



Province of British Columbia Ministry of Forests

PULPWOOD AGREEMENT

No. 12

THIS AGREEMENT, made November 1, 1989.

BETWEEN:

THE MINISTER OF FORESTS
OF BRITISH COLUMBIA, on behalf of
HER MAJESTY THE QUEEN IN RIGHT OF
THE PROVINCE OF BRITISH COLUMBIA,

(the "Minister")

OF THE FIRST PART,

AND:

FIBRECO EXPORT INC.
1209 MCKEEN AVENUE
NORTH VANCOUVER, BRITISH COLUMBIA
V7P 3H9

(the "Company")

OF THE SECOND PART,

WITNESSES that, under Section 34 of the FOREST ACT, the parties agree as follows:

1.00 GRANT OF HARVESTING OPTION, PULPWOOD AREA AND TERM

1.01 Subject to this Agreement and to the availability of aspen stands, and other pulp quality deciduous stands, and in consideration of the Company's covenants in it, the Minister grants to the Company the option, irrevocable during the term of this Agreement, to obtain from the Regional Manager or District Manager, without advertising or competition from other applicants, Timber Sale Licences authorizing the Company to harvest from Crown land in the Pulpwood Agreement Area not more than 500 000 m³ of mature aspen and other pulp quality deciduous stands of Crown timber, each year during the term of this Agreement.

Under no circumstances will normal coniferous sawlog stands be included in Timber Sale Licences issued under this section.

1.02 The harvesting option in paragraph 1.01 is exercisable subject to part 3.00.

1.03 The Pulpwood Agreement Area is the land shown outlined in bold black on the map as Pulpwood Area No. 12 attached to this Agreement.

1.04 The term of this Agreement is 25 years beginning on the date of execution and delivery of this Agreement.

1.05 On its tenth anniversary this Agreement may be replaced as provided for under Section 36 of the FOREST ACT.

2.00 PURCHASE OF WOOD RESIDUES AND PULP TIMBER

2.01 The Company will purchase from the owners of timber processing facilities within and outside of the pulpwood area wood residues offered to the Company

- (a) in volumes equal to the raw material requirements, from time to time, of the Mill minus the volumes of wood residues produced, from time to time, for the Mill by the Company and its affiliates, and
- (b) at prices (inclusive of all costs of delivery to the Mill) not exceeding, from time to time, the greater of
 - (i) the minimum prices determined for the wood residues by order of the Lieutenant Governor in Council under Section 148 of the FOREST ACT, if any so determined, or
 - (ii) the maximum price determined according to paragraph 2.02.

2.02 Where this paragraph applies, the maximum price at any particular time shall be equal to

- (a) the average costs directly incurred by the Company during the previous three calendar month period to harvest timber from the pulpwood area, to deliver it to the Mill and to produce wood residues from such timber, where the Company has during such period harvested timber under this Agreement; or
- (b) the average cost that would reasonably have been incurred by the Company during the previous three calendar month period to harvest timber from areas designated as priority operating areas in the Management and Working Plan then in effect, to deliver it to the Mill and to produce wood residues from such timber, where the Company has during such period not harvested timber under this Agreement.

2.03 The Company will purchase pulp timber offered to the Company

- (a) in volumes equal to the raw material requirements, from time to time, of the Mill minus the volumes of wood residues produced and purchased under paragraph 2.01; and
- (b) at prices, inclusive of all costs of delivery to the Mill, such that the weighted average paid by the Company for any purchase and all other purchases made during the preceding 90 days does not exceed:
 - (i) the average cost directly incurred by the Company during the previous three calendar month period to harvest timber from the pulpwood area and to deliver it to the Mill, where the Company has harvested timber under this Agreement; or
 - (ii) the average cost that would reasonably have been incurred by the Company during the previous three calendar month period to harvest timber from areas designated as priority operating areas in the Management and Working Plan then in effect and to deliver it to the Mill, where the Company has during such period not harvested timber under this Agreement;

provided that under no circumstances will the Company be required to make any purchase at prices which exceed the highest cost directly incurred by the Company during the previous three calendar month period to harvest timber from the pulpwood area and to deliver it to the Mill or, in the event that the Company has during such period not harvested timber under this Agreement, F.S. 595 (Page 3)

12.

at prices which exceed the highest cost that would reasonably have been incurred by the Company during the previous three calendar month period to harvest timber from areas designated as priority operating areas in the Management and Working Plan then in effect and to deliver it to the Mill.

3.00 EXERCISE OF HARVESTING OPTION

3.01 The Company may not exercise its harvesting option under paragraph 1.01 unless

- (a) the Company is performing its obligations under paragraphs 2.01, and 2.03;
- (b) the Company has made every reasonable effort to obtain from other sources the total raw material requirements of the Mill, including but not limited to utilizing pulp timber and wood residues that are produced in the pulpwood area by the Company and its affiliates,
- (c) the Company has submitted for approval of the Regional Manager, and has received approval of, a Management and Working Plan for the five year period beginning no later than 6 months prior to the date the Mill is expected to begin operation, signed and sealed by a registered professional forester, which shall contain such information as the Regional Manager requires concerning the provision of access to, and the location, extent and scheduling of, proposed harvesting operations, and the measures that will be undertaken by the Company to develop, protect, restore and improve the forest resources in the pulpwood area; and
- (d) the Company has submitted for the approval of the Regional Manager proposed management and working plans for periods succeeding the period referred to in subparagraph (c) above, as the Regional manager directs by notice to the Company.

