



Province of British Columbia
Ministry of Forests

PULPWOOD AGREEMENT

NO. 3

THIS AGREEMENT, made as of August 7, 1985

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:

NORTHWOOD PULP AND TIMBER LIMITED
P.O. BOX 9000
PRINCE GEORGE, BRITISH COLUMBIA
V2L 4W2

(the "Company")

OF THE SECOND PART,

WITNESSES that, under section 38 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 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 a volume not exceeding 1 509 000 m³ of pulp quality stands of Crown timber, each year during the term of this Agreement.

Under no circumstances will normal 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 area is the Crown land within the area shown outlined in bold black on the map attached to this Agreement.

1.04 The term of this Agreement is 25 years, beginning August 7, 1985.

1.05 On its tenth anniversary this Agreement may be replaced according to the Forest Act.

2.00 PURCHASE OF WOOD RESIDUES

2.01 The Company will purchase from the owners of timber processing facilities in 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 Mill, 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 Mill, that would be reasonably incurred by the Company to harvest roundwood timber in the pulpwood area, to deliver it to the Mill and to produce wood chips from the roundwood timber.

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, and

- (b) the Company has taken all measures that are reasonably necessary to obtain from other sources the total raw material requirements of the Mill, such measures to include but not be limited to
 - (i) utilizing pulp timber that is produced in the pulpwood area by the Company and its affiliates,
 - (ii) purchasing pulp timber that is produced in the pulpwood area by persons other than the Company and its affiliates, and is offered to the Company at reasonable prices,
 - (iii) utilizing wood residues produced by the Company and its affiliates, and
 - (iv) purchasing wood residues produced by persons other than the Company and its affiliates outside the pulpwood area, and offered to the Company at prices not exceeding the costs, including delivery costs to the Mill, that would be incurred by the Company to harvest roundwood timber in the pulpwood area and to produce wood chips from the roundwood timber.

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

3.03 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 1 509 000 m³, minus the total of

- (a) the volume of pulp timber
 - (i) produced during the year by the Company and its affiliates in the pulpwood area, and
 - (ii) purchased by the Company for the Mill,
- (b) the roundwood equivalent of the volume of wood residues produced during the year by the Company and its affiliates in the pulpwood area, that are suitable for use in the Mill, and
- (c) the roundwood equivalent of the total volume of wood residues that are suitable for use in the Mill
 - (i) purchased or otherwise acquired during the year by the Company for use in the Mill, and
 - (ii) offered to the Company, but not purchased or otherwise acquired by the Company, during the year by the owners of timber processing facilities in the pulpwood area at 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 Mill, that would be reasonably incurred by the Company to harvest roundwood in the pulpwood area and to produce wood chips from the roundwood.

3.04 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 3.03,
- (b) the Company's inventory of wood residues and pulp timber, and
- (c) the location the Company proposes for the Timber Sale Licence, and a proposal for obtaining access to timber to be harvested under it.

3.05 Within 90 days after the Company gives a notice under paragraph 3.04 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, determined by the Regional Manager or District Manager, a volume not exceeding the volume the Company is eligible for under paragraph 3.03, of Crown timber below the standards of utilization for saw timber for use in the Mill, and
- (b) for a term the Regional Manager or District Manager considers will be adequate to meet the Company's requirements.

3.06 The Company may accept an offer made under paragraph 3.05 by executing the Timber Sale Licence and returning it to the Regional Manager or District Manager within 30 days after the offer is made.

3.07 Application may be made for one or more Timber Sale Licences under paragraph 3.04 and one or more Timber Sale Licences may be offered and accepted under paragraphs 3.05 and 3.06.

3.08 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.

3.09 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.

3.10 The Company will notify the Regional Manager of all trades of timber referred to in paragraph 3.09 and will, at the request of the Regional Manager, submit reports to the Regional Manager containing such information concerning the trades as he requires.

4.00 TIMBER PROCESSING

4.01 The Company will not cause the Mill that processes timber or wood residue or both, from this Agreement

(a) to be reduced in capacity below its capacity on January 1, 1979, or

(b) to be closed for a sustained period of time,

unless, and to the extent that, the Minister exempts the Company from the requirements of this paragraph.

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) he 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:

NORTHWOOD PULP AND TIMBER LIMITED
P.O. BOX 9000
PRINCE GEORGE, BRITISH COLUMBIA
V2L 4W2

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 pulp mill of the Company located at Prince George,
- (d) "Minister" means minister within the meaning of the Forest Act,
- (e) "person" includes a corporation and a partnership,
- (f) "pulp timber" means roundwood timber of a quality that, from time to time, is below the standard of utilization to be processed into lumber, but is suitable for use in the Mill,
- (g) "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,

- (h) "timber processing facility" includes sawmills, veneer plants and plywood plants, but does not include pulp mills, and other fibre-using mills,
- (i) "wood residue" means logging residue, 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:

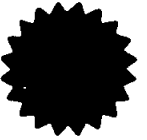
- 1.00 part,
 - 1.01 paragraph,
 - (a) subparagraph,
 - (i) clause,
 - A. subclause;

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:)
Shirley J. James)
Secretary)
Victoria, BC)

Joe Kempster)
.....)


THE COMMON SEAL of the)
Company was affixed in)
the presence of:)
X'.....)
.....)
.....)
.....)