

COPY

SPILLIMACHEEN FOREST MANAGEMENT LICENCE

Forest Management Licence No. 14

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THIS INDENTURE made in duplicate this 23rd. day of
December in the year of Our Lord One Thousand Nine
Hundred and Fifty-Three.

BETWEEN:

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

hereinafter called "the Licensor", of the one part,

AND

CRANBROOK SAWMILLS LTD., a Corporation duly
incorporated under the laws of the Province
of British Columbia, and having its registered
office in the City of Kelowna in the said
Province,

hereinafter called "the Licensee", of the other part.

WHEREAS by Subsection (2) of Section 33 of the "Forest Act",
being Chapter 128 of the Revised Statutes of British Columbia,
1948, it is provided that the Licensor may enter into an agreement
to be described as a forest management licence with any person for
the management of Crown lands specified in the agreement and re-
served to the sole use of the Licensee for the purpose of growing
continuously and perpetually successive crops of forest products
to be harvested in approximately equal annual or periodic cuts
adjusted to the sustained yield capacity of the lands in the area
covered by the licence, or may enter into an agreement to be known
as a forest management licence with the owner of other tenures to
combine such other tenures and Crown forest lands into a single
unit reserved by mutual consent and contract to the sole use of
the Licensee for the like purpose:

AND WHEREAS the conditions precedent to the issuance of this
licence, as set forth in said Section 33, have been complied with
to the satisfaction of the Licensor:

NOW THIS INDENTURE WITNESSETH THAT pursuant to Section 33 of the "Forest Act" and in consideration of the payments, agreements and stipulations to be made and observed by and on the part of the Licensee as hereinafter mentioned, the Licensor doth hereby grant unto the Licensee the management of the Crown lands specified in Schedule "B" to this agreement, which lands are reserved to the sole use of the Licensee for the purpose of growing continuously and perpetually successive crops of forest products to be harvested in approximately equal annual or periodic cuts adjusted to the sustained yield capacity of the said lands:

And in consideration of the premises, IT IS HEREBY AGREED AS FOLLOWS:

1. This forest management licence may be referred to as the "Spillimacheen Forest Management Licence" and is numbered fourteen (14) on the Forest Service register of forest management licences and on the official atlas maps of the Department of Lands and Forests.
2. The Licensee shall manage the licence area in accordance with the provisions of the said Section 33 of the "Forest Act" and of regulations under the said Act for the regulation of forest management licences, and in accordance with the management working plan applicable thereto, for the purpose of growing continuously and perpetually successive crops of forest products to be harvested in approximately equal annual or periodic cuts adjusted to the sustained yield capacity of the licence area.
3. Subject to compliance on the part of the Licensee with the provisions of the "Forest Act" and the regulations made thereunder, and the terms and conditions of this licence and the management working plan, the licence is perpetual. This agreement in all respects shall be subject to the "Forest Act".

4. The licence area includes all Crown lands not otherwise alienated at this date, as set forth in Schedule "B" hereto, together with all the lands owned or controlled by the Licensee, as set forth in Schedule "A" hereto, both of which are shown outlined in red on the plan attached hereto, subject, however, to any increase, decrease, re-allocation or exchange of lands as provided by this agreement; and in addition it includes any and all lands that may be subsequently acquired by the Licensee and incorporated into said Schedule "A" pursuant to Clause 6 hereof, provided also that any lands included in Schedule "A", the title or interest to which reverts to the Crown, or which the Licensee elects to revert to the Crown, shall be considered as being included in Schedule "B" from the time of such reversion.

5. The Licensee hereby declares that it owns or controls the cutting rights on each parcel of the lands listed and described in Schedule "A" hereto, and that each parcel contains the estimate of merchantable timber set opposite each parcel in the said Schedule "A" at the time this agreement is entered into.

6. The acquisition by the Licensee of forest lands, excepting only cutting rights offered by the Forest Service for competitive sale, subsequent to the issuance of this licence shall, pursuant to Subsection (9) of the said Section 33, be reported to the Licensor, and such forest lands shall be included forthwith in the licence area and be incorporated in Schedule "A" hereof to the extent required by said Subsection (9). Acquisition, as used herein, shall be deemed to include other tenures as defined hereinafter.