3.02 Where, due to unforeseen occurrences, a Management and Working Plan becomes inadequate, the Regional Manager, in a notice to the Company, may require that a Management and Working Plan be amended or replaced, and the Company will, within 6 months after the notice, submit for the Regional Manager's approval a proposed Management and Working Plan or a proposed amendment to the Management and Working Plan, as the case may be, to have effect during the unexpired term of the then current Management and Working Plan.

3.03 A Management and Working Plan shall be deemed to be a part of, and shall be consistent with, this Agreement.
F.S. 595 (Page 4)

3.04 The onus of proving that the conditions in paragraph 3.01 are met is on the Company.

3.05 The maximum volume of timber in respect of which the Company may exercise its harvesting option under paragraph 1.01 during any year shall be 500 000 m³, minus the total volume of wood residues and pulp timber:

- (a) obtained from other sources for use in the Mill consistent with paragraphs 2.01, 2.03 and 3.01; and
- (b) offered to the Company for use in the Mill at prices not exceeding the prices determined in accordance with paragraphs 2.01 (b) and 2.03 (b), as the case may be, but which the Company elected not to acquire.

3.06 Subject to this part, the Company may, from time to time, exercise the harvesting option under paragraph 1.01 by giving written notice to the Regional Manager or District Manager, applying for a Timber Sale Licence and specifying

- (a) the volume of timber the Company is eligible for under paragraph 3.05;
- (b) the Company's inventory at or for the Mill of wood residues and pulp timber;
- (c) reasonable evidence of the Company's compliance with paragraphs 2.01, 2.03 and 3.01(b);
- (d) the proposed location and harvesting plan for the Timber Sale Licence including proposed access.

3.07 Within 90 days after the Company gives a notice under paragraph 3.06 the Regional Manager or District Manager will, without advertising or competition from other applicants, in a notice to the Company, offer a Timber Sale Licence substantially in the form then in use generally in the pulpwood area, with such modifications, consistent with the FOREST ACT and this Agreement, as are reasonably necessary to meet the circumstances,

- (a) authorizing the Company to harvest from specific areas in the pulpwood area, according to the Management and Working Plan, a volume of mature aspen, or other pulp quality deciduous stands, equal to the volume the Company is eligible for under paragraph 3.05 or such lesser amount as the Company may require, and
- (b) for a term the Regional Manager or District Manager reasonably considers will be adequate to meet the Company's requirements.

3.08 The Company may accept an offer made under paragraph 3.07 by executing the Timber Sale Licence and returning it to the Regional Manager or District Manager within 30 days after the offer is made.

3.09 Application may be made for one or more Timber Sale Licences under paragraph 3.06 and one or more Timber Sale Licences may be offered and accepted under paragraphs 3.07 and 3.08.

3.10 A Timber Sale Licence entered into under this Agreement shall require the Company to pay to the Crown, in respect of timber harvested under the Licence, stumpage at rates determined under the FOREST ACT and regulations.

3.11 A Timber Sale Licence entered into under this Agreement shall require the Company to carry out basic silviculture at its own expense following harvesting.

3.12 The Company will not use any timber harvested under a Timber Sale Licence entered into under this Agreement otherwise than in the Mill, but the Company may trade timber harvested under the Timber Sale Licence for other pulp timber, or equivalent volumes of wood residues, to be used in the Mill.

3.13 The Company will notify the Regional Manager of all trades of timber referred to in paragraph 3.12 and will, at the request of the Regional Manager, submit reports to the Regional Manager containing such information concerning the trades as the Regional Manager requires.

4.00 TIMBER PROCESSING

4.01 The Company will, within 24 months after the date of this Agreement,

- (a) begin the expansion of its pulp mill at Taylor, British Columbia, or
- (b) begin construction of a separate CTMP pulp mill at a location in the vicinity of Taylor, British Columbia,

and the production capacity added by such expansion or construction, as the case may be, shall be no less than 500 air-dried metric tonnes per day. Expansion or construction of the Mill shall be completed and the Mill shall be in full operation within 48 months after the date of this Agreement.

4.02 The Company agrees to submit to the Minister, or such other person as the Minister may designate, whenever so requested and at regular six-month intervals from the date of this Agreement and until commencement of production, a progress report of construction of the Mill setting forth information as to the stage of construction.

4.03 The Company shall maintain a performance bond in the sum of \$500,000.00 as guarantee of performance in respect of paragraph 4.01 above, provided that such performance bond shall be released and returned to the Company by the Minister when the expanded or constructed Mill is fully operational.

4.04 Subject to the provisions of this clause, in the event the Company fails to have the Mill in full operation within the time specified, the Minister may require the Company, within three months from the date of written notice to the Company, to submit plans to remedy the matter, in such time and in form and substance acceptable to the Minister and on failure to do so the Minister may declare the rights of the Company under this Agreement forfeited, and thereupon the performance bond held pursuant to paragraph 4.03 shall be forfeited.

