

PULPMOOD HARVESTING AREA NO. 1

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day of November, A.D. 1962,

BETWEEN:

THE MINISTER OF LANDS, FORESTS, AND WATER RESOURCES of the Province of British Columbia, who, with his successors in office, is

hereinafter referred to as "The Minister"

OF THE FIRST PART,

AND:

*Prince George Pulp and Paper Ltd. Oct 7/64 Amendment #2*  
~~CANADIAN FOREST PRODUCTS LTD.~~, a Company incorporated under the laws of the Province of British Columbia, having its registered office in the City of Vancouver, in the said Province,

hereinafter referred to as "The Company"

OF THE SECOND PART.

WHEREAS there is a large volume of pulpwood and waste wood in the Prince George Forest District suitable for the manufacture of pulp and paper which is not capable of being economically utilized by the existing logging and sawmill industry within the said District;

AND WHEREAS the Minister desires to encourage the establishment of a pulp or paper mill within the said District so that economical utilization may be made of such pulpwood and waste wood;

AND WHEREAS pursuant to Section 17A of the Forest Act, being Chapter 153 of the Revised Statutes of British Columbia, 1960, as enacted by Chapter 20 of the Statutes of British Columbia, 1961 and as amended by Chapter 24 of the Statutes of British Columbia, 1962, the Minister has approved a proposal submitted by the Company in accordance with the provisions of the said Section 17A;

AND WHEREAS the Company has agreed to build a pulp mill in the Province of British Columbia contiguous to the pulpwood harvesting area as designated by the Minister and set forth in this Agreement;

AND WHEREAS pursuant to the said Section 17A, the Minister has granted to the Company an option to purchase the pulpwood from the designated pulpwood harvesting area to ensure a sufficient supply of pulpwood, as set forth in this Agreement, to sustain the pulp mill;

AND WHEREAS pursuant to Order-in-Council No. 2812, approved on the 22nd day of November, 1962, the Lieutenant-Governor in Council approved the terms and conditions of this Agreement;

NOW THEREFORE, in consideration of the premises, IT IS HEREBY AGREED AS FOLLOWS THAT:

1. The Minister hereby grants to the Company an option to purchase from the Crown pulpwood as hereunder defined from the designated pulpwood harvesting area, being more particularly described as comprised of nine administrative units, namely, the Stuart Lake, Westlake, Naver, Crooked River and Willow River Public Working Circles and the Carp, Parsnip, Big Valley and Nechako Sustained Yield Units, all of which are shown outlined in bold black on the map attached hereto marked "Schedule A", subject to the terms and conditions hereunder set forth.
2. The option granted in clause 1 above is for the purpose of enabling the Company to obtain a sufficient supply of pulpwood to sustain the pulp mill required to be built under this Agreement as more particularly set forth in clause 14. All pulpwood cut pursuant to this Agreement shall be used in the said pulp mill unless otherwise authorized by the Minister.
3. The term of this Agreement insofar as it applies to the pulpwood harvesting area shall be for a period of 21 years from the date hereof and shall be renewable on application by the Company and on the order of the Lieutenant-Governor in Council but subject to negotiation of terms and conditions according to the provisions of the Forest Act and regulations in force at the time of application for renewal and according to clause 32.

4. Pursuant to the provisions of Section 60 of the Forest Act and for the purpose of this Agreement, the Minister herewith declares pulpwood to include wood which is below the standard of utilization for sawmilling purposes in the Prince George Forest District:

- (a) On Crown lands which have been logged over, or are being logged over, for logs suitable for sawmilling purposes and on which there are quantities of wood (other than standing live trees designated by the Chief Forester as being required for silvicultural purposes) which have been declared by the Minister to be pulpwood for the purpose of this Agreement; without limiting the generality of the foregoing, such wood to include:
  - (i) portions of the trunks of trees left as tops or long butts;
  - (ii) damaged or down trees;
  - (iii) logs below the standard of utilization for sawmilling; and
  - (iv) standing live trees of a size or species not suitable for utilization for sawmilling;
- (b) In stands of timber which are decadent and/or unsuitable for sawmilling purposes; and
- (c) In stands of timber which, as designated by the Minister, will be below the standard of utilization for sawmilling purposes in the Prince George Forest District at the rotation ages currently in effect in the administrative unit wherein such stands are located.

