004	2003	2002
	Dollar amounts in millions		
Beginning balance	\$17.9	\$25.7	\$ 40.5
Adjusted to expense (income) during the year	(3.1)	1.2	1.5
Reversal of liability due to sales of operations	—	—	(11.2)
Reclassification of reserves related to asset retirement obligations	—	(2.4)	—
Payments made	(3.4)	(6.6)	(5.1)
Ending balance	<u>\$11.4</u>	<u>\$17.9</u>	<u>\$ 25.7</u>

During 2004 and 2003, LP adjusted its reserves at a number of sites to reflect current estimates of remediation costs.

During 2002, LP adjusted its reserves at a number of sites to reflect current estimates of remediation costs. During the year, LP sold several of the sites that were previously reserved for and therefore the reserves were no longer required. Included in this amount was \$9.2 million in reversals associated with LP's sale of the Chetwynd, British Columbia pulp mill.

OSB Siding Matters

In June 1996, the U.S. District Court for the District of Oregon approved a settlement between LP and a nationwide class generally composed of persons who owned property on which LP's OSB siding was installed prior to January 1, 1996. Under the settlement agreement, an eligible claimant whose claim was timely filed approved by an independent claims administrator was entitled to receive a payment equal to the replacement cost (determined by a third-party construction cost estimator) of damaged siding, reduced by a specific adjustment (of up to 65%) based on the age of the siding. Subsequent to the original settlement, LP undertook several initiatives which allowed it to satisfy claims on a discounted basis.

During 2004, LP made the final payment on the OSB siding nationwide class action suit as provided under the settlement agreement. From the inception of the settlement through December 31, 2004, LP paid a total of \$525 million in satisfaction of \$838 million in claims. The breakdown of the payments is as follows (in millions):

	Satisfaction of Claim Amount	
	Paid	Amount
	Dollar amounts in millions	
Original settlement	\$280	\$290
Optional contributions	71	100
Second fund program	115	319
Alternative payment program	32	91
Claimant offer program	27	38
	<u>\$525</u>	<u>\$838</u>

Throughout the period the above described settlements have been in effect, LP recorded accruals which represented management's best estimates of amounts to be paid based on available information.

The activity in the portion of LP's loss contingency reserves relating to OSB siding contingencies for the last three years is summarized in the following table.

	Year ended December 31,		
	2004	2003	2002
	Dollar amounts in millions		
Beginning balance	\$ 16.7	\$ 39.0	\$ 78.2
Accrued to expense in the current year	—	6.7	—
Payments made	(16.3)	(29.0)	(39.2)
Ending balance	<u>\$ 0.4</u>	<u>\$ 16.7</u>	<u>\$ 39.0</u>

ABT Hardboard Siding Matters

Between 1995 and 1999, ABT Building Products Corporation ("ABT"), ABTco, Inc., a wholly owned subsidiary of ABT ("ABTco" and, together with ABT, the "ABT Entities"), Abitibi- Price Corporation ("Abitibi"), a predecessor of ABT, and certain affiliates of Abitibi (the "Abitibi Affiliates" and, together with Abitibi, the

siding manufactured or sold by the defendants. In general, the plaintiffs in these actions have claimed unfair business practices, breach of warranty, fraud, misrepresentation, negligence, and other theories related to alleged defects, deterioration, or other failure of such hardboard siding, and seek unspecified compensatory, punitive, and other damages (including consequential damage to the structures on which the siding was installed), attorneys’ fees and other relief.

LP acquired ABT in February 1999 and ABT was merged into LP in January of 2001. On September 21, 2000, the Circuit Court of Choctaw County, Alabama, under the caption *Foster, et al. v. ABTco, Inc., ABT Building Products Corporation, Abitibi-Price, Inc. and Abitibi-Price Corporation* (No. CV95-151-M), approved a settlement agreement among the defendants and attorneys representing a nationwide class composed of all persons who own or formerly owned homes or, subject to limited exceptions, other buildings or structures on which hardboard siding manufactured by the defendants was installed between May 15, 1975 and May 15, 2000. Except for approximately 30 persons who timely opted out, the settlement includes and binds all members of the settlement class and resolves all claims asserted in the various proceedings described above. Under the settlement agreement, class members will have twenty-five years after their siding was installed to file a claim.

Under the settlement agreement, the defendants will be entitled to elect to make an offer of settlement to an eligible claimant based on the information set forth in the claim submitted by such claimant, and such claimant will be entitled to accept or reject the offer. If an eligible claimant declines the offer, or if no offer is made, such claimant will be entitled to a payment based on an independent inspection. Such payments will be based on a specified dollar amount (calculated on the basis of statewide averages and ranging from \$2.65 to \$6.21, depending upon the state) per square foot of covered siding that has experienced specified types of damage, subject to reduction based on the age of the damaged siding and any failure to paint the damaged siding within stated intervals (except in the case of damaged siding installed on mobile homes, as to which a uniform 50% reduction will apply in all circumstances). If applicable, payments under the settlement will also be subject to reduction to reflect any warranty payments or certain other payments previously recovered by a claimant on account of the damaged siding. Under the settlement agreement, LP (as a successor to ABT) will be required to pay the expenses of administering the settlement and certain other costs.

ABT and Abitibi were parties to an agreement of an allocation of liability with respect to claims related to siding sold prior to October 22, 1992. On June 13, 2001, in exchange for a cash payment from Abitibi of approximately \$19 million which was received in July 2001, LPC, a wholly owned subsidiary of LP, agreed to accept a transfer of all of Abitibi’s rights and obligations under the settlement agreement and the allocation agreement; and LP and LPC agreed to indemnify and hold harmless Abitibi from any cost or liability arising from its sale of hardboard siding in the United States. From the date of the agreement, Abitibi has no further rights, obligations or liabilities under either the class action settlement agreement or the allocation agreement. All such rights, obligations and liabilities having been assigned to and accepted and assumed by LPC.

During the fourth quarter of 2002, LP increased its reserves in connection with this class action settlement. The additional reserve reflects revised estimates of undiscounted future claim payments and related administrative costs, which prior to the fourth quarter of 2002, could not be calculated due to the fact that the limited claims history would not provide statistically valid results. The additional reserves taken in the fourth quarter, based upon revised estimates, are primarily due to a lower estimated rate of decline in settlement payments during the 25-year period. While payments through December 31, 2002 were lower than originally expected, the revised estimate of the undiscounted future payment claims in the later years of the claim period are higher than originally estimated. LP believes that the reserve balance at December 31, 2004 will be adequate to cover future payments to claimants and related administrative costs. However, it is possible that additional charges may be required in the future.

The activity in the portion of LP’s loss contingency reserves relating to hardboard siding contingencies for the last three years is summarized in the following table.

	<u>Year ended December 31.</u>		
	<u>2004</u>	<u>2003</u>	<u>2002</u>
	<u>Dollar amounts in millions</u>		
Beginning balance	\$43.7	\$49.6	\$11.2
Accrued to expense for claims	—	—	15.5
Accrued to expense for administrative costs	—	—	11.7
Cash payments received	—	—	18.8
Payments made for claims	(5.0)	(4.5)	(6.0)
Payments made for administrative costs	(1.5)	(1.4)	(1.6)
Ending balance	<u>\$37.2</u>	<u>\$43.7</u>	<u>\$49.6</u>

Additional Siding Matters

On October 15, 2002, a jury returned a verdict of \$29.6 million against LP in a Minnesota State Court action entitled *Lester Building Systems, a division of Butler Manufacturing Company, and Lester’s of Minnesota, Inc., v. Louisiana-Pacific Corporation and Canton Lumber Company*. On December 13, 2002, the District of Oregon, which maintains jurisdiction over the nationwide OSB class action permanently enjoined the Minnesota state trial court from entering judgment against LP with respect to \$11.2 million of the verdict that related to siding that was subject to the nationwide OSB siding settlement. Lester’s had appealed this injunction to the Ninth Circuit Court of Appeals. Subsequently, on January 27, 2003, the Minnesota state trial court entered judgment against LP in the amount of \$20.1 million, representing the verdict amount plus costs and interest less the enjoined amount. That judgment became final and LP satisfied that judgment during the second quarter of 2004. The enjoined amount was not paid as part of that satisfaction of judgment because the injunction remains in place pending the appeal by Lester’s. Based upon the information currently available, LP believes that any further liability related to this case is remote and will not have a material adverse effect on our financial position, results of operations, cash flows or liquidity.

Nature Guard Cement Shakes Matters

LP is a defendant in a class action lawsuit, captioned as *Nature Guard Cement Roofing Shingle Cases*, that is pending in the Superior Court for Stanislaus County, California. The plaintiffs in this action are a class of persons owning structures on which Nature Guard Fiber Cement Shakes were installed as roofing. The complaint in this action asserts claims for breach of express and implied warranties, unfair business practices, and violation of the Consumer Legal Remedies Act and seeks general, compensatory, special and punitive damages, disgorgement of profits and the establishment of a fund to provide restitution to the purported class members.

LP no longer manufactures or sells fiber cement shakes. The dollar amount of the referenced claims cannot presently be determined. The complaint in this action does not quantify the relief sought by the plaintiffs individually or on behalf of the class, discovery in this action has not been completed, no determination of liability has been made and no process for the submission of individual claims in connection with this action has been established. LP believes that it has substantial defenses to this action and is unable to predict the potential financial impact of this action.

Other Proceedings

During the third quarter of 2004, LP received a letter from a law firm purporting to represent more than 1,400 potential plaintiffs who allegedly experienced various personal injuries and property damages as a result of the alleged release of chemical substances from LP's wood treatment facility in Lockhart,

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Alabama during the period from 1953 to 1998. The letter is characterized as a "pre-litigation settlement demand" to LP and Pactiv Corporation, from whom we acquired the facility in 1983. As of the date of this report, LP and the potential plaintiffs had agreed to refrain from commencing any legal proceedings in respect of the potential plaintiffs' allegations and to the tolling of applicable statutes of limitations. These agreements are terminable by either party upon 30 days notice. LP is not presently able to quantify its financial exposure, if any, relating to the matters alleged in the letter, and the potential plaintiffs have not specified the amount of compensation sought. LP intends to defend vigorously any legal proceedings that may be commenced against it by the potential plaintiffs.

LP and its subsidiaries are parties to other legal proceedings. Based on the information currently available, management believes that the resolution of such proceedings will not have a material adverse effect on the financial position, results of operations, cash flows or liquidity of LP.

Contingency Reserves

LP's estimates of its loss contingencies are based on various assumptions and judgments. Due to the numerous uncertainties and variables associated with these assumptions and judgments, both the precision and reliability of the resulting estimates of the related contingencies are subject to substantial uncertainties. LP regularly monitors its estimated exposure to contingencies and, as additional information becomes known, may change its estimates significantly. While no estimate of the range of any such change can be made at this time, the amount that LP may ultimately pay in connection with these matters could materially exceed, in either the near term or the longer term, the amounts accrued to date. LP's estimates of its loss contingencies do not reflect potential future recoveries from insurance carriers except to the extent that recovery may from time to time be deemed probable as a result of an insurer's agreement to payment terms.

19. COMMITMENTS AND CONTINGENT LIABILITIES

LP is obligated to purchase timber under certain cutting contracts that extend to 2009. LP's best estimate of its commitment at current contract rates under these contracts at December 31, 2004 is approximately \$24.6 million for approximately 291,700 million board feet of timber.

LP is primarily self-insured for worker compensation and employee health care liability costs. Self insurance liabilities are determined actuarially based upon claims filed and estimates claims incurred but not yet reported. These claims are not discounted.

The Company and its subsidiaries lease certain manufacturing, warehousing and other facilities and equipment. The leases generally provide for the lessee to pay taxes, maintenance, insurance and certain other operating costs of the leased properties.

At December 31, 2004, future minimum annual rent commitments are as follows:

Year ended December 31	Dollar amounts in millions
2005	\$ 6.9
2006	6.4
2007	5.6
2008	5.2
2009	5.2
2010 and after	17.2
Total	<u>\$46.5</u>

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As of December 31, 2004, LP entered into several non-cancelable subleases for a portion of its previous corporate headquarters in Portland, Oregon. Minimum annual rent commitments have not been reduced by minimum sublease rentals of \$8.8 million (in total for all years) due in the future. Rental expense for operating leases amounted to \$26.8 million, \$30.6 million and \$34.7 million in 2004, 2003 and 2002, respectively.

20. GUARANTEES AND INDEMNIFICATIONS

LP is a party to contracts in which LP agrees to indemnify third parties for certain liabilities that arise out of or relate to the subject matter of the contract. In some cases, this indemnity extends to related liabilities arising out of the negligence of the indemnified parties, but usually excludes any liabilities caused by gross negligence or willful misconduct of the indemnified parties. LP cannot estimate the potential amount of future payments under these agreements until events arise that would trigger the liability.

Additionally, in connection with certain sales of assets and divestitures of businesses, LP has agreed to indemnify the buyer and related parties for certain losses or liabilities incurred by the buyer or such related parties with respect to (1) the representations and warranties made to the buyer by LP in connection with the sales and (2) liabilities related to the pre-closing operations of the assets sold. Indemnities related to pre-closing operations generally include environmental liabilities, tax liabilities and other liabilities not assumed by the buyer.

Indemnities related to the pre-closing operations of sold assets normally do not represent added liabilities for LP, but simply serve to protect the buyer from potential liability associated with the obligations that existed (known and unknown) at the time of the sale. LP records accruals for those pre-closing obligations that are considered probable and reasonably estimable. Under FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others," LP is required to record a liability for the fair value of the guarantees that are entered into subsequent to December 31, 2002. LP has not accrued any additional amounts as a result of the indemnity agreements summarized below as LP believes the fair value of the guarantees entered into after December 31, 2002 is not material.

- In connection with various sales of LP's timberlands, LP has agreed to indemnify the various buyers with respect to losses resulting from breaches of limited representations and warranties contained in these agreements. These indemnities generally are capped at a maximum potential liability and have an unspecified duration.
- In connection with the exchange of LP's Texas and Louisiana plywood mills and a medium density fiberboard (MDF) mill to Georgia-Pacific Corporation in exchange for Georgia-Pacific's OSB mill in Woodland, Maine in 2002, LP agreed to indemnify Georgia-Pacific Corporation for certain losses resulting from breaches of LP's representations and warranties contained in the exchange agreement. LP is not required to pay under this indemnification obligation until claims

against LP, on a cumulative basis, exceed \$500,000. Upon exceeding this \$500,000 threshold, LP is generally required to provide indemnification for any losses in excess of \$500,000, up to a limit of \$15 million. This indemnification expires in September of 2007.

- In connection with the sale of LP's particleboard mill at Missoula, Montana to Roseburg Forest Products Co. in early 2003, LP provided a 5-year indemnity for unknown environmental claims, capped at the purchase price of \$17.7 million with a \$1 million deductible. This indemnification expires in February of 2008.
- In connection with the sale of LP's particleboard mill in Arcata, California to Hambro Forest Products in 2002, LP provided an uncapped 7-year indemnity for any claims arising out of the excess equipment. This indemnity will expire in July of 2009.

- In connection with the sale of LP's two related interior hardboard facilities to Decorative Panels International Inc. in 2004, LP provided a 10-year indemnity for unknown environmental claims, capped at \$4 million with a \$0.3 million deductible. This indemnity will expire in May of 2014.
- In connection with the sale by LP Canada Pulp Ltd ("LPCP") of its pulp mill in Chetwynd, BC, Canada to Tembec, Ltd in October 2002, LP provided an indemnity of unspecified duration provided by LPCP for liabilities arising out of pre-closing operations. These indemnities, which do not extend to environmental liabilities, are capped at C\$15 million in the aggregate.
- LP also has various other indemnities that are individually and in the aggregate immaterial.

LP will record a liability related to specific indemnification when future payment is probable and the amount is reasonably estimable.

Additionally, LP offers warranties on the sale of most of its products and records an accrual for estimated future claims. Such accruals are based upon historical experience and management's estimate of the level of future claims. The activity in warranty reserves for the last two years is summarized in the following table.

	Year ended December 31,	
	2004	2003
	Dollar amounts in millions	
Beginning balance	\$21.0	\$15.7
Accrued to expense during the year	7.4	10.9
Payments made	(6.2)	(5.6)
Total warranty reserves	22.2	21.0
Current portion	(7.0)	(7.0)
Long term portion	\$15.2	\$14.0

The current portion of the warranty reserve is included in the caption accounts payable and accrued liabilities on LP's balance sheet and the long-term portion is included in the caption other long-term liabilities.

21. SIGNIFICANT DISPOSITIONS

In April 2002, LP sold its controlling interest in an OSB facility located in Ireland. LP recorded a gain of \$2.0 million on the sale of this facility and reduced its debt by \$6.5 million.

In February 2001, LP sold a controlling interest in Samoa Pacific Cellulose LLC (SPC), a company that owns a pulp mill and related assets in Samoa, California, for approximately book value. In this transaction, LP received approximately \$22 million in cash, and promissory notes of SPC valued at a fair value of \$29 million and retained preferred stock of SPC valued at a fair value of approximately \$9 million. Management believed the fair value of the consideration received approximated the carrying value of the assets at that time. The preferred stock was pledged as collateral against SPC's senior borrowing. The term of the promissory notes was longer than five years. Additionally, LP had agreed to provide SPC with a \$14.5 million (at December 31, 2002) credit facility secured by working capital.

Due to its continuing financial interest in SPC, LP did not initially record the transaction as a sale, for accounting purposes. In compliance with SEC Staff Accounting Bulletin No. 30—Accounting For Divestiture Of A Subsidiary Or Other Business Operation, LP recorded the assets and the liabilities of SPC on LP's balance sheet under the captions "Assets transferred under contractual arrangement" and "Liabilities transferred under contractual arrangement." During 2003, due to significant changes in circumstance, LP recorded the sale and de-recognized these assets and liabilities under contractual

obligation. Additionally, during 2003, SPC was forced into foreclosure by a significant creditor and subsequently was sold to another company. Due to this foreclosure, LP deemed the line of credit uncollectable and recorded a reserve for the then outstanding line of credit above the estimated value of the collateral. See Note 16 for further discussion. LP has been released from liabilities associated with the pulp mill other than potential liabilities for restoration of certain California tidelands, should this be required by various state agencies.

During 2003 and 2002, LP sold all its fee timberlands in various transactions. During 2003 and 2002, LP recognized \$118 million and \$74 million in gains on these sales. See Note 17 for discussion of these gains and Note 12 for a discussion of the associated off balance sheet transaction.

Other significant dispositions, which LP recorded as discontinued operations, are discussed in Note 22 below.

22. DISCONTINUED OPERATIONS

During 2002, LP announced that its board of directors had approved a plan to sell selected businesses and assets, including its plywood, commodity industrial panels, timber and timberlands, certain lumber mills, wholesale and distribution businesses, and included such businesses as discontinued operations. The operations associated with these timber and timberlands are not reported as discontinued operations due to the nature of these assets, as these assets did not meet the criteria to be classified as a separate business. In 2003, LP announced further divestitures of most of its remaining lumber mills as well as an interior hardboard panel operation. At December 31, 2004, LP has two lumber operations classified as discontinued. LP is attempting to sell both of these facilities, however one of these facilities in Canada currently does not have any interested parties. Should LP decide to close rather than sell this facility, LP would be required to record approximately \$4.4 million in the first quarter of 2005 in severance associated with the closure as well as potentially other post closing liabilities.

In accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," LP is required to account for the businesses sold or anticipated to be sold within one year as discontinued operations. In 2004, LP completed the sale of two lumber facilities and two related interior hardboard facilities. In 2003, LP completed the sale of six lumber facilities, an industrial panel facility and a veneer facility.

In 2002, LP completed the transfer of its Texas and Louisiana plywood mills and a medium density fiberboard (MDF) mill to Georgia-Pacific Corporation in exchange for Georgia-Pacific's oriented strand board (OSB) mill in Woodland, Maine. No gain or loss was recognized on the transaction as the book value equaled the fair

value. In addition, LP received a cash payment for working capital components. LP also recorded a gain of \$2.0 million associated with the reduction in certain LIFO inventories associated with this sale. This gain is included in income (loss) from discontinued operations.

Revenues associated with the discontinued operations were \$144.9 million, \$351.9 million and \$691.9 million for the years ended December 31, 2004, 2003 and 2002. Included in the loss on discontinued operations for the years ended December 31, 2004, 2003 and 2002 were impairment charges of \$9.9 million, \$27.9 million and \$57.0 million based on the estimated fair value of the assets less estimated costs to sell. Additionally, during 2004, LP recorded a loss of \$3.8 million on the sale of a lumber mill and two related interior panel facilities, a loss of \$2.3 million associated with the settlement of a operating lease associated with a mill held for sale and a gain of \$1.2 million related to long term timber contracts. During 2003, LP recorded a gain of \$ 8.4 million on sale of a portion of these assets including an industrial panel facility, veneer facility as well as five lumber mills. LP also recorded a \$2.5 million charge related to the curtailment expense on a defined benefit pension plan, a \$2.5 million charge related to severance, a \$0.9 million loss related to long term timber contracts and a \$15.0 million loss related to an operating lease associated with a mill that is held for sale. During 2002, LP recorded a gain of \$5.5 million on sale of a

portion of these assets. LP also recorded a \$4.4 million charge related to the curtailment expense on a defined benefit pension plan, a \$7.6 million charge related to severance, a \$4.5 million charge related to the loss on a long term timber contract, a \$3.5 million loss associated with the impairment of timber rights associated with a mill that was held for sale and a \$7.4 million gain associated with mark-to-market adjustments and the subsequent cancellation of an energy contract associated with a mill that was sold in 2003.

Summarized balance sheet information for discontinued operations is as follows:

	As of December 31,	
	2004	2003
	Dollar amounts in millions	
Inventory	\$ 7.4	\$ 22.8
Timber and timberlands	6.6	12.6
Property, plant and equipment	39.7	87.3
Accumulated depreciation	(13.7)	(44.6)
Net property, plant and equipment	26.0	42.7
Long-term assets of discontinued operations	32.6	55.3
Total assets of discontinued operations	<u>\$ 40.0</u>	<u>\$ 78.1</u>

23. ACCUMULATED OTHER COMPREHENSIVE LOSS

Accumulated comprehensive loss consists of cumulative translation adjustments; gain (loss) on certain derivative instruments and additional minimum pension liability adjustments. The table below breaks down these balances, net of tax:

	Foreign currency translation adjustments	Minimum pension liability adjustment	Unrealized gain on derivative instruments	Other	Total
	(Dollar amounts in millions)				
Balance, December 31, 2001	\$(23.5)	\$(30.0)	\$—	\$(0.4)	\$(53.9)
Activity	(5.2)	(15.2)	1.0	0.2	(19.2)
Balance at December 31, 2002	(28.7)	(45.2)	1.0	(0.2)	(73.1)
Activity	4.4	(2.7)	0.1	0.1	1.9
Balance at December 31, 2003	(24.3)	(47.9)	1.1	(0.1)	(71.2)
Activity	2.2	0.6	0.7	(0.2)	3.3
Balance at December 31, 2004	<u>\$(22.1)</u>	<u>\$(47.3)</u>	<u>\$1.8</u>	<u>\$(0.3)</u>	<u>\$(67.9)</u>

Foreign currency translation adjustments exclude income tax expense (benefit) given that these adjustments arise out of the translation of the assets into the functional currency that is separate from the taxable income and is deemed to be reinvested for an indefinite period of time. The income tax benefit associated with the minimum pension liability adjustment was \$0.4 million in 2004, \$1.8 million in 2003 and \$9.7 million in 2002. The income tax benefit associated with the unrealized gain on derivatives was \$0.2 million in 2004.

24. SEGMENT INFORMATION

LP operates in three segments: Oriented Strand Board (OSB); Siding; and Engineered Wood Products (EWP). LP's business units have been aggregated into these three segments based upon the similarity of economic characteristics, customers and distribution methods. LP's results of operations are

summarized below for each of these segments separately as well as for the "other" category which comprises other products that are not individually significant. Segment information was prepared in accordance with the same accounting principles as those described in Note 1. LP evaluates the performance of its business segments based upon operating profits excluding other operating credits and charges, net and gain (loss) on sales of and impairments of long-lived assets, general corporate and other expenses, translation gains and losses, interest and income taxes.

The OSB segment includes commodity OSB products produced in North America. The siding segment includes (1) OSB—based siding products; (2) hardboard siding products; (3) vinyl siding; and (4) other hardboard products. The engineered wood products segment includes (1) laminated veneer lumber; (2) I-joists; (3) plywood and (4) other related products.

Information about LP's product segments is as follows:

	Year ended December 31,		
	2004	2003	2002
	Dollar amounts in millions		
SALES BY BUSINESS SEGMENT			
OSB	\$ 1,749.0	\$ 1,335.6	\$ 740.4
Siding	554.1	523.9	430.9

Engineered Wood Products	394.7	290.6	225.7
Other products	161.6	164.1	198.1
Less: Intersegment sales	(10.0)	(33.5)	(18.9)
Total sales	<u>\$ 2,849.4</u>	<u>\$ 2,280.7</u>	<u>\$ 1,576.2</u>
PROFIT (LOSS) BY BUSINESS SEGMENT			
OSB	\$ 829.7	\$ 503.4	\$ 61.6
Siding	54.2	61.0	44.5
Engineered Wood Products	7.2	(1.5)	7.3
Other products	14.7	9.7	13.8
Other operating credits and charges, net	(28.7)	(15.2)	(29.5)
Gain (loss) on sales of and impairments of long-lived assets	(18.3)	118.2	61.3
General corporate and other expense, net	(104.1)	(101.8)	(81.4)
Gain (loss) on early extinguishment of debt	(41.5)	(1.5)	—
Translation gains (losses)	9.7	1.0	(3.2)
Interest, net	(19.7)	(54.6)	(63.0)
Income (loss) from continuing operations before taxes	703.2	518.7	11.4
Provision (benefit) for income taxes	279.7	233.8	15.2
Income (loss) from continuing operations before cumulative effect of change in accounting principle	<u>\$ 423.5</u>	<u>\$ 284.9</u>	<u>\$ (3.8)</u>
DEPRECIATION, AMORTIZATION AND COST OF TIMBER HARVESTED			
OSB	\$ 94.0	\$ 78.4	\$ 75.7
Siding	18.9	18.7	18.6
Engineered Wood Products	15.1	13.5	12.6
Other products	7.4	10.7	18.4
Non-segment related	8.2	11.0	10.7
Total depreciation, amortization and cost of timber harvested	<u>\$ 143.6</u>	<u>\$ 132.3</u>	<u>\$ 136.0</u>

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	Year ended December 31,		
	2004	2003	2002
Dollar amounts in millions			
CAPITAL EXPENDITURES			
OSB	\$ 83.5	\$ 54.9	\$ 20.3
Siding	22.2	10.7	5.8
Engineered Wood Products	3.8	1.1	6.3
Other products	17.5	12.2	8.1
Non-segment related	20.6	1.5	0.3
Discontinued operations	0.1	6.2	1.0
Total capital expenditures	<u>\$ 147.7</u>	<u>\$ 86.6</u>	<u>\$ 41.8</u>

Information concerning identifiable assets by segment is

	As of December 31,	
	2004	2003
Dollar amounts in millions		
IDENTIFIABLE ASSETS		
OSB	\$ 953.7	\$ 878.4
Siding	285.6	263.3
Engineered Wood Products	143.2	148.3
Other products	205.8	207.2
Discontinued operations	40.0	78.1
Non-segment related	1,822.3	1,629.1
Total assets	<u>\$ 3,450.6</u>	<u>\$ 3,204.4</u>

Non-segment related assets include long-term notes receivable, cash and cash equivalents, short-term and long-term investments, corporate assets and other items.

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Export sales are primarily to customers in Asia and Europe. Information concerning LP's geographic segments is as follows:

	Year ended December 31,		
	2004	2003	2002
Dollar amounts in millions			
GEOGRAPHIC SEGMENTS:			
Total Sales—Point of origin			
US	\$ 2,361	\$ 1,907	\$ 1,272
Canada and other	1,032	774	584
Intersegment sales to US	(544)	(400)	(280)
Total Sales	<u>\$ 2,849</u>	<u>\$ 2,281</u>	<u>\$ 1,576</u>
Export sales (included in above)	<u>\$ 25</u>	<u>\$ 13</u>	<u>\$ 10</u>
Operating profit (loss)			
US	\$ 546	\$ 383	\$ 96
Canada and other	357	191	25

Other operating credits and charges, net and gain (loss) on sales of and impairments of long lived assets	(47)	103	32
General corporate expense, loss on extinguishment of debt, translation gains (losses) and interest, net	(152)	(158)	(142)
	704	519	11
Provision (benefit) for income taxes	280	234	15
Income (loss) from continuing operations before cumulative change in accounting principle	<u>\$ 424</u>	<u>\$ 285</u>	<u>\$ (4)</u>
Identifiable tangible long-lived assets			
U.S.	\$ 434	\$ 435	\$ 907
Canada and other	467	508	525
Total assets	<u>\$ 901</u>	<u>\$ 943</u>	<u>\$ 1,432</u>

The amounts included in the tables above for Canada and other are primarily related to Canada.

NOTE 25—HEADQUARTERS RELOCATION

On September 30, 2003, LP announced that it would relocate its corporate headquarters to Nashville, Tennessee. The transition associated with this relocation is expected to occur through mid-2005, and involve the consolidation of most of LP's management and leadership positions from several offices to its new headquarters. The move has resulted in LP's corporate headquarters being closer to the company's production facilities, customers and shareholders. During 2004, LP incurred \$12.5 million in severance, relocation, moving expenses and recruitment. LP expects to spend an additional \$2 to \$4 million in 2005. Additionally, LP spent \$10.9 million in 2004 and expects to spend an additional \$4 to \$5 million in capital expenditures related to the relocation of the headquarters and related facilities. The expense estimates do not reflect expected incentives provided by various agencies to partially offset the expenses of the relocation nor the potential gains on the sale of current facilities.