7. For the purposes of Subsection (8) of Section 33 of the "Forest Act", the watershed and drainage basins relating to this licence are defined as the Upper Columbia River Drainage.

8. The Licensor may from time to time withdraw from the Crown lands included in the licence area such lands as are required for forest experimental purposes, parks, or for aesthetic purposes; but the lands so withdrawn shall not exceed one per cent of the total area of lands in the licence area without the consent of the Licensee, and no land shall be withdrawn from areas being developed under the current cutting plan without the consent of the Licensee. Any such withdrawals shall be deducted from Schedule "B".

9. If at any time, or from time to time, part of the Crown lands within the management licence area is found to be required for a higher economic use than raising forest crops, or for any use deemed to be essential to the public interest, said lands may be withdrawn from the licence area by the Licensor, provided that if by such withdrawal the productive capacity of the licence area is diminished by more than one-half of one per cent of its total productive capacity, other lands, if available, will be added to the licence area in substitution therefor. Any such withdrawals shall be deducted from Schedule "B", and any such additions shall be added to Schedule "B". For the purposes of this section, the development of mines and mineral prospects may be deemed to be essential to the public interest.

10. It is expressly understood that the Licensor may at his discretion and at any time, either permanently or for a specified time, withdraw from this licence and from the licence area any Crown lands needed for rights-of-way under Part VI of the "Forest Act" or for railway, highway, power transmission, or other right-of-way purposes, and such lands will be deducted from Schedule "B".

11. In the event of the withdrawal of any lands from the licence area pursuant to Clauses 8, 9, 10 and 13 hereof, the Licensor may require the Licensee to remove from such lands within one hundred and twenty days thereafter all timber then cut thereon and all buildings, machinery, equipment, and other property placed by it thereon and which is capable of removal. Compensation shall be paid to the Licensee in respect of improvements capable of removal from the lands so withdrawn to the extent only of the cost of removal and damage incidental thereto; and compensation shall be paid to the Licensee in respect of improvements not capable of removal on the basis of cost less depreciation.

Without limiting the generality of the foregoing, the term "improvements" means all buildings, structures, fixtures, and things erected upon or affixed to such lands and shall include machinery, boilers, tanks, pipes, dams, flumes, roads, railways, transmission lines, and other works used in connection with the business of the Licensee. Improvements shall also mean areas artificially reforested by planting or seeding, compensation for which shall be the cost incurred in the act of reforesting.

If the amount of compensation payable to the Licensee is not agreed upon, then such amount shall be appraised and awarded by a single arbitrator in case the Licensor and Licensee agree upon one; otherwise by three arbitrators, one to be appointed by the Licensor, one to be appointed by the Licensee, and the third to be appointed by writing under the hands of the two appointed, such arbitration to be in accordance with the provisions of the "Arbitration Act" of the Province of British Columbia.

12. If at any time, or from time to time, part of the lands included in Schedule "A" is found to be required for a higher economic use than raising forest crops, said lands may be withdrawn from the licence area on the consent of the Licensor and at the request of the Licensee, and after such withdrawal such lands will be deducted from Schedule "A" and may be disposed of by the Licensee for the purpose for which they were withdrawn.

13. Where the licence includes within the described boundaries a belt or area of non-productive land surrounding or adjacent to the productive forest land of the licence, any or all of such non-productive land may be withdrawn from the licence at the pleasure of the Minister.

14. Other tenures included in this management licence shall not be sold, transferred, or otherwise disposed of except as hereinbefore provided or except as provided in Section 33 of the "Forest Act".

15. This licence, insofar as Crown lands in Schedule "B" are concerned, shall not be considered to limit the use of the lands at the discretion of the Minister for other purposes such as mining, trapping, hunting, fishing, hydro-electric development, or any use that does not materially prejudice the rights granted to the Licensee to employ the use of the lands for the growing and harvesting of forest products under the terms of this licence.