5. The Minister, during the term of this Agreement, may change the boundaries of one or more of the nine administrative units comprising the pulpwood harvesting area for general administrative purposes of the Forest Service but the boundaries of the pulpwood harvesting area as shown outlined in bold black on the map attached hereto marked "Schedule A" shall not thereby be affected. Provided, that at any time the Minister may eliminate from this Agreement areas located within the perimeter of the pulpwood harvesting area which are required for a higher economic use.

4

During the balance of the term of this Agreement, after construction of the pulp mill has been completed, the Company agrees to purchase sawmilling waste and logging salvage wood suitable for the pulp mill which is developed from logging operations on timber stands suitable for logging for sawmilling purposes and from sawmilling operations in and about the pulpwood harvesting area to the fullest extent consistent with economic feasibility and sound programming of raw material supply for the pulp mill. In this regard, but without limiting the generality of the foregoing, it is understood that the Company is expected:

(a) to purchase top logs and other wood material suitable for the manufacture of pulp from logging operators in and about the pulpwood harvesting area;

(b) to purchase pulpwood from bona fide settlers;

PROVIDED THAT the above mentioned wood is offered at prices which are competitive with the cost of round wood delivered at the pulp mill from the areas covered by Timber Sale licences awarded to the Company pursuant to this Agreement; and

(c) to purchase chips, slabs and edgings, free from bark, suitable for the manufacture of pulp from sawmill operators in and about the pulpwood harvesting area.

7.

Notwithstanding the provisions of this Agreement, the Minister may continue to sell Timber Sale licences to cut logs suitable for sawmilling purposes within the pulpwood harvesting area to persons other than the Company. Such Timber Sale licences may include the right to cut and remove the pulpwood on the area covered thereby when awarded or as an addendum to an existing Timber Sale licence in good standing provided that the Timber Sale licensee has agreed with the Company to sell such pulpwood to the Company on a first refusal basis or has obtained from the Company a letter stating that the Company is not interested in acquiring such pulpwood. The Company shall not compete for Timber Sale licences designated to cut logs suitable for sawmilling purposes within the pulpwood harvesting area unless approval in writing has been granted by the Minister.

- 5 -
8. Where a Timber Sale licensee is still operating on a Timber Sale area situate within the pulpwood harvesting area, the Company may be permitted to purchase and harvest the pulpwood on such Timber Sale area, provided the Company has entered into an agreement with the Timber Sale licensee for the removal of pulpwood from such Timber Sale area.
  9. The Chief Forester, in accordance with the principles of sustained yield management, may establish, from time to time, pulpwood cutting budgets for each administrative unit, or any part thereof, within the pulpwood harvesting area and all harvesting of the said pulpwood shall be limited to the amount provided for in the said cutting budgets except as provided in clause 10.
  10. Notwithstanding any other provisions contained in this Agreement but subject to the Company not being in default hereunder, commencing the 1st. day of January, 1964, the Minister shall allow the Company to harvest, or acquire under the provisions of clause 7 hereof, from the pulpwood harvesting area in each calendar year thereafter during the term hereof, the volume of pulpwood which, in the opinion of the Company, is necessary to sustain the continuous operation of the pulp mill during the calendar year; PROVIDED, HOWEVER, that the Minister shall not be required to sell to the Company more than the equivalent of a total commitment of forty million (40,000,000) cubic feet of timber, suitable for the pulp mill, in any calendar year less the volume of pulpwood committed to that year in accordance with clauses 7 and 12 (b).
  11. The Company shall submit annually, to the Chief Forester for approval, a cutting plan prepared by the Company's Forester showing the areas from which the Company proposes to harvest pulpwood during the forthcoming year. This plan shall include such information and details as are required by the Chief Forester.