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Interim Financial Results (unaudited)

	1ST QTR		2ND QTR		3RD QTR		4TH QTR	
	2004	2003	2004	2003	2004	2003	2004	2003
(Dollar amounts in millions, except per share)								
QUARTERLY DATA								
Net sales	\$ 695.3	\$ 406.7	\$ 825.3	\$ 473.0	\$ 740.5	\$ 670.7	\$ 588.3	\$ 730.3
Gross profit (loss)(1)	285.4	44.2	345.9	69.8	238.3	238.0	94.5	284.2
Income (loss) from continuing operations before taxes, minority interest, equity in earnings of unconsolidated affiliate and cumulative effect of change in accounting principle	176.2	3.1	294.7	19.6	179.0	197.8	49.5	296.3
Income (loss) from continuing operations before cumulative effect of change in accounting principle	112.3	2.0	189.3	9.1	106.3	110.4	15.6	163.4
Net income (loss)	\$ 106.5	\$ 1.5	192.4	\$ (17.2)	\$ 108.1	124.5	13.7	\$ 163.7
Income (loss) from continuing operations before cumulative effect of change in accounting principle per share—basic	\$ 1.04	\$ 0.02	\$ 1.74	\$ 0.09	\$ 0.97	\$ 1.05	\$ 0.16	\$ 1.54
Income (loss) from continuing operations before cumulative effect of change in accounting principle per share—diluted	\$ 1.03	\$ 0.02	\$ 1.72	\$ 0.09	\$ 0.96	\$ 1.04	\$ 0.16	\$ 1.53
Net income (loss) per share—basic	\$ 0.99	\$ 0.01	\$ 1.77	\$ (0.16)	\$ 0.99	\$ 1.18	\$ 0.13	\$ 1.55
Net income (loss) per share—diluted	\$ 0.98	\$ 0.01	\$ 1.75	\$ (0.16)	\$ 0.98	\$ 1.17	\$ 0.13	\$ 1.54
Cash dividends per share	\$ 0.05	\$ —	\$ 0.075	\$ —	\$ 0.075	\$ —	\$ 0.10	\$ —
SALES BY SEGMENT:								
OSB	\$ 456.6	\$ 198.5	\$ 535.9	\$ 233.5	\$ 436.3	\$ 407.4	\$ 320.2	\$ 496.2
Siding	120.6	104.4	149.5	132.2	154.4	153.9	129.6	133.4
Engineered wood products	77.9	60.1	103.0	69.6	112.4	80.4	101.4	80.5
Other products	44.0	47.6	37.6	45.2	41.4	41.4	38.6	29.9
Less intersegment sales	(3.8)	(3.9)	(0.7)	(7.5)	(4.0)	(12.4)	(1.5)	(9.7)
Total net sales	<u>\$ 695.3</u>	<u>\$ 406.7</u>	<u>\$ 825.3</u>	<u>\$ 473.0</u>	<u>\$ 740.5</u>	<u>\$ 670.7</u>	<u>\$ 588.3</u>	<u>\$ 730.3</u>
PROFIT (LOSS) BY BUSINESS SEGMENT								
OSB	\$ 253.6	\$ 16.1	\$ 309.1	\$ 34.0	\$ 199.1	\$ 194.5	\$ 67.9	\$ 258.8
Siding	12.8	8.9	18.3	15.2	18.3	26.1	4.8	10.8
Engineered wood products	(0.9)	(1.0)	0.7	0.2	3.6	(0.5)	3.8	0.2
Other products	3.5	6.9	3.1	1.9	3.4	2.2	4.7	(1.3)
Other operating credits and charges, net	(6.7)	—	(2.4)	(25.4)	(15.5)	(5.7)	(4.1)	15.9
Gain (loss) on sale of and impairment of long-lived assets	(9.6)	12.5	(0.2)	29.2	(2.7)	22.5	(5.8)	54.0
General corporate and other expense, net	(26.0)	(23.3)	(26.8)	(21.8)	(25.2)	(26.2)	(26.1)	(30.5)
Gain (loss) on early debt extinguishment	(40.0)	—	(1.3)	—	(0.2)	(1.5)	—	—
Translation gains (losses)	(0.3)	1.9	1.4	0.2	1.8	0.9	6.8	1.8
Interest, net	(9.7)	(15.1)	(6.4)	(14.3)	(3.1)	(13.8)	(0.5)	(11.4)
	176.7	3.1	295.5	19.2	179.5	198.5	51.5	297.9
Provision for income taxes	64.4	1.1	106.2	10.1	73.2	88.1	35.9	134.5
Income (loss) from continuing operations before cumulative change in accounting principle	<u>\$ 112.3</u>	<u>\$ 2.0</u>	<u>\$ 189.3</u>	<u>\$ 9.1</u>	<u>\$ 106.3</u>	<u>\$ 110.4</u>	<u>\$ 15.6</u>	<u>\$ 163.4</u>

(1) Gross profit is income before selling and administrative expenses, other operating credits and charges, net, gain (loss) on sale of or impairment of long-lived assets, net, taxes, minority interest, interest and equity in earnings of unconsolidated affiliate.

Included in Other operating credits and charges, net for continuing operations are the following:

In the second quarter of 2003, LP recorded a loss of \$16.0 million related to assets and liabilities transferred under contractual arrangement due to the increase in a valuation allowance associated with notes receivable from Samoa Pacific, a loss of \$6.7 million from increases in product related contingency reserves associated with the National OSB class action settlement and a loss of \$2.7 million associated with environmental reserves in relation to our former Alaska operations.

In the third quarter of 2003, LP recorded a loss of \$5.0 million related to an energy contract associated with Samoa Pacific and a loss of \$0.7 million on severance recorded as part of the divestiture plan.

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In the fourth quarter of 2003, LP recorded a gain of \$29.3 million related to insurance recoveries for environmental costs incurred in prior years; a gain of \$0.7 million related to an energy contract associated with Samoa Pacific; a loss of \$13.0 million associated with an increase in litigation reserves and a loss of \$1.1 million on severance recorded as part of the divestiture and corporate relocation plans.

In the first quarter of 2004, LP recorded a gain of \$1.7 million associated with a reduction in environmental reserves in relation to our former Alaska operations, a charge of \$6.0 million for an increase in litigation reserves due to an adverse court ruling and a charge of \$2.0 million associated with the relocation and consolidation of

LP's corporate offices to Nashville, Tennessee.

In the second quarter of 2004, LP recorded a charge of \$2.4 million associated with the relocation and consolidation of LP's corporate offices to Nashville, Tennessee.

In the third quarter of 2004, LP recorded a charge of \$4.5 million associated with the relocation and consolidation of LP's corporate offices to Nashville, Tennessee, a charge of \$10.7 million associated with certain compensation arrangements impacted by Mr. Suwyn's retirement and a gain of \$0.3 million associated with a reduction in previously recorded environmental reserves.

In the fourth quarter of 2004, LP recorded a charge of \$2.4 million associated with the relocation and consolidation of LP's corporate offices to Nashville, Tennessee, a charge of \$2.4 million associated with certain compensation arrangements impacted by Mr. Suwyn's retirement and a gain of \$0.6 million associated with a reduction in environmental reserves in relation to our former Alaska operations.

See Note 16 for further discussion on the credits and charges mentioned above.

Included in gain (loss) on sale of and impairment of long-lived assets for continuing operations are the following:

In the first quarter of 2003, LP recorded a gain of \$12.5 million associated with the sale of a portion of LP's timberlands as part of LP's divestiture plan.

In the second quarter of 2003, LP recorded a gain of \$29.3 million associated with the sale of a portion of LP's timberlands as part of LP's divestiture plan.

In the third quarter of 2003, LP recorded a gain of \$22.1 million associated with the sale of a portion of LP's timberlands as part of LP's divestiture plan and a gain of \$0.4 million associated with the sale of certain other assets.

In the fourth quarter of 2003, LP recorded a gain of \$54.7 million associated with the sale of a portion of LP's timberlands as part of LP's divestiture plan and a gain of \$0.9 million associated with the sale of certain other assets. Additionally, LP recorded an impairment loss of \$1.6 million.

In the first quarter of 2004, LP recorded a loss of \$9.7 million on the cancellation of a capital project to build a veneer mill in British Columbia.

In the third quarter of 2004, LP recorded a loss of \$2.8 million on a non-operating OSB mill and \$0.5 million additional expense associated with the cancellation of a capital project to build a veneer mill in British Columbia to reduce the values to the net realizable sale price for these assets and a gain of \$0.6 million associated with the sale of certain other assets.

In the fourth quarter of 2004, LP recorded a loss of \$4.7 million on write off of capitalized interest associated with facilities which were sold or closed in prior years and a loss of \$1.1 million associated with the sale of certain other assets.

See Note 17 for further discussion on the gains and losses on sale or and impairment of long-lived assets mentioned above.

ITEM 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None

ITEM 9A. Disclosure Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As of December 31, 2004, our Chief Executive Officer and Chief Financial Officer carried out, with the participation of the Company's Disclosure Committee and the Company's management, an evaluation of the effectiveness of our disclosure controls and procedures, as defined in Rule 13a-15 (e) under the Securities Exchange Act (Act). Based upon this evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures are effective to provide reasonable assurance that material information required to be disclosed by us in reports we file under the Act is recorded, processed, summarized and reported by management of the Company on a timely basis in order to comply with the company's disclosure obligations under the Act and the SEC rules thereunder.

Changes in Internal Control Over Financial Reporting

There were no changes in LP's internal control over financial reporting that occurred during LP's most recently completed fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Management's Report on Internal Control Over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in the Exchange Act Rule 13a-15(f). The Company's management conducted an assessment of the Company's internal control over financial reporting based on the framework established by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control—Integrated Framework*. Based on this assessment, the Company's management has concluded that, as of December 31, 2004, the Company's internal control over financial reporting is effective. The Company's independent auditors, Deloitte & Touche LLP, have audited the Company's consolidated financial statements and have issued an attestation report on management's assessment of the Company's internal control over financial reporting, as stated in their report included herein.

CEO and CFO Certifications

The certifications of the Company's Chief Executive Officer and Chief Financial Officer required under Section 302 of the Sarbanes-Oxley Act have been filed as Exhibits 31.1 and 31.2 to this report. Additionally, in 2004 the Company's Chief Executive Officer certified to the New York Stock Exchange ("NYSE") that he was not aware of any violation by the Company of the NYSE corporate governance listing standards.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Louisiana-Pacific Corporation

We have audited management's assessment, included in the accompanying Management's Report on Internal Control Over Financial Reporting, that Louisiana-Pacific Corporation and subsidiaries (the "Company") maintained effective internal control over financial reporting as of December 31, 2004, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating

effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that the Company maintained effective internal control over financial reporting as of December 31, 2004, is fairly stated, in all material respects, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2004, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2004 of the Company and our report dated March 9, 2005 expressed an unqualified opinion on those financial statements.

Deloitte + Touche LLP
DELOITTE & TOUCHE LLP
Nashville, Tennessee
March 9, 2005

PART III

ITEM 10. *Directors and Executive Officers of the Registrant*

Information regarding LP's directors is incorporated herein by reference to the material included under the caption "Item 1—Election of Directors" in the definitive proxy statement filed by LP for its 2004 annual meeting of stockholders (the "2004 Proxy Statement"). Information regarding compliance with Section 16(a) of the Securities Exchange Act of 1934 is incorporated herein by reference to the material included under the caption "Section 16(a) Beneficial Ownership Reporting Compliance" in the 2004 Proxy Statement.

Information regarding each of LP's executive officers as of March 14, 2005, including employment history for the past five years, is set forth below:

Name	Age	Title
Richard W. Frost	53	Chief Executive Officer
Curtis M. Stevens	52	Executive Vice President, Administration and Chief Financial Officer
Harold N. Stanton	54	Executive Vice President, Specialty Products and Sales
Jeffrey N. Wagner	50	Vice President, OSB

Richard W. Frost has been Chief Executive Officer since November 2004. He was Executive Vice President, Commodity Products, Engineered Wood, Procurement and Engineering since March 2003 and Executive Vice President, OSB, Procurement and Engineering from May 2002 through February 2003. He previously was Vice President, Timberlands and Procurement from 1996 to April 2002.

Curtis M. Stevens has been Executive Vice President, Administration and Chief Financial Officer since May 2002. He previously served as Vice President, Treasurer and Chief Financial Officer from September 1997 to April 2002.

Harold N. Stanton has been Executive Vice President, Specialty Products and Sales since November 2004. He served as Vice President of OSB from 2002 to 2004 and previously served as general manager of LP's industrial panels business.

Jeffrey N. Wagner has been Vice President of OSB since November 2004. He served as Vice President, Forest Resources, Supply Management and Logistics from 2003 to 2004. Previously, Mr. Wagner served as Director of Supply Management.

In January 2004, the Board adopted a Code of Ethics applicable to LP's principal executive officer, principal financial officer and principal accounting officer. The Code of Ethics is disclosed at LP's website at www.lpcorp.com.

In January 2004, the Board adopted revised charters for the Nominating Committee and the Compensation Committee and also adopted a Code of Business Conduct and Ethics and Corporate Governance Guidelines, each of which is disclosed at LP's website at www.lpcorp.com.

ITEM 11. *Executive Compensation*

Information regarding executive compensation is incorporated herein by reference to the material under the captions "Compensation Committee—Interlocks and Insider Participation," "Compensation of Executive Officers," "Retirement Benefits," "Directors' Compensation," and "Agreements with Executive Officers" in the 2004 Proxy Statement.

ITEM 12. *Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters*

Information regarding security ownership of certain beneficial owners and management and LP's existing equity compensation plans and arrangements is incorporated herein by reference to the material under the captions "Holders of Common Stock" and "Equity Compensation Plan Information" in the 2004 Proxy Statement.

ITEM 13. *Certain Relationships and Related Transactions*

Information regarding management transactions is incorporated herein by reference to the material under the captions "Compensation Committee—Interlocks and Insider Participation" and "Management Loans and Other Transactions" in the 2004 Proxy Statement.

ITEM 14. Principal Accountant Fees and Services

Information regarding fees and services provided by LP's principal accountant and the LP Audit Committee's pre-approval policies and procedures relating thereto is incorporated herein by reference to the material under the caption "Pre-Approval of Audit and Permissible Non-Audit Services of Independent Auditors" in the 2004 Proxy Statement. In January 2005, the Board adopted a revised charter for the Audit Committee which is disclosed at LP's website at www.lpcorp.com.

PART IV

ITEM 15. Exhibits and Financial Statement Schedules

A. Financial Statements and Financial Statement Schedules

The following financial statements of LP are included in this report:

- Consolidated Balance Sheets—December 31, 2004, and 2003.
- Consolidated Statements of Income—years ended December 31, 2004, 2003, and 2002.
- Consolidated Statements of Cash Flows—years ended December 31, 2004, 2003, 2002.
- Consolidated Statements of Stockholders' Equity—years ended December 31, 2004, 2003 and 2002.
- Consolidated Statements of Comprehensive Income—years ended December 31, 2004, 2003 and 2002.
- Notes to Financial Statements.
- Report of Independent Registered Public Accounting Firm
- Interim Financial Results (unaudited).

No other financial statement schedules are required to be filed.

B. Exhibits

The exhibits filed as part of this report or incorporated by reference herein are listed in the accompanying exhibit index. Each management contract or compensatory plan or arrangement is identified by an asterisk (*).

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, Louisiana-Pacific Corporation, a Delaware corporation (the "registrant"), has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: March 10, 2005

LOUISIANA-PACIFIC CORPORATION
(Registrant)

/s/ CURTIS M. STEVENS
Curtis M. Stevens
*Executive Vice President, Administration
and Chief Financial Officer*

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>Date</u>	<u>Signature and Title</u>
March 10, 2005	<u>/s/ RICHARD W. FROST</u> Richard W. Frost <i>Chief Executive Officer, Director (Principal Executive Officer)</i>
March 10, 2005	<u>/s/ CURTIS M. STEVENS</u> Curtis M. Stevens <i>Executive Vice President, Administration and Chief Financial Officer (Principle Financial Officer)</i>
March 10, 2005	<u>/s/ RUSSELL S. PATTEE</u> Russell S. Pattee <i>Corporate Controller and Assistant Treasurer (Principle Accounting Officer)</i>
March 10, 2005	<u>/s/ E. GARY COOK</u> E. Gary Cook <i>Chairman of the Board</i>
March 10, 2005	<u>/s/ COLIN D. WATSON</u> Colin D. Watson <i>Director</i>

March 10, 2005	<u>/s/ ARCHIE W. DUNHAM</u> Archie W. Dunham <i>Director</i>
March 10, 2005	<u>/s/ PAUL W. HANSEN</u> Paul W. Hansen <i>Director</i>
March 10, 2005	<u>/s/ BRENDA LAUDERBACK</u> Brenda Lauderback <i>Director</i>
March 10, 2005	<u>/s/ DUSTAN E. MCCOY</u> Dustan E. McCoy <i>Director</i>
March 10, 2005	<u>/s/ DANIEL K. FRIERSON</u> Daniel K. Frierson <i>Director</i>
March 10, 2005	<u>/s/ LEE C. SIMPSON</u> Lee C. Simpson <i>Director</i>

EXHIBIT INDEX

On written request, Louisiana-Pacific Corporation (LP) will furnish to any record holder or beneficial holder of its common stock any exhibit to this report upon the payment of a fee equal to LP's costs of copying such exhibit plus postage. Any such request should be sent to: Louisiana-Pacific Corporation, 414 Union Street, Suite 2000, Nashville, TN 37219.

Items identified with an asterisk (*) are management contracts or compensatory plans or arrangements.

- 3.1 Restated Certificate of Incorporation of LP. Incorporated herein by reference to Exhibit 3(a) to LP's Quarterly Report on Form 10-Q for the quarter ended June 30, 1993.
- 3.2 Bylaws of LP, as amended and restated effective August 16, 2004. Incorporated herein by reference to Exhibit 3.3 to LP's Quarterly Report on Form 10-Q for the quarter ended September 30, 2004.
- 4.1 Rights Agreement, dated as of May 26, 1998, between LP and First Chicago Trust Company of New York as Rights Agent. Incorporated herein by reference to Exhibit 1 to LP's Registration Statement on Form 8-A filed May 26, 1998.
- 4.1(a) Amendment to Rights Agreement, dated as of October 17, 2001, between LP and First Chicago Trust Company of New York as Rights Agent. Incorporated herein by reference to Exhibit 4.2 to LP's Annual Report on Form 10-K for the fiscal year ended December 31, 2001.
- 4.2 Indenture, dated as of September 14, 1999, among Louisiana-Pacific Acquisition Inc., LP and Laurentian Trust of Canada Inc. Incorporated herein by reference to Exhibit 4.3 to LP's Annual Report on Form 10-K for the fiscal year ended December 31, 1999.
- 4.2(a) First Supplemental Indenture, dated as of July 22, 2002, by and between Louisiana-Pacific Canada Ltd. and Laurentian Trust of Canada Inc. Incorporated herein by reference to Exhibit 4.2 to LP's Annual Report on Form 10-K for the fiscal year ended December 31, 2002.
- 4.3 Indenture, dated as of April 2, 1999, between LP and First National Bank of Chicago, N.A., as trustee (predecessor to Bank One Trust Company, N.A.). Incorporated herein by reference to Exhibit 4.2 to LP's Quarterly Report on Form 10-Q for the quarter ended September 30, 2001.
- 4.3(a) First Supplemental Indenture, dated August 18, 2000, between LP and Bank One Trust Company, N.A., as trustee. Incorporated herein by reference to Exhibit 4.1 to LP's Quarterly Report on Form 10-Q for the quarter ended September 30, 2000.
- 4.3(b) Second Supplemental Indenture, dated August 18, 2000, between LP and Bank One Trust Company, N.A., as trustee. Incorporated herein by reference to Exhibit 4.2 to LP's Quarterly Report on Form 10-Q for the quarter ended September 30, 2000.
- 4.3(c) Third Supplemental Indenture, dated August 13, 2001, between LP and Bank One Trust Company, N.A., as trustee. Incorporated herein by reference to Exhibit 4.1 to LP's Quarterly Report on Form 10-Q for the quarter ended September 30, 2001.

4.3(d) Fourth Supplemental Indenture, dated March 25, 2004, between LP and J.P. Morgan Trust Company N.A. (formerly Bank One Trust Company, N.A.), as trustee. Incorporated herein by reference to Exhibit 4.1 to LP's Quarterly Report on Form 10-Q for the quarter ended March 30, 2004.

- 10.1 Credit Agreement, dated September 1, 2004, among LP, as borrower, Wachovia Bank National Association, Bank of America, N.A., and the other financial institutions that are parties thereto. Incorporated herein by reference to Exhibit 10.1 to LP's Current Report on Form 8-K dated September 2, 2004.
- 10.2 2001 LP Canada Credit Agreement, dated for reference November 30, 2001, among LP, Louisiana-Pacific Canada Ltd. and Royal Bank of Canada. Incorporated herein by reference to Exhibit 10.2 to LP's Annual Report on Form 10-K for the fiscal year ended December 31, 2001.
- 10.2(a) Waiver and First Amendment, dated as of July 23, 2002, among LP, Louisiana-Pacific Canada Ltd. and Royal Bank of Canada. Incorporated herein by reference to Exhibit 10.7 to LP's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002.
- 10.2(b) Second Amendment to 2001 LP Canada Credit Agreement, dated for reference November 27, 2002, among Louisiana-Pacific Canada Ltd., LP and Royal Bank of Canada. Incorporated herein by reference to Exhibit 10.2(b) to LP's Annual Report on Form 10-K for the fiscal year ended December 31, 2002.
- 10.2(c) Letter Agreement amending 2001 LP Canada Credit Agreement, dated November 27, 2002, among Louisiana-Pacific Canada Ltd., LP and Royal Bank of Canada.
- 10.2(d) Letter Agreement amending 2001 LP Canada Credit Agreement, dated January 27, 2003, among Louisiana-Pacific Canada Ltd., LP and Royal Bank of Canada.
- 10.2(e) Letter Agreement amending 2001 LP Canada Credit Agreement, dated February 24, 2003, among Louisiana-Pacific Canada Ltd., LP and Royal Bank of Canada.
- 10.2(f) Third Amendment to 2001 LP Canada Credit Agreement, dated for reference March 14, 2003, among Louisiana-Pacific Canada Ltd., LP and Royal Bank of Canada. Incorporated by reference to Exhibit 10.2(c) to LP's Annual Report on Form 10-K for the fiscal year ended December 31, 2002.
- 10.2(g) Fourth Amendment to 2001 LP Canada Credit Agreement, dated June 27, 2003, among Louisiana-Pacific Canada Ltd., LP and Royal Bank of Canada. Incorporated herein by reference to Exhibit 10.2 (d) to LP's Quarterly Report on Form 10-Q for the quarter ended June 30, 2003.
- 10.2(h) Amended and Restated Credit Agreement, dated for reference September 15, 2003, among Louisiana-Pacific Canada Ltd., LP and Royal Bank of Canada. Incorporated herein by reference to Exhibit 10.2 (e) to LP's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003.
- 10.2 (i) Third amended and restated Credit Agreement, dated for reference December 30, 2004, among Louisiana-Pacific Canada Ltd., LP and Royal Bank of Canada.
- 10.3 Receivables Sale Agreement, dated as of November 15, 2001, among LP, LP Wood Polymers, Inc. and LP Receivables Corporation. Incorporated herein by reference to Exhibit 10.3 to LP's Annual Report on Form 10-K for the fiscal year ended December 31, 2001.
- 10.3(a) First Amendment to Receivables Sale Agreement, dated as of December 27, 2001, among LP, LP Wood Polymers, Inc. and LP Receivables Corporation. Incorporated herein by reference to Exhibit 10.3(a) to LP's Annual Report on Form 10-K for the fiscal year ended December 31, 2002.

- 10.3(b) Waiver of Credit and Security Agreement and Limited Waiver and Second Amendment to Receivables Sales Agreement, dated as of July 23, 2002, among LP Receivables Corporation, Wachovia Bank, National Association and Blue Ridge Asset Funding Corporation. Incorporated herein by reference to Exhibit 10.5 to LP's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002.
- 10.3(c) Third Amendment to the Receivables Sale Agreement, dated as of April 25, 2003, among LP and LP Receivables Corporation. Incorporated herein by reference to Exhibit 10.3 (c) to LP's Quarterly Report on Form 10-Q for the quarter ended June 30, 2003.
- 10.4 Credit and Security Agreement, dated as of November 15, 2001, among LP, LP Receivables Corporation, Blue Ridge Asset Funding Corporation, Wachovia Bank, N.A., and the other financial institutions that are parties thereto. Incorporated herein by reference to Exhibit 10.4 to LP's Annual Report on Form 10-K for the fiscal year ended December 31, 2001.
- 10.4(a) Fourth Amendment to Limited Waiver and Amendment to Credit Agreement, dated as of November 13, 2002, among LP Receivables Corporation, LP, Wachovia Bank, N.A. and Blue Ridge Asset Funding Corporation. Incorporated herein by reference to Exhibit 10.3(c) to LP's Annual Report on Form 10-K for the fiscal year ended December 31, 2002.
- 10.4(b) Second Amendment to the Credit and Security Agreement, dated April 25, 2003, among LP, LP Receivables Corporation, Blue Ridge Asset Funding Corporation, Wachovia Bank, N.A., and the other financial institutions that are parties thereto. Incorporated herein by reference to Exhibit 10.4 (a) to LP's Quarterly Report on Form 10-Q for the quarter ended June 30, 2003.

- 10.4(c) Third Amendment to the Credit and Security Agreement, dated November 12, 2003, among LP, LP Receivables Corporation, Blue Ridge Asset Funding Corporation, Wachovia Bank, N.A., and the other financial institutions that are parties thereto.
- 10.4(d) Fourth Amendment to the Credit and Security Agreement, dated November 14, 2003, among LP, LP Receivables Corporation, Blue Ridge Asset Funding Corporation, Wachovia Bank, N.A., and the other financial institutions that are parties thereto.
- 10.5(e) Fifth Amendment to the Credit and Security Agreement, dated October 25, 2004, among LP, LP Receivables Corporation, Blue Ridge Asset Funding Corporation, Wachovia Bank, N.A., and the other financial institutions that are parties thereto. Incorporate herein by reference to Exhibit 10.1 to LP's Current Report on Form 8-K dated November 1, 2004.
- 10.6 Note Purchase Agreement, dated June 30, 1998, among LP, LP SPV2, LLC and the Purchasers named therein. Incorporated herein by reference to Exhibit 4 to LP's Quarterly Report on Form 10-Q for the quarter ended June 30, 1998.
- 10.8 Settlement Agreement, dated May 3, 2000, among ABT Building Products Corporation, ABTco, Inc., Abitibi-Price Corporation, attorneys representing plaintiffs in hard board siding class action litigation and the other parties named therein. Incorporated herein by reference to Exhibit 10.2 to LP's Quarterly Report on Form 10-Q for the quarter ended March 30, 2000.
- 10.8(a) Assignment, Assumption, Release and Indemnification Agreement, dated June 25, 2001, among LP, Louisiana-Pacific Canada Ltd., Abitibi-Price Corporation and Abitibi-Consolidated Inc. Incorporated herein by reference to Exhibit 10.12 to LP's Annual Report on Form 10-K for the fiscal year ended December 31, 2001.
- 10.9 1991 Employee Stock Option Plan. Incorporated herein by reference to Exhibit 10.B to LP's Annual Report on Form 10-K for the fiscal year ended December 31, 1996.*

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- 10.10 1992 Non-Employee Director Stock Option Plan (restated as of May 3, 2004) and Related Forms of Option Agreements. Incorporated herein by reference to LP's Proxy Statement dated March 23, 2004.*
 - 10.11 1997 Incentive Stock Award Plan, as restated as of May 4, 2004. Incorporated herein by reference to LP's Proxy Statement dated March 23, 2004.*
 - 10.11(a) Form of Award Agreement for Non-Qualified Stock Options. Incorporated herein by reference to Exhibit 10.1 to LP Current Report on 8-K dated February 4, 2005.*
 - 10.11(b) Form of Award Agreement under the 1997 Incentive Stock Award Plan for Incentive Shares. Incorporated herein by reference to Exhibit 10.2 to LP Current Report on 8-K dated February 4, 2005.*
 - 10.11(c) Form of Award Agreement under the 1997 Incentive Stock Award Plan for Restricted Stock. Incorporated herein by reference to Exhibit 10.2 to LP Current Report on 8-K dated February 4, 2005.*
 - 10.12 Annual Cash Incentive Award Plan, as amended and restated as of May 3, 2004. Incorporated herein by reference to LP's Proxy Statement dated March 23, 2004.*
 - 10.13 Supplemental Executive Retirement Plan, as amended and restated as of September 1, 2004. Incorporated herein by reference to Exhibit 10.4 to LP's Quarterly Report on Form 10-Q for the quarter ended September 30, 2004.*
 - 10.15 2000 Non-Employee Director Restricted Stock Plan, as amended and restated May 3, 2004. Incorporated herein by reference to LP's Proxy Statement dated March 23, 2004.*
 - 10.16 Employment Agreement, dated January 2, 1996, between LP and Mark A. Suwyn. Incorporated herein by reference to Exhibit 10.L to LP's Annual Report on Form 10-K for the fiscal year ended December 31, 1997.*
 - 10.16 (a) Amendment to Employment Agreement dated February 1, 2003, between LP and Mark A. Suwyn. Incorporated herein by reference to Exhibit 10.17 (a) to LP's Quarterly Report on Form 10-Q for the quarter ended June 30, 2003.*
 - 10.18 Letter Agreement, dated July 16, 1997, relating to the employment of Curtis M. Stevens. Incorporated herein by reference to Exhibit 10.O to LP's Annual Report on Form 10-K for the fiscal year ended December 31, 1997.*
 - 10.19 Form of Change of Control Employment Agreement between LP and each of Curtis M. Stevens, Richard W. Frost, Joseph B. Kastelic, J. Keith Matheney, Michael J. Tull, Walter M. Wirfs, Jeff Duncan, Jr., W. Lee Kuhre and M. Ward Hubbell. Incorporated herein by reference to Exhibit 10.2 to LP's Quarterly Report on Form 10-Q for the quarter ended March 31, 1998.*
 - 10.20 Change of Control Employment Agreement, dated as of February 2, 2005, between LP and Jeffery Wagner. Incorporated by reference to Exhibit 10.2 to LP's Current report on Form 8-K dated August 30, 2004.*
 - 10.21 2004 Executive Deferred Compensation Plan, amended and restated effective January 1, 2005. Incorporated herein by reference to Exhibit 10.1 to LP's Current Report on Form 8-K dated August 30, 2004.*

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- 10.22 Purchase and Sale Agreement between LP and ETT Acquisition Company, LLC, dated July 2, 2003. (Schedules and Exhibits to this agreement, which are identified in the Table of Contents thereof, have been omitted. LP hereby agrees to furnish the same supplementally to the SEC upon request by the SEC.) Incorporated herein by reference to Exhibit 10.21 to LP's Quarterly Report on Form 10-Q for the quarter ended June 30, 2003.
 - 10.22 Undertaking Letter between Phemus Corporation and LP, dated July 2, 2003. Incorporated herein by reference to Exhibit 10.22 to LP's Quarterly Report on Form 10-Q for the quarter ended June 30, 2003.
 - 21 List of LP's subsidiaries.
 - 23 Consent of Deloitte & Touche LLP.
 - 31.1 Certification of Chief Executive Officer Pursuant to Rule 13a-14(a).
 - 31.2 Certification of Chief Financial Officer Pursuant to Rule 13a-14(a).
 - 32.1 Certifications pursuant to § 906 of the Sarbanes-Oxley Act of 2002

LP hereby agrees to furnish supplementally to the SEC upon its request any schedules and similar documents omitted pursuant to Item 601(b)(2) of Regulation S-K and any instruments omitted pursuant to Item 601 (b)(4)(iii) of Regulation S-K.

THIRD AMENDED AND RESTATED CREDIT AGREEMENT

AMONG:

LOUISIANA-PACIFIC CANADA LTD.

AND:

LOUISIANA-PACIFIC CORPORATION

AND:

ROYAL BANK OF CANADA

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THIRD AMENDED AND RESTATED CREDIT AGREEMENT

This Third Amended and Restated Credit Agreement is dated for reference December 20, 2004

AMONG:

LOUISIANA-PACIFIC CANADA LTD., a British Columbia company having an office at 2100 - 1075 West Georgia Street, Vancouver, British Columbia, V6E 3G2

AND:

LOUISIANA-PACIFIC CORPORATION, a Delaware corporation having an office at Suite 1200, 805 S.W. Broadway, Portland, Oregon, U.S.A., 97205

AND:

ROYAL BANK OF CANADA, a Canadian chartered bank, having its head office in Montreal, Quebec, and a branch office at 1025 West Georgia Street, Vancouver, British Columbia, V6E 3N9

WHEREAS:

- A. The Borrower is a company formed by the amalgamation of Louisiana-Pacific Canada Ltd. ("LP Canada"), LP Engineered Wood Products Ltd. and Louisiana-Pacific B.C. Forest Products Limited (the "Amalgamation");
- B. Royal and LP Canada are parties to a credit agreement dated for reference November 30, 2001, which credit agreement was amended by a waiver and first amendment dated as of July 23, 2002 and further amended by a second amendment dated for reference November 27, 2002, a third amendment dated for reference March 14, 2003 and a fourth amendment dated for reference June 27, 2003 (as so amended the "Prior Credit Agreement");
- C. The Prior Credit Agreement was amended and restated by an amended and restated credit agreement among Royal, LP Canada and the Guarantor dated for reference September 15, 2003 and by a second amended and restated credit agreement among Royal, the Borrower and the Guarantor dated for reference April 5, 2004 (as so amended and restated the "Credit Agreement");
- D. Royal and the Borrower desire to amend and restate the Credit Agreement, as set forth herein;
- E. Pursuant to this Agreement, Royal has agreed to make available to the Borrower:

- (a) a committed, revolving credit facility (unsecured by Collateral but with the Borrower having the option to cash collateralize its liabilities and obligations in respect thereof) in the principal amount of:
- (1) during any No Collateral Period of up to \$10,000,000, or the Equivalent Amount in U.S. Funds, and
 - (2) during the Cash Collateral Period, up to the lesser of:
 - (A) \$10,000,000, or the Equivalent Amount in U.S. Funds, or
 - (B) the amount of the Collateral Value of the Borrowing Base; and
- (b) at Royal's discretion, on an uncommitted basis, lines of credit in the aggregate principal amount of up to \$50,000,000 to cover Swap Termination Values and liabilities of the Borrower or, with the consent of Royal, any of its Subsidiaries in respect of EFT Transfers and PDS Services, including overdrafts and cash management debts and liabilities.

