

GOVERNMENT OF THE PROVINCE OF ALBERTA

FORESTS ACT

FOREST MANAGEMENT AGREEMENT

(O.C. 198/99)

Approved and Ordered

Bud Olson
Lieutenant Governor

Edmonton, May 5, 1999

Upon the recommendation of the Honourable Minister of Environmental Protection, the Lieutenant Governor in Council, pursuant to section 16(1) of the Forests Act, approves the entry by the Minister of Environmental Protection into a forest management agreement with Canadian Forest Products Ltd. in accordance with the attached Appendix.

Ralph Klein (Chair)

MEMORANDUM OF AGREEMENT

BETWEEN:

HER MAJESTY THE QUEEN in the right of the Province of Alberta, as represented by the Minister of Environmental Protection, (hereinafter referred to as "the Minister"),

OF THE FIRST PART

and

CANADIAN FOREST PRODUCTS LTD. a body corporate, registered under the laws of Alberta, with its head office in the City of Grande Prairie, Alberta, (hereinafter referred to as "the Company"),

OF THE SECOND PART

WHEREAS the Company owns and operates a major lumber production facility ("the sawmill") at Grande Prairie, Alberta for the manufacturing of lumber, woodchips and other forest products with a rated capacity of 165 million board feet of lumber annually; and

WHEREAS the Company owns and operates a fingerjoint plant at Grande Prairie, Alberta for the manufacture of value added lumber and other forest products; and

WHEREAS the Company has formed a strategic alliance with Palliser Lumber Sales Ltd. as approved by the Minister for the manufacture of value added lumber and other forest products; and

WHEREAS the Company is proposing to upgrade the sawmill and fingerjoint plant at Grande Prairie, Alberta in consideration for the Minister agreeing to renew the Company's forest management agreement; and

WHEREAS the Minister, recognizing the Company's needs for a forest management agreement to warrant the continued operation of its facilities, desires to provide for a perpetual sustained yield of timber for such operations; and

WHEREAS it has been mutually agreed by the parties hereto that it is desirable to enter into a revised forest management agreement; and

WHEREAS the Minister desires to provide for sustainable development and economic utilization of timber from the forest management area and stable employment in local communities by maximizing the value of the timber resource base while maintaining a forest environment of high quality;

NOW THEREFORE THIS AGREEMENT WITNESSETH that in consideration of the premises, terms, conditions, covenants, stipulations, agreements and provisions herein contained, the Minister and the Company hereby agree as follows:

DEFINITIONS

1. (1) In this Agreement
 - (a) "annual allowable cut" is the amount of timber that may be harvested in any one year as stipulated in the pertinent forest management plan approved by the Minister;
 - (b) "Crown" means Her Majesty the Queen in right of Alberta;
 - (c) "cubic metre" shall have the same meaning as that prescribed by the Timber Management Regulation;
 - (d) "cut control period" means a period of five consecutive forest management operating years;
 - (e) "Department" means the Department of Environmental Protection of Alberta;
 - (f) "dollar" means Canadian currency of the value of one Canadian dollar, or the equivalent value in any other currency;
 - (g) "forest management area" refers to the tract of forest land over which the Company has been given management rights for establishing, growing and harvesting trees on a perpetual sustained yield basis for a defined period of time; and as specifically defined in paragraph 3;
 - (h) "net forest management area" means the net area for the management area established and agreed upon by the Company and the Minister;
 - (i) "Original Forest Management Agreement" means the forest management agreement entered into between the Minister and Canadian Forest Products Ltd. as authorized by Order-in-Council 1292/77;

- (j) "periodic allowable cut" is the total of the annual allowable cuts approved for a five-year cut control period;
 - (k) "Scaling Regulation" means Alberta Regulation 336/79 authorized by Ministerial Order 40/79 and any amendments thereto or substitutions therefor;
 - (l) "Surface Materials Regulation" means Alberta Regulation 11/78 and any amendments thereto or substitutions therefor;
 - (m) "Timber Management Regulation" means Alberta Regulation 60/73 authorized under Order-in-Council 309/73 and any amendments thereto or substitutions therefor; and
 - (n) "Timber Regulation" means Alberta Regulation 404/92 and any amendments thereto or substitutions therefor.
- (2) Any reference in this Agreement to a statute or regulation of Alberta shall mean for the purposes of this Agreement, those Alberta Statutes and the regulations as each may from time to time be amended respectively or such Acts or regulations as may from time to time be substituted therefor, and terms defined in the Forests Act, or the Public Lands Act, or the regulations made thereunder shall for the purpose of this Agreement, have the meaning given to them by those Acts and regulations as each may be amended or substituted from time to time.
2. (1) This Agreement shall commence on the 5th day of May, 1999, hereinafter referred to as the commencement date, and shall expire on the 30th day of April, 2019 unless renewed under the provisions of subparagraph (3).
- (2) It is the intention of the parties hereto to continue the rights of the Company under paragraph 7 to establish, grow and harvest timber on the forest management area for terms of twenty years if pursuant to subparagraph (3) mutual agreement thereon can be reached by the Minister and the Company and such agreement is approved by the Lieutenant Governor in Council.
- (3) Subject to the approval of the Lieutenant Governor in Council and provided that the Company is not in default as to any of the terms, conditions, stipulations, covenants, agreements and provisions of this Agreement, the Company shall be entitled to a renewal of this Agreement whereby its rights under paragraph 7 to establish, grow and harvest timber are continued on condition that
- (a) the Company gives notice to the Minister during the ninth year following the commencement date of this Agreement of its desire to renew this Agreement; and
 - (b) mutually acceptable terms, conditions, stipulations, covenants, agreements and provisions including further renewal provisions or other requirements can be renegotiated at the time of renewal.
- (4) Within sixty days of receiving such notice under subparagraph (3)(a), the Minister shall commence discussions with the Company to negotiate the terms, conditions, stipulations, covenants, agreements and provisions of the renewal agreement.