12. (a) The Company shall have the exclusive right to purchase and harvest pulpwood within the pulpwood harvesting area insofar as it applies to the primary logging of pulpwood as declared in accordance with sub-clauses (b) and (c) of clause 4 above, subject to the provisions of clause 7.
- (b) Where a Timber Sale licensee has completed logging on a Timber Sale area suitable for logging for sawmilling purposes and has not elected to purchase the pulpwood located thereon in accordance with clause 7 above, such pulpwood may be purchased by the Company. If, within sixty (60) days after such pulpwood has been offered to the Company by the Chief Forester, the Company fails to notify the Chief Forester of its intention to include such pulpwood in its next annual cutting plan, then such pulpwood may be sold at public auction as provided for in Section 17 of the Forest Act and, if so sold, the volume of such pulpwood will be included as part of the total commitment allowed to the Company for that year under clause 10 above.
- (c) A Timber Sale licence in a form and subject to such terms and conditions as the Chief Forester approves, consistent with the provisions and intent of this Agreement, shall be executed by the Company and the Chief Forester for each sale of pulpwood to the Company made pursuant to this Agreement. Provided, that notice of the intention to grant a sale of such pulpwood shall be given by a notice published in one issue of the British Columbia Gazette at least thirty (30) days before the date fixed for granting of the sale.
- (d) (i) The stumpage inclusive of royalty payable for the pulpwood as declared in accordance with clause 4(a) above, for the term of this Agreement, shall be appraised and assessed at the salvage royalty rate of 20 cents per 100 cubic feet as provided for under Section 59 of the Forest Act.

(ii) The stumpage inclusive of royalty payable for the pulpwood as declared in accordance with sub-clauses (b) and (c) of clause 4 above, for the first twelve (12) years from the date the pulp mill is completed, shall be appraised and assessed at the royalty rates as provided under Section 60 of the Forest Act as enacted as of the date of this Agreement and at the expiry of said twelve (12) year period the rate shall be as appraised and assessed by the Forest Service, from time to time, according to the method of appraisal then in use by the Forest Service.

13. The Company shall ensure that areas over which it has removed pulpwood in primary logging become restocked to a standard and within the times as fixed by the Chief Forester provided that such requirements are not more onerous than the requirements generally imposed on other operators who harvest timber from within the same administrative units.
14. The Company covenants and agrees with the Minister that the Company will forthwith, on the execution of this Agreement, commence the establishment of a pulp mill of at least 500 tons rated daily capacity in the Prince George Forest District. The pulp mill is to be in operation on or before December 31st, 1965.
15. The Company herewith delivers to the Minister a performance bond in the penal sum of Five Hundred Thousand Dollars (\$500,000) of lawful money of Canada as guarantee of performance in respect of clause 14 above, provided that such performance bond shall be released and returned to the Company by the Minister when the pulp mill commences to operate.
16. The Company agrees to submit to the Minister whenever so requested by him and at regular six month intervals from the date of this Agreement, and until commencement of production, a progress report of construction of the pulp mill, setting forth information as to the stage of construction of the pulp mill, any contracts that have been made or let and any commitments for the equipment to be installed in the pulp mill.



17. (a) In the event the Company is delayed by reason of circumstances beyond its reasonable control, the Minister shall give such reasonable extension of time for the commencement of the operation of the pulp mill equal to the period of such delay.
- (b) In the event of the Company failing to have the pulp mill in operation within the time specified, the Minister may require the Company to remedy the matter within three months from date of written notice to the Company and, on failure to do so, the Minister may declare the rights of the Company under this Agreement forfeited, and thereupon the performance bond delivered pursuant to clause 15 above shall be forfeited and the Company shall forthwith pay to the Minister the sum of Five Hundred Thousand Dollars (\$500,000) of lawful money of Canada which moneys shall become the absolute property of the Crown and this Agreement shall be void, terminated and of no further force or effect.
- (c) The Minister, in his discretion, may waive any default or extend the time for the completion or commencement of any act.
- (d) Any extension or extensions of time given by the Minister pursuant to sub-clauses (a) and (c) above shall not apply to enable the term of this Agreement, as set forth in clause 3, to be extended.