- F. Pursuant to the Credit Agreement the Guarantor executed and delivered the Guarantee.

1. INTERPRETATION

1.1 Definitions

Where used in this Agreement, the following terms shall have the following meanings:

"**Additional Amount**" means the amount defined as such in Section 3.21;

“**Administrative Agent**” means Wachovia Bank, National Association, as administrative agent for the Lenders under and pursuant to the Guarantor Credit Agreement;

“**Advances**” means Canadian Advances;

“**Affiliate**” means, in relation to a specified Person, any other Person which directly (or indirectly through one or more intermediaries) controls, or is controlled by, or is under common control with, the specified Person or any Subsidiary of the specified Person. The term “control” (including the phrases “controlled by” or “under common control with”) means the possession, directly or indirectly, of the effective power to direct or cause the direction of the management and policies of such Person, whether through ownership of voting securities or by contract or otherwise;

“**Agreement**” means this Third Amended and Restated Credit Agreement among the Borrower, the Guarantor and Royal;

“**Amended Subordination Agreement**” means the subordination agreement dated for reference April 5, 2004 among the Borrower, the Guarantor, certain Guarantor Affiliates and Royal wherein all indebtedness owing by the Borrower to such Guarantor Affiliates and to the Guarantor except for trade accounts payable (including payables for

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management services) incurred in the ordinary course of business prior to receipt from Royal of a notice of default, in the case of a default in respect of which Royal is required to give notice before it becomes an Event of Default or, an Event of Default, is expressly made subordinate and subject in right of payment as therein provided to the prior payment in full of all indebtedness of the Borrower to Royal under the Agreement;

“**Applicable Percentage**” means the rate per annum set forth below opposite the applicable level then in effect based on the Guarantor’s then current Debt Rating, it being understood that the Applicable Percentage for (a) the Documentary Credit Fee shall be (i) during the Cash Collateral Period, 0.05% and (ii) during any No Collateral Period, the percentage set forth under the column “Applicable Percentage for Documentary Credit Fee”, (b) Loans that are Canadian Advances shall be (i) during the Cash Collateral Period, 0.00% and (ii) during any No Collateral Period, the percentage set forth under the column “Applicable Percentage for Canadian Advances”, and (c) the Facility Fee shall be the percentage set forth under the column “Facility Fee”:

Tier	Rating	Applicable Percentage For Documentary Credit Fee	Applicable Percentage For Canadian Advance	Facility Fee
I	³ Baa1/BBB+	0.450 %	0.000 %	0.100 %
II	Baa2/BBB	0.500 %	0.000 %	0.125 %
III	Baa3/BBB-	0.700 %	0.000 %	0.150 %
IV	Ba1/BB+	1.050 %	0.050 %	0.200 %
V	Ba2/BB	1.250 %	0.250 %	0.250 %
VI	< Ba3/BB-	1.450 %	0.450 %	0.300 %

Any change in the Applicable Percentage due to a change in the Debt Rating shall be effective on, and payable from, the effective date of such change in the Debt Rating. Notwithstanding the foregoing, the Guarantor shall be obligated to provide notice to Royal of any change in the Debt Rating in accordance with Section 6.2(k).

If (a) only one of S&P and Moody’s at any time of determination shall have in effect a Debt Rating, the Applicable Percentage shall be determined by reference to the available rating, (b) neither S&P nor Moody’s at any time of determination shall have in effect a Debt Rating, the Applicable Percentage will be set in accordance with Tier VI, (c) the ratings established by S&P and Moody’s shall fall within different levels, the Applicable Percentage shall be based upon the higher rating; provided, that if there exists a multiple level split in the ratings, the rating that is one level higher than the lower level shall apply, (d) any rating established by S&P or Moody’s shall be changed, such

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change shall be effective as of the date on which such change is first announced publicly by the Rating Agency making such change, and (e) S&P or Moody’s shall change the basis on which ratings are established, each reference to the Debt Rating announced by S&P or Moody’s, as the case may be, shall refer to the then equivalent rating by S&P or Moody’s, as the case may be.

“**BAS Investment Collateral Account**” means the account of the Borrower numbered 249-01169 with Banc of America Securities LLC;

“**Basis Point**” and “**BP**” each means one one-hundredth (1/100) of one percent or .01%;

“**Borrower**” means Louisiana-Pacific Canada Ltd., its successors and permitted assigns;

“**Borrower Guarantees**” means the limited liability guarantees to be provided by the Borrower guaranteeing the present and future, direct and indirect obligations of any future Borrower Subsidiaries to Royal under the credit facility established pursuant to Section 3.1(b) in favour of the Borrower and, with the consent of Royal, to be available for utilization by Subsidiaries of the Borrower in respect of EFT Transfers and PDS Services including overdrafts and cash management debits and liabilities, as amended, modified, supplemented extended, renewed or replaced from time to time;

“**Borrower Subsidiaries**” means all Subsidiaries of the Borrower;

“**Borrower Subsidiaries’ Guarantees**” means the limited liability guarantees to be provided by any future Material Canadian Subsidiary, guaranteeing the present and future, direct or indirect obligations of the Borrower to Royal under the Agreement, as such guarantees may be amended, modified, supplemented, extended, renewed or replaced from time to time;

“**Borrowing**” means a utilization or deemed utilization, as the case may be, by the Borrower of the credit facility established pursuant to Section 3.1(a) by way of Canadian Advances or Documentary Credits or of the credit facility established pursuant to Section 3.1(b) by way of Canadian Advances or U.S. Advances; and “**Borrowings**” means the aggregate of such utilizations;

“**Borrowing Base Certificate**” means a certificate in the form of Schedule C ;

“**Borrowing Options**” means any of the borrowing options available to the Borrower pursuant to Section 3.2;

“**Branch of Account**” means the branch of Royal located at 1025 West Georgia Street, Vancouver, British Columbia, V6E 3N9 or elsewhere as may be agreed between the Borrower and Royal in writing;

“**Business Day**” means a day, excluding Saturday and Sunday, on which institutions are open for business in Toronto, Ontario, Canada and Vancouver, British Columbia, Canada and, in respect of any payments hereunder in U.S. Funds, a day on which banking institutions are also open for business in New York, New York, U.S.A.;

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“**Canadian Advance**” means any advance or conversion under the Credit Facility requested by the Borrower in Canadian Funds and advanced by Royal in Canadian Funds;

“**Canadian Funds**” and “**Cdn\$**” and “**\$**” means lawful currency of Canada;

“**Capital Lease**” means any lease of property, real or personal, the obligations with respect to which are required to be capitalized on a balance sheet of the lessee in accordance with GAAP;

“**Capital Stock**” means (a) in the case of a corporation, capital stock, (b) in the case of an association or business entity, any and all shares, interests, participations, rights or other equivalents (however designated) of capital stock, (c) in the case of a partnership, partnership interests (whether general or limited), (d) in the case of a limited liability company, membership interests and (e) any other interest or participation that confers on a Person the right to receive a share of the profits and losses of, or distributions of assets of, the issuing Person;

“**Cash Collateral Period**” has the meaning ascribed thereto in Section 3.14;

“**Cash Collateral Release Notice**” means a notice in the form of Schedule F;

“**Cash Equivalents**” means:

- (a) Canadian Funds;
- (b) U.S. Funds;
- (c) certificates of deposit and term deposits with maturities of six months or less from the date of acquisition;

“**CDOR Rate**” means the annual rate of interest equal to the average “BA 1 Month” interest rates for Cdn\$ bankers’ acceptances displayed and identified as such on the “Reuters Screen CDOR Page” (as defined in the International Swap Dealer Association Inc. definitions, as modified and amended from time to time) as of 10:00 a.m. local time at Toronto, Ontario on any particular day and, if such day is not a Business Day, then on the Business Day immediately preceding that Business Day (as adjusted by Royal after 10:00 a.m. local time at Toronto, Ontario to reflect any error in a posted rate of interest or in the posted average annual rate of interest). If such rates are not available on the Reuters Screen CDOR Page on any particular day, then the CDOR Rate on that day shall be the 30 day rates applicable to Cdn\$ bankers’ acceptances quoted by Royal as of 10:00 a.m. local time at Toronto, Ontario on such day, or if such day is not a Business Day, then on the immediately preceding Business Day;

“**Change of Control**” means the occurrence of one or more of the following events: (a) any Person or two or more Persons acting in concert shall have acquired “beneficial ownership,” directly or indirectly, of, or shall have acquired by contract or otherwise, or shall have entered into a contract or arrangement that, upon consummation, will result in its or

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their acquisition of, or control over, Voting Stock of the Guarantor (or other securities convertible into such Voting Stock) representing 35% or more of the combined voting power of all Voting Stock of the Guarantor, or (b) Continuing Directors shall cease for any reason to constitute a majority of the members of the board of directors of the Guarantor then in office. As used herein, “beneficial ownership” shall have the meaning provided in Rule 13d-3 of the Securities and Exchange Commission under the Securities Exchange Act of 1934;

“**Charter**” means the Certificate of Amalgamation and Articles of the Borrower, the Certificate of Incorporation and Bylaws of the Guarantor, and the Certificate of Incorporation, Articles and Bylaws of the Borrower Subsidiaries, as the context requires, and includes in each case every amendment thereto;

“**Chief Financial Officer**” means that Person responsible for reporting to the board of directors of the Borrower or the Guarantor, as the case may be, on the financial condition and performance of the Borrower or the Guarantor, as the case may be, or any Person designated as such;

“**Closing Date**” means December 21, 2005 or such earlier or later date as agreed by Royal and the Borrower;

“**Code**” means the Internal Revenue Code of 1986, and regulations promulgated thereunder;

“**Collateral**” means all property covered by the Restricted Cash Collateral Agreements and any other property, real or personal, tangible or intangible, now existing or hereafter acquired, that is subject to a security interest or Lien in favour Royal to secure the Obligations;

“**Collateral Agent**” means Bank of America, N.A. as collateral agent for and on behalf of the Lenders under and pursuant the Guarantor Credit Agreement;

“**Collateral Value of the Borrowing Base**” shall mean, at any date, 91% of the amount of the Restricted Cash Collateral;

“**Commonly Controlled Entity**” means an entity, whether or not incorporated, which is under common control with the Guarantor within the meaning of Section 4001 of ERISA or is part of a group which includes the Guarantor and which is treated as a single employer under Section 414 of the Code;

“**Compliance Certificate**” means the certificate defined as such in the Guarantor Credit Agreement;

“**Composite 3:30 p.m. Quotations for U.S. Government Securities**” means the daily statistical release designated as such published by the Federal Reserve Bank of New York (U.S.A.) or in any successor publication;

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“**Consolidated EBITDA**” means, for any period, determined for the Guarantor and its Subsidiaries on a consolidated basis, the sum of (a) Consolidated Net Income, plus (b) an amount which, in the determination of Consolidated Net Income, has been deducted for (i) Consolidated Interest Expense, (ii) total federal, state, local and foreign income and similar taxes, (iii) depreciation and amortization expense, and (iv) other non-cash items (excluding any such non-cash item to the extent that it represents an accrual or reserve for potential cash items in any future period or amortization of a prepaid cash item that was paid in a prior period), minus (c) non-cash items increasing Consolidated Net Income for such period (excluding any such non-cash item to the extent it represents the reversal of an accrual or reserve for potential cash item in any prior period or will result in the receipt of cash payments in a future period), all as determined in accordance with GAAP. Unless expressly indicated otherwise, the applicable period shall be for the four consecutive quarters ending on the date of computation;

“**Consolidated Interest Coverage Ratio**” means, as of the end of any fiscal quarter of the Guarantor for the four fiscal quarter period ending on such date with respect to the Guarantor and its Subsidiaries on a consolidated basis, the ratio of (a) Consolidated EBITDA for such period to (b) the difference (to the extent the difference between the following is negative, for purposes of calculating the Consolidated Interest Coverage Ratio, this clause (b) shall be set at \$1) of (i) Consolidated Interest Expense for such period minus (ii) Consolidated Interest Income for such period;

“**Consolidated Interest Expense**” means, for any period, all interest expense (including, without limitation, the interest component under Capital Leases) of the Guarantor and its Subsidiaries on a consolidated basis, including all commissions, discounts and other fees and charges owed with respect to letters of credit and net costs under Swap Contracts, as determined in accordance with GAAP. Unless expressly indicated otherwise, the applicable period shall be for the four consecutive quarters ending on the date of computation;

“**Consolidated Interest Income**” means, for any period, all interest income of the Guarantor and its Subsidiaries on a consolidated basis, as determined in accordance with GAAP. Unless expressly indicated otherwise, the applicable period shall be for the four consecutive quarters ending on the date of computation;

“**Consolidated Leverage Ratio**” means, as of the end of any fiscal quarter of the Guarantor for the four fiscal quarter period ending on such date with respect to the Guarantor and its Subsidiaries on a consolidated basis, the ratio of (a) Funded Debt of the Guarantor and its Subsidiaries on a consolidated basis on the last day of such period to (b) Consolidated EBITDA for such period;

“**Consolidated Net Income**” means for any period, net income of the Guarantor and its Subsidiaries on a consolidated basis, as determined in accordance with GAAP. Unless expressly indicated otherwise, the applicable period shall be for the four consecutive quarters ending on the date of computation;

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“**Consolidated Net Worth**” means, as of any date of computation, (a) Consolidated Total Assets minus (b) the total liabilities of the Guarantor and its Subsidiaries on a consolidated basis, as determined in accordance with GAAP;

“**Consolidated Total Assets**” means, on the date of computation, the amount of total assets of the Guarantor and its Subsidiaries on a consolidated basis, as determined in accordance with GAAP;

“**Contaminant**” means, but is not limited to meaning, any pollutants, dangerous substances, liquid waste, industrial waste, hauled liquid waste, toxic substances, hazardous wastes, hazardous materials, hazardous substances or contaminants including any of the foregoing as defined in any Environmental Law;

“**Continuing Directors**” means during any period of up to 24 consecutive months commencing after September 1, 2004, individuals who at the beginning of such 24 month period were directors of the Guarantor (together with any new director whose election by the Guarantor’s board of directors or whose nomination for election by the Guarantor’s shareholders was approved by a vote of at least two-thirds of the directors then still in office who either were directors at the beginning of such period or whose election or nomination for election was previously so approved);

“**Credit Facility**” means, collectively the credit facilities described in Section 3.1;

“**Credit Party**” means any of the Guarantor and the guarantors under the Guarantor Credit Agreement;

“**Credit Party Obligations**” means all of the obligations of the Credit Parties under the Guarantor Credit Agreement and the other Guarantor Credit Documents;

“**Currencies**” means Canadian Funds or U.S. Funds;

“**Debt Rating**” means the debt rating for the Guarantor’s senior, unsecured, non-credit enhanced long-term indebtedness for money borrowed as determined by Moodys and S&P;

“**Debtor Relief Laws**” means the Bankruptcy Code of the United States, and all other liquidation, conservatorship, bankruptcy, assignment for the benefit of creditors, moratorium, rearrangement, receivership, insolvency, reorganization or similar debtor relief laws of the United States, any state thereof or other applicable jurisdictions from time to time in effect and affecting the rights of creditors generally;

“**Default**” means any event that would constitute an Event of Default, whether or not any requirement for the giving of notice or lapse of time, or both, or any other condition, has been satisfied,

“**Defaulting Lender**” shall have the meaning ascribed to it in the Guarantor Credit Agreement;

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“**Disposition**” means, with respect to any Person, the sale, transfer, license or other disposition (including any sale and leaseback transaction) of any property (other than the Stock of such Person) by such Person, including any sale, assignment, transfer or other disposal, with or without recourse, of any notes or accounts receivable or any rights and claims associated therewith;

“**Documentary Credit Application**” means an application and agreement for the issuance or amendment of a Documentary Credit in the form from time to time used by Royal;

“**Documentary Credit Fee**” means the fee for Guarantee Letters and Letters of Credit charged by Royal pursuant to Section 3.11;

“**Documentary Credits**” means Guarantee Letters and Letters of Credit;

“**Domestic Subsidiary**” means any Subsidiary that is organized and existing under the laws of the United States or any state or commonwealth thereof or under the laws of the District of Columbia;

“**Drawdown Date**” means a Business Day on which a Borrowing is advanced to the Borrower;

“**EFT Transfers**” means electronic funds transfers by the Borrower or its present and future Subsidiaries;

“**EFT Transfer Fees**” means the fees charged by Royal in respect of EFT Transfers;

“**Environmental Activity**” means any past, present or future activity, event or circumstance in respect of a Contaminant, including its storage, use, holding, collection, purchase, accumulation, assessment, generation, manufacture, construction, processing, treatment, stabilization, disposition, handling or transportation, or its Release, escape, leaching, dispersal or migration into the natural environment, including the movement through or in the air, soil, surface water or groundwater;

“**Environmental Law**” means any and all applicable federal, provincial, municipal or local laws, statutes, regulations, orders, judgements, decrees, ordinances, official directives and all authorizations, relating to the environment or any Environmental Activity;

“**Equivalent Amount**” means at any time on any date, the amount in Canadian Funds or U.S. Funds, as the case may be, which would result from the conversion of U.S. Funds to Canadian Funds or Canadian Funds to U.S. Funds, as the case may be, determined on the basis of the Spot Buying Rate for U.S. Funds against Canadian Funds or Canadian Funds against U.S. Funds, as the case may be. If the date for determination of an Equivalent Amount is not a Business Day, the applicable rate shall be the Spot Buying Rate quoted on the immediately preceding Business Day;

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“**ERISA**” means the *Employee Retirement Income Security Act* of 1974 and regulations issued pursuant thereto;

“**ERISA Affiliate**” means any trade or business (whether or not incorporated) under common control with the Guarantor within the meaning of Section 414(b) or (c) of the Code (and Sections 414(m) and (o) of the Code for purposes of provisions relating to Section 412 of the Code) other than the Guarantor and its Subsidiaries;

“**ERISA Event**” means:

- (a) a Reportable Event with respect to a Pension Plan;
- (b) a withdrawal by the Guarantor or any ERISA Affiliate from a Pension Plan subject to Section 4063 of ERISA during a plan year in which it was a substantial employer (as defined in Section 4001(a) (2) of ERISA) or a cessation of operations that is treated as such a withdrawal under Section 4062(e) of ERISA which could reasonably be expected to give rise to any liability with respect to such withdrawal;
- (c) a complete or partial withdrawal by the Guarantor or any ERISA Affiliate from a Multiemployer Plan or notification that a Multiemployer Plan is in reorganization;
- (d) the filing of a notice of intent to terminate, the treatment of a Plan amendment as a termination under Section 4041 or 4041A of ERISA, or the commencement of proceedings by the PBGC to terminate a Pension Plan or Multiemployer Plan;
- (e) an event or condition which might reasonably be expected to constitute grounds under Section 4042 of ERISA for the termination of, or the appointment of a trustee to administer, any Pension Plan or Multiemployer Plan; or
- (f) the imposition of any liability under Title IV of ERISA, other than for PBGC premiums due but not delinquent under Section 4007 of ERISA, upon the Guarantor or any ERISA Affiliate;

“**Event of Default**” means any event set forth in Section 7.1 of the Agreement;

“**Existing Letters of Credit**” means the letters of credit issued pursuant to the Prior Credit Agreement and listed in Schedule D;

“**Extension of Credit**” has the meaning ascribed to it in the Guarantor Credit Agreement;

“**Facility Fee**” has the meaning ascribed thereto in Section 3.28;

“**Federal Funds Effective Rate**” means on any day, the rate of interest per annum set forth in the H.15(519) for that day opposite the caption “Federal Funds Effective”. If on

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any day such rate is not yet published in the H.15(519), the rate for such day will be the rate set forth in the Composite 3:30 p.m. Quotations for US Government Securities for such day under the caption “Federal Funds Effective Rate”. If on any day such rate is not yet published in either the H.15(519) or the Composite 3:30 p.m. Quotations for US Government Securities such rate shall be the average of the quotations for such day on overnight Federal Funds (such words to have the meaning generally given to them by money market brokers of recognised standing doing business in the United States of America) transactions received by Royal from three Federal Funds brokers of recognised standing selected by Royal;

“**Funded Debt**” means, with respect to any Person, without duplication, (a) all obligations of such Person for borrowed money, (b) all obligations of such Person evidenced by bonds, debentures, notes or similar instruments, or upon which interest payments are customarily made, (c) all obligations of such Person under conditional sale or other title retention agreements relating to property purchased by such Person (other than customary reservations or retentions of title under agreements with suppliers entered into in the ordinary course of business), (d) all obligations (including, without limitation, earnout obligations) of such Person incurred, issued or assumed as the deferred purchase price of property or services purchased by such Person (other than trade debt incurred in the ordinary course of business and due within nine months of the incurrence thereof) that would appear as liabilities on a balance sheet of such Person, (e) the principal portion of all obligations of such Person under Capital Leases, (f) all obligations of such Person under Swap Contracts, excluding any portion thereof that would be accounted for as interest expense under GAAP, (g) the maximum amount of all letters of credit issued or bankers’ acceptances facilities created for the account of such Person and, without duplication, all drafts drawn and unreimbursed thereunder, (h) all preferred Capital Stock or other equity interests issued by such Person and which by the terms thereof could be (at the request of the holders thereof or otherwise) subject to mandatory sinking fund payments, redemption or other acceleration on or prior to the Maturity Date, (i) the principal balance outstanding under any synthetic lease, tax retention operating lease, off-balance sheet loan or similar off-balance sheet

financing product, (j) all Indebtedness of others of the type described in clauses (a) through (i) hereof secured by (or for which the holder of such Indebtedness has an existing right, contingent or otherwise, to be secured by) any Lien on, or payable out of the proceeds of production from, property owned or acquired by such Person, whether or not the obligations secured thereby have been assumed, (k) all Guaranty Obligations of such Person with respect to Indebtedness of another Person of the type described in clauses (a) through (i) hereof, and (l) all Indebtedness of the type described in clauses (a) through (i) hereof of any partnership or unincorporated joint venture in which such Person is a general partner or a joint venturer; provided, that Funded Debt shall not include any Indebtedness of the Guarantor or its Subsidiaries that is non-recourse to the Guarantor or its Subsidiaries or their respective assets;

“**GAAP**” shall mean generally accepted accounting principles in effect in the United States of America applied on a consistent basis, subject, however, in the case of determination of compliance with the financial covenants set out in Section 6.2 (nn) and (oo) to the provisions of Section 1.11;

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

“**Governmental Body**” means, as the context requires, any government, parliament, legislature, regulatory authority, agency, tribunal, department, commission, board or court or other law, regulation or rule making entity (including a Minister of the Crown) having or purporting to have jurisdiction on behalf of any country or nation, any province, state, municipality, region, district, any subdivision thereof or any other lawful authority;

“**Guarantee**” means the limited liability guarantee of the Guarantor dated for reference September 15, 2003 guaranteeing the present and future, direct or indirect obligations of the Borrower to Royal under the Agreement, as such guarantee may be amended, modified, supplemented, extended, renewed or replaced from time to time;

“**Guarantee Letters**” means the letters of guarantee issued by Royal pursuant to Section 3.4;

“**Guarantor**” means Louisiana-Pacific Corporation, its successors and permitted assigns;

“**Guarantor Affiliates**” means any Affiliate of the Guarantor, their respective successors and permitted assigns;

“**Guarantor Credit Agreement**” means the credit agreement in respect of the Guarantor Credit Facility, as it existed on September 1, 2004 unless otherwise provided;

“**Guarantor Credit Facility**” means the credit facility made available to the Guarantor pursuant to the terms of a Credit Agreement entered into as of September 1, 2004 among the Guarantor, as borrower, Bank of America, N.A., as Collateral Agent and Syndication Agent, Wachovia Bank, National Association, as the Administrative Agent, Royal and The Bank of Nova Scotia, as Documentation Agents and the other lenders party to the credit agreement;

“**Guarantor Credit Documents**” means the Guarantor Credit Agreement and all other agreements, documents, certificates and instruments delivered in connection therewith (other than any agreement, document, certificate or instrument related to a Swap Contract);

“**Guaranty Obligations**” means, with respect to any Person, without duplication, any obligations of such Person (other than endorsements in the ordinary course of business of negotiable instruments for deposit or collection) guaranteeing or intended to guarantee any Indebtedness of any other Person in any manner, whether direct or indirect, and including without limitation any obligation, whether or not contingent, (a) to purchase any such Indebtedness or any property constituting security therefor, (b) to advance or provide funds or other support for the payment or purchase of any such Indebtedness or to maintain working capital, solvency or other balance sheet condition of such other Person (including

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without limitation keep well agreements, maintenance agreements, comfort letters or similar agreements or arrangements) for the benefit of any holder of Indebtedness of such other Person, (c) to lease or purchase property, securities or services primarily for the purpose of assuring the holder of such Indebtedness, or (d) to otherwise assure or hold harmless the holder of such Indebtedness against loss in respect thereof. The amount of any Guaranty Obligation under the Guarantor Credit Agreement shall (subject to any limitations set forth therein) be deemed to be an amount equal to the outstanding principal amount (or maximum principal amount, if larger) of the Indebtedness in respect of which such Guaranty Obligation is made;

“**H.15(519)**” means the weekly statistical release designated as such published by the Board of Governors of the Federal Reserve System of the United States of America or in any successor publication;

“**Indebtedness**” means, with respect to any Person, without duplication, (a) all obligations of such Person for borrowed money, (b) all obligations of such Person evidenced by bonds, debentures, notes or similar instruments, or upon which interest payments are customarily made, (c) all obligations of such Person under conditional sale or other title retention agreements relating to property purchased by such Person (other than customary reservations or retentions of title under agreements with suppliers entered into in the ordinary course of business), (d) all obligations (including, without limitation, earnout obligations) of such Person incurred, issued or assumed as the deferred purchase price of property or services purchased by such Person (other than trade debt incurred in the ordinary course of business and due within nine months of the incurrence thereof) that would appear as liabilities on a balance sheet of such Person, (e) the principal portion of all obligations of such Person under Capital Leases, (f) all obligations of such Person under Swap Contracts, excluding any portion thereof that would be accounted for as interest expense under GAAP, (g) the maximum amount of all letters of credit issued or bankers’ acceptances facilities created for the account of such Person and, without duplication, all drafts drawn and unreimbursed thereunder (excluding performance based letters of credit issued to the Guarantor’s customers in connection with certain long-term contracts), (h) all preferred Capital Stock or other equity interests issued by such Person and which by the terms thereof could be (at the request of the holders thereof or otherwise) subject to mandatory sinking fund payments, redemption or other acceleration, (i) the principal balance outstanding under any synthetic lease, tax retention operating lease, off-balance sheet loan or similar off-balance sheet financing product, (j) all obligations of such Person under take-or-pay or similar arrangements or under commodities agreements, (k) all Indebtedness of others of the type described in clauses (a) through (j) hereof secured by (or for which the holder of such Indebtedness has an existing right, contingent or otherwise, to be secured by) any Lien on, or payable out of the proceeds of production from, property owned or acquired by such Person, whether or not the obligations secured thereby have been assumed, (l) all Guaranty Obligations of such Person with respect to Indebtedness of another Person of the type described in clauses (a) through (j) hereof, and (m) all Indebtedness of the type described in clauses (a) through (j) hereof of any partnership or unincorporated joint venture in which such Person is a general partner or a joint venturer in proportion to such Person’s ownership percentage in such partnership or joint venture;

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“**Indentures**” means, collectively, the Senior Note Indentures and the Senior Subordinated Note Indenture;

“**Insolvency**” means, with respect to any Multiemployer Plan, the condition that such Plan is insolvent within the meaning of such term as used in Section 4245 of ERISA;

“**Insurance Coverage**” means insurance provided by financially sound and reputable insurers or through a program of self-insurance with reserves in accordance with sound business practices or a combination of both, insuring the property, assets and business of the Borrower against such liabilities, casualties, risks and contingencies and in such types of insurance as is customary for companies engaged in the same or similar businesses including:

- (a) fire, earthquake and extended coverage insurance on a replacement cost basis,
- (b) boiler, furnace and machinery insurance,
- (c) course of construction insurance (to the extent necessary to insure any modifications under construction),
- (d) business interruption insurance,
- (e) public liability insurance, and
- (f) inventory insurance insuring the inventory of the Borrower not in transit to purchasers;

“**Investment Grade Debt Rating**” means a Debt Rating of BBB- or higher by S&P and Baa3 or higher by Moody’s; provided, however, if (a) only one of S&P and Moody’s at any time of determination shall have in effect a Debt Rating, the available rating shall apply, (b) neither S&P nor Moody’s at any time of determination shall have in effect a Debt Rating, the Guarantor shall not have an Investment Grade Debt Rating, (c) the ratings established by S&P and Moody’s shall fall within different levels, the higher rating shall apply; provided, that if there exists a multiple level split in the ratings, the rating that is one level higher than the lower level shall apply, (d) any rating established by S&P or Moody’s shall be changed, such change shall be effective as of the date on which such change is first announced publicly by the rating agency making such change, and (e) S&P or Moody’s shall change the basis on which ratings are established, each reference to the Debt Rating announced by S&P or Moody’s, as the case may be, shall refer to the then equivalent rating by S&P or Moody’s, as the case may be;

“**Investment**” means, as to any Person, any direct or indirect acquisition or investment by such Person, whether by means of (a) the purchase or other acquisition of capital stock or other securities of another Person, (b) a loan, advance or capital contribution to, guaranty or assumption of debt of, or purchase or other acquisition of any other debt or equity participation or interest in, another Person, including any partnership or joint venture interest in such other Person, or (c) the purchase or other acquisition (in one

transaction or a series of transactions) of assets of another Person that constitute a business unit;

“**Joinder Agreement**” has the meaning ascribed to it in the Guarantor Credit Agreement;

“**Judgment Currency**” has the meaning ascribed thereto in Section 8.6;

“**Lenders**” means the parties who from time to time may become party to the Guarantor Credit Agreement as lenders;

“**Letter of Credit Expiration Date**” means February 1, 2006;

“**Letters of Credit**” means letters of credit issued by Royal pursuant to Section 3.4 and Existing Letters of Credit;

“**Lien**” means any mortgage, pledge, hypothecation, assignment, deposit arrangement, encumbrance, lien (statutory or other), charge or other security interest or any preference, priority or other security agreement or preferential arrangement of any kind or nature whatsoever (including, without limitation, any conditional sale or other title retention agreement and any Capital Lease having substantially the same economic effect as any of the foregoing);

“**Loan**” has the meaning ascribed to it in the Guarantor Credit Agreement;

“**Margin Stock**” has the meaning ascribed to it in Regulation U;

“**Master Agreement**” has the meaning ascribed thereto in the definition “Swap Contract”;

“**Material Adverse Effect**” has the meaning set forth in the Guarantor Credit Agreement as in effect as of September 1, 2004;

“**Material Canadian Subsidiary**” means a subsidiary of the Borrower which is 100% legally and beneficially owned by the Borrower which has all or substantially all of its property and assets located in Canada;

“**Material Contract**” means any contract or other agreement, whether written or oral, to which any Credit Party or any of its Subsidiaries is a party as to which the breach, nonperformance, cancellation or failure to renew by any party thereto could reasonably be expected to have a Material Adverse Effect;

“**Material Proceeding**” means any litigation, investigation or other proceeding by or before any Governmental Body (a) which involves any of the Guarantor Credit Documents or any of the transactions contemplated thereby, (b) which involves the Guarantor or any of its Subsidiaries as a party or the property of the Guarantor or any of its Subsidiaries, and could reasonably be expected to have a Material Adverse Effect if adversely determined, (c) in which there has been issued an injunction, writ, temporary

restraining order or any other order of any nature which purports to restrain or enjoin the making of any requested Extension of Credit, the consummation of any other transaction contemplated by the Guarantor Credit Documents, or the enforceability of any provision of any of the Guarantor Credit Documents, (d) which involves the breach or violation by the Guarantor or any of its Subsidiaries of, or default by the Guarantor or any of its Subsidiaries under, any Material Contract which, in each case, could reasonably be expected to have a Material Adverse Effect or (e) which involves the violation by the Guarantor or any of its Subsidiaries of any applicable law which could reasonably be expected to have a Material Adverse Effect;

“**Maturity Date**” means the later of:

- (a) 364 days after the Closing Date (as such term is defined in the Guarantor Credit Agreement); and
- (b) such date as Royal may from time to time determine following written notice from the Borrower requesting a Maturity Date extension,

in both cases subject to the provisions of Section 3.25;