- (5) The Company and the Minister shall act reasonably and continue to carry out negotiations in an attempt to agree on a renewal Agreement with a term of twenty years and have it approved by the Lieutenant Governor in Council prior to the tenth anniversary of this Agreement.
- (6) The Company and the Minister may agree to commence negotiations earlier than provided for in subparagraph (3).

FOREST MANAGEMENT AREA

3. The Minister and the Company hereby enter into this forest management agreement in respect of the forest management area comprising, subject to paragraphs 4, 5, and 6, public lands within the boundaries shown outlined on a map registered in the Department, a copy of which is annexed hereto as Appendix "A".
4. Out of the forest management area the following are excepted:
 - (a) lands that are the subject of a disposition issued pursuant to the Public Lands Act prior to the date of this Agreement or lands in respect of which a disposition under the Public Lands Act is pending prior to the date of this Agreement.
 - (b) lands which have been reserved under Section 17(d) of the Public Lands Act or in respect of which a reservation is pending, in either case, prior to the date of this Agreement;
 - (b) the beds and shores of all permanent and naturally occurring bodies of water and all naturally occurring rivers, streams, watercourses and lakes; and
 - (d) lands contained within any Provincial Park, Forest Recreation area, Natural Area or Ecological Reserve prior to the date of this Agreement.
5. Whenever any of the productive or potentially productive land excepted under paragraph 4(a), (b), or (c) or subsequently withdrawn from the forest management area becomes available for disposition and where such land is intended to be returned to timber production by the Minister, the Minister shall return these lands back to the forest management area in a productive or potentially productive state.

WITHDRAWALS

6. (1) The Minister may, at any time in his discretion, after consultation with the Company with respect to the effect any such withdrawal may have on the forest management area, either permanently or for a specified term, withdraw from the forest management area:
 - (a) any land which cannot be logged without causing substantial harm to the water table or to lakes, rivers, streams or other bodies of water, to the margins of water courses or to roads;
 - (b) any lands required for rights-of-way, water resource and agricultural development or for any other purposes deemed by the Minister to be required for the human or physical resource development of the Province;

- (c) any lands required for commercial and industrial purposes; and
 - (d) any lands which are not capable of producing timber.
- (2) A withdrawal shall take effect:
- (a) on the date the notice of withdrawal is given by the Minister to the Company, or
 - (b) where the notice given states that the withdrawal shall take effect at a future date, on the date stated in the notice.
- (3) In the event from time to time of any withdrawal or withdrawals of land from the forest management area by the Minister under subparagraph (1) then, except as provided in subparagraphs (4) and (5), the Company shall be entitled to reasonable compensation from the users of the area withdrawn for any loss of profit or other damage or loss suffered by the Company, including by way of example, but without limitation, damage to coniferous timber, improvements, regeneration, forest growth, or to its operations on the forest management area resulting from such withdrawal. There shall be a separate calculation for coniferous and deciduous timber.
- (4) The Minister may from time to time
- (a) designate certain uses for which the withdrawal of lands under subparagraph (1) shall be exempt from subparagraph (3) and where the Minister has so designated, the compensation with respect to such withdrawals and uses shall be as set out in subparagraph (5),
 - (c) with the consent of the Company and without compensation to the Company, withdraw lands from the forest management area for long-term use for the purpose of the Company's enhanced forest management programs.
- (5) In the event from time to time of any withdrawal or withdrawals of land from the forest management area by the Minister under subparagraph (1) for use by the Crown, and for uses designated for exemption by the Minister in subparagraph (4)(a), wherein the cumulative net aggregate area withdrawn:
- (a) does not exceed 2% of the net forest management area, the Minister shall determine the compensation and arrange for reimbursement to the Company for the actual loss or damage resulting from such withdrawal to any improvements created by the Company's efforts, but not for any loss of profit, inconvenience nor increased costs reasonably incurred by the Company in harvesting an equivalent volume of timber elsewhere;
 - (b) does exceed 2% of the net forest management area, the Minister shall determine the compensation in respect of such excess and arrange for reimbursement to the Company for any increased costs reasonably incurred by the Company in replacing the lost volume of timber and for any loss or damage suffered by the Company, including damage to timber, regeneration, forest growth, improvements, or to its operations on the forest management area.