4.05 In the event the Company is delayed by reason of circumstance beyond its reasonable control, the Minister may give such reasonable extension of time for the commencement of the operation of the mill as the Minister deems warranted.

5.00 TERMINATION

5.01 If this Agreement is terminated, expires and is not replaced under Section 36 of the FOREST ACT, or if this Agreement is cancelled, Timber Sale Licences entered into pursuant to this Agreement that are in effect at the time of termination or cancellation, will terminate when the termination or cancellation occurs.

5.02 subject to paragraph 5.03 if the Company commits an act of bankruptcy, makes a general assignment for the benefit of its creditors or otherwise acknowledges its insolvency, the Minister may cancel this Agreement in a notice served on the Company.

5.03 The Minister will not cancel this Agreement under paragraph 5.02 unless and until

(a) the Minister gives notice to

- (i) the holder of a debenture, mortgage or other debt security that charges this Agreement, then registered against the Company under the COMPANY ACT, and
 - (ii) the trustee for the holder of a bond or debenture issued under a deed of trust that charges this Agreement, then registered against the Company under the COMPANY ACT, and
- (b) a person referred to in clause (a)(i) or (a)(ii) has had a reasonable opportunity to exercise his rights and to pursue his remedies under the deed of trust, debenture, mortgage or other debt security, including the taking of possession of the Company's properties and assets.

6.00 MISCELLANEOUS

6.01 By June 1 of every year during the term of this Agreement, the Minister may require that the Company will deliver to the Regional Manager an annual report in respect of this Agreement for the preceding calendar year, containing such information as the Regional Manager requires.

6.02 This Agreement is subject to the FOREST ACT.

6.03 Where service of a notice or a document is required under this Agreement, the notice or document shall be in writing and shall be deemed to have been served if delivered to, or if sent by prepaid registered mail addressed to:

The Minister

HONOURABLE MINISTER OF FORESTS
PARLIAMENT BUILDINGS
VICTORIA, BRITISH COLUMBIA
V8V 1X4,

and

The Company

FIBRECO EXPORT INC.
1209 MCKEEN AVENUE
NORTH VANCOUVER, BRITISH COLUMBIA
V7P 3H9

and, subject to paragraph 6.04 where service is by registered mail the notice or document shall be conclusively deemed to be served on the eighth day after its deposit in a Canada Post Office at any place in Canada.

6.04 Where, between the time a notice is mailed under paragraph 6.03 and the time it is actually received by a party, there occurs a postal strike, lockout or slowdown that might reasonably affect delivery of the notice, the notice shall not be deemed to be served until the party actually receives it.

6.05 This Agreement will enure to the benefit of, and will be binding on the parties and their respective successors and permitted assigns.

7.00 INTERPRETATION

7.01 In this Agreement, unless the context otherwise requires,

- (a) "affiliate" means affiliate within the meaning of the COMPANY ACT,
- (b) "District Manager" means a district manager appointed under the MINISTRY OF FORESTS ACT, for the forest district in which the pulpwood area, or part, is situated,
- (c) "Mill" means the mill referred to in paragraph 4.01,
- (d) "Minister" means the minister within the meaning of the FOREST ACT,
- (e) "person" includes a corporation and a partnership,
- (f) "pulp timber" means mature aspen, and other deciduous species of roundwood timber of a quality that, from time to time, is below the standard of utilization by sawmills and/or veneer mills, but is suitable for use in the Mill,
- (g) "raw material" means wood residue and pulp timber,
- (h) "Regional Manager" means the regional manager appointed under the MINISTRY OF FORESTS ACT, for the forest region in which the pulpwood area, or part, is situated,

- (i) "timber processing facility" includes sawmills, veneer plants and plywood plants, and other fibre-using mills, and
- (j) "wood residue" means woodchips, slabs, edgings, sawdust, shavings and hog fuel suitable for use in the Mill.

7.02 As used herein, the suitability of raw materials for use in the Mill shall be determined in light of the technological ability of the Mill to manufacture a desirable end product from such raw material, consistent with Ministry of Forests wood utilization standards. Factors to be considered shall include, but shall not be limited to, species, grade, chip and/or log specifications as well as the design of the Mill.

7.03 In this Agreement, unless the context otherwise requires,

- (a) the singular includes the plural and the plural includes the singular,
- (b) the masculine, the feminine and the neuter are interchangeable, and
- (c) a reference to a series of numbers or letters, by the first and last numbers or letters of the series, includes the number or letter referred to first and the number or letter referred to last.

7.04 This Agreement is divided into parts, paragraphs, subparagraphs, clauses and subclauses, illustrated as follows:

- 1.00 part,
 - 1.01 paragraph,
 - (a) subparagraph,
 - (i) clause,
 - A. subclause,

and a reference to a subparagraph, clause or subclause shall be construed as a reference to a subparagraph, clause or subclause of the paragraph, subparagraph or clause, as the case may be, in which the reference occurs.