“**Multiemployer Plan**” means any employee benefit plan of a type described in Section 4001(a) (3) of ERISA, to which the Guarantor or any ERISA Affiliate makes or is obligated to make contributions or during the preceding three calendar years, has made or been obligated to make contributions;

“**No Collateral Period**” means any period after the Closing Date that is not the Cash Collateral Period;

“**Notice of Borrowing**” means a notice in the form of Schedule E;

“**Obligations**” means all advances to, and debts, liabilities, obligations, covenants and duties of, the Borrower arising under this Agreement, Advances, Royal’s Security and all other documents executed by the Borrower and delivered to Royal in connection with the transactions contemplated by the Agreement, and all advances to, and debts, liabilities, obligations, covenants and duties of, the Borrower otherwise owing to Royal with respect to any Borrowings, whether direct or indirect (including those acquired by assumption), absolute or contingent, due or to become due, now existing or hereafter arising;

“**Off-Balance Sheet Liabilities**” means, with respect to any Person as of any date of determination thereof, without duplication and to the extent not included as a liability on the consolidated balance sheet of such Person and its Subsidiaries in accordance with GAAP: (a) with respect to any asset securitization transaction (including any accounts receivable purchase facility) (i) the unrecovered investment of purchasers or transferees of assets so transferred, and (ii) any other payment, recourse, repurchase, hold harmless, indemnity or similar obligation of such Person or any of its Subsidiaries in respect of assets transferred or payments made in respect thereof, other than limited recourse provisions that are customary for transactions of such type and that neither (x) have the effect of limiting the loss or credit risk of such purchasers or transferees with

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respect to payment or performance by the obligors of the assets so transferred nor (y) impair the characterization of the transaction as a true sale under applicable laws (including Debtor Relief Laws); (b) the monetary obligations under any financing lease or so-called “synthetic”, tax retention or off-balance sheet lease transaction which, upon the application of any Debtor Relief Law to such Person or any of its Subsidiaries, would be characterized as indebtedness; (b) the monetary obligations under any sale and leaseback transaction which does not create a liability on the consolidated balance sheet of such Person and its Subsidiaries; or (c) any other monetary obligation arising with respect to any other transaction which (i) upon the application of any Debtor Relief Law to such Person or any of its Subsidiaries, would be characterized as indebtedness or (ii) is the functional equivalent of or takes the place of borrowing but which does not constitute a liability on the consolidated balance sheet of such Person and its Subsidiaries (for purposes of this clause (c), any transaction structured to provide tax deductibility as interest expense of any dividend, coupon or other periodic payment will be deemed to be the functional equivalent of a borrowing);

“**Participation Interests**” has the meaning ascribed to it in the Guarantor Credit Agreement;

“**PBGC**” means the Pension Benefit Guaranty Corporation established pursuant to Subtitle A of Title IV of ERISA;

“**PDS Services**” means payment distribution services as may be approved from time to time by Royal;

“**PDS Services Fees**” means the fees charged by Royal in respect of PDS Services;

“**Pension Plan**” means any “employee pension benefit plan” (as such term is defined in Section 3(2) of ERISA), other than a Multiemployer Plan, that is subject to Title IV of ERISA and is sponsored or maintained by the Guarantor or any ERISA Affiliate or to which the Guarantor or any ERISA Affiliate contributes or has an obligation to contribute, or in the case of a multiple employer plan (as described in Section 4064(a) of ERISA) has made contributions at any time during the immediately preceding five plan years;

“**Permitted Acquisition**” means an acquisition or any series of related acquisitions by a Credit Party of the assets or all of the Capital Stock of a Person that is incorporated, formed or organized in the United States or any division, line of business or other business unit of a Person that is incorporated, formed or organized in the United States (such Person or such division, line of business or other business unit of such Person referred to herein as the “Target”), in each case that is in the same line of business (or assets used in the same line of business) as the Credit Parties and their Subsidiaries, so long as (a) no Default or Event of Default shall then exist or would exist after giving effect thereto, (b) if applicable, the Credit Parties shall have complied with the documentation requirements for a Permitted Acquisition as set forth in Section 6.2(j), (c) the Credit Parties shall demonstrate to the reasonable satisfaction of Royal that the Credit Parties will be in compliance on a pro forma basis with all of the terms and provisions of the financial covenants set forth in Sections 6.2 (nn) and (oo), (d) the

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Target, if a Person, shall have executed a Joinder Agreement in accordance with the terms of Section 6.2(w), and (e) such acquisition has been approved by the Board of Directors and/or shareholders of the applicable Credit Party;

“**Permitted Cash Collateral**” means (i) cash and (ii) investments in the Nations Money Market Reserves Fund and Nations Treasury Reserves Fund held in the BAS Investment Collateral Account or any successor funds approved by the Administrative Agent;

“**Permitted Investments**” means:

- (a) cash and Cash Equivalents (as defined in the Guarantor Credit Agreement);
- (b) receivables owing to the Guarantor or any of its Subsidiaries or any receivables and advances to suppliers, in each case if created, acquired or made in the ordinary course of business and payable or dischargeable in accordance with customary trade terms;
- (c) Investments in and loans to any Credit Parties;
- (d) (i) loans and advances to employees (other than any officer or director) of the Guarantor or its Subsidiaries in an aggregate amount not to exceed \$5,000,000 at any time outstanding and (ii) in addition to the loans and advances made pursuant to the immediately preceding clause (i), advances to employees of the Guarantor or its Subsidiaries made in accordance with the Guarantor’s relocation policy in connection with the relocation of the Guarantor’s headquarters from Portland, Oregon to Nashville, Tennessee;

- (e) Investments (including debt obligations) received in connection with the bankruptcy or reorganization of suppliers and customers and in settlement of delinquent obligations of, and other disputes with, customers and suppliers arising in the ordinary course of business;
- (f) Investments, acquisitions or transactions permitted under Section 6.2(bb)(2);
- (g) Swap Contracts entered into by the Guarantor to the extent permitted pursuant to Section 6.2(y);
- (h) Permitted Acquisitions;
- (i) Permitted Cash Collateral;
- (j) Investments in and loans to the Borrower not to exceed (i) the amount of such Investments and loans outstanding on September 1, 2004 (the "Closing Date Investment Amount") plus (ii) on a cumulative basis as of

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the end of each fiscal year of the Guarantor, commencing with the fiscal year ending December 31, 2004 (A) for such fiscal year, 15% of the Closing Date Investment Amount, and (B) for each subsequent fiscal year, 15% of the aggregate Investments in and loans to the Borrower as of the end of the immediately preceding fiscal year;

- (k) Investments existing (or committed to made, but not yet funded) on September 1, 2004 and listed on Schedule 1.1-D to the Guarantor Credit Agreement;
- (l) Investments in Securitization Vehicles; provided, however, that both immediately before and after giving effect to such Investment no Default or Event of Default shall have occurred and be continuing, and Investments of any Securitization Vehicle in the Guarantor or in another Securitization Vehicle; and
- (m) other Investments in addition to those permitted by the foregoing clauses in an aggregate amount not to exceed 20% of Consolidated Net Worth at any time outstanding;

"Permitted Liens" means:

- (a) Liens created by or otherwise existing, under or in connection with the Guarantor Credit Agreement or the other Guarantor Credit Documents;
- (b) purchase money Liens securing purchase money indebtedness (and refinancings thereof) to the extent permitted under Section 6.2(y)(3);
- (c) Liens for taxes, assessments, charges or other governmental levies not yet due or as to which the period of grace (not to exceed sixty (60) days), if any, related thereto has not expired or which are being contested in good faith by appropriate proceedings, provided that adequate reserves with respect thereto are maintained on the books of the Guarantor or its Subsidiaries, as the case may be, in conformity with GAAP (or, in the case of Subsidiaries with significant operations outside of the United States of America, generally accepted accounting principles in effect from time to time in their respective jurisdictions of incorporation);
- (d) carriers', warehousemen's, mechanics', materialmen's, repairmen's or other like Liens arising in the ordinary course of business which are not overdue for a period of more than sixty (60) days or which are being contested in good faith by appropriate proceedings;
- (e) pledges or deposits in connection with workers' compensation, unemployment insurance and other social security legislation and deposits securing liability to insurance carriers under insurance or self-insurance arrangements;

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- (f) deposits to secure the performance of bids, trade contracts, (other than for borrowed money), leases, statutory obligations, surety and appeal bonds, performance bonds and other obligations of a like nature incurred in the ordinary course of business;
 - (g) any extension, renewal or replacement (or successive extensions, renewals or replacements) , in whole or in part, of any Lien referred to in the foregoing clauses; provided that such extension, renewal or replacement Lien shall be limited to all or a part of the property which secured the Lien so extended, renewed or replaced (plus improvements on such property);
 - (h) Liens existing on September 1, 2004 and set forth on Schedule 1.1-B to the Guarantor Credit Agreement; provided that (i) no such Lien shall at any time be extended to cover property or assets other than the property or assets subject thereto on September 1, 2004 and (ii) the principal amount of the Indebtedness secured by such Liens shall not be extended, renewed, refunded or refinanced unless the principal amount of such Indebtedness is not increased at the time of such refinancing, refunding, renewal or extension except by an amount equal to a reasonable premium or other reasonable amount paid, and fees and expenses reasonably incurred, in connection with such refinancing, and so long as such Indebtedness is permitted to be incurred under Section 6.2(y);
 - (i) Liens arising in connection with Capital Leases to the extent permitted under Section 6.2(y)(3);
 - (j) Liens on the property of a Person existing at the time such Person becomes a Subsidiary of the Guarantor in a transaction permitted under the Guarantor Credit Agreement securing Indebtedness permitted to be incurred under Section 6.2(y); provided, however, that any such Lien may not extend to any other property of the Guarantor or any other Subsidiary that is not a Subsidiary of such Person; provided, further, that any such Lien was not created in anticipation of or in connection with the transaction or series of transactions pursuant to which such Person became a Subsidiary of the Guarantor;
 - (k) easements, rights-of-way, restrictions, defects in title and other similar encumbrances affecting real property which, in the aggregate, are not substantial in amount, and which do not in any case materially detract from the value of the property subject thereto or materially interfere with the conduct of the business of the applicable Person; and
 - (l) other Liens in addition to those permitted by the foregoing clauses securing Indebtedness in an aggregate amount not to exceed the following (measured at the time of incurrence): (i) if the Guarantor has an Investment Grade Debt Rating, 15% of Consolidated Net Worth at any

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time outstanding or (ii) if the Guarantor does not have an Investment Grade Debt Rating, 8% of Consolidated Net Worth at any time outstanding;

“**Person**” means and includes any individual, a partnership, a corporation, a joint stock company, a trust, business trust, an unincorporated association, a joint venture or other entity or a government or any agency or political subdivision thereof;

“**Plan**” means an “employee benefit plan” (as such term is defined in Section 3(3) of ERISA) established by the Guarantor or any ERISA Affiliate;

“**Prime Rate**” means the rate of interest per annum in effect from time to time that is equal to the greater of:

- (a) Royal’s Prime Rate; and
- (b) the CDOR Rate plus 100 basis points per annum;

“**Prior Credit Agreement**” has the meaning set forth in Recital A hereof;

“**Rating Agencies**” means Moody’s Investors Services, Inc. (“**Moody’s**”) and Standard Poor’s Rating Services (“**S&P**”), a division of McGraw-Hill Companies, Inc. and “**Rating Agency**” means either of them as the context requires;

“**Recovery Event**” means theft, loss, physical destruction or damage, taking or similar event with respect to any property or assets owned by the Guarantor or any of its Subsidiaries which results in the receipt by the Guarantor or any of its Subsidiaries of any cash insurance proceeds or condemnation award payable by reason thereof;

“**Regulation U**” means Regulation U of the Board of Governors of the Federal Reserve System of the U.S.A. (as the same is from time to time in effect) and all official rulings and interpretations thereunder or thereof;

“**Release**” includes discharge, spray, injection, inoculation, abandonment, deposit, spill, leak, seep, pour, emission, emptying, throwing, dumping, placement and exhaust, and when used as a verb has a similar meaning;

“**Reorganization**” means, with respect to any Multiemployer Plan, the condition that such Plan is in reorganization within the meaning of such term as used in Section 4241 of ERISA;

“**Reportable Event**” means any of the events set forth in Section 4043(c) of ERISA or the regulations thereunder, other than any such event for which the 30-day notice requirement under ERISA has been waived in regulations issued by the PBGC;

“**Required Lenders**” means Lenders holding in the aggregate greater than 50% of (a) the Commitments (as defined in the Guarantor Credit Agreement) (and Participation Interests therein) or (b) if the Commitments (as defined in the Guarantor Credit Agreement) have been terminated, the outstanding Loans and Participation Interests

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(including the Participation Interests of the Issuing Lender (as defined in the Guarantor Credit Agreement) in any Letters of Credit (as defined in the Guarantor Credit Agreement) and of the Swingline Lender (as defined in the Guarantor Credit Agreement) in Swingline Loans (as defined in the Guarantor Credit Agreement)) provided, however, that if any Lender shall be a Defaulting Lender at such time, then there shall be excluded from the determination of Required Lenders, Obligations (as defined in the Guarantor Credit Agreement) (including Participation Interests) owing to such Defaulting Lender and such Defaulting Lender’s Commitments (as defined in the Guarantor Credit Agreement), or after termination of the Commitments (as defined in the Guarantor Credit Agreement), the principal balance of the Obligations (as defined in the Guarantor Credit Agreement) owing to such Defaulting Lender;

“**Requirement of Law**” means, as to any Person, the certificate of incorporation and bylaws or other organizational or governing documents of such Person, and each law, treaty, rule or regulation or determination of an arbitrator or a court or other Governmental Body, in each case applicable to or binding upon such Person or any of its property or to which such Person or any of its property is subject;

“**Responsible Officer**” means, with respect to the Borrower, the chief executive officer, president, chief financial officer, vice president or treasurer of the Borrower and, with respect to the Guarantor, the chief executive officer, president, chief financial officer, treasurer, assistant treasurer or secretary of the Guarantor. Any document delivered under the Agreement that is signed by a Responsible Officer shall be conclusively presumed to have been authorized by all necessary corporate, partnership or other action on the part of the Borrower or the Guarantor, as applicable, and such Responsible Officer shall conclusively be presumed to have acted on behalf of the Borrower or the Guarantor, as applicable;

“**Restricted Cash Collateral**” means Cash Equivalents from time to time deposited in the Restricted Cash Collateral Account but excludes all interest accrued on such Cash Equivalents, except interest so accrued during an Event of Default that has not been subsequently cured or waived;

“**Restricted Cash Collateral Account**” means:

- (a) a blocked deposit account or accounts, as more particularly identified from time to time in the Restricted Cash Collateral Agreements; and
- (b) at Borrower’s option prior to the occurrence and continuance of an Event of Default, investment accounts at Royal in which Royal shall have a perfected, first priority security interest, subject only to customary and ordinary Liens in favor of the financial institution acting as the depository bank or as securities intermediary to secure payment of fees, costs of administration and payment of other amounts relating to such account payable by Borrower to such financial institution;

“**Restricted Cash Collateral Agreements**” means a security agreement, account control agreements or other documents relating to any account which is a Restricted

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Cash Collateral Account which Royal may require in order to have a perfected first priority security interest therein, which shall be in form and substance satisfactory to Royal, in its sole discretion, and be accompanied by legal opinion(s) in form and substance satisfactory to Royal relating to the security interest

granted therein, and such other matters as Royal may request;

“Restricted Payment” means (a) any dividend or other distribution, direct or indirect, on account of any shares of any class of Capital Stock of the Guarantor or any of its Subsidiaries, now or hereafter outstanding, (b) any redemption, retirement, sinking fund or similar payment, purchase or other acquisition for value, direct or indirect, of any shares of any class of Capital Stock of the Guarantor or any of its Subsidiaries, now or hereafter outstanding, (c) any payment made to retire, or to obtain the surrender of, any outstanding warrants, options or other rights to acquire shares of any class of Capital Stock of the Guarantor or any of its Subsidiaries, now or hereafter outstanding, (d) any payment with respect to any earnout obligation, (e) any payment or prepayment of principal of, premium, if any, or interest on, redemption, purchase, retirement, defeasance, sinking fund or similar payment with respect to, any Subordinated Debt or (f) the payment by the Guarantor or any of its Subsidiaries of any management or consulting fee to any Person or of any salary, bonus or other form of compensation to any Person who is directly or indirectly a significant partner, shareholder, owner or executive officer of any such Person, to the extent such salary, bonus or other form of compensation is not included in the corporate overhead of the Guarantor or such Subsidiary;

“Royal” means Royal Bank of Canada its successors and permitted assigns;

“Royal’s Prime Rate” means the floating annual rate of interest publicly announced from time to time by Royal as its reference rate then in effect for determining interest rates on Cdn\$ commercial loans made by Royal in Canada;

“Royal’s Security” means all of the security referred to in Section 4.1;

“Royal’s U.S. Base Rate” means the floating annual rate of interest publicly announced from time to time by Royal as its reference rate then in effect for determining interest rates on US\$ commercial loans made by Royal in Canada;

“Securitization Vehicle” means a special purpose vehicle that is a wholly-owned Subsidiary of the Guarantor and is a corporation, limited liability company, trust or other person organized for the limited purpose of entering into securitization transactions by purchasing, or receiving by way of capital contributions, assets from the Guarantor and obtaining financing for such assets from third parties, and whose structure is designed to insulate such vehicle from the credit risk of the Guarantor;

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“Senior Note Indentures” means, collectively:

- (a) the First Supplemental Trust Indenture, dated as of August 18, 2000, between the Guarantor and Bank One Trust Company, N.A. as Trustee, supplementing the Indenture dated as of April 2, 1999, authorizing the issuance and delivery of up to \$190,000,000 aggregate principal amount of 8.500% senior notes due 2005, and
- (b) the Second Supplemental Trust Indenture, dated as of August 18, 2000, between the Guarantor and Bank One Trust Company, N.A. as Trustee, supplementing the Indenture dated as of April 2, 1999, authorizing the issuance and delivery of up to \$200,000,000 aggregate principal amount of 8.875% senior notes due 2010;

“Senior Subordinated Note Indenture” means the Third Supplemental Trust Indenture, dated as of August 13, 2001, between the Guarantor and Bank One Trust Company, N.A. as Trustee, supplementing the Indenture dated as of April 2, 1999, authorizing the issuance and delivery of up to \$300,000,000 aggregate principal amount of 10.875% senior subordinated notes due 2008;

“Single Employer Plan” means any Plan which is not a Multiemployer Plan;

“Specified Sales” means (a) the sale, transfer, lease or other disposition of inventory and raw materials in the ordinary course of business, or (b) the sale, transfer or other disposition of Cash Equivalents (as defined in the Guarantor Credit Agreement) for fair market value;

“Spot Buying Rate” means:

- (a) in respect of conversions from Canadian Funds to U.S. Funds or vice versa the Bank of Canada noon spot rate for Canadian Funds against U.S. Funds or U.S. Funds against Canadian Funds (as quoted or published from time to time by the Bank of Canada), as the case may be, on the relevant date of determination, and
- (b) in respect of conversions to Canadian Funds or U.S. Funds of currencies other than Canadian Funds or U.S. Funds, Royal’s spot buying rate in Canadian Funds or U.S. Funds, as the case may be, for purchasing any such foreign currency on the relevant date of determination;

“Stock” means all shares, options, warrants, general or limited partnership interests, units or other equivalents (regardless of how designated) of or in a corporation, general partnership, limited partnership, limited liability company, unlimited liability company, joint stock company, or equivalent entity whether voting or nonvoting, including common stock and preferred stock;

“Subordinated Debt” means any Indebtedness incurred by any Credit Party which by its terms is specifically subordinated in right of payment to the prior payment of the Credit

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Party Obligations and contains subordination and other terms acceptable to the Required Lenders;

“Subordination Agreement” means the subordination agreement dated for reference November 30, 2001 among LP Canada, the Guarantor, certain Guarantor Affiliates and Royal wherein all indebtedness owing by LP Canada to such Guarantor Affiliates and to the Guarantor except for trade accounts payable (including payables for management services) incurred in the ordinary course of business prior to receipt from Royal of a notice of default, in the case of a default in respect of which Royal is required to give notice before it becomes an Event of Default or, an Event of Default, is expressly made subordinate and subject in right of payment as therein provided to the prior payment in full of all indebtedness of LP Canada to Royal under the Agreement, as amended by an amending agreement dated for reference September 15, 2003;

“Subsidiary” of a Person means any corporation, association, partnership, joint venture or other business entity of which more than 50% of the Voting Shares or other equity interests (in the case of Persons other than corporations) is owned or controlled directly or indirectly by the Person, or one or more of the Subsidiaries of the Person, or a combination thereof;

“**Sufficient Copies**” means three copies or such other reasonable number of copies of reports, financial statements, certificates and other material required to be delivered by the Borrower or the Guarantor, as the case may be, to Royal pursuant to the Agreement as advised by Royal from time to time in writing;

“**Swap Contract**” means:

- (a) any and all rate swap transactions, basis swaps, credit derivative transactions, forward rate transactions, commodity swaps, commodity options, forward commodity contracts, equity or equity index swaps or options, bond or bond price or bond index swaps or options or forward bond or forward bond price or forward bond index transactions, interest rate options, forward foreign exchange transactions, cap transactions, floor transactions, collar transactions, currency swap transactions, cross-currency rate swap transactions, currency options, spot contracts, or any other similar transactions or any combination of any of the foregoing (including any options to enter into any of the foregoing), whether or not any such transaction is governed by or subject to any master agreement; and
- (b) any and all transactions of any kind, and the related confirmations, which are subject to the terms and conditions of, or governed by, any form of master agreement published by the International Swaps and Derivatives Association, Inc., any International Foreign Exchange Master Agreement, or any other master agreement (any such master agreement, together with any related schedules, a “Master Agreement”), including any such obligations or liabilities under any Master Agreement;

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“**Swap Contract Provider**” means any Person that enters into a Swap Contract with a Credit Party or any of its Subsidiaries that is permitted by Section 6.2 to the extent such Person is a (a) Lender, (b) an Affiliate of a Lender or (c) any other Person that was a Lender (or an Affiliate of a Lender) at the time it entered into the Swap Contract but has ceased to be a Lender (or whose Affiliate has ceased to be a Lender) under the Guarantor Credit Agreement;

“**Swap Termination Value**” means, in respect of any one or more Swap Contracts, after taking into account the effect of any legally enforceable netting agreement relating to such Swap Contracts:

- (a) for any date on or after the date such Swap Contracts have been closed out and termination value(s) determined in accordance therewith, such termination value(s); and
- (b) for any date prior to the date referenced in clause (a) the amount(s) determined as the mark-to-market value(s) for such Swap Contracts, as determined based upon one or more mid-market or other readily available quotations provided by any recognized dealer in such Swap Contracts (which may include Royal);

“**Target**” shall have the meaning set forth in the definition of “Permitted Acquisition”;

“**Threshold Amount**” means US \$25,000,000;

“**Unfunded Pension Liability**” means the excess of a Pension Plan’s benefit liabilities under Section 4001(a) (16) of ERISA, over the current value of that Pension Plan’s assets, determined in accordance with the assumptions used for funding that Pension Plan pursuant to Section 412 of the Code for the applicable plan year;

“**U.S.A.**” means United States of America;

“**U.S. Advance**” means any advance or conversion under the Credit Facility requested by the Borrower in U.S. Funds and advanced in U.S. Funds by Royal;

“**U.S. Base Rate**” means the rate of interest per annum in effect from time to time that is equal to the greater of:

- (a) Royal’s U.S. Base Rate; and
- (b) the Federal Funds Effective Rate plus 50 basis points per annum;

“**U.S. Funds**” and “**US\$**” means lawful currency of the U.S.A. in same day immediately available funds, or, if such funds are not available, the form of money of the U.S.A. that is customarily used in the settlement of international banking transactions on the day payment is due;

“**Voting Shares**” means shares of any class entitled to vote in all circumstances;

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“**Voting Stock**” means, with respect to any Person, Capital Stock issued by such Person the holders of which are ordinarily, in the absence of contingencies, entitled to vote for the election of directors (or persons performing similar functions) of such Person, even though the right so to vote has been suspended by the happening of such a contingency.

1.2 Applicable Law

The Agreement shall be construed in accordance with and governed by the laws of the Province of British Columbia and the laws of Canada applicable in the Province of British Columbia.

1.3 Severability

If any one or more of the provisions contained in the Agreement is invalid, illegal or unenforceable in any respect in any jurisdiction, the validity, legality and enforceability of such provision shall not in any way be affected or impaired thereby in any other jurisdiction and the validity, legality and enforceability of the remaining provisions contained in the Agreement shall not in any way be affected or impaired thereby.

1.4 Successors and Assigns

The Agreement shall enure to the benefit of and be binding on each of the parties to the Agreement and their respective successors and permitted assigns.

1.5 Included Words

Where the singular or the masculine are used in the Agreement, the same shall be deemed to include the plural or the feminine or vice versa and a body politic or corporate where the context or the parties so require.

1.6 Headings and Marginal References

The division of the Agreement into paragraphs and subparagraphs and the insertion of headings are for convenience of reference only and shall not affect the construction or interpretation of the Agreement.

1.7 Cross References

Unless otherwise stated, a reference in the Agreement to a numbered or lettered paragraph, subparagraph or schedule refers to the paragraph, subparagraph or schedule bearing that number or letter in the Agreement.

1.8 Use of Word “Including”

The word “including”, when following any general term or statement, is not to be construed as limiting the general term or statement to the specific terms or matters set forth immediately following such word or to similar items or matters, but such general term or statement shall be construed as referring to all items or matters that could reasonably fall within the broadest possible scope thereof.

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1.9 Currency

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

1.10 Payment Dates and Interest Calculation

If the date for a payment to Royal of any sum owing hereunder or the date of advance, renewal or conversion of any sum by Royal hereunder is not a Business Day, such payment, advance, renewal or conversion, as the case may be, shall be due or made upon the next immediately succeeding Business Day.

1.11 Accounting Terms

Unless otherwise specified herein, all accounting terms used herein shall be interpreted, all accounting determinations hereunder shall be made, and all financial statements required to be delivered hereunder shall be prepared in accordance with GAAP applied on a basis consistent with the most recent audited consolidated financial statements of the Guarantor delivered to Royal; provided that, if the Guarantor shall notify the Administrative Agent that it wishes to amend any covenant in Sections 6.2 (nn) and (oo) to eliminate the effect of any change in GAAP on the operation of such covenant, then the Guarantor’s compliance with such covenant shall be determined on the basis of GAAP in effect immediately before the relevant change in GAAP became effective, until either such notice is withdrawn or such covenant is amended in a manner satisfactory to the Guarantor and the Required Lenders.

1.12 Schedules

The Schedules to the Agreement shall form an integral part of the Agreement, and are as follows:

Schedule A	Officer’s Compliance Certificate
Schedule B	Unfunded Pension Liabilities
Schedule C	Borrowing Base Certificate
Schedule D	Existing Letters of Credit
Schedule E	Notice of Borrowing
Schedule F	Cash Collateral Release Notice

2. REPRESENTATIONS AND WARRANTIES

2.1 Representations and Warranties

Each of the Borrower and the Guarantor represents and warrants to Royal as set forth in this Section 2 of the Agreement. All representations and warranties shall survive all Borrowings and no investigation at any time made by or on behalf of Royal shall diminish in any respect whatsoever its right to rely thereon.

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2.2 Status of the Borrower

The Borrower is a corporation, duly amalgamated, validly existing, in good standing with respect to the filing of annual returns under the laws of the Province of British Columbia and is duly qualified, in good standing and authorized to do business in all jurisdictions where the character of the properties owned by it or the nature of the business transacted by it makes such qualification necessary.

2.3 Status of Guarantor

The Guarantor is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware, one of the States of the United States of America.

2.4 Power and Authority

Each of the Borrower and the Guarantor has all requisite corporate power and authority to own its respective properties, has obtained or will obtain, all material Governmental Approvals required at the date hereof to carry on its respective business as now conducted and proposed to be conducted and to enter into and perform its obligations under the Agreement and all instruments and agreements delivered pursuant hereto and thereto.

2.5 Due Authorization

The Agreement, the Guarantee and every instrument or agreement delivered pursuant hereto has been duly and validly authorized by all requisite actions by the Borrower and the Guarantor and each of such documents has been duly executed by the Borrower and the Guarantor if it is a party thereto and when delivered will be a legal, valid

and binding obligation of the Borrower and the Guarantor, as the case may be, enforceable in accordance with its respective terms save as enforcement may be limited by:

- (a) applicable bankruptcy, insolvency, moratorium, reorganization and similar laws at the time in effect affecting the rights of creditors generally;
- (b) equitable principles which may limit the availability of certain remedies, including the remedy of specific performance; and
- (c) the inability of the courts of Canada to give judgement for payment in foreign currencies.

2.6 No Contravention

The execution, delivery and performance of the Agreement by the Borrower and the Guarantor and the Guarantee by the Guarantor will not contravene any material provision of any regulation, order or permit applicable to the Borrower or the Guarantor, as the case may be, or cause a conflict with or contravention of its respective Charter or cause a breach of or constitute a default under or require any consent under any agreement or instrument to which the Borrower or the Guarantor, as the case may be, is a party or by which it is bound except such as have been obtained.

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2.7 No Breach

Neither the Borrower nor the Guarantor is in default under any agreement or instrument to which it is a party in any way which materially adversely affects its ability to perform its respective obligations under the Agreement or the Guarantee, as the case may be, and there are no suits or judicial proceedings or proceedings before any governmental commission, board or other agency pending or to the knowledge of the Borrower or the Guarantor, as the case may be, threatened against it which could reasonably be expected to give rise to a judgement or liability which, if satisfied, would have a materially adverse effect on the ability of the Borrower to meet its obligations under the Agreement or the Guarantor to meet its obligations under the Guarantee.

2.8 Leases and Licences

Each of the Borrower and the Guarantor has all leases, licences, permits and consents as are essential for the due carrying on of its respective business in the manner in which its business is carried on and all such leases, licences, permits and consents are in full force and effect and no proceedings relating thereto are pending or known to the Borrower or the Guarantor, as the case may be, to be threatened in any way which would have a material adverse effect on the ability of the Borrower or the Guarantor to meet its respective obligations under the Agreement or the Guarantor to meet its obligations under the Guarantee.

2.9 No Financial Default

Neither the Borrower nor the Guarantor is in default in any way which materially adversely affects its ability to perform its obligations under the Agreement or the Guarantee, as the case may be, under any guarantee, bond, debenture, note or other instrument evidencing any indebtedness or under the terms of any instrument pursuant to which any of the foregoing has been issued or made and delivered and to the knowledge of the Borrower and the Guarantor there exists no state of facts which, after notice or lapse of time or both or otherwise, would constitute such a default in any way which materially adversely affects its ability to perform its obligations under the Agreement or the Guarantee, as the case may be.

2.10 Disclosure of Material Facts

Each of the Borrower and the Guarantor has disclosed to Royal in writing all facts (other than facts which are a matter of public knowledge or record) which materially adversely affect, or so far as it can now reasonably foresee, will materially adversely affect its ability to perform its obligations under the Agreement and, in the case of the Guarantor, under the Guarantee.

2.11 Consents and Approvals

All consents, approvals, authorizations, declarations, registrations, filings, notices and other actions whatsoever required as at the date hereof by the Borrower and the Guarantor in order to execute and deliver the Agreement and the Guarantee, as the case may be, and all agreements or instruments delivered pursuant thereto, and the consummation of the transactions contemplated hereby, have been obtained, made or taken or will have been obtained, made or taken or waived by Royal on or prior to the Closing Date.

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2.12 Title

The Borrower has good and marketable title to or the right to use all of the assets necessary for the operation of its business except for such defects in title and rights as could not, individually or in the aggregate, reasonably be expected to have a material adverse effect on the financial condition or operations of the Borrower.

2.13 LP Canada's Financial Statements Furnished

LP Canada has furnished Royal with its most recent unaudited financial statements for the fiscal year ended December 31, 2003, all such financial statements have been prepared in accordance with GAAP applied on a consistent basis, except as stated therein or in the notes thereto, the balance sheets as therein contained present fairly in all material respects the consolidated financial position of LP Canada and its Subsidiaries as at the dates thereof and the consolidated statements of income present fairly in all material respects the results of the operations of LP Canada and its Subsidiaries for the period indicated.