- (6) For the purposes of applying subparagraph (5), the cumulative net area withdrawn shall be calculated taking into consideration all exceptions and additions to the forest management area under paragraphs 4 and 5 and all withdrawals under subparagraph (1).
- (7) Compensation under subparagraphs (5)(a) and (b) may be monetary or by the addition of available public lands to the forest management area or a combination of both.
- (8) If the administration and control of any of the lands comprising the forest management area is transferred to the Crown in right of Canada, the Company shall be entitled to compensation under subparagraph (5) as if the lands were withdrawn for use by the Crown.
- (9) Monetary compensation received by the Company under this paragraph and paragraph 8(1)(b) shall only be used to offset damage to improvements such as plantations, roads, bridges or other facilities and to replace lost timber resource through
 - (a) enhanced forest management programs, or
 - (b) any other such activities as the Minister may approve.
- (10) The Company shall maintain in the form and the manner approved by the Minister complete and accurate records of the receipt and use of all compensation funds received under this paragraph and paragraph 8(1)(b).
- (11) The Minister may from time to time at his discretion request verifiable documentation of the use of compensation funds received under this paragraph and paragraph 8(1)(b) and the Company shall comply with any such request.

RIGHTS OVER THE LAND

7.
 - (1) Subject to all the terms and conditions of this Agreement, the Minister grants to the Company the right, during the term of this Agreement, to enter upon the forest management area to establish, grow, harvest and remove coniferous timber thereon on a perpetual sustained yield basis, and for the purposes of the construction, operation and maintenance of camps, roads, wood concentration yards and other installations necessary and incidental to the Company's logging and silvicultural operations.
 - (2) The Company shall have the right to harvest deciduous timber on the forest management area from stands which are managed for coniferous production where that deciduous timber has been approved for harvest under the approved annual operating plan.
 - (3) For the purpose of interpreting the Surface Rights Act, the Company is an occupant of the public lands comprising the forest management area.
 - (4) The Minister shall cause land dispositions required within the forest management area for work such as roads, bridges, camps, timber processing operations and other necessary works incidental to the Company's harvesting and silvicultural operations to be issued to the Company without any dues or rental charges being paid but such dispositions shall otherwise be subject to any pertinent regulations.

- (5) Notwithstanding subparagraph (4), the Company may obtain sand and gravel needed for its operations under this Agreement from any vacant public land on the forest management area pursuant to the Surface Materials Regulation, subject to the payment by the Company of all required fees and royalties. In no case, however, shall the Company have to pay fees or royalties for in situ right-of-way material located and used where it is found within the right-of-way.
8.
 - (1) It is recognized by the Minister, that the Company's use of the forest management area for establishing, growing, harvesting and removing timber is to be the primary use thereof and that it is to be protected therein in keeping with the principles of sustainable forest management. In keeping with public values and recognizing that certain portions of the forest management area may have other resource values, the Minister reserves all land rights on the forest management area not specifically given hereby, including by way of example, but without limiting the generality of the foregoing:
 - (a) the right of others to travel, hunt, fish and otherwise use the said lands for recreational purposes, subject only to any necessary restrictions approved by the Minister for the purpose of prevention of accidents, fire control, protection of wildlife and seasonal protection of roads;
 - (b) the right to authorize any person to conduct any work in connection with or incidental to geological or geophysical exploration pursuant to the Mines and Minerals Act, or the Exploration Regulations; provided that the Company shall be entitled to reasonable compensation, from the person or company which holds the authorization to conduct the exploration, for any loss or damage suffered by the Company and resulting from such exploration including by way of example but without limitation, for any damage to coniferous timber or forest growth, regeneration, improvements or to any of its operations on the forest management area; and provided further that the Company shall not be entitled to compensation for damage to coniferous timber or forest growth caused by any such geological or geophysical exploration where the right to cut such timber has been granted to a third party under a timber disposition;
 - (c) the right to maintain or enhance forest resource values, including fish and wildlife resources; and
 - (d) the right to authorize trapping and, after consultation with the Company, to authorize domestic stock grazing provided, however, that the growth performance of the managed species is not impaired and the regeneration will not be damaged by domestic stock grazing to the point where the overall stocking is reduced below the reforestation standard as set out in the Timber Management Regulation and provided the Company's rights to manage the area for timber production is not significantly impaired.
 - (2) The Minister also reserves the following rights to the timber on the forest management area:
 - (a) the right, after advising the Company, to issue deciduous timber allocations, licenses and permits within the forest management area for

the deciduous annual allowable cut as set out in the approved detailed forest management plan;