16. It is understood and agreed between the parties hereto that any rights under this agreement in respect of Crown lands do not include any riparian or foreshore rights, and all such riparian and foreshore rights vested in the Crown in respect of the said Crown lands mentioned in this agreement shall remain in the same status as if this agreement had not been entered into, and the Licensee shall have no rights or claims whatsoever in respect thereto by virtue of this agreement.

17. The Licensor may direct the Licensee to have surveyed and defined on the ground, and at the Licensee's expense, any or all the boundaries of the licence area which he may deem necessary to have so surveyed and defined. In the event of failure of the Licensee to complete any such survey within time limits set by the Licensor, the Licensor may cause the survey to be made and the costs shall be charged to and be payable forthwith by the Licensee.

18. As a first essential to the primary object of sustained yield management of this licence, it is agreed that all potentially productive forest land within the licence area shall be kept by the Licensee in growing stock as provided in Clause 19 hereof, and adequately stocked in accordance with standards to be defined from time to time by the Forest Service for comparable lands in British Columbia.

19. Any lands in the licence area denuded before the date of this licence which are found to be stocked below the minimum standards defined by the Forest Service as provided in Clause 18 above, shall be classified as to site quality and those determined by the Forest Service to be of a site quality index equal to or better than 80, unless in the opinion of the Licensor they are occupied by an advanced growth of brush, or otherwise in such condition as to make planting operations economically impractical, shall be reforested by the Licensee by artificial means with a merchantable species suitable to the locality at a rate per year of not less than one thousand acres, or ten per cent of the total acreage of such lands, whichever is the lesser, all to the satisfaction of the Licensor.

The Licensee further agrees that lands of site quality index better than 110 denuded after the date of this licence, and not found to be restocked satisfactorily five years after logging, will be artificially regenerated by the Licensee before the end of the seventh year after logging; and that lands of site quality index between 80 and 110 not found to be restocked satisfactorily eight years after logging, will be artificially regenerated by the Licensee before the end of the tenth year after logging, all to the satisfaction of the Licensor.

20. On failure of the Licensee to comply with the provisions of Clause 19, the Licensor, his servants or agents, may enter on the lands in respect of which the Licensee is in default, and restock them, and the cost thereof shall be recoverable by the Crown from the Licensee and may be taken in whole or in part from the deposit referred to in Clause 35 hereof.

21. The operations covered by this licence shall be managed in accordance with the currently approved management working plan, each of which in turn as approved for each successive period is hereby incorporated into and made a part of this licence.

22. Management working plans will be approved for such period as the Minister may decide, and will be subject to revision as set forth in the said plans.

23. Revised management working plans shall be submitted for the approval of the Minister not later than three months prior to the expiry of currently approved plans.

24. The object of each succeeding plan shall be to implement the primary object of the licence; i.e., sustained yield in equal annual or periodic cuts, and may embody any method of

attaining that objective that over a reasonable period of years is likely to prove economically feasible, that is approved by the Minister, and that is not inconsistent with the spirit and intent of the Act and regulations. In preparing the management working plan, advantage shall be taken of all available data and experience.

25. Should it appear at any time to either party hereto necessary or expedient in case of emergency to increase or decrease the rate of cutting contemplated by the cutting budget then in effect, or to alter the cutting plan then being observed, then, subject to the approval of the Minister, emergency revision of the management working plan will be undertaken upon the request of either the Licensee or the Minister.

Without limiting the generalities of the preceding paragraph, cause for revision on account of emergency conditions will cover such things as fire damage of major proportions, serious windthrow, insect or disease attacks, serious damage to the Licensee's manufacturing plant, or other catastrophe of great moment, or should there occur a national emergency brought about by war or a severe economic depression.

26. In the process of harvesting the crop from the licence area, the Licensee shall provide the opportunity for contractors other than the Licensee's own employees or shareholders to harvest a minimum of thirty per cent of the allowable cut as set forth in each succeeding management working plan, but where the Minister is satisfied that such contract operation is not feasible, either by reason of lack of operators or for other good and sufficient reason, the Minister may relieve the Licensee in whole or in part from this responsibility.