2.14 Guarantor's Financial Statements Furnished

The Guarantor has heretofore delivered to Royal, at the Royal's request, the following financial statements and information: (a) audited consolidated financial statements of the Guarantor and its Subsidiaries for the fiscal years ended December 31, 2001, 2002 and 2003, consisting of consolidated balance sheets and the related consolidated statements of income, stockholders' equity and cash flows for such period and (b) company-prepared unaudited consolidated financial statements of the Guarantor and its Subsidiaries for the fiscal quarter ended June 30, 2004, consisting of consolidated balance sheets and the related consolidated statements of income, stockholders' equity and cash flows for such period, all in form and substance reasonably satisfactory to Royal and certified by the chief financial officer of the Guarantor that such consolidated financial statements fairly present the financial condition of the Guarantor and its Subsidiaries as of the dates indicated and (i) with respect to the audited and unaudited financial statements, the results of their operations and their cash flows for the periods indicated, subject to changes resulting from audit and normal year-end adjustments, and (ii) with respect to the projections, were prepared in good faith based upon reasonable assumptions.

2.15 No Change in LP Canada's Financial Condition

Since December 31, 2003 there has been no material adverse change in the financial condition of LP Canada from that shown on the consolidated financial statements of LP Canada as at that date, except as disclosed to Royal, and any such change will not materially adversely affect the ability of the Borrower to perform its obligations under the Agreement.

2.16 Guarantor's Financial Status

The Guarantor has furnished Royal with its most recent annual and quarterly consolidated financial statements, all such financial statements have been prepared in all material respects in accordance with United States Securities and Exchange Commission requirements except as stated therein or in the notes thereto, each balance sheet as therein contained presents fairly, in

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all material respects, the financial position of the Guarantor and its subsidiaries as at the date thereof.

2.17 No Change in Guarantor's Financial Condition

Since the date of the most recent quarterly financial statements of the Guarantor and its Subsidiaries referred to in the preceding paragraph:

- (a) there has been no change in the consolidated financial condition of the Guarantor and its Subsidiaries as shown on the Guarantor's balance sheet as at that date sufficient to impair the Guarantor's ability to perform its obligations under the Agreement or the Guarantee except as disclosed to Royal, and
- (b) there has been no change in the business, assets, liabilities, condition (financial or otherwise) or prospects of the Guarantor and its Subsidiaries taken as a whole which could have a Material Adverse Effect (other than as disclosed in the Guarantor's Form 10-K for the fiscal year ending December 31, 2003, as supplemented by the Guarantor's Form 10-Q for the fiscal quarter ending March 31, 2004 and Form 10-Q for the fiscal quarter ending June 30, 2004).

2.18 Solvency

None of the Credit Parties (a) has unreasonably small capital in relation to the business in which it is or proposes to be engaged or (b) has incurred, or believes that it will incur after giving effect to the transactions contemplated by the Agreement and the Guarantor Credit Agreement, debts beyond its ability to pay such debts as they become due.

2.19 Financial Statements Not Misleading

The consolidated financial statements referred to above or any other statement or report furnished to Royal by or on behalf of the Borrower or the Guarantor in connection with the negotiation or confirmation of the transactions contemplated herein do not contain, as at the time such statements or reports were furnished, any untrue statement of a material fact or any omission of a material fact necessary to make the statements contained therein not materially misleading, it being understood by Royal that such statements were prepared by the Guarantor and certain of them do not contain explanatory footnotes, and all such statements and reports, taken as a whole together with the Agreement do not contain any untrue statement of material fact or omit a material fact necessary to make the statements contained therein not materially misleading.

2.20 Taxes

Each of the Borrower and the Guarantor and each Subsidiary thereof has filed or caused to be filed all material income tax reports and returns required to be filed by each of them with any Governmental Body, except where (i) extensions have been properly obtained and have paid or made adequate provision for the payment of all taxes, assessments, fees and other charges by any Governmental Body which are due and payable, except such taxes, assessments, fees and other charges, if any, as are being diligently contested in good faith by appropriate proceedings

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and as to which the Borrower, the Guarantor or Subsidiary thereof has established adequate reserves in conformity with GAAP on the books of the Borrower, the Guarantor or Subsidiary or (ii) the failure to file such tax reports or returns could not reasonably be expected to have a Material Adverse Effect. No Lien for any such taxes, assessments, fees or other charges has been filed, and no claims are being asserted with respect to any such taxes, assessments, fees or other charges which, if adversely determined, could reasonably be expected to have a Material Adverse Effect.

2.21 Environmental Law Compliance

The Borrower is in compliance with all Environmental Law in respect of which non-compliance would have a material adverse effect on the ability of the Borrower to perform its obligations under the Agreement.

2.22 Insurance

Each of the Borrower and the Guarantor:

- (a) has insured by financially sound and reputable insurers all assets and property of a character customarily insured by Persons engaged in the same or a similar business, similarly situated, including inventory and business interruption insurance, in such amounts as are customarily insured for by such Persons, or
- (b) maintains a program of self-insurance, with reserves, in accordance with sound business practices.

2.23 ERISA Compliance by Guarantor

- (a) each Plan is in compliance in all material respects with the applicable provisions of ERISA, the Code and other federal or state laws. Each Plan that is intended to qualify under the Section 401(a) of the Code has received a favourable determination letter from the IRS or an application for such a letter is currently being or will be processed by the IRS with respect thereto and such application is or will be within a remedial amendment period and, to the Guarantor's knowledge, nothing has occurred which would prevent, or cause the loss of, such qualification which is not correctable without cost or at a cost that is immaterial. The Guarantor and each ERISA Affiliate have made all required contributions to each Plan subject to Section 412 of the Code, and no application for a funding waiver or an extension of any amortization period pursuant to Section 412 of the Code has been made with respect to any Plan.
- (b) there are no pending or, to the Guarantor's knowledge, threatened claims, actions or lawsuits, or action by any Governmental Body, with respect to any Plan that could be reasonably expected to have a Material Adverse Effect. There has been no prohibited transaction or violation of the fiduciary

- (c)
- (1) except as specifically disclosed in Annexure I to Schedule B no ERISA Event has occurred within the 12 year period prior to January 1, 2003 or was or is reasonably expected to occur thereafter;
 - (2) as of January 1, 2003, except as specifically disclosed in Schedule B, no Pension Plan had any Unfunded Pension Liability;
 - (3) neither the Guarantor nor any ERISA Affiliate has incurred, or reasonably expects to incur, any liability under Title IV of ERISA, with respect to any Pension Plan (other than premiums due and not delinquent under Section 4007 of ERISA);
 - (4) neither the Guarantor nor any ERISA Affiliate has incurred, or reasonably expects to incur, any liability (and no event has occurred which, with the giving of notice under Section 4219 of ERISA, could be reasonably expected to result in such liability) under Section 4201 or 4243 of ERISA with respect to a Multiemployer Plan; and
 - (5) neither the Guarantor nor any ERISA Affiliate has engaged in a transaction that could be subject to Section 4069 or 4212(c) of ERISA.
- (d) neither a Reportable Event nor an “accumulated funding deficiency” (within the meaning of Section 412 of the Code or Section 302 of ERISA) has occurred during the five-year period prior to the date on which this representation is made or deemed made with respect to any Plan, and each Plan has complied in all material respects with the applicable provisions of ERISA and the Code. No termination of a Single Employer Plan has occurred resulting in any liability that has remained underfunded, and no Lien in favor of the PBGC or a Plan has arisen, during such five-year period. The present value of all accrued benefits under each Single Employer Plan (based on those assumptions used to fund such Plans) did not, as of the last annual valuation date prior to the date on which this representation is made or deemed made, exceed the value of the assets of such Plan allocable to such accrued benefits. Neither the Guarantor nor any Commonly Controlled Entity is currently subject to any liability for a complete or partial withdrawal from a Multiemployer Plan.

2.24 No Material Litigation

Other than as disclosed in the Guarantor’s Form 10-K for the fiscal year ending December 31, 2003, as supplemented by the Guarantor’s Form 10-Q for the fiscal quarter ending March 31, 2004 and Form 10-Q for the fiscal quarter ending June 30, 2004, no litigation, investigation or proceeding of or before any arbitrator or Governmental Body is pending or, to the best knowledge of the Guarantor, threatened by or against the Guarantor or any of its Subsidiaries or against any of its or their respective properties or revenues (a) with respect to the Guarantor Credit Documents or any of the transactions contemplated thereby, or (b) which could reasonably be expected to have a Material Adverse Effect.

2.25 Government Acts

Neither the Guarantor nor any Credit Party is:

- (a) an “investment company”, or a company “controlled” by an “investment company”, within the meaning of the Investment Company Act of 1940, as amended; and .
- (b) a “holding company”, or an “affiliate” of a “holding company” or a “subsidiary company” of a “holding company”, within the meaning of the Public Utility Holding Company Act of 1935, as amended.

2.26 Margin Regulations

No part of the proceeds of any Extension of Credit under the Guarantor Credit Agreement will be used directly or indirectly for any purpose which violates, or which would be inconsistent with, the provisions of Regulation T, U or X of the Board of Governors of the Federal Reserve System as now and from time to time hereafter in effect. The Guarantor and its Subsidiaries taken as a group do not own Margin Stock except as identified in the financial statements referred to in Section 2.14 and the aggregate value of all Margin Stock owned by the Guarantor and its Subsidiaries taken as a group does not exceed 25% of the value of their assets.

2.27 Compliance with Laws

Each of the Credit Parties is in compliance with all Requirements of Law, including all applicable Environmental Laws, except to the extent that (a) the failure to comply therewith could not, in the aggregate, reasonably be expected to have a Material Adverse Effect, or (b) such Requirements of Law are being contested in good faith or a bona fide dispute exists with respect thereto and the affected Credit Party have established adequate reserves in conformity with GAAP on the books of such Credit Party to account therefor.

2.28 Environmental Matters

The Guarantor conducts, in the ordinary course of business, a review of the effect of existing Environmental Laws and claims alleging potential liability or responsibility for violation of any Environmental Law on the facilities and properties owned, leased or operated by the Credit Parties or any of their Subsidiaries (the “Properties”). Such review is of such a scope and nature that the review is reasonably likely to lead to discovery by the Guarantor of any material violation of any Environmental Law or the existence of any circumstance or condition that could give rise to any material obligation by the Guarantor or any of its Subsidiaries to make any report to any Governmental Body, or conduct any investigative, remedial, response or cleanup action, pursuant to any Environmental Law. As a result of such review, the Guarantor has reasonably concluded that there exists no violation of any Environmental Law, or circumstance or condition giving rise to any obligation by the Guarantor or any of its Subsidiaries to make any report to any Governmental Body, or conduct any investigative, remedial, response or cleanup action, pursuant to, or claim arising under, any Environmental Law, that could reasonably be expected to have a Material Adverse Effect.

2.29 Purpose of Extensions of Credit

The proceeds of the Extensions of Credit under the Guarantor Credit Agreement shall be used by the Guarantor solely to (i) refinance certain existing Indebtedness of the Guarantor, (ii) pay fees and expenses owing to the Lenders and the Administrative Agent in connection with the Guarantor Credit Agreement, (iii) support issuances of Letters of Credit (as defined in the Guarantor Credit Agreement) under the Guarantor Credit Agreement and (iv) provide for the working capital and other general corporate requirements of the Guarantor and its Subsidiaries including, but not limited to, Permitted Acquisitions and capital expenditures.

2.30 Subsidiaries

Set forth on Schedule 3.13 to the Guarantor Credit Agreement is a complete and accurate list of all Subsidiaries of the Credit Parties. Information on such Schedule includes (i) the state of incorporation or formation, (ii) the number of shares of each class of Capital Stock or other equity interests outstanding, (iii) the number and percentage of outstanding shares of each class of Capital Stock or other equity interests and (iv) the number and effect, if exercised, of all outstanding options, warrants, rights of conversion or purchase and similar rights. The outstanding Capital Stock and other equity interests of all such Subsidiaries is validly issued, fully paid and non-assessable and is owned, free and clear of all Liens (other than those arising under or contemplated in connection with the Guarantor Credit Documents). For the purposes hereof, the Guarantor may update Schedule 3.13 to the Guarantor Credit Agreement from time to time by providing a copy of each replacement Schedule 3.13 to the Guarantor Credit Agreement to Royal.

2.31 Ownership

Each of the Credit Parties (a) is the owner of, and has good and valid title to, or a valid leasehold interest in, all of its respective material assets, except as may be permitted pursuant to Section 6.2(z), and none of such assets is subject to any Lien other than Permitted Liens and (b) enjoys peaceful and undisturbed possession of all real properties that are necessary for the operation and conduct of its business.

2.32 Indebtedness

Except as otherwise permitted under Section 6.2(y), the Guarantor and its Subsidiaries have no Indebtedness (including Off-Balance Sheet Liabilities).

2.33 Investments

All Investments of each of the Guarantor and its Subsidiaries are Permitted Investments.

2.34 No Burdensome Restrictions

None of the Guarantor or any of its Subsidiaries is a party to any agreement or instrument or subject to any other obligation or any charter or corporate restriction or any provision of any applicable law, rule or regulation which, individually or in the aggregate, could reasonably be expected to have a Material Adverse Effect.

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2.35 Accuracy and Completeness of Information

- (a) All information heretofore or contemporaneously herewith furnished by either the Guarantor or any other Credit Party or any of their Subsidiaries to the Administrative Agent for purposes of or in connection with the Guarantor Credit Agreement and the transactions contemplated thereby is, and all information hereafter furnished by or on behalf of the Credit Parties or any of their Subsidiaries to the Administrative Agent, WCM (as defined in the Guarantor Credit Agreement), the Collateral Agent or any Lender pursuant to, or in connection with the Guarantor Credit Agreement will be, true and accurate in every material respect on the date as of which such information is dated or certified, and such information, taken as a whole, does not and will not omit to state any material fact necessary to make such information, taken as a whole, not misleading; and
- (b) All registration statements, reports, proxy statements and other documents, if any, required to be filed by the Credit Parties and their Subsidiaries with the Securities and Exchange Commission pursuant to the Securities Act of 1933 and the Securities Exchange Act of 1934, as amended, have been filed, and such filings are complete and accurate and contain no untrue statements of material fact or omit to state any material facts required to be stated therein or necessary in order to make the statements therein not misleading.

2.36 Material Contracts

Each Material Contract (as defined in the Guarantor Credit Agreement) is, and after giving effect to the transactions contemplated by the Guarantor Credit Documents will be, in full force and effect in accordance with the terms thereof and no Credit Party and no Subsidiary of any Credit Party has violated in any material respect any such Material Contract.

3. THE CREDIT FACILITY

3.1 Establishment of the Credit Facility

Relying on each of the representations and warranties set out in Section 2 and subject to the terms and conditions set forth herein, Royal agrees to make available to the Borrower:

- (a) a committed, revolving credit facility (unsecured by Collateral but with the Borrower having the option to cash collateralize its liabilities and obligations in respect thereof) in the principal amount of:
 - (1) during any No Collateral Period of up to \$10,000,000, or the Equivalent Amount in U.S. Funds, and
 - (2) during the Cash Collateral Period, up to the lesser of:
 - (A) \$10,000,000, or the Equivalent Amount in U.S. Funds, or

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- (B) the amount of the Collateral Value of the Borrowing Base; and

- (b) at Royal's discretion, on an uncommitted basis, lines of credit in the aggregate principal amount of up to \$50,000,000 to cover Swap Termination Values and liabilities of the Borrower or, with the consent of Royal, any of its Subsidiaries in respect of EFT Transfers and PDS Services including overdrafts and cash management debts and liabilities,

to be used by the Borrower (and, in the case of Section 3.1(b), with the consent of Royal, any Subsidiaries of the Borrower in respect of EFT Transfers and PDS Services) for its general corporate purposes.

3.2 Currencies and Other Options Available Under the Credit Facility

Subject to the provisions of the Agreement:

- (a) the Borrower may, at its option utilize the credit facility established pursuant to Section 3.1(a) by way of Canadian Advances or Documentary Credits, and
- (b) the Borrower and, with the consent of Royal, any of its Subsidiaries may, at the discretion of Royal, avail themselves of Royal's facilities in respect of EFT Transfers and PDS Services and Royal may, at its discretion, make Canadian Advances or U.S. Advances available to the Borrower, to provide for Swap Termination Values, and cover for liabilities in respect of EFT Transfers and PDS Services. Any liabilities in respect of EFT Transfers and PDS Services including overdrafts and cash management debts and liabilities, shall be obligations under the credit facility established pursuant to Section 3.1(b) and shall be secured by the Guarantee, the Borrower Guarantees and the Borrower Subsidiaries' Guarantees and otherwise be subject to the applicable provisions of the Agreement.

3.3 Interest on Advances Under the Credit Facility

Interest shall be paid to Royal at the Branch of Account. Canadian Advances shall bear interest in Canadian Funds at the Prime Rate plus the Applicable Percentage, which interest shall accrue from day to day while such advances are outstanding and shall be computed on the basis of a year of 365 days and for actual days elapsed and shall be payable and compounded monthly in arrears on the 20th day of each month.

3.4 Issuance of Documentary Credits

Subject to the provisions of the Agreement, from time to time on any Business Day during the period from the Closing Date until the Maturity Date, Royal will issue Documentary Credits in Canadian Funds or U.S. Funds for the account of the Borrower and its Subsidiaries, and will amend or renew Documentary Credits previously issued by it, in accordance with Section 3.7, and will honour drafts under the Documentary Credits; provided that Royal will not be obligated issue, renew, increase or extend any Documentary Credits, if as of the date of such Borrowing, the Borrowings under the facility established under Section 3.1(a) of the Agreement would

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exceed the maximum limit of such credit facility. Within the foregoing limits, and subject to the terms and conditions of the Agreement, the Borrower's ability to obtain Documentary Credits shall be fully revolving, and accordingly the Borrower may, during the foregoing period, obtain Documentary Credits to replace Documentary Credits that have expired or that have been drawn upon and reimbursed. The undrawn face amount of each Existing Letter of Credit shall constitute Borrowings under the credit facility provided for in Section 3.1(a), and the reimbursement obligations with respect thereto shall be governed by the terms and conditions of the Agreement.

3.5 Notice for Canadian Advances Under the Credit Facility

The Borrower shall give to Royal a notice in the form of Schedule E of its intention to take a Canadian Advance. The Borrower may request from Royal Canadian Advances in minimum amounts of \$100,000 or any greater whole multiple of \$100,000 with prior irrevocable notice on the Business Day before the requested Drawdown Date if the requested Canadian Advance is for more than \$1,000,000 and on the Drawdown Date if the requested Canadian Advance is for \$1,000,000 or less and any such notice shall specify the amount of the requested Canadian Advance, and the Drawdown Date and Royal shall make the advance on the Drawdown Date specified in the request, unless that date is not a Business Day, in which case the advance shall be made on the next following Business Day.

3.6 Obligation of Royal

Royal shall not be under any obligation to issue or renew or permit renewal of any Documentary Credit if:

- (a) any order, judgment or decree of any Governmental Body or arbitrator shall by its terms purport to enjoin or restrain Royal from issuing such Documentary Credit, or any law applicable to Royal or any request or directive (whether or not having the force of law) from any Governmental Body with jurisdiction over Royal shall prohibit, or request that Royal refrain from, the issuance of documentary credits generally or such Documentary Credit in particular or shall impose upon Royal with respect to such Documentary Credit any restriction, reserve or capital requirement (for which Royal is not otherwise compensated hereunder) not in effect on the Closing Date, or shall impose upon such Royal any unreimbursed loss, cost or expense which was not applicable on the Closing Date and which Royal in good faith deems material to it;
- (b) subject to Section 3.7(b), the expiry date of such requested Documentary Credit would occur more than twelve months after the date of issuance or last renewal, unless Royal has approved such expiry date;
- (c) the expiry date of such requested Documentary Credit would occur after the Letter of Credit Expiration Date, unless Royal has approved such expiry date;
- (d) the issuance of such Documentary Credit would violate the policies of Royal; or

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- (e) such Letter of Credit is to be denominated in a currency other than Canadian Funds or U.S. Funds,

and Royal will be under no obligation to amend any Documentary Credit if Royal would have no obligation at such time to issue such Documentary Credit in its amended form under the terms of the Agreement or the beneficiary of such Documentary Credit does not accept the proposed amendment to such Documentary Credit.

3.7 Procedures for Issuance and Amendment of Documentary Credit; Auto-Renewal of Documentary Credit

- (a) Each Documentary Credit shall be issued or amended, as the case may be, upon the request of the Borrower delivered Royal in the form of a Documentary Credit Application, appropriately completed and signed by an authorized signatory of the Borrower. Such Documentary Credit Application must be received by Royal not later than 8:00 a.m. Toronto time at least three Business Days (or such later date and time as Royal may agree in a particular instance in its sole discretion) prior to the proposed issuance date or date of amendment, as the case may be. In the case of a request for an initial issuance of a Documentary Credit, such Documentary Credit Application shall specify in form and detail satisfactory to Royal:

- (1) the proposed issuance date of the requested Documentary Credit (which shall be a Business Day);

- (2) the amount thereof;
- (3) the expiry date thereof;
- (4) the name and address of the beneficiary thereof;
- (5) the documents to be presented by such beneficiary in case of any drawing thereunder;
- (6) the full text of any certificate to be presented by such beneficiary in case of any drawing thereunder; and
- (7) such other matters as Royal may require,

and during the Cash Collateral Period the Borrower will, at the time of delivery of the Documentary Credit Application, deliver to Royal a Borrowing Base Certificate and deposit or direct Royal in writing to deposit in the Restricted Cash Collateral Account the amount required to collateralize the Documentary Credit applied for.

In the case of a request for an amendment of any outstanding Documentary Credit, such Documentary Credit Application shall specify in form and detail satisfactory to Royal:

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- (A) the Documentary Credit to be amended;
 - (B) the proposed date of amendment thereof (which shall be a Business Day);
 - (C) the nature of the proposed amendment; and
 - (D) such other matters as Royal may require.
- (b) If the Borrower so requests in any applicable Documentary Credit Application, Royal may, in its sole and absolute discretion, agree to issue a Documentary Credit that has automatic renewal provisions (each, an "Auto-Renewal Documentary Credit"); provided that any such Auto-Renewal Documentary Credit must permit Royal to prevent any such renewal at least once in each twelve-month period (commencing with the date of issuance or renewal of such Documentary Credit) by giving prior notice to the beneficiary thereof not later than a day (the "Nonrenewal Notice Date") in each such twelve-month period to be agreed upon at the time such Documentary Credit is issued. Unless otherwise directed by Royal, the Borrower shall not be required to make a specific request to Royal for any such renewal. Royal shall not permit any such renewal if:
- (1) Royal has determined that it would have no obligation at such time to issue such Documentary Credit in its renewed form under the terms of the Agreement (by reason of the provisions of Sections 3.4, 3.6 or otherwise),
 - (2) one or more of the applicable conditions specified in Section 3.7 is not then satisfied. Notwithstanding anything to the contrary contained herein, Royal shall have no obligation to permit the renewal of any Auto-Renewal Documentary Credit at any time to the extent such non-renewal is permitted by the terms of such Auto-Renewal Documentary Credit.
- (c) Promptly after its delivery of any Documentary Credit or any amendment to a Documentary Credit to an advising bank with respect thereto or to the beneficiary thereof, Royal will also deliver to the Borrower a true and complete copy of such Documentary Credit or amendment.

3.8 Drawings and Reimbursements

- (a) Upon receipt from the beneficiary of any Documentary Credit of any notice of a drawing under such Documentary Credit, Royal shall notify the Borrower thereof. Not later than 12:00 noon Toronto time on the date of any payment by Royal under a Documentary Credit (each such date, an "Honour Date"), the Borrower shall reimburse Royal, in an amount equal to the amount of such drawing. At the Borrower's option during the Cash Collateral Period, it may in, lieu of remitting the amount necessary to

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reimburse such drawing, send written instruction to Royal not later than 12:00 noon Toronto time, directing Royal to debit the Restricted Cash Collateral Account in the amount necessary to reimburse such drawing. Such instruction shall be accompanied by a Borrowing Base Certificate showing that after giving effect to such reimbursement (and any permanent reduction in the amount of the Documentary Credit effected by such drawing), there will be no shortfall in the Collateral Value of the Borrowing Base.

- (b) With respect to any amount not reimbursed to Royal pursuant to (a), the Borrower shall be deemed to have obtained from Royal an Advance in that amount, which Borrowing shall be due and payable on demand (together with interest) and shall bear interest at the Prime Rate.

3.9 Obligations Absolute

The obligation of the Borrower to reimburse Royal for each drawing under each Documentary Credit and to repay each Borrowing shall be absolute, unconditional and irrevocable, and shall be paid strictly in accordance with the terms of this Agreement under all circumstances, including the following:

- (a) any lack of validity or enforceability of such Documentary Credit, this Agreement, or any other agreement or instrument relating thereto;
- (b) the existence of any claim, counterclaim, set-off, defense or other right that the Borrower may have at any time against any beneficiary or any transferee of such Documentary Credit (or any Person for whom any such beneficiary or any such transferee may be acting), Royal or any other Person, whether in connection with the Agreement, the transactions contemplated hereby or by such Documentary Credit or any agreement or instrument relating thereto, or any unrelated transaction;
- (c) any draft, demand, certificate or other document presented under such Documentary Credit proving to be forged, fraudulent, invalid or insufficient in any respect or any statement therein being untrue or inaccurate in any respect; or any loss or delay in the transmission or otherwise of any document required in order to make a drawing under such Documentary Credit;

- (d) any payment by Royal under such Documentary Credit against presentation of a draft or certificate that does not strictly comply with the terms of such Documentary Credit; or any payment made by Royal under such Documentary Credit to any Person purporting to be a trustee in bankruptcy, debtor-in-possession, assignee for the benefit of creditors, liquidator, receiver or other representative of or successor to any beneficiary or any transferee of Documentary Credit, or
- (e) any other circumstance or happening whatsoever, whether or not similar to any of the foregoing, including any other circumstance that might otherwise constitute a defense available to, or a discharge of, the Borrower.

The Borrower shall promptly examine a copy of each Documentary Credit and each amendment thereto that is delivered to it and, in the event of any claim of noncompliance with the Borrower's

instructions or other irregularity, the Borrower will immediately notify Royal. The Borrower shall be conclusively deemed to have waived any such claim against Royal and its correspondents unless such notice is given.

3.10 Role of Royal

In paying any drawing under a Documentary Credit, Royal shall not have any responsibility to obtain any document (other than any sight draft, certificates and documents expressly required by the Documentary Credit) or to ascertain or inquire as to the validity or accuracy of any such document or the authority of the Person executing or delivering any such document. The Borrower assumes all risks of the acts or omissions of any beneficiary or transferee with respect to its use of any Documentary Credit; provided that this assumption is not intended to, and shall not, preclude the Borrower's pursuing such rights and remedies as it may have against the beneficiary or transferee at law or under any other agreement. Neither Royal nor any of its correspondents, participants or assignees, shall be liable or responsible for any of the matters described in Sections 3.9(a) through (e); provided that anything in Sections 3.9(a) through (e) or this Section 3.10 notwithstanding, the Borrower may have a claim against Royal, and Royal may be liable to the Borrower, to the extent, but only to the extent, of any direct, as opposed to consequential or exemplary, damages suffered by the Borrower which the Borrower proves were caused by Royal's willful misconduct or gross negligence or Royal's willful failure to pay under any Documentary Credit after the presentation to it by the beneficiary of a sight draft and certificate(s) strictly complying with the terms and conditions of a Documentary Credit. In furtherance and not in limitation of the foregoing, Royal may accept documents that appear on their face to be in order, without responsibility for further investigation, regardless of any notice or information to the contrary, and Royal shall not be responsible for the validity or sufficiency of any instrument transferring or assigning or purporting to transfer or assign a Documentary Credit or the rights or benefits thereunder or proceeds thereof, in whole or in part, which may prove to be invalid or ineffective for any reason.

3.11 Documentary Credit Fees

The Borrower shall pay to Royal documentary credit fee for each Documentary Credit equal to the greater of \$250 and the Applicable Percentage times the daily maximum amount available to be drawn under such Letter of Credit (calculated with reference to the maximum amount in effect under such Documentary Credit at the time of calculation and not calculated with reference to the maximum face amount of such Documentary Credit after giving effect to any increases contemplated therein until such increases occur). Such documentary credit fees shall be computed on a quarterly basis in arrears. Such documentary credit fees shall be due and payable on the last Business Day after the end of each March, June, September and December, commencing with the first such date to occur after the issuance of such Documentary Credit, on the expiry date of that Document Credit and thereafter on demand.

3.12 Conflict with Letter of Credit Application

In the event of any conflict between the terms hereof and the terms of any Documentary Credit Application, the terms hereof shall control.

3.13 Existing Letters of Credit

The provisions of the Agreement will apply to the Existing Letters of Credit in the same manner as if the Existing Letters of Credit had been issued pursuant to the Agreement.

3.14 Collateral Coverage; Restricted Cash Collateral

- (a) The Borrower shall have the option once during the term of the Agreement to elect to cash collateralize its obligations and liabilities hereunder in respect of the credit facility provided for in Section 3.1(a) by depositing Cash Equivalents in the Restricted Cash Collateral Account and notifying Royal in writing of such election. Thereafter, on or prior to the tenth (10th) Business Day of each month, the Borrower shall deliver to Royal a Borrowing Base Certificate as of the last Business Day of the immediately preceding month (each such date a "Re-Margin Date"). On and from the date that the Borrower elects as aforesaid to cash collateralize until the Collateral Release Date, as defined below in Section 3.14(c), (the "Cash Collateral Period") if total Borrowings under the credit facility provided for in Section 3.1(a) exceed the lesser of \$10,000,000 and the Collateral Value of the Borrowing Base, the Borrower shall deposit or direct Royal in writing to deposit into the Restricted Cash Collateral Account an amount equal to such excess on or prior to such tenth (10th) Business Day. If, as of any Re-Margin Date, the Collateral Value of the Borrowing Base exceeds the then outstanding Borrowings under the credit facility provided for in Section 3.1(a), Royal provided no Event of Default exists as of such Re-Margin Date, shall, upon written request by the Borrower made in the related Borrowing Base Certificate, remit the amount of such excess (the "Excess Amount") from the Restricted Cash Collateral Account to the Borrower promptly if the Excess Amount consists of Canadian Funds or U.S. Funds and promptly on maturity of each Cash Equivalent if the Excess Amount consists of certificates of deposit or term deposits. The Excess Amount will be free and clear of the Lien granted in the Restricted Cash Collateral Agreement as of such Re-Margin Date. The Borrower shall comply with all of its obligations under this Section 3.14 so long as Royal shall have any commitment under the Agreement, any Obligation hereunder for the payment of money that has accrued and is payable shall remain unpaid or unsatisfied, or any Documentary Credit shall remain outstanding.
- (b) The Borrower shall maintain the Restricted Cash Collateral Account at all times during the Cash Collateral Period.
- (c) The Borrower may, at any time following any Re-Margin Date but only once during the term of the Agreement, elect to release the Restricted Cash Collateral and terminate the requirements of Section 3.14(a) hereof; provided, that (i) as of the effective date of such election (the "Collateral Release Date"), the Guarantor shall be able to demonstrate to the reasonable satisfaction of Royal that for the twelve month period immediately preceding the Collateral Release Date (A) the Consolidated Leverage Ratio for such period was less than or equal to 2.50 to 1.00 and (B) the Consolidated Interest Coverage Ratio for such period was

greater than or equal to 4.25 to 1.00, (ii) no Default or Event of Default shall have occurred and be continuing prior to, as of or immediately after the Collateral Release Date (for the avoidance of doubt, the determination of the existence of a Default or an Event of Default immediately after the Collateral Release Date shall take into account the effectiveness of the covenants set forth in Section 6 of the Agreement which are effective only during the No Collateral Period as well as those covenants set forth in Section 6 of the Agreement which are effective at all times during the term of the Agreement) and (iii) the Borrower shall have delivered a Cash Collateral Release Notice to Royal demonstrating compliance with the foregoing conditions and setting forth the date of the proposed Collateral Release Date at least 60 days prior to such proposed Collateral Release Date.

- (d) The Borrower will deliver to Royal, promptly prior to the commencement of any No Collateral Period (as defined in the Guarantor Credit Agreement), notice of such No Collateral Period under the terms of the Guarantor Credit Agreement.