- (b) the right, after consulting with the company, to manage and reforest deciduous tree species in the forest management area in order to maintain the deciduous annual allowable cut as set out in the approved detailed forest management plan;
 - (c) the right, after consulting with the Company, to increase the deciduous annual allowable cut as a result of enhanced forest management on the deciduous stands identified in the detailed forest management plan;
 - (d) the right, after consulting with the Company, to issue coniferous timber dispositions from within the forest management area to provide timber for local use in construction and maintenance of public works by any local authority, municipality, county, the Crown in the right of Alberta or Canada and for local residents provided, however, that the total volume of timber cut under authority of such timber dispositions does not exceed 0.5% of the Company's approved annual allowable cut; and
 - (e) the right, after consulting with the Company, to issue coniferous timber dispositions from within the forest management area to provide timber for a Community Timber Use program for up to 10,000 cubic metres of coniferous timber annually.
- (3) The Minister and the Company agree to provide, each to the other, in confidence such available information as the Minister and the Company may reasonably request concerning the operations on the forest management area which are authorized under timber dispositions. The Minister shall consult with the Company on an ongoing basis as may be required to minimize any conflict on the forest management area between the operations authorized under the timber dispositions issued pursuant to subparagraph (2) and the operations of the Company.

FOREST MANAGEMENT

A. GENERAL PROVISIONS

9. On the forest management area the Company shall
- (a) follow sound forestry practices including landscape management based on ecological principles in managing the land base for the purpose of achieving and maintaining a perpetual sustained timber yield from the productive forest land without reducing the productivity of the land, and
 - (b) follow sound forestry practices in accordance with Appendix "B".
10. (1) Before the Company submits a plan referred to in subparagraphs (2), (3) and (4) to the Minister for his review and approval, the Company shall
- (a) make the necessary arrangements required for and shall conduct public presentations and reviews of their proposed forest management plans; and

- (b) provide the opportunity for third parties holding timber quota(s) on the forest management area to participate, as specified in the forest management planning manual, in the formulation of the Company's proposed forest management plans to ensure that the long-term sustainable objectives and principles of forest management are maintained.
 - (2) After these presentations and reviews with the public and timber disposition holders, the Company shall incorporate in the forest management plan its response to the concerns raised by the public and timber disposition holders respecting the proposed forest management plan and shall submit this plan to the Minister within the time specified in subparagraphs (3) and (4) as the case may be for the Minister's review and approval.
 - (3) Not more than two years following the commencement date of this Agreement the Company shall submit for the Minister's approval a detailed forest management plan. For greater certainty, prior to approval of the detailed forest management plan, the Company shall conduct its woods operations in accordance with the detailed forest management plan approved under the Original Forest Management Agreement until the earlier of April 30, 2001 and the date the detailed forest management plan is approved under this subparagraph. If the detailed forest management plan is not approved by April 30, 2001, the Minister will set interim levels of harvest and sequencing until the detailed forest management plan is approved.
 - (4) Not later than the tenth anniversary of the commencement date of this Agreement the Company shall submit for the Minister's approval a revised detailed forest management plan, and this revised plan when approved will replace that plan approved under subparagraph (3).
 - (5) The Company shall prepare the forest management plans referred to in subparagraphs (3) and (4) in accordance with the forest management planning manual prepared by the Minister, as amended from time to time. The forest management planning manual contains provisions respecting the contents and preparation of forest management plans, and forest operations prescriptions, including public involvement and decision making processes.
 - (6) The detailed forest management plan under subparagraph (3) shall reflect the maintenance of the relative proportion of timber stands managed for both coniferous and deciduous species as defined by the Phase 3 Forest Inventory and as identified in the detailed forest management plan approved on December 3, 1991. The management strategies in the detailed forest management plan under subparagraph (3) must provide for the sustainability of the annual allowable cut for both the coniferous and deciduous species.
 - (7) The Minister may require the Company, after discussing any proposed changes with the Company, to alter any of the methods described in its forest management plans before approving such plans.
11. Subject to paragraph 10(3), the Company may not commence or carry on any construction project or any operation on the forest management area until the relevant plans which are required to be submitted pursuant to this Agreement have been submitted by the Company and approved in writing by the Minister; and the Company shall not digress from the approved plans, including the detailed forest management

plan approved on December 3, 1991 under the Original Forest Management Agreement, without the Minister's consent in writing with the understanding that the Minister shall provide a full explanation whenever consent is withheld.

12. When, in the opinion of the Minister, any plan approved by him becomes obsolete or inadequate, including the detailed forest management plan approved on December 3, 1991 under the Original Forest Management Agreement, he may, by reasonable notice in writing, require the Company to submit a revised plan for his approval within a specified time, or within any extended time he may subsequently allow.
13.
 - (1) The Minister shall consult with the Company concerning proposed areas and methods of harvesting by holders of timber dispositions in the forest management area before designating the areas in which their operation may be carried on.
 - (2) The Company shall, through sustainable forest management planning, integrate the management of the forest resources with all holders of timber dispositions operating within the forest management area
 - (3) The Minister shall require third party holders of timber dispositions operating within the forest management area to refrain from hindering or obstructing the lawful operations of the Company.
14.
 - (1) The Company shall conduct such forest inventories of the forest management area as are necessary to prepare the plans required by this Agreement.
 - (2) The Company shall maintain a reasonably complete and accurate forest inventory collected to Alberta Vegetation Inventory Standards version 2.1 of the forest management area, or as otherwise mutually agreed, and shall update all depletions and reforestation.
 - (3) The Company shall maintain a growth and yield program as part of the detailed forest management plan on lands within the forest management area.
 - (4) The growth and yield program will include the establishment of a system of permanent sample plots which will be used to monitor the results of different silvicultural systems during the term of this Agreement so as to provide accurate information for the preparation of reliable yield tables for approval by the Minister.
15. All information and data related to the forest management area that has been collected by the Company or the Minister relating to forest inventory, other resource uses, the inventory referred to in paragraph 14(2), growth and yield data, reforestation results, and operational and detailed planning maps shall be made available to the Minister, or the Company, whichever is the case, free of charge upon request and on a confidential basis if so requested.