27. In the event of the development on the licence area of injurious insects in numbers which in the opinion of the Minister will seriously reduce the current or future allowable annual harvest of wood, and which in the opinion of the Minister can be controlled, then the Licensee and Licensor shall take such control measures as may be mutually agreed upon, or the Licensee at his own expense shall take such control measures as the Minister shall direct, provided that the cost of such control measures to the Licensee in any one calendar year shall not exceed one-half the cost of such control measures incurred during that calendar year, or the total stumpage value of that year's cut, whichever may prove to be the lesser. For the purposes of this clause, the stumpage value shall be the value appraised by the Forest Service.

28. In the event that mutual agreement cannot be reached between the parties hereto as to the sustained-yield cutting capacity or as to the sequence or methods of cutting to be employed at the time emergency, or any other revision of the cutting plan or cutting budget is undertaken, the Licensor shall determine the permissible cut and the plan and methods of cutting.

29. The Licensee, in his logging operations on the licence area, shall at all times maintain at least as high a standard of utilization as, in the Licensor's reasonable opinion, is being maintained by well-conducted logging operations in the East Kootenay region.

30. Cutting on the licence area shall be done only in accordance with the management working plan, and only after notice of intent has been given to the Minister and a cutting permit has been issued. Such cutting permit shall be issued by the Minister if the

proposed cutting is in keeping with the provisions of this licence and the management working plan. If the proposed cutting is to be on other tenures, the cutting permit will constitute the Licensor's concurrence that the cutting is according to plan and specify such other details as he may deem necessary, such details, however, always to be in keeping with the provisions of the management working plan and this licence. If cutting is on Crown lands not held under other tenures, the cutting permit will, in addition, fix the stumpage in accordance with Subsection (20) Clause (C) of Section 33 of the "Forest Act". Any cutting not covered by a cutting permit will be deemed to be in trespass and the Licensee may be assessed a sum by the Licensor in respect thereof in an amount not in excess of the value of the logs or other product so cut or wasted or destroyed.

31. The Licensee agrees to pay to the Crown on all timber on Crown lands in the licence area not held under other tenure, full stumpage, inclusive of royalty, as and when the timber is cut, in such sum per unit of measurement as is appraised and assessed by the Forest Service; and the appraisal shall allow as a cost of logging such costs of management, protection, and silvicultural treatment of the licence area as the Licensor deems to be just and proper charges, but in other respects, the method of appraisal shall be the method currently in use by the Forest Service at the time the appraisal is made.

32. Timber marks shall be secured by the Licensee and marking carried out as required by Part IX of the "Forest Act".

33. All timber cut on the licence area shall be scaled in cubic feet and in accordance with the provisions of Part VIII of the "Forest Act".

34. Timber and wood cut from lands included in this licence, regardless of the tenure of the lands, shall be subject in all respects to the provisions of Part X of the "Forest Act" insofar as they relate to lands granted after the 12th day of March 1906.

35. The Licensee herewith deposits, pursuant to Subsection (6) of Section 33 of the "Forest Act", the sum of Two Thousand Dollars (\$2,000.00), receipt of which is acknowledged, and will supplement this deposit by the payment of ten cents on each one hundred cubic feet of wood harvested, but the sum total of deposits held at any one time by the Licensor under this clause shall not exceed Four Thousand Dollars (\$4,000.00). In the event that the amount of the deposit becomes less than Two Thousand Dollars (\$2,000.00), the Licensee will forthwith deposit sufficient money with the Licensor to bring the total amount up to Two Thousand Dollars (\$2,000.00), and thereafter will supplement the deposit by the payment of ten cents on each one hundred cubic feet of wood harvested to bring the total amount up to Four Thousand Dollars (\$4,000.00). The said deposits shall be held for the purpose of ensuring compliance on the part of the Licensee with the terms of the "Forest Act", the regulations made thereunder, this licence, the management working plan, and any permit issued pursuant to this agreement.