3.15 Security

At all times after the Closing Date, the Obligations shall be secured in accordance with Royal's Security, and the Borrower agrees that it will from time to time execute or cause to be executed any Borrower Guarantees and Borrower Subsidiaries' Guarantees and any such documents will be part of Royal's Security. In connection with the pledge of any Collateral which is included in the calculation of the Collateral Value of the Borrowing Base as reflected in a duly executed Borrowing Base Certificate delivered by the Borrower, the Borrower will from time to time execute or cause to be executed such security agreements, control agreements and any other documents incident to the granting or perfection of the Lien in such Collateral as Royal may reasonably request and any such documents will be part of Royal's Security. Without limiting any provision of the Restricted Cash Collateral Agreement, the Borrower hereby grants to Royal, a Lien upon the Restricted Cash Collateral to secure the Obligations.

3.16 Swap Contracts, PDS Services and EFT Transfers

Under the credit facility established pursuant to Section 3.1(b):

- (a) the Borrower may request that Royal enter into Swap Contracts with the Borrower from time to time. Royal may decline such request or may agree to enter into Swap Contracts, provided:
- (1) the Borrower agrees to the terms and conditions of the current applicable Master Agreement or such other similar or standard form of agreement appropriate to the type of Swap Contract, requested by the Borrower as may be required by Royal and enters into and delivers such agreement to Royal;
 - (2) the Borrower pays all required fees in connection with a Swap Contract and indemnifies Royal against any loss, cost or expense incurred by Royal including any Swap Termination Values;

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- (3) the Borrower indemnifies Royal against any loss, cost or expense suffered or incurred by Royal as a result of acting upon instructions given or agreements made over the telephone or by electronic transmission of any type with persons reasonably believed by Royal to have been acting on the Borrower's behalf;
 - (4) the Borrower agrees that if there is any inconsistency at any time between the terms of the Agreement and any Master Agreement, the terms of such Master Agreement shall prevail; and
- (b) the Borrower may request that Royal provide PDS Services and EFT Transfers from time to time. Royal may decline such request or may agree to provide PDS Services and EFT Transfers, subject to the execution and delivery of Royal's standard form of agreement appropriate to the type of PDS Services or EFT Transfers requested.

3.17 Interest Act of Canada

For the purpose of the *Interest Act of Canada*, the yearly rate of interest to which interest calculated on the basis of a year of 360 or 365 days is equivalent, is the rate of interest determined as herein provided multiplied by the number of days in such year divided by 360 or 365, as the case may be.

3.18 Default Interest

Default interest payable in the currency of the amount which is overdue shall be paid on all interest, fees and other amounts payable hereunder which are overdue. Default interest with respect to interest, fees and other amounts payable in Canadian Funds shall be at the Prime Rate and with respect to interest, fees and other amounts payable in U.S. Funds shall be at the U.S. Base Rate, as the case may be. Default interest on overdue interest, fees and other amounts shall be compounded monthly and shall be paid on demand both before and after maturity, default and judgement. Default interest shall be computed from and including the date interest, fees or any other amounts payable pursuant to the Agreement become due and shall be paid for so long as such amount or amounts remains unpaid.

3.19 Indemnity for Out-of-Pocket Expenses

The Borrower agrees to indemnify Royal against any out-of-pocket loss or expense which it may sustain or incur as a consequence of the Borrower's failure to effect, repay or prepay a Borrowing as specified in any Notice of Borrowing delivered by the Borrower pursuant to the Agreement.

3.20 Effective Time for Section 3 Notices

For the purposes of Section 3 of the Agreement, and unless otherwise specified in Section 3, notices from the Borrower to Royal must be received by Royal prior to 10:00 a.m. local time at Vancouver, British Columbia to be effective on the date on which they are given. Notices

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received after that local time will take effect from the next Banking Day or Business Day, as the case may be.

3.21 Increased Costs

Subject to Section 3.23, if, after the Closing Date, the implementation or introduction of or any change in any applicable law, regulation, treaty, or official directive or regulatory requirement now or hereafter in effect (whether or not having the force of law), or any change in the interpretation or application thereof by any court or by any

judicial or governmental body charged with the interpretation or administration thereof, or if compliance by Royal with any request from any central bank or other fiscal, monetary, or other authority (whether or not having the force of law):

- (a) subjects Royal to any tax, changes the basis of taxation of payments due to Royal or increases any existing tax, on payments of principal, interest, or other amounts payable by the Borrower to Royal under the Agreement (except for taxes on the overall net income of Royal imposed by the jurisdiction in which it is incorporated or resident or from which it is acting for the purposes of the Agreement, and except for taxes on Royal's capital or other similar taxes); or
- (b) imposes on Royal any other condition with respect to the Agreement,

and the result of (a) or (b) is, in the reasonable determination of Royal acting in good faith, to increase the cost to Royal or to reduce the income receivable by Royal in respect of a Borrowing or Facility Fee payable, or to reduce the rate of return on the overall capital of Royal, the Borrower shall, upon receipt of a certificate from Royal as described below ("Certificate"), pay to Royal that amount which compensates Royal for such additional cost, reduction in income or rate of return ("Additional Amount") from the date of the Certificate. The Borrower will pay the Additional Amount on the next following 20th day of the month and on the 20th day of each month thereafter until the earlier of (a) the date on which the Additional Amount has been paid in full, and (b) the date on which the Borrower has repaid and/or converted all Borrowings with respect to which a Certificate has been delivered. Royal shall deliver a Certificate to the Borrower which shall set forth the amount of the Additional Amount and the basis for its calculation which will, in the absence of manifest or demonstrable error, be conclusive evidence of the amount of the Additional Amount. Royal will use its reasonable efforts to reduce the amount of the Additional Amount payable hereunder provided that Royal will have no obligation to expend its own funds, to suffer any economic hardship or to take any action detrimental to its interest in connection therewith.

3.22 Borrower's Option on Receipt of an Increased Costs Certificate

If Royal delivers the Certificate and the Borrower has paid the Additional Amount required to be paid by the Certificate in accordance with the Certificate, then with two Business Days' prior written irrevocable notice to Royal, the Borrower may within 60 days, prepay in full without bonus or penalty all Borrowings, with respect to which a Certificate has been delivered, interest, fees and other amounts payable hereunder in connection with such Borrowings.

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3.23 Increased Costs Limitation

Royal agrees that:

- (a) the increased costs payable by the Borrower pursuant to Section 3.21 shall not include:
 - (1) those resulting from any law, regulation, treaty, or official directive or regulatory requirement or amendments thereto of which Royal had knowledge prior to the Closing Date, or
 - (2) any tax, penalty or other charges payable by Royal due to its failure to pay or delay in paying any amount required to be paid by it referred to in Section 3.21(a);
- (b) it will not charge the Borrower for any increased costs payable by it referred to in Section 3.21 if it is not at the same time passing similar costs on to substantially all of its customers to whom Royal is, by agreement, entitled to pass on such costs; and
- (c) it will use all reasonable efforts to minimize amounts payable by the Borrower hereunder including all reasonable efforts to obtain refunds or credits.

3.24 Repayment of Credit Facility

On the Maturity Date the Borrower shall repay to Royal the whole of the outstanding amount of Borrowings under the Credit Facility provided for under Section 3.1(b) together with interest, fees and other amounts due hereunder to such date. Royal may retain sufficient Restricted Cash Collateral after the Maturity Date to secure its obligations under any Documentary Credits which have not at that time expired or been cancelled or returned and related interest, fees or other amounts by maintaining the Collateral Value of the Borrowing Base.

3.25 Extension of Maturity Date

Royal in its sole discretion may, at the request of the Borrower, extend the Maturity Date and the Letter of Credit Expiration Date for successive periods of 364 days. If the Borrower wishes to extend the Maturity Date and the Letter of Credit Expiration Date it shall so notify Royal not more than 90 days and not less than 60 days prior to the then current Maturity Date and Royal shall, within 30 days of receipt of such extension notice, advise the Borrower of its determination in response to any such request. If Royal determines that it will extend the Maturity Date and the Letter of Credit Expiration Date for 364 days the current Maturity Date, and the current Letter of Credit Expiration Date shall be extended to that date which is 364 days past the current Maturity Date or Letter of Credit Expiration Date, as the case may be. The Borrower and the Guarantor acknowledge that the rates of interest, Facility Fee, acceptance fees, Documentary Credit Fees and any other fees payable by the Borrower under the Agreement are subject to confirmation by Royal at the time of each request for an extension of the Maturity Date and Letter of Credit Expiration Date.

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3.26 Currency of All Payments

All repayments made by the Borrower pursuant to the Agreement shall be made in the currency of the Borrowing being repaid.

3.27 Borrower's Right to Cancel Available Amount of Credit Facility

If the Borrower delivers to Royal three Business Days' prior irrevocable notice, the Borrower may, without penalty, cancel the available amount of the Credit Facility or a portion thereof in minimum increments of \$5,000,000 or any greater amount in whole multiples of \$100,000. Such cancellation shall be effective on the later of the effective Business Day set out in such notice and the third Business Day after such notice. No cancellation under this Section 3.27 shall be effective in respect of any portion of the Credit Facility which has been advanced or utilized until such advance or utilization has been repaid or reduced and all interest and fees accruing thereon have been paid. Any such amount so cancelled shall permanently reduce the available amount of the Credit Facility thereafter available for Borrowings by a like amount.

3.28 Facility Fee

The Borrower shall pay to Royal a facility fee (the "Facility Fee") in an amount equal to the Applicable Percentage per annum on the full amount of the credit facility described in Section 3.1(a) regardless of usage from the Closing Date until the Maturity Date. The Facility Fee shall be paid in Canadian Funds calculated on a daily basis

and be payable quarterly in arrears on the 15th day following the last day of each calendar quarter for the prior calendar quarter.

3.29 Arrangement Fee

The Borrower shall pay to Royal an arrangement fee of \$12,500 on the Closing Date.

3.30 Evidence of Indebtedness

Royal shall open and maintain on its books at its Branch of Account, accounts and records evidencing Borrowings and other amounts owing by the Borrower to Royal under the Agreement. Royal shall record Documentary Credits issued and cancelled by it and all other amounts becoming due to it under the Agreement including interest, Documentary Credit Fees, the Facility Fee and other fees and amounts and all payments on account thereof. Such accounts and records maintained by Royal shall constitute, in the absence of manifest or demonstrable error, *prima facie* evidence of the indebtedness of the Borrower to Royal pursuant to the Agreement, the date Royal made each Borrowing available to the Borrower and the amounts the Borrower has paid from time to time on account of principal and interest on the Borrowings, Documentary Credit Fees, the Facility Fee and other fees and amounts payable pursuant to the Agreement and all other amounts owing hereunder.

3.31 Determination of Available Amount of the Credit Facility

The available amount of the Credit Facility shall always be determined in Canadian Funds, with Borrowings by way of Documentary Credits in U.S. Funds converted to Canadian Funds by determining the Equivalent Amount of any such Documentary Credit in U.S. Funds.

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4. SECURITY FOR BORROWINGS

4.1 Security for Borrowings

As general and continuing security for the performance of all obligations of the Borrower hereunder and the prompt payment when due by the Borrower of Borrowings under the Credit Facility and interest thereon and all other money for the time being and from time to time owing by the Borrower hereunder, including the Facility Fee, Documentary Credit Fees and other fees, default interest, fees for Swap Contracts, Swap Termination Values, fees and liabilities in respect of EFT Transfers and PDS Services, the Borrower confirms that, subject to the provisions of this Agreement, it has executed and delivered or caused to be executed and delivered, or shall execute and deliver, or cause to be executed and delivered to Royal the following:

- (a) the Restricted Cash Collateral Agreements;
- (b) the Amended Subordination Agreement; and
- (c) the Guarantee.

4.2 Conflict Between the Agreement and Royal's Security

Except for the choice of law provisions in the Guarantee and those provisions in Royal's Security describing the collateral over which security is taken or which allow for dispositions of such collateral free from such security, which shall prevail, if there is any discrepancy or inconsistency between the terms of the Agreement and the terms of Royal's Security the terms of the Agreement shall prevail.

4.3 Payment

Notwithstanding that the Guarantee, the Borrower Guarantees and the Borrower Subsidiaries' Guarantees are expressed to be payable on demand, Royal will not demand payment thereof except when an Event of Default has occurred and is continuing.

4.4 Guarantees

Notwithstanding the aggregate dollar limitations on liability under the Guarantee, the Borrower Guarantees and the Borrower Subsidiaries' Guarantees, Royal acknowledges that the respective dollar limitations set out in those guarantees are not intended to be cumulative.

5. CREDIT FACILITY CONDITIONS PRECEDENT

5.1 Conditions Precedent to Initial Borrowings

Royal shall not be obliged to make an initial advance of the Credit Facility unless, on the Closing Date, all representations and warranties contained in Section 2 of the Agreement are true and correct, no Event of Default has occurred and is continuing and upon each of the following conditions being satisfied:

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- (a) delivery by the Borrower to Royal of the following:
 - (1) duly executed copies of the Agreement together with all documents which the Borrower has covenanted to deliver under the Agreement and any other documents or instruments as in the opinion of counsel for Royal are reasonably necessary or appropriate to render effective the Agreement;
 - (2) a certificate of good standing for the Borrower and each of the Borrower Subsidiaries from the Office of the British Columbia Registrar of Companies;
 - (3) a certified copy of the Charter for the Borrower;
 - (4) a certified copy of a resolution or resolutions of the board of directors of the Borrower or a duly constituted and authorized committee of its directors and each of the Borrower Subsidiaries authorizing it to execute, deliver and perform its obligations under the Agreement and Royal's Security and the instruments, agreements, certificates, papers and other documents contemplated herein and therein and the manner in which and by whom the foregoing documents are to be executed and delivered;

- (5) an incumbency certificate of the Borrower and each of the Borrower Subsidiaries setting forth the names of its directors and officers and specimen signatures of the individuals who sign the Agreement and Royal's Security and the instruments, agreements, certificates, papers and other documents provided for or contemplated therein;
- (6) a certificate signed by the Chief Financial Officer or other responsible person certifying:
 - (A) that the Guarantor is not in default under the Guarantor Credit Agreement;
 - (B) there is no material litigation pending or threatened against the Borrower other than as disclosed in the December 31, 2003 annual report;
 - (C) there has been no material adverse change in the financial conditions and operations of the Guarantor or any of its Subsidiaries since the date of the Guarantor's most recent financial statements referred to in Section 2.16 of the Agreement;
- (7) a favourable opinion of counsel for the Borrower (in form and content satisfactory to the solicitors for Royal) to the effect that:
 - (A) the Borrower and each of the Borrower Subsidiaries has been duly incorporated, amalgamated or continued under the laws of the Province of British Columbia and is, according to the records

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of the office of the Registrar of Companies for the Province of British Columbia, an existing company in good standing with respect to the filing of its annual reports;

- (B) the Borrower and each of the Borrower Subsidiaries have the corporate power and capacity to borrow money and grant security therefore in the manner contemplated by the Agreement and Royal's Security and to enter into, observe and perform the terms and obligations on its part to be observed and performed under the Agreement and Royal's Security;
- (C) the Borrower has duly authorized, executed and delivered the Agreement and that Royal's Security to which it is a party and each of the Borrower Subsidiaries have duly authorized, executed and delivered that Royal's Security to which it is a party, the Agreement and such Royal's Security constitute valid, binding and enforceable obligations of the Borrower and the Borrower Subsidiaries (as applicable) in accordance with its terms, save as enforcement may be limited by:
 - (i) applicable bankruptcy, insolvency, moratorium or reorganization or other laws affecting creditors' rights generally;
 - (ii) the unavailability of equitable remedies such as the remedy of specific performance and injunction in any particular instance;
 - (iii) the inability of the Courts of Canada to give judgement for payment in foreign currencies; and
 - (iv) such other qualifications and limitations as counsel for Royal may accept acting reasonably;
- (D) so far as they are aware in their capacity as counsel for the Borrower in respect of this transaction, there are no actions, proceedings or investigations pending or threatened against the Borrower which question the validity of the Agreement or Royal's Security or the validity of any act to be taken pursuant thereto,

and, in addition, dealing with such other matters incidental to the transactions contemplated by the Agreement as Royal may reasonably and properly require;

- (8) an opinion of Messrs. Bull, Housser & Tupper, counsel for Royal (in form and content satisfactory to Royal but subject to the usual assumptions and qualifications) to the effect that the Agreement and Royal's Security have been executed by all parties thereto and delivered to Royal and that

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such items of Royal's Security which require registration or filing have been registered or filed in all places and offices in British Columbia and elsewhere (as may be determined by counsel for Royal) where such registration or filing is necessary;

- (b) delivery by the Guarantor to Royal of the following:
 - (1) the duly executed Guarantee and Subordination Agreement;
 - (2) a certificate of good standing for the Guarantor;
 - (3) a certified copy of the Charter for the Guarantor;
 - (4) a certified copy of a resolution or resolutions of the Guarantor's board of directors or a duly constituted and authorized committee of the Guarantor's board of directors authorizing the Guarantor to execute, deliver and perform its obligations under the Agreement and the instruments, agreements, certificates, papers and other documents contemplated herein, including the Guarantee and the Subordination Agreement and the manner in which and by whom the foregoing documents are to be executed and delivered;
 - (5) an incumbency certificate of the Guarantor setting forth the names of its directors and officers and specimen signatures of the individuals who sign the Agreement, the Guarantee, the Subordination Agreement and the other instruments, agreements, certificates, papers and other documents provided for or contemplated therein;
 - (6) a favourable opinion of counsel for the Guarantor (in form and content satisfactory to the solicitors for Royal) substantially to the effect that:
 - (A) the Guarantor is a corporation duly organized and existing under the laws of the State of Delaware, U.S.A., and is in good standing in that jurisdiction;

- (B) the Guarantor has all requisite corporate power and capacity to guarantee the obligations of the Borrower, to enter into, observe and perform its obligations under the Agreement, the Guarantee and the Subordination Agreement;
- (C) the Guarantor has taken all necessary corporate action to authorize the execution, delivery and performance of its obligations under the Agreement, the Guarantee and the Subordination Agreement;
- (D) each of the Agreement, the Guarantee and the Subordination Agreement has been duly authorized, executed and delivered by the Guarantor and constitutes legal, valid and binding obligations

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of the Guarantor, enforceable against the Guarantor in accordance with its respective terms, save as enforceability may be limited by:

- (i) applicable bankruptcy, insolvency, fraudulent transfer, moratorium or reorganization or other similar laws affecting creditors' rights generally, and
 - (ii) general principles of equity and the unavailability of the remedies of specific performance and injunction in any particular instance;
- (E) so far as they are aware in their capacity as counsel to the Guarantor, there is no action, suit, proceeding or investigation pending or threatened against the Guarantor which questions the validity of the Agreement, the Guarantee or the Subordination Agreement or the validity of any act to be taken pursuant thereto;
- (F) so far as they are aware in their capacity as counsel to the Guarantor, neither the execution and delivery of the Agreement, the Guarantee or the Subordination Agreement by the Guarantor nor the fulfilment or compliance with the terms thereof:
- (i) contravenes or results in a breach of any of the terms, conditions or provisions of the Charter of the Guarantor, or
 - (ii) contravenes or results in any breach of or constitutes a default under any material agreement to which the Guarantor is a party or by which it is bound;
- (c) the Borrower shall have paid all fees and expenses then due to Royal including the arrangement fee due under Section 3.29 and any reasonable legal fees invoiced prior to the Closing Date.
- (d) all documents and legal matters in connection with the transactions contemplated by the Guarantor Credit Agreement shall have been completed prior to the Closing Date.

5.2 Conditions Precedent to Subsequent Borrowings

It shall be a condition of each subsequent advance, renewal or conversion under the Credit Facility that:

- (a) the representations and warranties contained in Section 2 hereof shall be true on and as of the date of each advance, renewal or conversion;
- (b) Royal is satisfied that there has been no material adverse change in the financial condition or operation of the Borrower or the Guarantor; and

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- (c) no Default or Event of Default shall have occurred and be continuing on such date or after giving effect to such advance, renewal or conversion.

The Borrower will, upon request of Royal, deliver to Royal a certificate or certificates of an officer on behalf of the Borrower or the Guarantor to that effect.

6. COVENANTS OF THE BORROWER AND THE GUARANTOR

6.1 Borrower's Covenants

The Borrower covenants and agrees with Royal as follows:

Positive Covenants of the Borrower

- (a) that it will duly and punctually pay or cause to be paid all amounts required to be paid by it to Royal pursuant to the Agreement, including principal, interest, default interest, Documentary Credit Fees, Swap Termination Values, the Facility Fee, fees for Swap Contracts and any other fees and amounts, on the day, at the place, in the Currencies and in the manner set forth herein;
- (b) that it will duly observe and perform or cause to be observed and performed each and all of the covenants and agreements required by it to be observed and performed as set forth in the Agreement and Royal's Security;
- (c) that it will maintain Insurance Coverage at all times and will forthwith notify Royal upon the happening of any loss which could reasonably be expected to have a material adverse effect on the financial condition or operations of the Borrower and if Insurance Coverage is provided by third party insurers, it shall duly and punctually pay all premiums and other sums of money for maintaining such insurance;
- (d) that it will and it will cause each of its Subsidiaries to file all material tax returns including income tax returns, corporation capital tax returns and other tax filings in all required jurisdictions;
- (e) that it will and it will cause each of its Subsidiaries to pay all material taxes (except taxes in dispute which are being contested in good faith) including interest and penalties and will pay or make adequate reserves for the ultimate payment of any tax payment which is being contested;
- (f) that it will and it will cause each of its Subsidiaries to actively and diligently contest or cause to be contested in good faith, by appropriate and timely proceedings, or effect a timely and provident settlement of any action, suit, litigation or other proceeding the result of which could reasonably be expected to have a material adverse effect on the financial condition or operations of the Borrower;

- (g) that it will and it will cause each of its Subsidiaries to effect a timely and provident settlement of or bring an application to stay any writ of execution, attachment or similar process issued or levied against all, or a substantial portion of, its property or the property of any of its Subsidiaries in connection with any judgement against it or any of its Subsidiaries in an amount which materially adversely affects the financial condition or operations of the Borrower;
- (h) that it will and it will cause each of its Subsidiaries to observe and comply with the provisions of all applicable laws, regulations, bylaws, ordinances and orders of any Governmental Body dealing in relation to its business or the business of any of its Subsidiaries with pollution of the environment, toxic and hazardous materials and waste and other environmental hazards, unless the failure to so observe and comply would not, in the judgement of the Borrower, reasonably exercised, materially adversely affect the ability of the Borrower to meet its obligations under the Agreement;
- (i) that it will, as soon as practical after it becomes aware thereof, provide Royal with prompt notice of:
- (1) any spills of Contaminants which are required to be reported to any Governmental Body, and
 - (2) of any investigations, control orders, stop orders, injunctions, prosecutions or lawsuits under any federal, provincial, municipal or other laws relating to pollution of the environment, the handling of toxic or hazardous materials and waste or any other environmental or public health and safety laws,
- and which, in either such case, would, in the judgement of the Borrower, reasonably exercised, have a material adverse effect on the business or financial condition of the Borrower or any of its Subsidiaries and which would materially adversely affect the ability of the Borrower to meet its obligations under the Agreement;
- (j) that it will cause its Chief Financial Officer, such other senior officer as may be appropriate or its auditor, to meet with Royal to discuss and explain, as the case may be, any of its affairs, finances and accounts and to provide such other information pertaining to its business and operations together with such reports and documents as Royal may reasonably require;
- (k) that it will permit representatives and independent contractors of Royal to visit and inspect any of its or its Subsidiaries' properties, to examine their respective corporate, financial and operating records, and make copies thereof or abstracts therefrom, and to discuss their corporate affairs, finances and accounts with directors, officers, and independent chartered accountants, all at the expense of the Borrower and at such reasonable times during normal business hours and as often as may be reasonably desired, upon reasonable advance notice to the

Borrower except that, when an Event of Default exists, Royal may do any of the foregoing at the expense of the Borrower at any time during normal business hours and without advance notice;

- (l) that it will maintain and it will cause each of its Subsidiaries to maintain in full force and effect all material leases, licences, permits, consents and regulatory approvals necessary for the due carrying on of their respective businesses;
- (m) that it will maintain and it will cause each of its Subsidiaries to maintain their respective corporate existences as validly subsisting corporations;
- (n) that it will give to Royal prompt notice of any Event of Default or any event that with notice or lapse of time would be an Event of Default;
- (o) that it will use Borrowings solely for the purposes set forth in Section 3.1 and for no other purpose;

Negative Covenants of the Borrower

- (p) that, without the prior written consent of Royal, it will not, nor will it permit any Subsidiary to merge, amalgamate, enter into any corporate reorganization or otherwise modify its corporate structure in any way which would materially adversely affect its asset base or consolidated cash flow or impair the ability of the Borrower to observe and perform its obligations under the Agreement;
- (q) that, it will not and it will cause each of its Subsidiaries not to make any Disposition of any of its property or assets except for:
- (1) Dispositions of inventory or current assets in the ordinary course of business and on commercially reasonable terms it being acknowledged that sales and transfers of inventory and related property and assets to the Guarantor are in the ordinary course of business;
 - (2) Dispositions of individual items of property or assets in any fiscal year having an aggregate value of \$5,000,000 or less based on the greater of net book value or the value determined by the value of the sale or disposition, or
 - (3) Dispositions of assets as approved in writing by Royal;
- (r) that it will not allow the aggregate of the principal amount of Borrowings under the credit facility established pursuant to Section 3.1(a) to exceed at any time during the Cash Collateral Period the Collateral Value of the Borrowing Base set out in the then current Borrowing Base Certificate;
- (s) that, without the prior written consent, of Royal, it will not grant, create, assume, suffer or permit any Lien on the Restricted Cash Collateral except for Royal's Security;

Reporting Covenants of the Borrower

- (t) that it will and it will cause each of its Subsidiaries to at all times keep or cause to be kept proper books of account and that it will furnish to Royal within 90 days after the close of each fiscal year Sufficient Copies of its annual unaudited consolidated financial statements, signed by a Responsible Officer;

- (u) except for the year end fiscal quarter, it will deliver to Royal within 45 days of the close of each fiscal quarter Sufficient Copies of its quarterly unaudited consolidated financial statements signed by a Responsible Officer;
- (v) that it will deliver to Royal on or prior to the date reasonably stipulated by Royal Sufficient Copies of the Borrower's (or any of its Subsidiaries), financial and operating statements, budgets, business and capex plans together with such other information, reports and documents as Royal may reasonably request;
- (w) that it will provide prompt notice to Royal of any change to the financial position or business of the Borrower or any of its Subsidiaries which could have a material adverse effect on its financial position, business or ability to perform its obligations under the Agreement;
- (x) that it will deliver to Royal the Borrowing Base Certificate as required by Section 3.7 and Section 3.14;

6.2 Guarantor's Covenants

The Guarantor covenants with Royal as follows:

Positive Covenants of the Guarantor

- (a) that it will duly observe and perform or cause to be observed and performed each and all of the covenants and agreements required by it to be performed and observed as set forth in the Agreement and the Guarantee;
- (b) that it will at all times maintain such insurance as is usually maintained by others in the business of the same nature as the business of the Guarantor and each of its Subsidiaries, as the case may be, or maintain a program of self-insurance, with reserves, in accordance with sound business practices;
- (c) that it will, maintain its web site and post in a timely manner copies of all public documents filed with the U.S. Securities and Exchange Commission (with the exception of Forms S-8);
- (d) that it will give Royal at least 15 days' notice of its intention to transfer, mortgage, pledge, charge or otherwise encumber or grant a security interest in any shares of the Borrower in which it has a legal or beneficial interest;
- (e) that it will, furnish to Royal:

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- (1) as soon as available, but in any event within ninety (90) days after the end of each fiscal year of the Guarantor, a copy of the consolidated balance sheet of the Guarantor and its consolidated Subsidiaries as at the end of such fiscal year and the related consolidated statements of income, cash flows and stockholders' equity of the Guarantor and its consolidated Subsidiaries for such year which shall be audited by a firm of independent certified public accountants of nationally recognized standing reasonably acceptable to Royal, setting forth in each case in comparative form the figures for the previous year, reported on without a "going concern" or like qualification, assumption or exception, or qualification indicating that the scope of the audit was inadequate to permit such independent certified public accountants to certify such financial statements without such qualification;
- (2) as soon as available and in any event within forty-five (45) days after the end of each of the first three fiscal quarters of the Guarantor, a copy of the consolidated balance sheet of the Guarantor and its consolidated Subsidiaries as at the end of such period and related consolidated statements of income and cash flows for the Guarantor and its consolidated Subsidiaries for such quarterly period and for the portion of the fiscal year ending with such period, in each case setting forth in comparative form consolidated figures for the corresponding period or periods of the preceding fiscal year (subject to normal recurring year-end audit adjustments);
- (3) as soon as available, but in any event prior to the end of each fiscal year, a copy of the detailed annual operating budget or plan including cash flow projections of the Guarantor and its Subsidiaries for the next four fiscal quarter period prepared on a quarterly basis, in form and detail reasonably acceptable to Royal, together with a summary of the material assumptions made in the preparation of such annual budget or plan; provided, that such budget or plan shall not be required for a fiscal year if (i) as of the end of such fiscal year the Guarantor has an Investment Grade Debt Rating or (ii) the end of such fiscal year falls within the Cash Collateral Period;

all such financial statements to be complete and correct in all material respects (subject, in the case of interim statements, to normal recurring year-end adjustments) and to be prepared in reasonable detail and, in the case of the annual and quarterly financial statements provided in accordance with subsections (1) and (2) above, in accordance with GAAP applied consistently throughout the periods reflected therein and further accompanied by a description of, and an estimation of the effect on the financial statements on account of, a material change, if any, in the application of accounting principles as provided in Section 1.11;

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- (f) that it will furnish to Royal concurrently with the delivery of the financial statements referred to in Section 6.2(e)(1) above, a certificate of the independent certified public accountants reporting on such financial statements stating that in making the examination necessary therefor no knowledge was obtained of any Default or Event of Default, except as specified in such certificate;
- (g) that, concurrently with the delivery of the financial statements referred to in Sections 6.2(e)(1) and (2) above, it will furnish to Royal a certificate of a Responsible Officer stating that, to the best of such Responsible Officer's knowledge, each of the Credit Parties during such period observed or performed in all material respects all of its covenants and other agreements, and satisfied in all material respects every condition, contained in the Guarantor Credit Agreement to be observed, performed or satisfied by it, and that such Responsible Officer has obtained no knowledge of any Default or Event of Default (each as defined in the Guarantor Credit Agreement) except as specified in such certificate and such certificate shall include the calculations in reasonable detail required to indicate compliance with Sections 6.2(nn) and (oo) as of the last day of such period;
- (h) that, (i) within thirty (30) days after the same are sent, it will furnish to Royal notice of and copies of all reports (other than those otherwise provided pursuant to Section 6.2(e) and those which are of a promotional nature) and other financial information which the Guarantor sends to its stockholders, and within thirty (30) days after the same are filed, notice of and copies of all financial statements and non-confidential reports which the Guarantor may file with the Securities and Exchange Commission or any successor or analogous Governmental Body; provided, however, that to the extent that (A)

notification of such reports, information or statements is provided on the Guarantor's authorized website and (B) copies of such reports, information or statements are publicly available, the requirements of this subsection (h) shall be satisfied;

- (i) that, promptly upon receipt thereof, it will furnish to Royal a copy of any other report or "management letter" submitted by independent accountants to the Guarantor or any of its Subsidiaries in connection with any annual, interim or special audit of the books of such Person;
- (j) that, not less than ten (10) days prior to the consummation of any Permitted Acquisition for which consideration given by the Guarantor is \$100,000,000 or greater, it will furnish to Royal:
 - (1) a reasonably detailed description of the material terms of such Permitted Acquisition (including, without limitation, the purchase price and method and structure of payment) and of each Target;
 - (2) to the extent available, audited financial statements of the Target for its two (2) most recent fiscal years prepared by independent certified public

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accountants acceptable to Royal and unaudited fiscal year-to-date statements for the two (2) most recent interim periods; and