18. This Agreement shall not in any way limit or impair any rights of the Crown to grant, lease, licence or permit any use pursuant to any Statutes or Regulations for the use and occupation of any of the lands included within the areas described in this Agreement as shown outlined in bold black on the map attached hereto marked "Schedule A" and as shown outlined in bold black on the map attached hereto marked "Schedule B" provided that such use and occupation does not impede or obstruct the operations of the Company or its contractors carried on pursuant to this Agreement.

19. Where improvements exist on any Crown lands from which pulpwood is to be removed as provided in clauses 8 and 12 and such improvements are not being lawfully used or occupied by anyone, the Company shall be entitled to use such improvements on compliance with the applicable regulations respecting permits.
20. Where roads and other improvements occupied or used by a Timber Sale licensee as an integral part of the operations of the Timber Sale licensee, the Company shall not occupy or use such improvements without the prior consent of the Timber Sale licensee, except as provided in Section 56 of the Forest Act. Where the rights to grant the use and occupation of such roads and improvements have been reserved to the Crown, the Company shall obtain from the Crown the necessary authority for such use and occupation.
21. It is understood and agreed that all areas and lands covered with water and all lakes, rivers and streams are excluded from this Agreement and from any area on which the Company is given authority to cut pulpwood and that the Company shall have no foreshore or riparian rights or any rights whatsoever by virtue of this Agreement with regard to the lakes, rivers and streams and the Crown reserves the right to grant all uses of any of the said lakes, rivers and streams including any foreshore and riparian rights as it may see fit.
22. The Minister does not guarantee any specific quantity of pulpwood on areas covered by Timber Sale licences awarded to the Company pursuant to this Agreement.
23. Pulpwood cut from the pulpwood harvesting area shall be subject in all respects to the provisions of Part X of the Forest Act insofar as such provisions relate to lands granted after the 12th day of March, 1906.
24. In all respects the Company shall be deemed to be in occupation of all areas covered by Timber Sale licences awarded to the Company pursuant to the Agreement that are, from time to time, current and

subsisting and shall be subject to the provisions of Part XI of the Forest Act for such areas.

25. The Head Office of the Company shall be maintained and remain in the Province of British Columbia and the books of the Company shall be kept at Head Office.
26. The Company shall use such techniques as are available and practical in the construction and operation of the pulp mill to safeguard the public generally from any deleterious effects which may result from the processing of pulp.
27. This Agreement shall be binding upon and enure to the benefit of the Company, its successors and assigns, but this Agreement and the rights of the Company hereunder shall not be assigned without the consent of the Minister. Provided, however, that the restriction on assignment herein contained shall not apply to an assignment made to:
  - (a) a corporation organized on the instructions of the Company for the purpose of owning and operating the pulp mill in which corporation the Company has the ownership of not less than forty percent (40%) of the outstanding common shares and has a substantial participation in management.
  - (b) a Trustee for the holders of bonds, debentures or other securities of the Company issued for the purpose of financing in whole or in part the construction, equipment and operation of the pulp mill for the manufacturing of wood pulp and other products and/or anything incidental thereto.
28.
  - (a) This Agreement may be terminated at any time by mutual consent of the parties hereto.
  - (b) The Company may terminate this Agreement on two years' notice in writing given to the Minister subject as hereinafter provided.

- 11 -

(c) In the event that the Company serves notice of termination of this Agreement as provided in the next preceding sub-clause such termination shall be subject to the following conditions:

- (i) All moneys held pursuant to this Agreement as security deposit of whatsoever nature or kind, or any part thereof, may be declared by the Minister payable to the Crown for damages or otherwise and the Minister shall not be obliged to account in respect thereof.
- (ii) Subject to the provisions of sub-clauses (c)(iv) below, all improvements made on Crown lands shall become and be the property of the Crown and the Company shall have no claim or in any way be entitled to compensation therefor. Provided, that the Company may remove its own improvements and fixtures in such a manner as not to damage other improvements. Provided further that such removal shall not in any way affect the lien of the Crown on such improvements and fixtures as provided in the Forest Act.
- (iii) The Company shall forthwith pay all moneys owing on outstanding accounts for stumpage, royalty, taxes and annual rental.
- (iv) All rights granted pursuant to any Statute or Regulation or under this Agreement as ancillary thereto and which would not have been granted but for this Agreement and all appurtenances shall be cancelled effective on the termination of this Agreement, save and except where a contrary provision is contained in the grant of such rights or where such rights are granted in fee simple.