36. The Licensee agrees to pay stumpage on all merchantable wood cut, wasted, or removed by the Licensee or his agents on or from that part of the licence area described in Schedule "B" hereto, as provided in this licence, the "Forest Act" and the cutting permit.

37. Starting on the first day of January next following the date of this licence, the wood harvested from the licence area in any one year shall not be less than fifty per cent and not more than

one hundred and fifty per cent of the approved annual cut, and shall not vary more than ten per cent from the total approved cut over a period of five years.

38. Damages, recoverable in full or in part from the deposit made by the Licensee under Clause 35 hereof, may be assessed by the Licensor for failure to observe the provisions of Clause 37 of this licence, as follows:

(a) The full stumpage value as appraised by the Forest Service on the quantity of timber by which the year's cut falls below fifty per cent of the approved annual cut.

(b) Double the stumpage value as appraised by the Forest Service on the quantity of timber by which the year's cut is in excess of one hundred and fifty per cent of the approved annual cut, whether cut from Crown lands or from other tenures.

(c) Should the total cut over five consecutive years vary more than ten per cent over or under the total of the five years' approved cut, a sum per one hundred cubic feet will be assessed by the Minister on the amount cut over or under the ten per cent allowance, whether cut from Crown land or from other tenures.

(d) Should the total cut over ten consecutive years, including the five-year period referred to in (c) above, vary less than ten per cent from the total of the ten-year cutting budget as approved in the working plan, the damage assessed in paragraph (c) above, if any, will be refunded.

(e) For the purposes of this paragraph, stumpage shall be appraised on the same basis and in the same manner as provided in Clause 31 hereof.

(f) Any damages provided for in any cutting permit mentioned in Clause 30 may be deducted from the deposit mentioned in Clause 35, and thereupon the Licensee shall forthwith deposit with the Licensor sufficient moneys to make the said deposit equal to the amount of deposit thus required.

(g) In the event that the licence is cancelled by reason of any default or breach of the licence by the Licensee, then all moneys on deposit with the Licensor under the terms of this contract shall be payable to the Crown for damages.

39. For the purpose of carrying out the provisions of Clause 38 hereof, the Licensee may elect to start a new five-year period from any year in which the periodic cut for the preceding five-year period is within ten per cent of the accumulated approved annual cuts.

40. The aggregate acreage of the Crown lands in the licence area for the purposes of this rental under Subsection (19) of Section 33 of the "Forest Act", as of this date, shall be 83,265 acres.

41. For the purposes of Section 124, Subsection (1) of the "Forest Act" as amended by Chapter 24 of the Statutes of British Columbia for 1949, the approved annual productive capacity of the licence shall be such as may be determined in the current approved working plan, and forest protection tax shall be payable as provided by the said Section 124.

42. All camps or other living quarters established incident to the management of the licence area shall be of a standard at least as high as those that, in the Licensor's reasonable opinion, are being maintained by comparable well conducted forest operations in the East Kootenay Region.

43. The Licensee shall provide, to the satisfaction of the Licensor, reasonable office and living accommodation for a reasonable Forest Service inspection staff on the licence area or at any headquarters, plant, or operation maintained by the Licensee, if instructed by the Licensor in writing so to do.

44. The Licensee shall employ one Forester, registered under the terms of Chapter 127, R.S.B.C., 1948, and amendments thereto, and as many additional Registered Foresters as may be deemed necessary. The working plan and all revisions and amendments thereto shall be signed and sealed by the Registered Forester.

45. In the event of the bankruptcy or insolvency of the Licensee, the Licensor may cancel the licence and any or all moneys on deposit may be declared by the Licensor to be payable to the Crown for damages.

46. This agreement may be amended by the parties hereto by a memorandum in writing signed by the parties hereto.

47. This management licence shall not be sold or transferred by the Licensee within 10 years immediately subsequent to the issuance of this licence.

48. Any notice required to be given to the Licensee by the Licensor under this licence, may be given by written notice sent by registered mail or delivered to the registered office of the Licensee in British Columbia, and shall be deemed to be so given on the day it would be received by the Licensee in the ordinary course of post, or on the day it was so delivered.