16.
 - (1) The Company shall conduct their timber harvesting and reforestation operations in accordance with the approved ground rules jointly developed by the Company and the Minister until such time as they are replaced by the new set of ground rules under subparagraph (2).
 - (2) Within six months following the approval of the detailed forest management plan under paragraph 10(3), the Minister and the Company shall jointly develop a new set of ground rules consistent with the management plan objectives, for the preparation of operating plans and to guide harvesting and reforestation operations.
 - (3) In the event that a set of ground rules cannot be established by mutual agreement, the Minister may establish new ground rules which are consistent with the approved detailed forest management plan, but only with the approval of the Lieutenant Governor in Council.
 - (4) At the initiative of either party the established or new ground rules shall be reviewed jointly by the Minister and the Company. These ground rules may be altered by mutual agreement of the Minister and the Company.
17.
 - (1) The term of this Agreement shall be divided into four cut control periods each with a duration of five years. The annual allowable cut shall be recalculated when requested by either the Minister or the Company and not later than by the end of the second control period.
 - (2) If the Company overcuts the periodic allowable cut the Minister shall reduce the allowable cut during the subsequent period by an amount equivalent to the entire overcut volume, except to the extent such overcut results from the salvage of dead, damaged, endangered, diseased, or fire killed timber.
 - (3) Where production is lower than the periodic allowable cut, the Company may submit a program satisfactory to the Minister making up the under cut volume in the subsequent cut control period.
18.
 - (1) The Company shall forthwith upon the commencement of this Agreement establish a forest management operating year that shall commence and end on dates approved by the Minister.
 - (2) The Company shall submit to the Minister annual operating plans in accordance with the ground rules referred to in paragraph 16.
 - (3) Each annual operating plan shall be in accordance with the approved forest management plan and include an operating projection showing the proposed harvesting operation intended by the Company. Such operating projection shall be in accordance with the standards and shall cover the period of time specified in the ground rules referred to in paragraph 16.
 - (4) The Minister may approve such plans as are submitted, or may require the Company, after discussing any proposed changes with the Company, to alter any harvesting operations described in the plans, provided that the Minister shall not thereby alter the ground rules and acts promptly so as to avoid delay in the Company's operations.

- (5) When the annual operating plan does not provide for the salvage of dead, damaged, endangered, diseased or decadent or fire killed timber, the Minister may give notice to the Company that he requires provision for its salvage in such plan. The Company shall have thirty days from the date on which such notice is given to it by the Minister within which to amend the plan, or to justify the exclusion of such timber from its plan. If the Company fails or elects not to do either within such period, the Company shall not be deemed to be in default and the Minister may dispose of such timber to any person by a timber disposition not exceeding one year in duration without compensating the Company and the volume of timber so disposed will be charged by the Minister as production against the forest management area. This charge shall not be greater than the periodic allowable cut.
19. The Company shall use every reasonable effort to purchase round-wood if required by the Company and if offered to the Company at prevailing market prices, provided that the roundwood possesses a standard of quality suitable in the opinion of the Company for use in facilities of the Company.
20. The Company shall utilize all merchantable timber cut in road construction and other incidental operations of the Company unless otherwise permitted in writing by the Minister.
21. The Company shall not hinder or obstruct the lawful timber operations of the holders of timber dispositions.
22. (1) It is recognized that during their operations, holders of timber dispositions may cause some incidental damage to timber. No claim shall be made by the Company against any holder of a timber disposition or the Minister for reasonably unavoidable incidental damage to timber.
- (2) The Minister shall ensure that all timber dispositions issued on the forest management area after the commencement date of this Agreement shall include a provision preventing a claim against the Company for reasonably unavoidable incidental damage to timber.

B. REFORESTATION

23. (1) The Company shall reforest at its own expense all lands
- (a) cut over by the Company under the Original Forest Management Agreement, and that have not been recognized by the Minister as being satisfactorily regenerated; and
- (b) cut over by the Company under this Agreement to the required reforestation standard and shall describe its reforestation program in their management and annual operating plans.
- (2) In this Agreement the required reforestation standard means the reforestation standard under the Timber Management Regulation.

