



Province of
British Columbia

Ministry of
Forests

PULPWOOD AGREEMENT

No. 15

THIS AGREEMENT, made February 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:

MAKIN PULP AND PAPER LTD.
1600 SUN LIFE PLAZA
140 - FOURTH AVENUE S.W.
CALGARY, ALBERTA
T2P 3N3

(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 deciduous stands, and other pulp quality 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 area not more than 220 000 m³ of mature aspen 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 of Pulpwood Area No. 13 attached to this Agreement.

1.04 The term of this Agreement is 25 years beginning February 1, 1989.

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

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 requirements, from time to time, of the Mill minus the volumes of wood residues and other wood fibre produced, from time to time for the Mill by the Company and its affiliates,
- (b) of grades and types that, from time to time, are suitable for use in the company's pulping process, and
- (c) at prices 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, or

- (ii) the costs, including delivery costs to the chipping plant that would be reasonably incurred by the Company to harvest roundwood timber in the pulpwood area and to produce suitable wood residues from it.

2.02 Any volumes of Aspen raw material purchased from Crown or private land inside or outside of the pulpwood area will be charged against the maximum volume authorized under this agreement as set out in paragraph 1.01.

2.03 As used herein, suitability of raw material 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 include species, grade, chip and or log specification and species mix as well as the design of 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 paragraph 2.01,
- (b) the Company has made reasonable effort to obtain from other sources the total raw material requirements of the Mill, including but not limited to
 - (i) utilizing pulp timber that is produced in the pulpwood area by the Company and its affiliates,
 - (ii) the purchase of material suitable for the Company's pulping process produced from logging or milling operations by persons other than the company and offered to the company at reasonable prices and in reasonable quantities,
- (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 January 1, 1990, 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 will submit 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 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.

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

3.05 The volume of timber in respect of which the Company may exercise its harvesting option under paragraph 1.01 during any year may not exceed 220 000 m³, unless otherwise authorized by the Minister or his designate, minus the total volume of pulp material

- (a) obtained from other sources consistent with paragraph 2.01 and 3.01; and
- (b) offered to the Company, but not purchased or otherwise acquired by the Company, during the year by the owners of timber processing facilities in reasonable quantities and at reasonable prices not exceeding the greater of
 - A. the minimum prices determined, from time to time, for the wood residues by order of the Lieutenant Governor in Council under section 148 of the FOREST ACT, or
 - B. the costs, including delivery costs to the chipping plant, that would be reasonably incurred by the Company to harvest roundwood in the pulpwood area and to produce suitable wood residues from it.

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 of wood residues and pulp timber,
- (c) proof of the Company's compliance with Paragraphs 2.01 and 3.01 (b), and
- (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, no greater than the volume the Company is eligible for under paragraph 3.05, and
- (b) for a term the Regional Manager or District Manager 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 Licensee covenants and agrees to commence construction of a pulpmill capable of producing at least 200 metric tons of chemi-thermo mechanical pulp per day and a coated paper mill, at a location approved by the Licensor, within 12 months following the date of issuance of this agreement and to have the chipping plant and the pulp mill in operation within 36 months following the date of issuance of this agreement.

4.02 The Company agrees to submit to the Licensor whenever so requested by the Licensor and at regular six-month intervals from the date of this agreement and until commencement of production, a progress report of construction of the pulpmill setting forth information as to the stage of construction.

4.03 The Company shall maintain a performance bond in the sum of \$220,000.00 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 Licensor when the commercial production commences at the Mill.

4.04 Subject to the provisions of this clause, in the event the Company fails to have the chipping plant and the pulpmill in full operation within the time specified, the Licensor may require the Company to remedy the matter within three months from the date of written notice to the Company, and on failure to do so the Licensor 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 circumstances beyond its reasonable control, the Licensor may give such reasonable extension of time for the commencement of the operation of the pulp mill as the Licensor 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 The Minister reserves the right to grant Pulpwood Agreements to other parties within the area defined in paragraph 1.03 subject to the prior rights of the Company under this Agreement.

6.03 This Agreement is subject to the FOREST ACT.

6.04 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:

THE PRESIDENT
MAKIN PULP AND PAPER LTD.
1600 SUN LIFE PLAZA
140 - FOURTH AVENUE S.W.
CALGARY, ALBERTA
T2P 3N3

and, subject to paragraph 6.05 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.

6.05 Where, between the time a notice is mailed under paragraph 6.04 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.

6.06 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) "chipping plant" means a processing facility which converts roundwood into wood chips,
- (c) "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,
- (d) "Mill" means a 200 mtpd CTMP mill to be constructed and operated at Britannia Beach, B.C., by Makin Pulp and Paper Ltd.,
- (e) "Minister" means the minister within the meaning of the FOREST ACT,
- (f) "person" includes a corporation and a partnership,
- (g) "pulp timber" means mature aspen, and other 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,
- (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 wood chips, slabs, edgings, sawdust, shavings and hog fuel.

7.02 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.

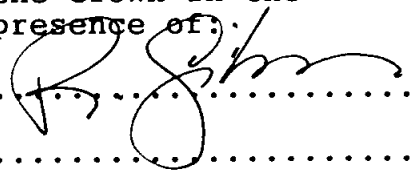
7.03 This Agreement is divided into parts, paragraphs, subparagraphs, clauses and subclauses, illustrated as follows:


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

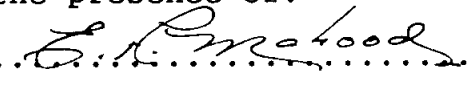

and a reference to a subparagraph, clause or subclause shall be construed as a reference to a subparagraph, clause or subclause of the paragraph, subparagraph or clause, as the case may be, in which the reference occurs.

7.04 Where a section of the FOREST ACT referred to in this Agreement is renumbered, the reference in this Agreement shall be construed to be the section as renumbered.

IN WITNESS to this Agreement, the Minister has signed it on behalf of the Crown, and the common seal of the Company has been affixed to it in the presence of its officers who are authorized to do so.

SIGNED, SEALED AND)
 DELIVERED by the)
 HONOURABLE MINISTER OF)
 FORESTS, on behalf of)
 the Crown in the)
 presence of:)
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THE COMMON SEAL of the)
 Company was affixed in)
 the presence of:)
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