49. This licence may be terminated at any time by mutual consent of the parties hereto.

50. In the event that this licence is cancelled or terminated, existing other tenures owned or controlled by the Licensee included within the licence area shall in no way be encumbered by any commitments, agreements, understandings or in any other manner arising out of the execution of this licence, except as provided for in Subsection (22) of Section 33 of the "Forest Act".

51. In this licence:

"Act" means the "Forest Act", R.S.B.C., 1948, Chapter 128, and amendments thereto in force from time to time during the currency of this licence.

"Approved", if not otherwise defined in the context, means approved by the Licensor.

"Denuded" or "denuded lands" means any forest lands in the licence area from or on which substantially all mature timber has been cut, logged, or destroyed, and on which trees of young growth in sufficient numbers to produce a valuable crop according to the standards of the Forest Service have not yet been established.

"Forest Service" means the Forest Service of the Department of Lands and Forests of British Columbia.

"Higher economic use" means that use which in the opinion of the Licensor will contribute most to the good and welfare of the Province, including non-monetary uses.

"Minister" means the Minister of Lands and Forests and his successors in office.

"Other tenure" means any title, licence, lease, or berth whereby the Licensee has the right to cut timber on land included in Schedule "A" hereto, or on land that subsequently may be acquired by the Licensee pursuant to Clause 6 hereof.

"Management working plan" means the management and working plan submitted by the Licensee with the application for this forest management licence and approved prior to the execution of these presents and subsequent revised management working plans to be submitted by the applicant in accordance with the terms of this licence as herein appearing.

This Agreement shall enure to the benefit of and shall be binding upon, not only the parties hereto, but also the successors in office of the Licensor and the successors and assigns of the Licensee, respectively.

This Licence and Agreement is issued subject to the provisions of the above-mentioned "Forest Act" and regulations made thereunder.

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

SIGNED SEALED AND DELIVERED
in the presence of:

Noël Ferguson
Witness

R. C. Sommers
Minister of Lands and Forests

THE COMMON SEAL OF THE LICENSEE
was hereunto affixed in the
presence of:

C. Farstad Pres.

C. Farstad
Frank Lubman

SCHEDULE "A"

Spillimacheen Forest Management Licence

Forest Management Licence No. 14

Forest lands and merchantable timber in other tenures owned or controlled by the Licensee included in the Spillimacheen Forest Management Licence, No. 14, all within Range 19, Kootenay Land District.

<u>Parcel</u>	<u>No. of Acres more or less</u>	<u>Volume M cf.</u>
Timber Berth No. 869	1,555	3,960
Timber Berth No. 873	2,160	4,910
Total	3,715 Acres	8,870

See Admin # 5

SCHEDULE "B"