29. If the Company shall make any general assignment for the benefit of creditors or becoming bankrupt or insolvent shall take the benefit

of any Act that may be in force for bankrupt or insolvent debtors, the Minister may, on written notice, cancel this Agreement and any or all moneys on deposit pursuant to this Agreement may be declared by the Minister to be payable to the Crown for damages. Provided, however, that this clause shall not apply to the exercise of a Trustee for the holders of bonds, debentures or other securities of the Company of any rights or remedies contained in any Deed of Trust and Mortgage or other Agreement under which such bonds, debentures or other securities are issued or secured including, without restricting the generality of the foregoing, the taking of possession by such Trustee of the Company's properties and assets and the operation or disposition thereof for the benefit of the holders of the Company's securities.

30. Upon the approval of the Lieutenant-Governor in Council, this Agreement may be amended by the parties hereto by memorandum in writing signed by the parties hereto.
31. Any notice required to be given to the Company by the Minister under this Agreement may be given by written notice sent by registered mail or delivered to the registered office of the Company in British Columbia and shall be deemed to be given on the day it would be received by the Company in the ordinary course of post or on the day it was so delivered.
32. The purpose and intent of this Agreement, as hereinbefore mentioned, is to grant to the Company an option to purchase pulpwood within the pulpwood harvesting area for the purpose of ensuring a sufficient supply of raw material to sustain the said pulp mill to be constructed as hereinbefore mentioned. This Agreement shall be renewable subject to renegotiation of reasonable terms and conditions consistent with past performance with particular reference to the extent to which utilization is made of sawmilling waste and logging salvage wood as referred to in clause 6 of this Agreement as demonstrated during

the term of this Agreement, and future needs, and according to the provisions of the Forest Act and the Regulations in force at the time of application for renewal. The purpose and intent of this clause is to provide an incentive for the Company to purchase and utilize as large an amount of waste wood as possible, and nothing herein contained shall be construed to mean that because the Company has done a satisfactory job in the utilization of waste wood during the term of this Agreement, the assurance of a supply of raw material for the future in the form of rights to cut stands of timber in the pulpwood harvesting area is any less urgent or important. It is understood, however, that if, at the time for renewal of this Agreement, it is demonstrated, in accordance with the principles of sustained yield management, that the total of the pulpwood cutting budgets for the administrative units within the pulpwood harvesting area exceeds the then current and estimated future requirements of the Company for the pulp mill, the Minister may, after consultation with the Company, decrease the size of the pulpwood harvesting area, provided that the Company is assured of being allowed to harvest a sufficient volume of pulpwood from the pulpwood harvesting area to sustain the continuous operation of the pulp mill.

33. Notwithstanding the terms of this Agreement the Minister agrees to advertise for sale pursuant to the Forest Act, for a period of twelve (12) years from the date the pulp mill is completed, Crown Timber from thrifty mature pulp stands, as defined in clause 36 below, located in the area outlined in bold black on the map attached hereto marked "Schedule B" which area has been established as a Special Sale Area under Section 27 of the Forest Act by Order-in-Council No. 2811, approved on the 22nd day of November, 1962, and such sales to be designated Pulp Timber Sale licences. It is also agreed that the aggregate volume of timber sold to the Company from such Special Sale Area as Pulp Timber Sale licences will not exceed three hundred million (300,000,000) cubic feet. It is further agreed that the Minister will

offer for sale Pulp Timber Sale licences in the Special Sale Area subject to conditions as follows:

- (a) The Minister shall, from time to time, only upon application by the Company, advertise for sale and, subject to provisions of Section 27 of the Forest Act, sell by public competition a Pulp Timber Sale licence from the thrifty mature pulp stands within the Special Sale Area. Provided that where it is necessary to remove the thrifty mature pulp stands from any lands within the Special Sale Area which are required for a higher economic use, then the Company shall, at the request of the Chief Forester, make application to purchase the timber thereon. Further provided, that if the Company fails to make application to purchase the timber on the land which is required for a higher economic use, or advises that it does not wish to purchase such timber, the Minister may proceed to dispose of it to other persons.
- (b) Tenders in the public competition for the sale of such Pulp Timber Sale licences shall only be accepted from such persons having either in operation or under continuous construction a pulpwood utilization mill with a minimum rated capacity of three hundred (300) tons of pulp or paper per day located within a fifty (50) mile radius of the City of Prince George, British Columbia.
- (c) If the Company's tender does not contain the highest offer for the timber amongst those called for and received by the Minister, the Company may, within such time as the Minister may fix, submit a further tender containing an offer not lower than the highest offer contained in the tenders called for and received, and, if the Company submits such further tender, the sale shall be made to it; otherwise, the sale shall be made to the person who initially made the highest offer.

(d) The stumpage rate shall be appraised on the basis of assessing the logs suitable for sawmilling purposes in accordance with the method of appraisal in use by the Forest Service at the time the appraisal is made and the pulpwood portion shall be sold at the royalty rates set forth in Section 60 of the Forest Act as enacted as of the date of this Agreement.

34. On application by the Company for extension of the said twelve (12) year period referred to in clause 33, the Minister, in keeping with the purpose and intent as set forth in clause 32, shall take into account the efforts of the Company to utilize waste wood from logging and sawmill operations of the region and if he considers the efforts of the Company have been satisfactory in this regard, he will give consideration to the extension of the said twelve (12) year period referred to in clause 33 for the balance of the term of this Agreement under the same conditions as specified in clause 33 except that the stumpage rate for the pulpwood portion in clause 33 shall be at the royalty rate obtaining on the date the extension document is executed. At the time for renewal of this Agreement, the Minister shall give consideration to the further extension or extensions of the said twelve (12) year period referred to in clause 33.
35. Notwithstanding the provisions of clauses 33 and 34 the Minister may offer for sale to persons conducting wood using operations declared to be established in the area, timber from thrifty mature pulp stands in the Special Sale Area provided that there is such timber available in excess of the said three hundred million (300,000,000) cubic feet and that such Timber Sale licences, unless otherwise authorized in writing by the Chief Forester, shall be operated to a utilization standard equivalent to that required under a Pulp Timber Sale licence as provided in clause 33.
36. In this Agreement, the expressions following shall have the meanings hereinafter mentioned:



"Administrative Units" means areas administered by the Forest Service for the purpose of growing and sustaining crops of trees continuously thereon for periodic harvesting which areas, at the date of this Agreement, are commonly known as Public Working Circles and Sustained Yield Units.

"Pulp" means and includes woodpulp, paper and/or other products manufactured from woodpulp.

"Pulp mill" means and includes a mill which produces woodpulp, paper and/or other products manufactured from woodpulp.

"Thrifty mature pulp stands" means those stands of timber which fall in the 80 - 140 year class and in which fifty percent or more of the gross sound wood volume when utilized to a seven inch diameter breast height and a four inch top diameter is contained in 16-foot logs whose top diameter inside bark is less than eleven inches.

"Ton" means a ton of two thousand pounds.

37. This Agreement is subject to the provisions of the Forest Act and such amendments thereto as may be made from time to time and the regulations made pursuant thereto except where otherwise specified in this Agreement.
38. This Agreement shall emure to the benefit of and be binding upon the parties hereto, their respective successors and the permitted assigns of the Company.

IN WITNESS WHEREOF the Minister has executed these presents and the Company has hereunto affixed its corporate seal by the hands of its proper officers in that behalf.