24. (1) As part of its operations under this Agreement the Company shall, at its sole expense, furnish all of the seedling trees and propagules required for its reforestation needs.
- (2) Seed, seedling trees and propagules used for reforestation programs under this Agreement shall be produced in accordance with the rules established by the Minister governing the source and type of tree seed and species used to reforest public land.
25. (1) The Company and the Minister may devise a program designed to carry out silviculture programs on lands in the forest management area capable of supporting tree growth on which the timber was cut over by individuals other than quota holders or the Company or destroyed at any time by natural agencies, such as fire or disease, and which has failed to meet the required reforestation standard.
- (2) The Company shall be solely responsible for reforesting to the required reforestation standard all productive and potentially productive lands burned by fire within the forest management area, when the fire has been caused by the Company, its employees, agents or contractors.
- (3) The Company shall account for the incidental coniferous and deciduous growing stock in its forest management plans, and shall ensure through the approved forest management plans and annual operating plans, that these incidental species of coniferous and deciduous timber components are being replaced through strategies acceptable to the Minister.
- (4) The Company shall annually, and otherwise as requested by the Minister, provide a complete and accurate record of the Company's activities under this paragraph in a format acceptable to the Minister.
26. (1) The Company may devise and implement enhanced forest management practices than those required under this Agreement. The Company and the Minister may enter into an agreement which will define the programs and conditions that, in the Minister's opinion, will establish a sustainable increase in the allowable cut approved by the Minister in the Company's management plans submitted under paragraph 10.
- (2) Where the Company implements the enhanced forest management program under the terms of such an agreement, and where the Minister and the Company agree on the amount of additional allowable cut which will result from the Company's silvicultural efforts over and above those required under this Agreement and the *Forests Act*, then such additional allowable cut shall be offered by the Minister to the Company free of timber dues provided the Minister has been duly authorized to do so by a regulation passed under section 4 of the *Forests Act*.
- (3) The additional allowable cut resulting from the Company's enhanced forest management efforts will only be offered to the Company after the Company has fully utilized the annual allowable cut approved in the Company's management plans.

- (4) The additional allowable cuts agreed upon by both parties under subparagraph (3) shall not be used for the purpose of calculating the periodic allowable cuts for cut control purposes specified in paragraph 17.
27. The Minister shall be responsible for insuring that forest lands on the forest management area cut over after the commencement date by persons other than the Company, are reforested to the required reforestation standard.

C. FOREST PROTECTION

28. (1) The Minister agrees to provide and maintain an organization of people and equipment necessary for the protection of the forest from and suppression of forest fires on the forest management area and, except as herein otherwise provided, to pay the cost of fighting any forest fire that originates on the forest management area on the understanding that the Minister will not be liable for damages to the Company resulting from a failure to prevent, control or suppress any fire.
- (2) Notwithstanding subparagraph (1), the Company shall pay the cost of suppressing any forest fire that originates on the forest management area if the fire is caused by or arises out of any of the operations or activities conducted on the forest management area by the Company, their employees, agents or contractors; provided, however, that in no event shall the liability of the Company exceed the liability provided for in a separate Fire Control Agreement which may be negotiated and entered into by the Minister with the Company. Until such time as a Fire Control Agreement has been entered into, the Company agrees to have on hand in good working order such fire fighting equipment and shall train such employees in fire suppression as specified by the Minister. If the cause of any fire is disputed by the Company, the dispute shall be resolved by means of civil suit in the Courts of Alberta.
- (3) Notwithstanding anything contained in this Agreement, the Company shall not be liable for loss of or damage to Crown timber by fire that is caused by or arises out of any of the operations or activities conducted on the forest management area by the Company, its employees, agents or contractors.
- (4) In the event of an occurrence of insect damage of epidemic nature to forest growth or a disease epidemic affecting forest growth on the forest management area the parties hereto will cooperate in suppressing the epidemic.

RECORDS AND SCALING

29. (1) All scaling and measuring of timber weights and volumes shall be conducted in accordance with the Timber Regulation, the Scaling Regulation and the published instructions of the Department.
- (2) The Company shall maintain in the form and in the manner approved by the Minister complete and accurate records of the operations it conducts on the forest management area.
- (3) The Minister, or any person authorized by the Minister, may inspect the records maintained by the Company pursuant to subparagraph (2).

30. (1) Unless otherwise prescribed in the Timber Management Regulation, within thirty days of the termination of every calendar quarter, the Company shall submit in confidence to the Minister in writing, in a form prescribed by the Minister, a return reporting
- (a) the volume of timber cut by and for the Company;
 - (b) the volume of timber cut or destroyed by others for which the Company is entitled to compensation under this Agreement;
 - (c) the volumes of primary timber products manufactured and sold by and for the Company from their manufacturing facilities in Alberta; and
 - (d) at the request of the Minister, the volume of timber and primary timber products purchased for use in it's mills in Alberta, the names of all persons from whom timber and primary timber products were purchased, the geographic destination of timber and primary timber products sold by the Company from it's operations in Alberta, and the land from which the timber was cut.
- (2) The Company shall remit to the Minister with its returns the amount of all dues payable for the volume of timber shown on such returns.