- (3) to the extent available, consolidated projected balance sheets, income statements, and cash flow statements of the Guarantor and its consolidated Subsidiaries (giving effect to such Permitted Acquisition and the consolidation with the Guarantor of each relevant Target) for the three (3)-year period following the consummation of such Permitted Acquisition, in reasonable detail, together with any appropriate statement of assumptions and pro forma adjustments reasonably acceptable to the Required Lenders;
- (k) that, promptly, but in no event later than three Business Days after a Responsible Officer of the Guarantor knows of any change in the Debt Rating, it will furnish to Royal notice of the new Debt Rating;
- (l) that it will furnish to Royal, promptly, such other documents and information about the business, operations, revenues, financial condition, property or business prospects of the Guarantor or any of its Subsidiaries as Royal, may from time to time reasonably request;
- (m) that it will furnish to Royal, promptly prior to the commencement of any No Collateral Period (as defined in the Guarantor Credit Agreement), notice of such No Collateral Period under the terms of the Guarantor Credit Agreement;
- (n) that it, will perform all of its obligations under each contract to which it is a party, if a failure to so perform may have a Material Adverse Effect, except to the extent such obligation is being contested in good faith or a bona fide dispute exists with respect thereto so long as such Credit Party has established adequate reserves on the books of such Credit Party to account therefor in accordance with GAAP;
- (o) that it, will pay and perform all of its obligations under the Guarantor Credit Documents and pay and perform (i) all taxes, assessments and other governmental charges that may be levied or assessed upon it or its property, which if not paid or performed would have a Material Adverse Effect and (ii) all other indebtedness, obligations and liabilities in accordance with customary trade practices, which if not paid would have a Material Adverse Effect; provided that it may contest any tax, assessment or other governmental charge in good faith so long as adequate reserves are maintained with respect thereto in accordance with GAAP;
- (p) that it, will continue to engage in business of the same general type as conducted by it on September 1, 2004 and preserve and maintain its corporate existence and all rights, franchises, licenses and privileges necessary to the conduct of its business, and qualify and remain qualified as a foreign corporation (or partnership, limited liability company or other such similar entity, as the case may be) and authorized to do business in each jurisdiction in which the failure to so

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qualify would have a Material Adverse Effect and shall maintain all licenses, permits and registrations necessary for the conduct of its operations, except to the extent that the failure to do so could not reasonably be expected to result in a Material Adverse Effect;

- (q) that it, will keep all material property useful and necessary in its business in good working order and condition (ordinary wear and tear and obsolescence excepted);
- (r) that it, will maintain with financially sound and reputable insurance companies insurance on all its material property in at least such amounts and against at least such risks as are usually insured against in the same general area by companies engaged in the same or a similar business; and furnish to Royal, upon reasonable written request, full information as to the insurance carried; provided, however, that the Guarantor and its Subsidiaries may maintain self insurance plans to the extent companies of similar size and in similar businesses do so;
- (s) that it, will keep proper books and records of accounts in which full, true and correct entries in conformity with GAAP and all Requirements of Law shall be made of all dealings and transactions in relation to its businesses and activities; and, provided that Royal uses reasonable efforts to minimize disruption to the business of the Guarantor and its Subsidiaries, permit representatives of Royal, from time to time, to visit and inspect its Properties and to inspect, audit and make extracts from its books, records and files, including without limitation management letters prepared by independent accountants and to discuss with its principal officers, and its independent accountants, its business, assets, liabilities, financial condition, results of operations and business prospects;
- (t) that it, will give notice in writing to Royal of:
 - (1) promptly, but in any event within five (5) Business Days after a Responsible Officer of the Guarantor knows thereof, the occurrence of any Default or Event of Default;
 - (2) promptly and in any event within five (5) Business Days after a Responsible Officer of the Guarantor knows thereof, the commencement of any (i) Material Proceeding, (ii) loss of or damage to any assets of the Guarantor or any Subsidiary that likely will result in a Material Adverse Effect and (iii) litigation, investigation or proceeding involving an environmental claim or potential liability under Environmental Laws that if adversely determined could reasonably be expected to have a Material Adverse Effect;

- (3) promptly and in any event within five (5) Business Days after a Responsible Officer of the Guarantor knows thereof, default by Guarantor or any Subsidiary under any note, indenture, loan agreement, mortgage or other similar agreement to which the Guarantor or any Subsidiary is a party or by which the Guarantor or any Subsidiary is bound, which relates to borrowed money, or of any other default under any other note, indenture, loan agreement, mortgage

or other similar agreement to which the Guarantor or any Subsidiary is a party or by which the Guarantor or any Subsidiary is bound if, in each case in this subsection, such default could reasonably be expected to have a Material Adverse Effect;

- (4) promptly and in any event within thirty (30) days after a Responsible Officer of the Guarantor knows thereof: (i) the occurrence or expected occurrence of any Reportable Event with respect to any Plan, a failure to make any required contribution to a Plan, the creation of any Lien in favor of the PBGC (other than a Permitted Lien) or a Plan or any withdrawal from, or the termination, Reorganization or Insolvency of, any Multiemployer Plan or (ii) the institution of proceedings or the taking of any other action by the PBGC or the Guarantor or any Commonly Controlled Entity or any Multiemployer Plan with respect to the withdrawal from, or the terminating, Reorganization or Insolvency of, any Plan; and
- (5) promptly and in any event within five (5) Business Days after a Responsible Officer of the Guarantor knows thereof, any other development or event which could reasonably be expected to have a Material Adverse Effect,

each notice pursuant to this Section shall be accompanied by a statement of a Responsible Officer setting forth details of the occurrence referred to therein and stating what action the Guarantor proposes to take with respect thereto. In the case of any notice of a Default or Event of Default, the Guarantor shall specify that such notice is a Default or Event of Default notice on the face thereof;

- (u) that it, will defend, indemnify and hold harmless Royal, and its respective employees, agents, officers and directors, from and against any and all claims, demands, penalties, fines, liabilities, settlements, damages, costs and expenses of whatever kind or nature known or unknown, contingent or otherwise, arising out of, or in any way relating to the violation of, noncompliance with or liability under, any Environmental Law applicable to the operations of the Guarantor, any of its Subsidiaries or the Properties (as defined in the Guarantor Credit Agreement), or any orders, requirements or demands of Governmental Bodies related thereto, including, without limitation, reasonable solicitor's/attorney's and consultant's fees, investigation and laboratory fees, response costs, court costs and litigation expenses, except to the extent that any of the foregoing arise out of the gross negligence or willful misconduct of the party seeking indemnification therefor. The agreements in this paragraph shall survive repayment of the Credit Party Obligations and termination of the Commitments (as defined in the Guarantor Credit Agreement) under the Guarantor Agreement and the Guarantor Credit Documents;

- (v) that, to the extent failure to do so would have a Material Adverse Effect, it will, and will cause each of its Subsidiaries to (a) observe and remain in compliance with all applicable Requirements of Law, including all applicable Environmental Laws, except to the extent such Requirement of Law is being contested in good faith or a bona fide dispute exists with respect thereto so long as the Guarantor has established adequate reserves on the books of the Guarantor to account therefor in accordance with GAAP, and (b) maintain in full force and effect all permits, authorizations, registrations and consents from any Governmental Body, in each case applicable to the conduct of its business.
- (w) where Domestic Subsidiaries of the Guarantor (excluding Securitization Vehicles) that are not Credit Parties under the Guarantor Credit Agreement (the "Non-Guarantor Subsidiaries") shall at any time constitute more than either
- (1) fifteen percent (15%), in the aggregate, of Consolidated Total Assets, or
- (2) fifteen percent (15%), in the aggregate, of Consolidated Net Income,

(collectively, the "Threshold Requirement"), the Guarantor shall so notify Royal and shall cause one or more Domestic Subsidiaries to become a "Guarantor" under the Guarantor Credit Agreement by (a) executing a Joinder Agreement and (b) delivering such other documentation as Royal may reasonably request in connection with the foregoing, including, without limitation, certified resolutions and other organizational and authorizing documents of such Person and favorable opinions of counsel to such Person (which shall cover, among other things, the legality, validity, binding effect and enforceability of the documentation referred to above), all in form, content and scope reasonably satisfactory to Royal such that immediately after the joinder of such Domestic Subsidiaries as Guarantors under the Guarantor Credit Agreement, the remaining Non-Guarantor Subsidiaries shall not, either individually or as a group, exceed the Threshold Requirement.

Negative Covenants of the Guarantor

- (x) that it will not, without the consent in writing of Royal, merge or consolidate with any other Person or liquidate or dissolve except for mergers or consolidations with any other Person if the Guarantor (or the resulting corporation in a consolidation) will be the surviving corporation and the Guarantor (or such resulting corporation) will not be in default under any of the terms of the Guarantor Credit Agreement immediately after the merger or consolidation;
- (y) during any No Collateral Period, the Guarantor will not, nor will it permit any Subsidiary to, contract, create, incur, assume or permit to exist any Indebtedness, except:
- (1) Indebtedness arising or existing under the Guarantor Credit Agreement and the Guarantor Credit Documents or the Guarantee;

- (2) Indebtedness of the Guarantor and its Subsidiaries existing as of September 1, 2004, as referenced in the financial statements referenced in Section 6.2(e) (and set out more specifically in Schedule 6.1(b) to the Guarantor Credit Agreement) hereto and renewals, extensions and

refinancings thereof incurred at any time during the term of the Guarantor Credit Agreement, in a principal amount not in excess of that outstanding as of the date of such renewal, refinancing or extension;

- (3) (i) Indebtedness of the Guarantor and its Subsidiaries incurred after the September 1, 2004 consisting of Capital Leases or Indebtedness incurred to provide all or a portion of the purchase price or cost of construction of an asset and (ii) Off-Balance Sheet Liabilities and/or indebtedness, liabilities and obligations incurred in connection with a trade receivables securitization transaction involving the Guarantor or any of its Subsidiaries and a Securitization Vehicle (regardless of whether such indebtedness, liabilities and obligations constitute Off-Balance Sheet Liabilities); provided, that in each case (A) such Indebtedness when incurred shall not exceed the purchase price or cost of construction of such asset and (B) no such Indebtedness shall be refinanced for a principal amount in excess of the principal balance outstanding thereon at the time of such refinancing;
- (4) Unsecured intercompany Indebtedness among the Credit Parties and their respective Subsidiaries, provided that any such Indebtedness shall be fully subordinated to the Credit Party Obligations under the Guarantor Credit Agreement on terms reasonably satisfactory to the Administrative Agent;
- (5) Indebtedness and obligations owing under Swap Contracts entered into in order to manage existing or anticipated interest rate, exchange rate or commodity risks and not for speculative purposes;
- (6) Indebtedness and obligations of the Credit Parties owing under trade letters of credit for the purchase of goods or other merchandise (but not under standby, direct pay or other letters of credit except for the Letters of Credit under the Guarantor Credit Agreement) generally;
- (7) Guaranty Obligations in respect of Indebtedness of a Credit Party to the extent such Indebtedness is permitted to exist or be incurred pursuant to this Section 6.2(y);
- (8) Indebtedness that is non-recourse to any of the Guarantor or its Subsidiaries or any of their respective assets;
- (9) Indebtedness incurred under take-or-pay arrangements entered into in the ordinary course of business; and

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- (10) other Indebtedness of the Guarantor and its Subsidiaries in an aggregate amount not to exceed the following (measured at the time of incurrence): (i) if the Guarantor has an Investment Grade Debt Rating, 30% of Consolidated Net Worth at any time outstanding and (ii) if the Guarantor does not have an Investment Grade Debt Rating, 15% of Consolidated Net Worth at any time outstanding;
- (z) that it will not, nor will it permit any Subsidiary to, contract, create, incur, assume or permit to exist any Lien with respect to any of the Restricted Cash Collateral except for the Liens in favor of the Collateral Agent (as defined in the Guarantor Credit Agreement) to secure the Credit Party Obligations. During any No Collateral Period, the Guarantor will not, nor will it permit any Subsidiary to, contract, create, incur, assume or permit to exist any Lien with respect to any of its property or assets of any kind (whether real or personal, tangible or intangible), whether now owned or hereafter acquired, except for Permitted Liens;
 - (aa) that it will not, nor will it permit any Subsidiary to, alter the character of its business in any material respect from that conducted as of September 1, 2004;
 - (bb) that it will not, nor will it permit any Subsidiary to,
 - (1) dissolve, liquidate or wind up its affairs, sell, transfer, lease or otherwise dispose of its property or assets or agree to do so at a future time except the following, without duplication, shall be expressly permitted:
 - (A) Specified Sales;
 - (B) the sale, transfer, lease or other disposition of property or assets (A) to an unrelated party not in the ordinary course of business (other than Specified Sales), where and to the extent that they are the result of a Recovery Event or (B) the sale, lease, transfer or other disposition of real property, machinery, parts and equipment no longer used or useful in the conduct of the business of the Guarantor or any of its Subsidiaries, as appropriate, in its reasonable discretion;
 - (C) the sale, lease or transfer of property or assets from a Credit Party to another Credit Party;
 - (D) the sale of trade receivables sold or otherwise conveyed to or by a Securitization Vehicle; and
 - (E) the sale, lease or transfer of property or assets not to exceed 10% of Consolidated Total Assets in the aggregate in any fiscal year; or
 - (2) (i) purchase, lease or otherwise acquire (in a single transaction or a series of related transactions) the property or assets of any Person (other

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than purchases or other acquisitions of inventory, leases, materials, property and equipment in the ordinary course of business, except as otherwise limited or prohibited herein) or (ii) enter into any transaction of merger or consolidation, except for (A) Investments or acquisitions (including Permitted Acquisitions) permitted pursuant to Section 6.2(cc), (B) the merger or consolidation of a Credit Party with and into another Credit Party, provided that if the Guarantor is a party thereto, the Guarantor will be the surviving corporation and (C) the merger or consolidation of a Subsidiary with and into another Subsidiary or the Guarantor; provided that if a Credit Party is a party thereto, the Credit Party will be the surviving corporation;

- (cc) that it will not, nor will it permit any Subsidiary to, make any Investment except for Permitted Investments;
- (dd) that it will not, nor will it permit any Subsidiary to, enter into any transaction or series of transactions, whether or not in the ordinary course of business, with any officer, director, shareholder or Affiliate of such Person other than on terms and conditions substantially as favourable as would be obtainable in

a comparable arm's-length transaction with a Person other than an officer, director, shareholder or Affiliate; provided, that this Section 6.2(dd) shall not apply to compensation and employee stock plans of the Credit Parties;

- (ee) that it will not, nor will it permit any Subsidiary to, create, form or acquire any Subsidiaries, except for Securitization Vehicles and other Domestic Subsidiaries which are joined as Additional Credit Parties (as defined in the Guarantor Credit Agreement) to the extent required by Section 6.2(w) hereof. The Guarantor will not sell, transfer, pledge or otherwise dispose of any Capital Stock or other equity interests in any of its Subsidiaries (other than Securitization Vehicles), nor will it permit any of its Subsidiaries (other than Securitization Vehicles) to issue, sell, transfer, pledge or otherwise dispose of any of their Capital Stock or other equity interests, except in a transaction permitted by Section 6.2(bb);
- (ff) that it will not, nor will it permit any of its Subsidiaries to (a) change its fiscal year, (b) amend, modify or change its articles of incorporation (or corporate charter or other similar organizational or formation document) or bylaws (or other similar document) in any material respect or in any respect adverse to the interests of the Lenders without the prior written consent of the Required Lenders or (c) during any No Collateral Period, amend, modify, cancel, terminate or fail to renew or extend or permit the amendment, modification, cancellation or termination of any Material Contract without the prior written consent of the Required Lenders, except in the event that such amendments, modifications, cancellations or terminations could not reasonably be expected to have a Material Adverse Effect;
- (gg) that it will not, nor will it permit any Subsidiary to, directly or indirectly, create or otherwise cause or suffer to exist or become effective any encumbrance or restriction on the ability of any such Person to (a) pay dividends or make any

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other distributions to any Credit Party on its Capital Stock or with respect to any other interest or participation in, or measured by, its profits, (b) pay any Indebtedness or other obligation owed to any Credit Party, (c) make loans or advances to any Credit Party, (d) sell, lease or transfer any of its Properties (as defined in the Guarantor Credit Agreement) or assets to any Credit Party, or (e) act as a Guarantor and pledge its assets pursuant to the Guarantor Credit Documents or any renewals, refinancings, exchanges, refundings or extension thereof, except (in respect of any of the matters referred to in clauses (a)-(d) above) for such encumbrances or restrictions existing under or by reason of (i) the Guarantor Credit Agreement and the other Guarantor Credit Documents, (ii) applicable law, (iii) any document or instrument governing Indebtedness incurred pursuant to Section 6.2(y)(3), provided that any such restriction contained therein relates only to the asset or assets constructed or acquired in connection therewith or (iv) any Permitted Lien or any document or instrument governing any Permitted Lien, provided that any such restriction contained therein relates only to the asset or assets subject to such Permitted Lien;

- (hh) during any No Collateral Period, the Guarantor will not, nor will it permit any Subsidiary to, directly or indirectly, declare, order, make or set apart any sum for or pay any Restricted Payment; provided, that to the extent that (a) no Default or Event of Default shall have occurred and be continuing or would result therefrom and (b) the Guarantor shall be in compliance with the financial covenants set forth in Section 6.2(nn) and (oo) on a pro forma basis after giving effect thereto, the Guarantor shall be permitted: (i) to make dividends payable solely in the common stock or equivalent equity interests of such Person, (ii) to make dividends or other distributions payable to the Guarantor or any wholly owned Subsidiary of the Guarantor that is a Guarantor (directly or indirectly through Subsidiaries), and (iii) to make other Restricted Payments as may be approved by the Guarantor's board of directors;
- (ii) that it will not, nor will it permit any Subsidiary to, enter into, assume or become subject to any agreement prohibiting or otherwise restricting the creation or assumption of any Lien upon its Properties (as defined in the Guarantor Credit Agreement) or assets, whether now owned or hereafter acquired, or requiring the grant of any security for such obligation if security is given for some other obligation, except (a) pursuant to the Guarantor Credit Agreement and the other Guarantor Credit Documents, (b) pursuant to any document or instrument governing Indebtedness incurred pursuant to Section 6.2(y)(3), provided that any such restriction contained therein relates only to the asset or assets constructed or acquired in connection therewith and (c) in connection with any Permitted Lien or any document or instrument governing any Permitted Lien, provided that any such restriction contained therein relates only to the asset or assets subject to such Permitted Lien;

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Reporting Covenants of the Guarantor

- (jj) that it will at all times maintain its corporate existence and will carry on and conduct its business in a proper and efficient manner and it will and will cause each of its Subsidiaries to at all times keep or cause to be kept proper books of account and that it will furnish to Royal at the Branch of Account within 90 days after the close of each fiscal year Sufficient Copies of its annual consolidated audited financial statements, all in reasonable detail and prepared in accordance with GAAP, reported on by its auditor and accompanied by their signed report which shall contain no material qualifications as to the scope of their examination except as to the furnishing of information to them, and, except for the year end fiscal quarter, within 45 days of the close of each fiscal quarter Sufficient Copies of its quarterly consolidated unaudited financial statements prepared in accordance with GAAP subject only to normal year-end audited adjustments and the absence of footnotes including a consolidated summary balance sheet, a consolidated summary statement of income and a consolidated statement of cash flows, signed by a Responsible Officer;
- (kk) that it will, contemporaneously with delivery to the Administrative Agent pursuant to the Guarantor Credit Agreement, deliver Sufficient Copies of the Compliance Certificate to Royal;
- (ll) that, except for the year-end fiscal quarter, within 45 days of the close of each fiscal quarter and within 90 days of the close of each fiscal year, it will deliver to Royal a certificate signed by a Responsible Officer in substantially the form attached as Schedule A;
- (mm) [Intentionally Deleted];

Financial Covenants of the Guarantor

- (nn) that at all times during the Cash Collateral Period, Consolidated Net Worth shall not at any time be less than the sum of (A) \$1,150,000,000 plus (B) on a cumulative basis as of the end of each fiscal year of the Guarantor, commencing with the fiscal year ending December 31, 2005, an amount equal to 25% of Consolidated Net Income for the fiscal year then ended, after giving effect to the payment of dividends for such period; provided, that Consolidated Net Worth shall not at any time be less than \$1,150,000,000;
- (oo) that at all times during the No Collateral Period, the Guarantor shall comply with the following additional financial covenants:

- (1) the Consolidated Leverage Ratio, as of the last day of each fiscal quarter of the Guarantor, shall be less than or equal to 3.00 to 1.00.
- (2) the Consolidated Interest Coverage Ratio, as of the last day of each fiscal quarter of the Guarantor, shall be greater than or equal to 4.00 to 1.00.

6.3 Environmental Law

Nothing in the Agreement shall abridge or affect the rights of Royal in respect of the Borrower pursuant to any Environmental Law.

7. EVENTS OF DEFAULT

7.1 Definition of Event of Default

The occurrence of any one or more of the following events constitutes an Event of Default hereunder:

- (a) if the Borrower makes default in any payment of principal, interest, acceptance fees, Documentary Credit Fees, default interest, the Facility Fee, Swap Termination Values, fees for Swap Contracts, any other fees or other like amounts when the same becomes due under the Agreement or with respect to an Obligation and such default shall have continued for a period of five Business Days after notice has been given by Royal to the Borrower;
- (b) if the Borrower or Guarantor makes, suffers or permits a material default in observing or performing any other covenant or condition of the Agreement, or, in the case of the Borrower, any Swap Contract or any other material agreement with Royal and such default shall have continued for a period of five Business Days after notice in writing has been given by Royal to the Borrower specifying such default;
- (c) if the Borrower makes default in any payment of an Additional Amount or like payment when the same becomes due under the Agreement and such default shall have continued for a period of ten Business Days after notice has been given by Royal to the Borrower;
- (d) if an "Event of Default" (as defined therein) resulting from the failure to make any payment of principal, interest or premium when due and payable under the Indentures (after giving effect to any cure or grace period provided therein) or to repurchase or redeem any note issued under the Indentures when required thereby occurs and is continuing or any other "Event of Default" occurs and is continuing under the Indentures and results in the "Indebtedness" (as defined in the Indentures) under the Indentures being accelerated;
- (e) if there is a default by the Borrower (other than a default under the Agreement) which results in the acceleration of payment by the Borrower or any of its Material Canadian Subsidiaries of obligations for borrowed money in excess of \$5,000,000;
- (f) if any representation, warranty or statement made by the Borrower, the Borrower Subsidiaries in the Borrower Subsidiaries' Guarantees or the Guarantor herein or in the Guarantee or in any certificate pursuant to the Agreement or the Guarantee shall, in Royal's opinion, prove to have been materially incorrect on

the date as of which it was made in any respect materially adverse to Royal and Royal shall have so notified the Borrower;

- (g) if:
 - (1) an order be made or an effective resolution be passed for the winding-up of the Borrower or, without the prior written consent of Royal, any of its Material Canadian Subsidiaries or if the Borrower or any of its Subsidiaries on its own behalf shall make an assignment for the benefit of its creditors or if the Borrower or any of its Subsidiaries shall be declared bankrupt or make an authorized assignment or if a custodian or receiver be appointed under the *Bankruptcy and Insolvency Act* or if a compromise or arrangement (including a compromise, arrangement, reorganization or other like restructuring commenced by the Borrower which adversely affects its creditors under any Federal or Provincial statute including the *Companies' Creditors Arrangement Act* or the *British Columbia Business Corporations Act*) is proposed by the Borrower or any of its Subsidiaries to creditors generally or any significant class of creditors, or if a receiver, receiver-manager or other officer with like powers shall be appointed, or if an encumbrancer shall take possession of the property of the Borrower or any of its Subsidiaries or any part thereof, which is, in the reasonable opinion of Royal, material to the business of the Borrower and its ability to perform its obligations under the Agreement or if a distress or execution or any similar process be levied or enforced against a substantial or essential part of such property and remain unsatisfied for a period of thirty days, unless such distress, execution or similar process is in good faith disputed by the Borrower or any such Subsidiary and, if so required by Royal, the Borrower or any such Subsidiary provides adequate security to pay in full the amount claimed; or
 - (2) the Guarantor institutes or consents to the institution of any proceeding under any Debtor Relief Law, or makes an assignment for the benefit of creditors; or applies for or consents to the appointment of any receiver, trustee, custodian, conservator, liquidator, rehabilitator or similar officer for it or for all or any material part of its property; or any receiver, trustee, custodian, conservator, liquidator, rehabilitator or similar officer is appointed without the application or consent of such Person and the appointment continues undischarged or unstayed for 60 calendar days; or any proceeding under any Debtor Relief Law relating to any such Person or to all or any material part of its property is instituted without the consent of such Person and continues undismissed or unstayed for 60 calendar days, or an order for relief is entered in any such proceeding;
- (h) if the Agreement or any of Royal's Security shall at any time cease to be in full force and effect (other than by expiration or termination in accordance with its terms for reasons other than the default of the Borrower) or if a Court of

with its terms, to constitute valid and subsisting security upon any material part of the property and assets of the Borrower or its Subsidiaries as described therein;

- (i) if a writ of execution, attachment or similar process has been issued or levied against all, or a substantial portion of, the property of the Borrower or any of its Subsidiaries in connection with any judgement against the Borrower or any of its Subsidiaries in any amount in excess of \$1,000,000 which materially affects the property of the Borrower or any of its Subsidiaries, and no application has been brought to stay such writ of execution, attachment or similar process which application has, in the reasonable opinion of Royal, a reasonable chance of success;
- (j) if it shall become illegal or unlawful for the Borrower or any of its Subsidiaries or the Guarantor to carry on its business or to perform its obligations under the Agreement;
- (k) if the Borrower or any of its Subsidiaries suspends or ceases or threatens to suspend or cease business, unless otherwise permitted under Section 6.1(q) hereof;
- (l) if the Borrower or any of its Subsidiaries makes or threatens to make a Disposition of all or a substantial part of its undertaking, property and assets, whether in one transaction or in a series of related transactions, unless otherwise permitted under Section 6.1(q) hereof;
- (m) an ERISA Event occurs with respect to a Pension Plan or Multiemployer Plan which has resulted or could reasonably be expected to result in liability of the Guarantor under Title IV of ERISA to the Pension Plan, Multiemployer Plan or the PBGC in an aggregate amount in excess of the Threshold Amount, or (ii) the Guarantor or any ERISA Affiliate fails to pay when due, after the expiration of any applicable grace period, any instalment payment with respect to its withdrawal liability under Section 4201 of ERISA under a Multiemployer Plan in an aggregate amount in excess of the Threshold Amount;
- (n) if there is a default by the Guarantor under the Guarantor Credit Agreement (after giving effect to any cure or grace period provided therein);
- (o) (i) the Guarantor shall fail to pay any principal on any Loan when due in accordance with the terms of the Guarantor Credit Agreement; or (ii) the Guarantor shall fail to reimburse the applicable Issuing Lender (as defined in the Guarantor Credit Agreement) for any LOC Obligations (as defined in the Guarantor Credit Agreement) when due in accordance with the terms of the Guarantor Credit Agreement; or (iii) the Guarantor shall fail to pay any interest on

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any Loan or any fee or other amount payable under the Guarantor Credit Agreement when due in accordance with the terms of the Guarantor Credit Agreement and such failure shall continue unremedied for five (5) days; or (iv) or any Guarantor shall fail to pay on the Guaranty (as defined in the Guarantor Credit Agreement) in respect of any of the foregoing or in respect of any other Guaranty Obligations under the Guarantor Credit Agreement (after giving effect to the grace period in clause (iii));

- (p) any representation or warranty made or deemed made in the Guarantor Credit Agreement or in any of the other Guarantor Credit Documents or which is contained in any certificate, document or financial or other statement furnished at any time under or in connection with the Guarantor Credit Agreement shall prove to have been incorrect, false or misleading in any material respect on or as of the date made or deemed made;
- (q) (i) the Guarantor shall fail to perform, comply with or observe any term, covenant or agreement applicable to it contained in Section 6.2 hereof; or (ii) any Credit Party shall fail to comply with any other covenant, contained in the Guarantor Credit Agreement or the other Guarantor Credit Documents or any other agreement, document or instrument among any Credit Party, the Administrative Agent and the Lenders or executed by any Credit Party in favour of the Administrative Agent, the Collateral Agent or the Lenders (other than as described in Sections 7.1(o) or 7.1(q)(i) above), and in the event such breach or failure to comply in (i) and (ii) is capable of cure, is not cured within thirty (30) days of its occurrence;
- (r) the Guarantor or any of its Subsidiaries shall (i) default in any payment of principal of or interest on any Indebtedness (other than the Credit Party Obligations) in a principal amount outstanding of at least U.S. \$20,000,000 in the aggregate for the Guarantor and any of its Subsidiaries beyond the period of grace, if any, provided in the instrument or agreement under which such Indebtedness was created; (ii) default in the observance or performance of any other agreement or condition relating to any Indebtedness in a principal amount outstanding of at least U.S. \$20,000,000 in the aggregate for the Guarantor and its Subsidiaries or contained in any instrument or agreement evidencing, securing or relating thereto after giving effect to any cure or grace period provided therein, or any other event shall occur or condition exist, the effect of which default or other event or condition is to cause, or to permit the holder or holders of such Indebtedness or beneficiary or beneficiaries of such Indebtedness (or a trustee or agent on behalf of such holder or holders or beneficiary or beneficiaries) to cause, with the giving of notice if required, such Indebtedness to become due prior to its stated maturity; or (iii) breach or default under any Swap Contract between any Credit Party and any Swap Contract Provider after giving effect to any cure or grace period provided therein;
- (s) one or more judgments or decrees (other than judgments adequately reserved for or which are covered by insurance for which the insurer has acknowledged

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coverage) shall be entered against the Guarantor or any of its Subsidiaries involving in the aggregate a liability (to the extent not paid when due or covered by insurance) of U.S. \$20,000,000 or more and all such judgments or decrees shall not have been paid and satisfied, vacated, discharged, stayed or bonded pending appeal within thirty (30) days from the entry thereof or any injunction, temporary restraining order or similar decree shall be issued against a Credit Party or any of its Subsidiaries that could reasonably be expected to result in a Material Adverse Effect;

- (t) (i) any Person shall engage in any "prohibited transaction" (as defined in Section 406 of ERISA or Section 4975 of the Code) involving any Plan, (ii) any "accumulated funding deficiency" (as defined in Section 302 of ERISA), whether or not waived, shall exist with respect to any Plan or any Lien in favor of the PBGC or a Plan (other than a Permitted Lien) shall arise on the assets of the Guarantor or any Commonly Controlled Entity, (iii) a Reportable Event shall occur with respect to, or proceedings shall commence to have a trustee appointed, or a trustee shall be appointed, to administer or to terminate, any Single Employer Plan, which Reportable Event or commencement of proceedings or appointment of a trustee is, in the reasonable opinion of the Required Lenders, likely to result in the termination of such Plan for purposes of Title IV of ERISA, (iv) any Single Employer Plan shall terminate for purposes of Title IV of ERISA, (v) the Borrower, any of its Subsidiaries or any Commonly Controlled Entity shall, or in the reasonable opinion of the Required Lenders is likely to, incur any liability in connection with a withdrawal from, or the Insolvency or Reorganization of, any Multiemployer Plan

or (vi) any other similar event or condition shall occur or exist with respect to a Plan; and in each case in clauses (i) through (vi) above, such event or condition, together with all other such events or conditions, if any, could have a Material Adverse Effect;

- (u) there shall occur a Change of Control;
- (v) at any time after the execution and delivery thereof, the Guaranty (as defined in the Guarantor Credit Agreement) for any reason, other than the satisfaction in full of all Credit Party Obligations, shall cease to be in full force and effect (other than in accordance with its terms) or shall be declared to be null and void, or any Credit Party shall contest the validity or enforceability of the Guaranty (as defined in the Guarantor Credit Agreement) or any Guarantor Credit Document in writing or deny in writing that it has any further liability, including with respect to future advances by the Lenders, under any Guarantor Credit Document to which it is a party; or
- (w) any other Guarantor Credit Document shall fail to be in full force and effect or to give the Administrative Agent, the Collateral Agent and/or the Lenders the rights, powers and privileges purported to be created thereby (except as such documents may be terminated or no longer in force and effect in accordance with the terms thereof, other than those indemnities and provisions which by their terms shall survive).