SIGNED SEALED AND DELIVERED  
in the presence of:

"J.S. Stokes"

Witness

"Ray Williston"

Minister of Lands, Forests, and Water Resources

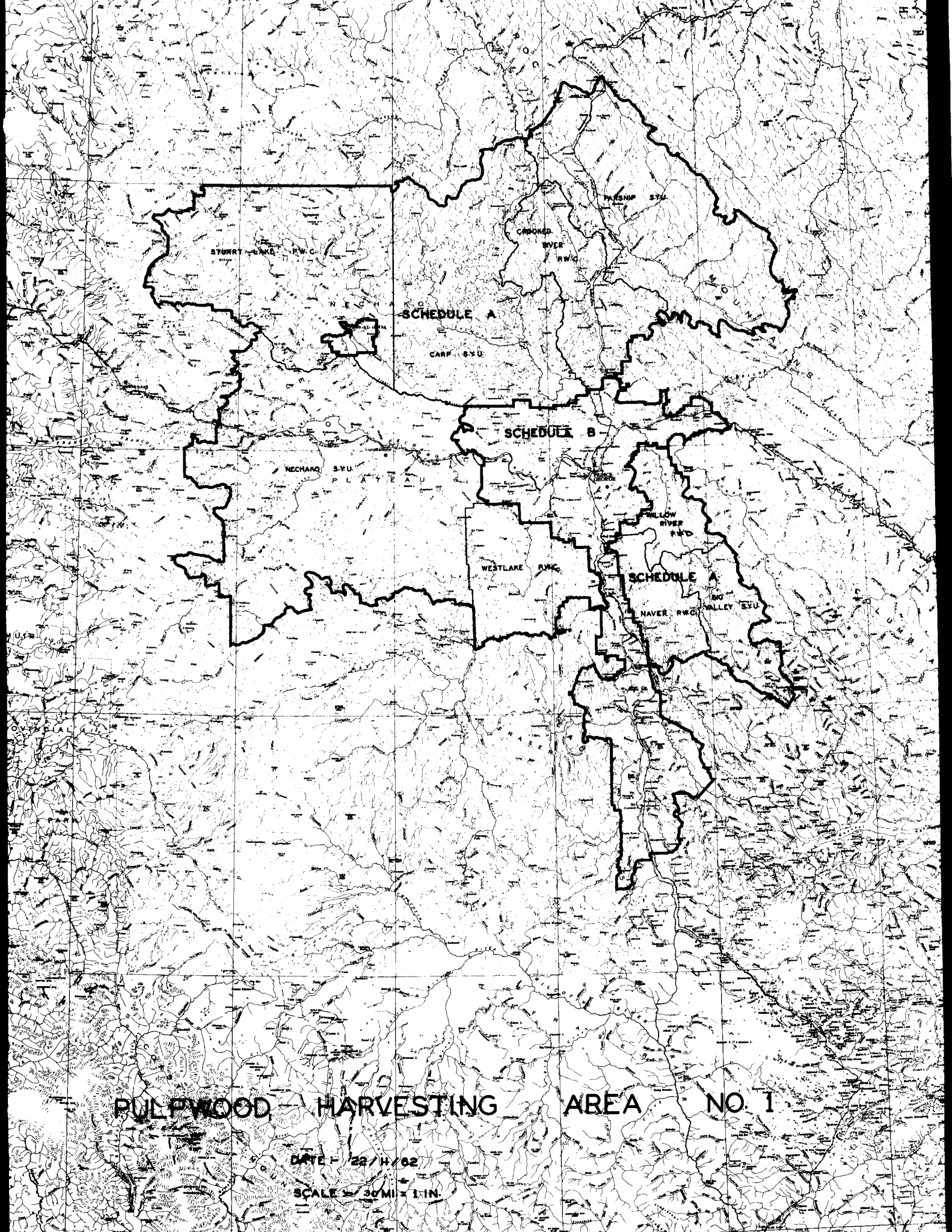
THE CORPORATE SEAL OF THE COMPANY  
was hereunto affixed in the  
presence of:

"J.G. Prentice"

President

"L.L.G. Bentley"

Vice-President



# RULWOOD HARVESTING AREA NO. 1

DATE - 22/11/62

SCALE - 30 MI = 1 IN.