CHARGES AND DUES

31. (1) Once a year during the term of this Agreement, the Company shall pay to the Minister on or before a date specified by the Minister a holding and forest protection charge.
- (2) Initially, the charge in subparagraph (1) will be \$291,911.
- (3) Subsequent holding charges and forest protection charges shall be adjusted annually on the anniversary of the commencement date of this Agreement using the Annual Implicit Price Index for government current expenditure in goods and service, as published by Statistics Canada, in the following formula:

$$\text{Charge for Year of Payment} = \text{Charge for Previous Year} \times \frac{\text{Index for Year Prior to Year of Payment}}{\text{Index for Second Year Prior to Year of Payment}}$$

Example:

$$2000 \text{ Holding and Protection charge} = \$291,911 \times \frac{1999 \text{ Index}}{1998 \text{ Index}}$$

In the event that the Annual Implicit Price Index is no longer published or in the event of a change in the method used to calculate the Index, the Minister and the Company shall mutually and reasonably agree on a comparable published index to be used in the above formula.

- (4) Notwithstanding subparagraph (3), the Lieutenant Governor in Council may by regulation establish the amounts of annual holding and protection charges to be paid by the Company. After five years following the commencement date of this Agreement, if the holding and protection charges are established by regulation then the holding and protection charges established by regulation shall replace those charges established under this paragraph provided those regulations are of general application (subject only to limitations imposed by contract).
 - (5) When the net forest management area is larger or small than the initial net forest management area by more than 2%, the annual holding and forest protection charges otherwise payable by the Company under this Agreement shall be adjusted proportionately by the full percentage increase or decrease, as the case may be.
 - (6)
 - (a) the holding and forest protection charges otherwise payable by the Company shall be reduced by the eligible expenditures actually made by the Company in carrying out the approved forest protection plans submitted under subparagraph (8).
 - (b) eligible expenditures can only be used to reduce the holding and protection charges otherwise payable in the year following the year the expenditures were made and then only to the limit of those charges.
 - (7) For the purposes of subparagraph (6), expenditures shall not include costs of suppressing forest fires or epidemics of insects or disease.
 - (8) The Company shall submit annually a forest protection plan for the Minister's approval.
 - (9) The forest protection plan shall include a description and an estimated cost for those proposed expenditures the Company wishes to claim under subparagraph (6). Within thirty (30) days of submission of the forest protection plan, the Minister shall indicate those proposed expenditures that are eligible to reduce the holding and forest protection charges otherwise payable by the Company.
 - (10) The Company shall annually submit an audited financial report detailing how much was spent by the Company in implementing the plans referred to in subparagraph (8). The audited financial reports shall be prepared by an independent, qualified auditor and shall be prepared in accordance with the Canadian Institute of Chartered Accountants Handbook.
 - (11) The Company shall maintain and retain for three years such records of the expenditures claimed under subparagraph (6) as would allow a proper audit of these expenditures and shall, during normal business hours, make available to the Crown, including but not limited to Crown appointed auditors, the existing records in whatever form relating to those expenditures.
32. (1) For all timber on the forest management area cut by or for the Company or for which the Company is entitled to compensation, the Company shall pay to the Minister timber dues at the rates established under the Timber Management Regulation.

- (2) Notwithstanding subparagraph (1), for all wood cut by or for the Company and processed into lumber through the Grande Cache Sawmill, the Company shall pay to the Minister timber dues up to December 31, 2001 at 60% of the general rate of timber dues for coniferous timber used to make lumber as established pursuant to the Timber Management Regulation.
- (3) The Company shall maintain a program to enhance the management activities and level of understanding of the forest resources and forest products within the forest management area. The minimum annual funding will be \$0.25 per cubic metre based on all coniferous timber cut by or for the company from the forest management area.
- (4) The Company shall annually, and as otherwise requested by the Minister, provide a report that details the activities of the program referred to in subparagraph (3).

FACILITY OPERATION AND FMA RENEWAL COMMITMENTS

33. (1) The Company shall upgrade its sawmill and fingerjoint plant (the "facilities") at Grande Prairie, Alberta at a minimum capital cost of \$33 million.
- (2) The Company shall complete the upgrade of the facilities under subparagraph (1) within sixty months following the commencement date of this Agreement as follows:
 - (a) within twenty-four months following the commencement date of this Agreement, the Company shall have expended \$15 million towards the initial upgrade of the facilities, and
 - (b) within sixty months following the commencement date of this Agreement the Company shall have expended an additional \$15 million towards the upgrade of the facilities.
- (3) If the Company fails to complete the upgrade of the facilities in accordance with subparagraph (2), the Minister may, without compensating the Company, withdraw from the forest management area an area to be determined by the Minister which has a yield of approximately 50,000 cubic metres of coniferous timber annually on a perpetual sustained yield basis.
- (4) No later than the tenth anniversary of the commencement date of this Agreement, the Company shall submit to the Minister a proposal for a forest industry project (the "forest project"), including an implementation timetable, that is acceptable to the Minister.
- (5) If the proposal is acceptable to the Minister, the Company shall proceed in a timely and diligent manner to pursue the necessary environmental and other regulatory approvals and permits required in respect of the forest project.
- (6) The Company shall complete the forest project not later than May 1, 2014.