7.2 Remedies

If an Event of Default occurs and is continuing, provided the Event of Default has not been waived by Royal or the Borrower has not theretofore remedied all outstanding Events of Default within the prescribed time period or such longer period of time as Royal may permit, Royal may, by notice to the Borrower:

- (a) terminate its obligations hereunder to make the Credit Facility available to the Borrower, issue Documentary Credits, enter into Swap Contracts or provide EFT Transfers or PDS Services;
- (b) declare Borrowings under the Credit Facility, interest, Facility Fee, Documentary Credit, Fees, costs including Swap Termination Values and any other moneys owing to Royal by the Borrower under the Agreement, including amounts owing or liabilities in respect of Documentary Credits, EFT Transfers and PDS Services which have not yet matured, to be immediately due and payable on the date which is fifteen Business Days after Royal delivers such notice to the Borrower, or that earlier date on or after delivery of such notice when Royal determines in its reasonable discretion that the business or operations of the Borrower may be materially prejudiced, endangered or adversely affected ("Acceleration Date") and such moneys and liabilities shall forthwith become due and payable on the Acceleration Date without presentment, demand, protest or other notice of any kind to the Borrower, all of which are hereby expressly waived;
- (c) enforce all rights and remedies granted under Royal's Security provided that any enforcement shall not be commenced until after the Acceleration Date;
- (d) convert U.S. Advances to Canadian Funds;
- (e) terminate any Swap Contract in accordance with its terms;
- (f) terminate any agreement relating to EFT Transfer or PDS Services in accordance with its terms.

The Borrower expressly acknowledges and agrees that the date which is fifteen Business Days after Royal delivers such notice to the Borrower affords and will afford a reasonable period of time to make payment of the outstanding balance advanced under the Credit Facility, interest, the Facility Fee, Documentary Credits, Swap Termination Values, outstandings in respect of EFT Transfers and PDS Services, fees, costs and other moneys owing by the Borrower under the Agreement. Royal acknowledges and agrees that interest, if any, earned or received by it as a result of the redeployment or other application of moneys paid by the Borrower pursuant to a demand made under Section 7.2(b) in respect of Documentary Credits which have not yet matured shall be credited or otherwise applied for the benefit of the Borrower.

If there are Documentary Credits outstanding on the Acceleration Date, amounts held in Restricted Cash Collateral Accounts may be applied by Royal to Royal's payment obligations, if any, pursuant to Documentary Credits, and any balances in such accounts shall be retained by

Royal as security for Royal's obligations under Documentary Credits which have not yet matured.

7.3 Remedies Cumulative

No remedy conferred on Royal under the Agreement is intended to be exclusive. Each and every remedy shall be cumulative and shall be in addition to every other remedy given hereunder or now or hereafter existing at law or equity or by statute or otherwise. The exercise or commencement of exercise by Royal of any one or more of such remedies shall not preclude the simultaneous or later exercise by Royal of any or all other such remedies.

7.4 Waivers

Royal may, by written instrument at any time and from time to time waive any breach by either the Borrower or the Guarantor of any of the covenants or Events of Default herein. No course of dealing between either the Borrower or the Guarantor and Royal nor any delay in exercising any rights hereunder shall operate as a waiver of any rights of Royal.

7.5 Application of Payments Following Acceleration

After the Acceleration Date, Royal may apply any moneys received by it towards repayment of Borrowings under the Credit Facility as it deems appropriate. Royal agrees to use reasonable efforts to apply moneys received by it to first repay Borrowings under the Borrowing Options which do not have redeployment costs associated with payment prior to the maturity dates of such Borrowings.

7.6 Royal May Perform Covenants

If the Borrower shall fail to perform any of its obligations under any covenant contained in the Agreement Royal may, after an Event of Default, upon five Business Days' prior notice to the Borrower, perform any such covenant capable of being performed by it and, if any such covenant requires the payment or expenditure of money, it may

make such payment or expenditure with its own funds. All amounts so paid by Royal hereunder shall be repaid by the Borrower and shall bear interest at the Prime Rate from and including the date paid by Royal hereunder to but excluding the date such amounts are repaid in full by the Borrower.

7.7 Waiver of Certain Defaults under Prior Credit Agreement

Royal hereby waives any default or Event of Default occurring prior to the Closing Date which would not constitute a default or Event of Default under the Credit Agreement as amended and restated herein had it been in effect at the time of the occurrence of such default or Event of Default. In addition, Royal hereby waives any default or Event of Default arising under Section 7.1(f) of the Agreement to the extent that the representation, warranty or statement which is the subject of such default or Event of Default is made with respect to a covenant, term, agreement or provision of the Prior Credit Agreement or the Credit Agreement and which was applicable under the Prior Credit Agreement or the Credit Agreement but which is not applicable under the Agreement. Except as set forth in the immediately preceding sentence, nothing contained

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herein shall be deemed a waiver of (or otherwise affect Royal's ability to enforce) any default or Event of Default under the Agreement, whether arising before or after the Closing Date.

8. GENERAL

8.1 Waiver

No failure or delay on the part of Royal in exercising any right, power or privilege hereunder shall impair such right, power or privilege or operate as a waiver thereof nor shall any single or partial exercise of such right, power or privilege preclude any further exercise thereof or the exercise of any other right, power or privilege hereunder.

8.2 Effect of Amendment, Modification or Waiver

No amendment, modification or waiver of any condition of the Agreement or consent to any departure by the Borrower therefrom shall, in any event, be effective unless the same shall be in writing signed by Royal. No notice to or demand on the Borrower shall by reason thereof entitle the Borrower to any other or further notice or demand in similar or other circumstances unless specifically provided for in the Agreement.

8.3 Time of the Essence

Time shall be of the essence hereof.

8.4 Further Assurances

Each of the Borrower, the Guarantor and Royal will do, execute and deliver, or will cause to be done, executed and delivered, all such further acts, documents (including certificates, declarations, affidavits, reports and opinions) and things as Royal, the Borrower or the Guarantor may reasonably require for the purpose of giving effect to the Agreement.

8.5 Set-Off

In addition to any rights now or hereafter granted under applicable law and not by way of limitation of any such rights, Royal is authorized at any time or from time to time after the Acceleration Date, without notice to the Borrower or to any other Person, any such notice being expressly waived by the Borrower, to set-off, compensate and to appropriate and to apply any and all deposits, matured or unmatured, general or special, held for or in the name of the Borrower and any other indebtedness or liability at any time owing or payable by Royal to or for the credit of or the account of the Borrower against and on account of the obligations and liabilities of the Borrower due and payable to Royal under the Agreement including all claims of any nature or description arising out of or connected with the Agreement, irrespective of currency and whether or not Royal has made any demand under the Agreement and although these obligations, liabilities or claims of the Borrower are contingent or unmatured. Royal and the Borrower acknowledge and agree that this paragraph is not intended to create and shall not be construed as creating and does not create a security interest in any property of the Borrower.

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8.6 Judgement Currency

If for the purposes of obtaining judgement in any court in any jurisdiction or for any other purpose hereunder it becomes necessary to convert into the currency of such jurisdiction ("Judgement Currency") any amount due hereunder in any currency other than the Judgement Currency, then such conversion shall be made at the Spot Buying Rate prevailing on the Business Day before the day on which judgement is given. In the event that there is a change in the Spot Buying Rate prevailing between the Business Day before the day on which the judgement is given and the date of payment of the amount due, the Borrower shall, on the date of payment, pay such additional amounts (if any) as may be necessary to ensure that the amount paid on such date is the amount in the Judgement Currency which, when converted at the Spot Buying Rate prevailing on the date of payment, is the amount then due under the Agreement in such other currency. Any additional amount due from the Borrower under this Section 8.6 shall be due as a separate debt and shall not be affected by judgement being obtained for any other sums due under or in respect of the Agreement.

8.7 Account Debit Authorization

The Borrower authorizes and directs Royal to automatically debit, by mechanical, electronic or manual means, the bank accounts of the Borrower maintained with Royal for all amounts payable under the Agreement, including but not limited to the repayment of principal and the payment of interest, fees and all charges for the keeping of such bank accounts.

8.8 Expenses

Except as otherwise provided in the Agreement all statements, certificates, opinions and other documents or information required to be furnished to Royal by the Borrower under the Agreement shall be supplied by the Borrower without cost to Royal. In addition, the Borrower agrees to pay promptly to Royal on demand, all reasonable legal fees and other reasonable expenses which are incurred from time to time by Royal in respect of the documentation, preparation, registration, execution and enforcement of the Agreement (including any value added, goods and services, Provincial Sales Tax, business transfer tax or other similar taxes payable in connection with the execution, delivery or enforcement of the Agreement).

8.9 Survival of Representations and Warranties

The representations and warranties made in Section 2 of the Agreement shall survive the execution and delivery of the Agreement and the Closing Date and continue in full force and effect until the full payment and satisfaction of all monies due hereunder.

8.10 Notice

Unless otherwise specified, any notice, demand, request, consent or other communication required or permitted to be given to a party under this Agreement or to a party under any of Royal's Security shall be in writing and may be delivered personally or sent by facsimile, to the address or facsimile number of the party set out beside its name at the foot of this Agreement to the attention of the Person there indicated or to such other address, facsimile number or other Person's attention as the party may have specified by notice in writing given under this Section.

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Any notice, demand, consent, request or other communication shall be deemed to have been given:

- (a) if delivered personally, when received;
- (b) if sent by facsimile, on the Business Day when the appropriate confirmation of receipt has been received if the confirmation of receipt has been received before 3:00 p.m. on that Business Day or, if the confirmation of receipt has been received after 3:00 p.m. on that Business Day, on the next succeeding Business Day; and
- (c) if sent by facsimile on a day which is not a Business Day, on the next succeeding Business Day on which confirmation of receipt has been received.

8.11 General Indemnity

The Borrower hereby indemnifies and holds harmless Royal and its directors, officers, employees and agents from and against all losses, damages, expenses (including reasonable fees, charges and disbursements of counsel) and liabilities (including those arising from any litigation or other proceedings) related to or arising out of any default hereunder by the Borrower or any misrepresentation in connection with this Agreement provided that no Person shall be indemnified in respect of matters arising from such person's gross negligence or wilful misconduct.

8.12 Counterparts

The Agreement and all documents contemplated by or delivered under or in connection with the Agreement may be executed and delivered in any number of counterparts or facsimile counterparts with the same effect as if all parties had all signed and delivered the same document and all counterparts when executed and delivered (by facsimile or otherwise) will be construed together to be an original and will constitute one and the same agreement.

8.13 Reasonable Consent or Approval of the Parties

The parties hereto acknowledge and confirm that:

- (a) where either of them is required to exercise its discretion or grant its approval or consent pursuant to a provision in the Agreement, it shall act reasonably in the exercise of its discretion and will not unreasonably withhold or delay the granting of its approval or consent, and
- (b) the Borrower may rely on any consent, approval, calculation or determination provided to it by Royal pursuant to the Agreement.

8.14 Entire Agreement

Save as provided herein and in the instruments and documents contemplated or provided for hereunder, the Agreement contains the whole agreement between the parties with respect to

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the Credit Facility and there are no other terms, conditions, representations or warranties with respect thereto except as contained herein.

8.15 No Deduction for Taxes

Provided Royal has not assigned its obligations under the Agreement or its rights to receive payments in respect thereof or changed the booking location of Borrowings, all payments required to be made by the Borrower pursuant to the Agreement whether for principal, interest, acceptance fees, the Facility Fee, Documentary Credit Fees, Swap Termination Values, fees for Swap Contracts or any other fees or otherwise shall be made free and clear of and without deduction, withholding or reserve for or on account of taxes, imposts, levies or other charges of any nature or kind whatsoever, unless otherwise agreed by Royal.

8.16 Participations and Assignments

Subject to Section 8.17, Royal may, with the consent of the Borrower, which consent shall not be unreasonably withheld, subject to the provisions of this Section 8.16 at any time grant participations in, sell, assign, transfer or otherwise dispose of all or any portion of the Credit Facility or Borrowings ("Facility Disposition") to any financial institution carrying on business in, and for the purpose of the *Income Tax Act* (Canada) residing in, Canada; provided no Facility Disposition may be made which would result in an increase in the cost of the Credit Facility to the Borrower. In all cases an assignment shall be of at least \$5,000,000 with increments of \$1,000,000 and a participation shall be of at least \$2,500,000 with increments of \$500,000. No Facility Disposition shall be effective until Royal shall have received an instrument (in form and substance satisfactory to Royal) in which the transferee or assignee, as the case may be, shall agree to be bound by all of the terms of the Agreement as fully as though it were an original party hereto except that any participant shall not be entitled to grant subparticipations. The Borrower hereby agrees that, upon compliance with the foregoing, any purchaser, assignee or transferee of all or any portion of any amount owed by the Borrower under the Agreement:

- (a) shall be entitled to the benefits of the provisions of the Agreement as fully as though it were an original party to the Agreement; and

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(b) may, subject to the terms of the Agreement, exercise any and all rights of banker's lien, set-off or counterclaim with respect to any and all amounts owed by the Borrower to such purchaser, assignee or transferee as fully as if such purchaser, assignee or transferee had made advances in the amount of the obligation which is sold, assigned or transferred to it.

8.17 Assignment After Default

Notwithstanding anything to the contrary herein contained, where an Event of Default has occurred and is continuing and has not been waived, nothing in the Agreement shall limit or otherwise restrict the right of Royal to assign all or any part of its rights and obligations under or with respect to the Agreement. Without limiting the generality of the foregoing, any such assignment shall not require the consent of the Borrower nor be restricted to financial institutions resident in Canada.

8.18 Obligations of Borrower Re Facility Disposition

The Borrower shall, at the request and at the expense of Royal, execute and deliver to such party or parties as Royal may designate any and all further instruments, use its reasonable efforts to obtain any and all further authorizations or approvals and make any and all further registrations, filings or notifications, as may be necessary or desirable to give full force and effect to such Facility Disposition. The term "Royal" as used in the Agreement shall include all purchasers, assignees and transferees permitted hereunder of all or any portion of any amount owed to Royal under the Agreement. Except as specifically set forth in this Section 8.18 nothing in the Agreement expressed or implied, is intended to or shall confer on any Person other than the respective parties hereto and thereto and their permitted successors and assignees any benefit or any legal or equitable right, remedy or other claim under the Agreement.

8.19 Confidentiality

Royal agrees to maintain the confidentiality of the Information (as defined below), except that Information may be disclosed (a) to its and its Affiliates' directors, officers, employees and agents, including accountants, legal counsel and other advisors (it being understood that the Persons to whom such disclosure is made will be informed of the confidential nature of such Information and instructed to keep such Information confidential), (b) to the extent requested by any regulatory authority, (c) to the extent required by applicable laws or regulations or by any subpoena or similar legal process, (d) in connection with the exercise of any remedies hereunder or under any documents governing Royal's Security or the enforcement of rights hereunder or thereunder, (e) subject to an agreement containing provisions substantially the same as those of this Section, to any assignee of or participant in, or any prospective assignee of or participant in, any of its rights or obligations under this Agreement, (f) with the prior written consent of the Borrower or (g) to the extent such Information (x) is or become publicly available other than as a result of a breach of this Section or (y) becomes available to Royal on a non-confidential basis from a source other than the Borrower, provided that such source is not bound by a confidentiality agreement with the Guarantor or any of its Subsidiaries known to Royal. For purposes of this Section, "Information" means all information received from Borrower, Guarantor or any of Borrower or Guarantor's Subsidiaries relating to Borrower,

Guarantor, their respective Subsidiaries or any of their respective businesses, other than any such information that is available to Royal on a non-confidential basis prior to disclosure by Borrower. Any Person required to maintain the confidentiality of Information as provided in this Section shall be considered to have complied with its obligations to do so if such Person has exercised the same degree of care to maintain the confidentiality of such Information as such Person would accord its own confidential information.

IN WITNESS WHEREOF the parties hereto have caused the Agreement to be duly executed on December 21, 2004.

LOUISIANA-PACIFIC CANADA LTD.

Per: _____) Address for Notice
Authorized Signatory) c/o Louisiana-Pacific Corporation
) 414 Union Street, Suite 2000
) Nashville, TN
) U.S.A. 37219
)
) Phone: (877) 744-5600
) Fax: (615) 986-5666
) Attention: Vice-President and C.F.O.
Per: _____)
Authorized Signatory) With a copy to
) Louisiana-Pacific Canada Ltd.
) 2100 - 1075 West Georgia Street
) Vancouver, British Columbia
) V6E 3G2
)
) Phone: (604) 631-3131
) Fax: (604) 631-3232

LOUISIANA-PACIFIC CORPORATION

Per: _____) Address for Notice
Authorized Signatory) 414 Union Street, Suite 2000
) Nashville, TN
) U.S.A. 37219
)
) Phone: (877) 744-5600
) Fax: (615) 986-5666
Per: _____)
Authorized Signatory)
)
)

ROYAL BANK OF CANADA

) RBC Capital Markets
) Suite 2100, Park Place
) 666 Burrard Street
) Vancouver, British Columbia
) V6C 3B1
) Attention: Corporate Credit
) Phone: (604) 257-7100
) Fax: (604) 665-6465
)
)
)

By: _____
Gerry Derbyshire
Attorney-in-Fact

SCHEDULE A

OFFICER'S COMPLIANCE CERTIFICATE
6.2(i)

I, _____, of the City of _____, in the State of _____, hereby certify on behalf of Louisiana-Pacific Corporation and Louisiana-Pacific Canada Ltd. and without personal liability as follows:

1. That I am _____ of Louisiana Pacific Corporation and Louisiana-Pacific Canada Ltd.
2. All capitalized terms used herein and not otherwise defined herein shall have the same meaning as ascribed thereto in the Credit Agreement (as hereinafter defined).
3. That I am familiar with and have examined the provisions of the Third Amended and Restated Credit Agreement dated for reference December 20, 2004 ("Credit Agreement") as amended, modified, supplemented, extended, consolidated, restated, renewed or replaced from time to time among Louisiana-Pacific Canada Ltd., as Borrower, Louisiana-Pacific Corporation, as Guarantor, and Royal Bank of Canada ("Royal") and to best of my knowledge having made reasonable investigations of corporate records and inquiries of other officers and senior personnel of the Borrower and the Guarantor and relying on the foregoing, as of the date of this Certificate: (a) the representations and warranties of the Borrower and the Guarantor contained in the Credit Agreement are true and correct, and (b) none of the covenants of the Borrower and the Guarantor contained in the Credit Agreement has been breached,

and I further certify without personal liability that:

4. **[SPECIFY ANY DEFAULT];**
5. I am authorized to give this certificate;

6. I am aware that Royal is entitled to rely upon the accuracy of the information herein contained.

This Certificate has been executed at the City of _____, in the State of _____, this _____ day of _____, 200

Title:
Louisiana-Pacific Corporation and
Title:
Louisiana-Pacific Canada Ltd.

SCHEDULE B

UNFUNDED PENSION LIABILITIES

The Guarantor sponsors the Louisiana-Pacific Corporation Retirement Account Plan. Originally this was a defined benefit pension plan covering certain hourly employees of the Guarantor. Effective January 1, 2000, this was converted to a cash balance plan covering most non-bargained employees. As of January 1, 2003, on an ongoing basis, the Plan has a surplus of approximately US\$1,800,000. As of January 1, 2003, on a plan termination basis, the Plan has an unfunded liability of approximately US\$33,600,000.

The Guarantor sponsors the ABTco, Inc. Retirement Plan. This is a defined benefit plan covering bargained and non-bargained employees of ABTco. As of January 1, 2003, on an ongoing basis the Plan has a surplus of approximately US\$1,200,000. As of January 1, 2003, on a plan termination basis, the Plan has an unfunded liability of approximately US\$16,600,000.

ANNEXURE I TO SCHEDULE B

On May 8, 2002, the Guarantor announced a program of facility sales and closures that to the extent implemented could result in a reduction under ERISA Section 4040(c)(3) of more than 20 percent of the active participants in 2002 and 2003, or more than 25 percent of the active participants in 2002 and 2003, in either or both of the Louisiana-Pacific Retirement Account Plan or the ABTco. Inc. Retirement Plan.

The Plan participant data indicated that a reportable event occurred as of September 13, 2002, with regard to the Louisiana-Pacific Corporation Retirement Account Plan only, as a result of an active participant reduction of 20% in 2002 for that plan. Plan actuaries have determined that there is no waiver applicable to the PBGC Form 10 filing, and the Guarantor timely filed the PBGC Form 10 within the thirty day period. The current and anticipated future levels of participant reductions may constitute a partial termination of either or both plans, in which event the affected participants must under tax qualified plan law be vested to the extent their benefits are already funded. The Guarantor decided to fully vest the affected participants who are not already vested, by Plan amendment, instead of incurring the substantial administrative expenses and uncertainties of a vesting to the extent funded determination. The value of the benefits to be fully vested will not exceed US\$5,000,000.00.

SCHEDULE C

BORROWING BASE CERTIFICATE

TO: Royal Bank of Canada ("Royal")

This Certificate is given as of the day of , 20 pursuant to the Third Amended and Restated Credit Agreement dated for reference December 20, 2004 (as amended or modified from time to time, the "Credit Agreement") between Louisiana-Pacific Canada Ltd. (the "Borrower") and Royal. Unless otherwise defined herein, capitalized terms used herein shall have the same meanings attributed to such terms in the Credit Agreement.

The Borrower hereby represents and warrants as of [insert last date of relevant month or other relevant date][before] [after] giving effect to (1)]:

(1) describe transaction: either (i) the concurrent documentary Credit Application and deposit to be made to the Restricted Cash Collateral Account under section 3.7; or (ii) the concurrent direction being issued to Royal to debit the Restricted Cash Collateral Account pursuant to section 3.8 and any permanent reduction in the amount of the Documentary Credit effected by the drawing thereunder.

- 1. amount of Restricted Cash Collateral (as of the [Business Day prior to the date of the Borrowing Base Certificate] [date hereof] [the Remargin Date]), excluding interest accrued on Cash Equivalents deposited in the Restricted Cash Collateral Account is : \$
2. the Collateral Value of Borrowing Base (91% of Restated Cash Collateral) is \$
3. the aggregate of all outstanding Canadian Advances plus the aggregate face amount of outstanding Documentary Credits (less any permanent reductions thereof) is: \$
4. availability (lesser of (x) \$10,000,000 and (y) Collateral Value of the Borrowing Base minus (z) the aggregate of all outstanding Canadian Advances plus the aggregate face amount of outstanding Documentary Credits (less any permanent reductions thereof)) is: \$

The Borrower hereby certifies:

- 1. The foregoing accurately and correctly reflects the matters addressed therein as reflected on the records of the Borrower on the date indicated above.
2. Attached to this Certificate is a list of all outstanding Documentary Credits, including Documentary Credit number, beneficiary, amount and expiry date.

[The Borrower directs Royal to cause to be remitted \$ to the Borrower from the Restricted Cash Collateral Account in accordance with Section 3.14(a) of the Credit Agreement.]*

* Each Borrowing Base Certificate submitted pursuant to section 3.7 must be accompanied by a duplicate Borrowing Base Certificate giving effect to the transaction with respect to which it is submitted.

LOUISIANA-PACIFIC CANADA LTD.

By: _____

Name: _____

Title: _____

Date: _____

SCHEDULE D
EXISTING LETTERS OF CREDIT

<u>I/c no.</u>	<u>Beneficiary</u>	<u>Amount</u>	<u>Expiry</u>
94889	H.M. the Queen for the Province of Manitoba	C\$100,000	04/14/04 (auto-renewal)
110818	Minister of Finance, Prince George	C\$28,950	07/17/04 (a.r.)
110821	Minister of Finance, Prince George	C\$1,677,600	07/17/04 (a.r.)
110824	Minister of Finance, Prince George	C\$722,400	07/17/04 (a.r.)
112521	Minister of Finance, Nelson, B.C.	C\$53,469.90	10/19/03 (a.r.)
112523	Minister of Finance, Nelson, B.C.	C\$21,032.55	10/19/03 (a.r.)
118703	Minister of Finance, Province of Ontario	C\$254,037.08	12/27/03 (a.r.)
118913	Minister of Finance, Province of Ontario	C\$183,282.78	01/31/04 (a.r.)
119988	Minister of Finance, Kamloops Forest Region	C\$1,107.00	02/06/04 (a.r.)
223635	Minister of Finance, Province of Manitoba	C\$250,000	07/15/04 (a.r.)
910820	Minister of Finance, Prince George	C\$52,200	07/17/04 (a.r.)
910823	Minister of Finance, Prince George	C\$17,895	07/17/04 (a.r.)
912524	Minister of Finance, Nelson, B.C.	C\$8,390.90	10/19/03 (a.r.)

SCHEDULE E
NOTICE OF BORROWING

Date:

To: Royal Bank of Canada

Pursuant to Section 3.5 of the Third Amended and Restated Credit Agreement, dated for reference December 20, 2004 (as amended, restated or otherwise modified, the "Credit Agreement"), by and among Louisiana-Pacific Canada Ltd. (the "Borrower"), Louisiana-Pacific Corporation and Royal Bank of Canada ("Royal"), the Borrower hereby requests that the following:

I. Canadian Advances be made on [date] as follows (the "Proposed Borrowing"):

(1) Total Amount of Canadian Advances \$

NOTE: BORROWINGS MUST BE IN MINIMUM AMOUNTS OF WITH RESPECT TO CANADIAN ADVANCES, \$100,000 AND \$100,000 INCREMENTS IN EXCESS THEREOF.

Unless otherwise defined herein, terms defined in the Credit Agreement shall have the same meanings when used herein.

The undersigned hereby certifies that the following statements are true on the date hereof and will be true on the date of the Proposed Borrowing:

(A) the representations and warranties contained in the Credit Agreement are and will be true and correct in all material respects, both before and after giving effect to the Proposed Borrowing and to the application of the proceeds thereof, with the same effect as though such representations and warranties had been made on and as of the date of such Proposed Borrowing (it being understood that any representation or warranty which by its terms is made as of a specified date shall be required to be true and correct only as of such specified date); and

(B) no Default or Event of Default has occurred and is continuing, or would result from such Proposed Borrowing or from the application of the proceeds thereof.

[Signature on Following Page]

IN WITNESS WHEREOF, the undersigned has executed this Notice of Borrowing as of the date first written above.

Very truly yours,

LOUISIANA-PACIFIC CANADA LTD.

By: _____
Name: _____
Title: _____

SCHEDULE F

CASH COLLATERAL RELEASE NOTICE

Date:

To: Royal Bank of Canada

Ladies and Gentlemen:

Pursuant to Section 3.14(c) of the Third Amended and Restated Credit Agreement, dated for reference December 20, 2004 (as amended, restated or otherwise modified, the "Credit Agreement"), by and among Louisiana-Pacific Canada Ltd. (the "Borrower"), Louisiana-Pacific Corporation and Royal Bank of Canada ("Royal"), the Borrower hereby delivers this Cash Collateral Release Notice to Royal and requests that the Cash Collateral Period end on **[date] [fill in date that is at least 60 days following the date of this notice]** (the "Collateral Release Date").

Unless otherwise defined herein, terms defined in the Credit Agreement shall have the same meanings when used herein.

The undersigned hereby certifies that the following statements are and will be true on the Collateral Release Date:

(A) the representations and warranties contained in the Credit Agreement are and will be true and correct in all material respects, both before and after giving effect to this Cash Collateral Release Notice on the Collateral Release Date, with the same effect as though such representations and warranties had been made on and as of such date (it being understood that any representation or warranty which by its terms is made as of a specified date shall be required to be true and correct only as of such specified date);

(B) no Default or Event of Default has occurred and is continuing, or will result from giving effect to this Cash Collateral Release Notice (for the avoidance of doubt, the determination of the existence of a Default or Event of Default immediately after the Collateral Release Date shall take into account the effectiveness of the covenants set forth in Section 6 which are effective only during the No Collateral Period as well as those covenants set forth in Section 6 which are effective at all times during the term of the Credit Agreement); and

(C) for the twelve month period immediately preceding the Collateral Release Date, (A) the Consolidated Leverage Ratio for such period was less than or equal to 2.50 to 1.00 as demonstrated on Exhibit 1 hereto and (B) the Consolidated Interest Coverage Ratio for such period was greater than or equal to 4.25 to 1.00 as demonstrated on Exhibit 1 hereto.

IN WITNESS WHEREOF, the undersigned has executed this Cash Collateral Release Notice as of the date first written above.

Very truly yours,

LOUISIANA-PACIFIC CANADA LTD.

By: _____
Name: _____
Title: _____

EXHIBIT 1

[CALCULATIONS TO BE PROVIDED BY BORROWER]

THIRD AMENDED AND RESTATED

CREDIT AGREEMENT

AMONG:

LOUISIANA-PACIFIC CANADA LTD.

AND

LOUISIANA-PACIFIC CORPORATION

AND

ROYAL BANK OF CANADA

BULL, HOUSSER & TUPPER
BARRISTERS & SOLICITORS
#3000 - 1055 WEST GEORGIA
VANCOUVER, B.C. V6E 3R3
(604) 687-6575
Attention: David Bain
File # 8929978

**LOUISIANA-PACIFIC CORPORATION
AND SUBSIDIARIES**

	Domicile
Louisiana-Pacific Corporation	Delaware
<i>Domestic Subsidiaries</i>	
GreenStone Industries, Inc.	Delaware
Ketchikan Pulp Company	Washington
Louisiana-Pacific International, Inc.	Oregon
L-PSPV, Inc	Delaware
LP Receivables Corporation	Delaware
LP Pinewood SPV, LLC	Oregon
LPS Corporation	Oregon
L-P SPV2, LLC	Delaware
New Waverly Transportation, Inc.	Texas
<i>Foreign Subsidiaries</i>	
Louisiana-Pacific Canada Pulp Co.	Nova Scotia, Canada
3047525 Nova Scotia Company	Nova Scotia, Canada
3047526 Nova Scotia Company	Nova Scotia, Canada
Louisiana-Pacific Limited Partnership	New Brunswick, Canada
Louisiana-Pacific Canada Ltd.	British Columbia, Canada
Louisiana Pacific de Mexico, S.A. de C.V.	Mexico
Louisiana-Pacific South America S.A.	Chile
Louisiana-Pacific Chile S.A.	Chile
<i>Less Than 51% Owned</i>	
Abitibi—LP Engineered Wood, Inc.	
Abitibi - LP Engineered Wood II Inc.	
Slocan-LP OSB Corp.	
Canfor - LP OSB (G.P.) Corp.	
Canfor - LP OSB Limited Partnership	
US GreenFiber, LLC	

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement Nos. 2-97014, 333-42276, 33-62944, 333-88076, 333-53715, 333-87775, 333-87803, 333-49106, 333-91693 and 333-110243 on Form S-8 and 333-73157 on Form S-3 of our reports dated March 9, 2005 relating to the consolidated financial statements of Louisiana-Pacific Corporation and management's report on the effectiveness of internal control over financial reporting appearing in this Annual Report on Form 10-K of Louisiana-Pacific Corporation for the year ended December 31, 2004.

DELOITTE & TOUCHE LLP

Nashville, Tennessee
March 9, 2005

CERTIFICATIONS

I, Richard W. Frost, Chief Executive Officer of Louisiana-Pacific Corporation, certify that:

1. I have reviewed this annual report on Form 10-K of Louisiana-Pacific Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 10, 2005

/s/ RICHARD W. FROST
Richard W. Frost

CERTIFICATIONS

I, Curtis M. Stevens, Chief Financial Officer of Louisiana-Pacific Corporation, certify that:

1. I have reviewed this annual report on Form 10-K of Louisiana-Pacific Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal controls over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to could adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 10, 2005

/s/ CURTIS M. STEVENS
Curtis M. Stevens

LOUISIANA-PACIFIC CORPORATION
805 SW Broadway, Suite 1200
Portland, Oregon 97205-3303
(503) 821-5100

March 10, 2005

Securities and Exchange Commission
Judiciary Plaza
450 Fifth Street, N.W.
Washington, D.C. 20549

Re: Certification Pursuant to § 906 of the Sarbanes-Oxley Act of 2002

Ladies and Gentlemen:

Pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, in connection with the filing of the Form 10-K of Louisiana-Pacific Corporation (the "Company") for the annual ended December 31, 2004, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned officers of the Company certifies, that, to such officer's knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of the dates and for the periods expressed in the Report.

/s/ RICHARD W. FROST

Name: Richard W. Frost
Title: Chief Executive Officer

/s/ CURTIS M. STEVENS

Name: Curtis M. Stevens
Title: Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to Louisiana-Pacific Corporation and will be retained by Louisiana-Pacific Corporation and furnished to the Securities and Exchange Commission or its staff upon request.