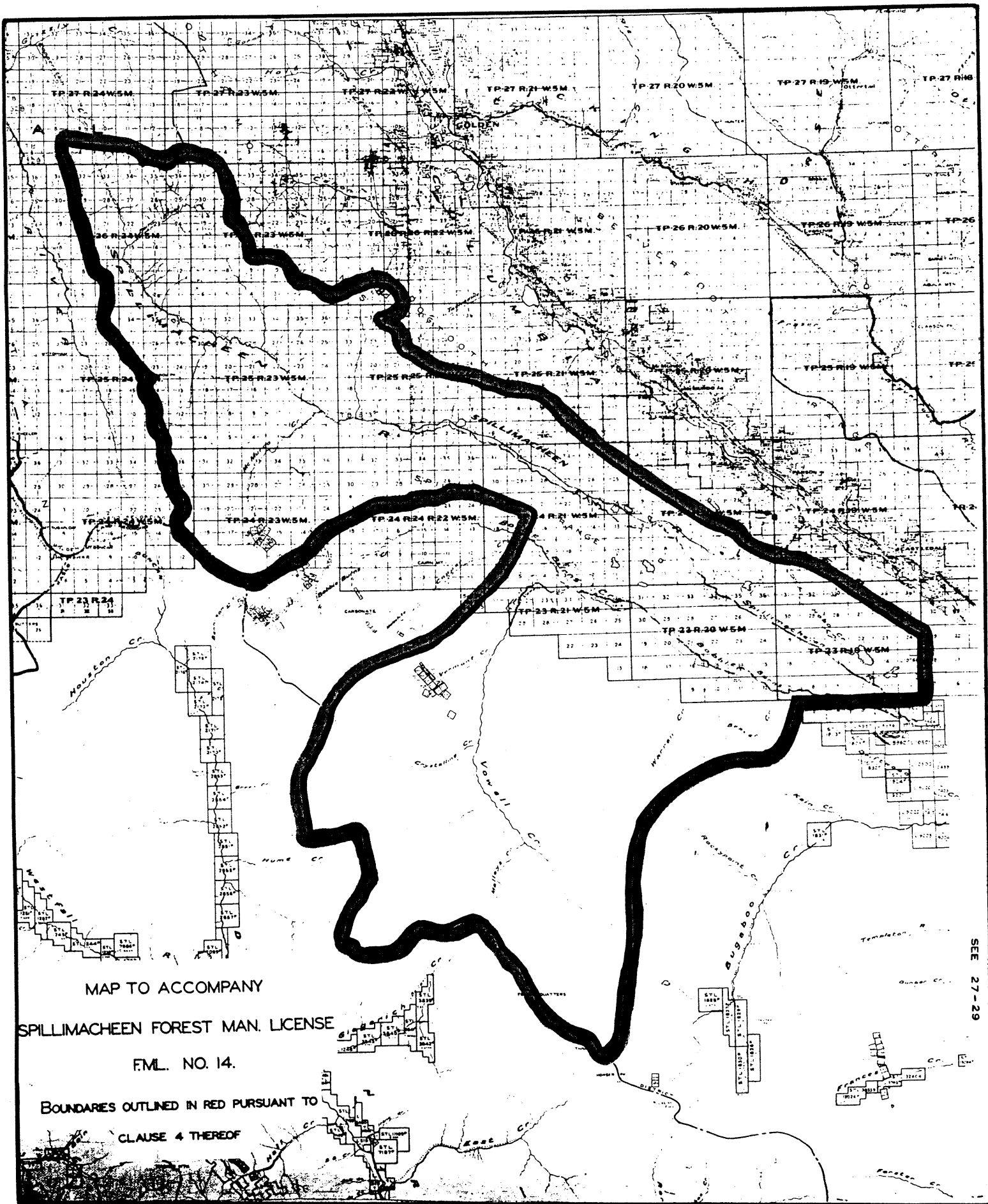
Spillimacheen Forest Management Licence

Forest Management Licence No. 14

Description.

All Crown lands not otherwise alienated within the following described area within Range 19, Kootenay Land District:

"Commencing at the south-east corner of Section 12, Township 23, Range 19, West of the 5th Meridian, Kootenay Land District, being a point approximately 6 miles south of Castledale; thence westerly along the southerly boundary of said Section 12 to the south-west corner thereof; thence westerly in a straight line to the south-east corner of Section 7 of said Township 23; thence westerly along the southerly boundary of said Section 7 to the easterly boundary of the watershed of Beaver Creek; thence in a general south-westerly direction along said easterly boundary and continuing south-westerly along the easterly boundary of the watershed of Vowell Creek to the southerly boundary of the watershed of Spillimacheen River; thence in a general northerly, easterly and south-easterly direction along the westerly, northerly and north-easterly boundaries of the watershed of said Spillimacheen River to a point due north of the most easterly north-east corner of the aforesaid Section 12, Township 23, Range 19, West of the 5th Meridian; thence due south to said corner; thence southerly along the easterly boundary of said Section 12 to the south-east corner thereof being the point of commencement, except thereout all that parcel or tract of land within the boundaries of the watershed of Bobbie Burns Creek which lies upstream from the most westerly corner of Block 3 of Timber Berth No. 869."



MAP TO ACCOMPANY
SPILLIMACHEEN FOREST MAN. LICENSE
FML. NO. 14.
BOUNDARIES OUTLINED IN RED PURSUANT TO
CLAUSE 4 THEREOF