- (7) If the Company fails to submit a forest project acceptable to the Minister under subparagraph (4) or fails to commence construction of the forest project within the time set out in the approved proposal or complete the forest project by May 1, 2014, the Minister may, without compensating the Company, withdraw from the forest management area those lands depicted on Appendix "C" as "withdrawal lands for the forest project."
34. When requested by the Minister of Economic Development from time to time during the term of this Agreement, the Company shall provide the Minister of Economic Development with a report on its procurement of labour, supplies and materials for the Mill.
35. (1) If, at any time the sawmill at Grande Prairie, Alberta ceases to be in production and operation for a period of six consecutive months, the Company shall have no right to and shall not harvest coniferous timber on the forest management area. The Minister shall have the right to issue short term timber dispositions to third parties on the forest management area for up to 100% of the approved annual allowable cut until such time as the Company advises the Minister in writing of its intentions to resume production and operation of the sawmill.
- (2) If, at any time either of the facilities described in paragraph 33(1) ceases to be in production and operation for a consecutive period of twelve months without the consent of the Minister, the Minister shall have the right to cancel this Agreement by giving written notice to the Company within a further period of six months.
- (3) Notwithstanding subparagraph (2), if the Company submits a proposal for a project to replace the facilities described in subparagraph (1), including an implementation timetable, which proposal is acceptable to the Minister, the Minister shall delay exercising his right to cancel this Agreement.
- (4) If the Company has submitted a proposal acceptable to the Minister under subparagraph (3) and, in the opinion of the Minister, the Company is not carrying out the proposal in accordance with its terms, the Minister may cancel this Agreement.
- (5) The Company will notify the Minister, in writing, of any intended major reduction in production levels of the facilities, and such notification will be submitted to the Minister at least two weeks prior to the intended reduction taking effect.

GENERAL PROVISIONS

36. (1) If the Company at any time is in default under any of the covenants, terms, conditions, provisions, agreements and stipulations in this Agreement, the Minister may give notice to the Company setting out the default complained of and requiring the Company to remedy the default within six months of the giving of notice.
- (2) If the default is not reasonably capable of being remedied within six months the Company and the Minister may agree on a schedule for rectification and the Company will not be deemed to be in default under either this paragraph or paragraph 39(1) if the Company is proceeding diligently to meet the requirements of that schedule.

- (3) The Lieutenant Governor in Council may from time to time extend the period during which the Company is required to remedy any default complained of in a notice given pursuant to subparagraph (1).
37. The Minister shall have the right to have the Company perform all the covenants, terms, conditions, stipulations, provisions and agreements and obligations upon it as contained in this entire Agreement or to sue the Company for damages for any breach or breaches thereof and the Minister shall also have the right to cancel this Agreement as set forth in paragraph 39 and the rights of the Minister to have the Company perform the Agreement and to sue for damages as aforesaid as well as the right of cancellation shall be construed as additional remedies to forfeiture and not an alternative to it.
38. When any default or delay by the Company in the performance or observance of any of the terms, conditions, provisions, agreements, covenants and stipulations of this Agreement is occasioned in whole or in part through:
- (a) industrial disputes,
 - (b) governmental review or judicial proceedings respecting the possible environmental impact of the mill facilities, or
 - (b) interruption which is not the result of any wilful or negligent act or omission by the Company, such as power failure, fire, sabotage, tempest, war or acts of God

and not avoidable by reasonable effort or foresight, the Company shall not be deemed in default under this Agreement and the time for performance or observance of such term, condition, provision, agreement, covenant or stipulation shall be extended by such reasonable period of time as the Minister may specify in writing to the Company.

39. (1) Except as otherwise provided in paragraph 35 the Minister may, by giving the Company ninety (90) days notice in writing, cancel this Agreement when:
- (a) any goods or chattels of the Company, which are located in or about the City of Grande Prairie, Alberta, and which constitute a material part of the Company's assets located thereat, are lawfully seized or taken in execution by a creditor of the Company, and the Company has failed to take any legal action to contest the same within ninety (90) days after such seizure or taking, or
 - (b) the Company makes any general assignment for the benefit of its creditors or an assignment in bankruptcy or takes the benefit of any Act in force for bankrupt or insolvent debtors, or
 - (c) the Company fails from time to time to observe or perform any of the covenants, stipulations, terms, conditions, provisions and agreements required to be observed or performed by the Company under this Agreement, and having been given notice of such failure under paragraph 36 of this Agreement, fails to remedy such failure within the time allowed by the said paragraph for so doing, or any extension thereof given by the Lieutenant Governor in Council.

- (2) Subparagraphs (1)(a) and (b) do not apply if a trustee for the holders or receiver managers or the holders themselves of bonds, debentures, or other securities of the Company exercises any rights or remedies contained in any deed of trust or mortgage or other agreement under which such bonds, debentures or other securities are issued or secured, including but without restricting the generality of the foregoing, the taking of possession by the trustee, receiver managers or the holders themselves of the Company's properties and assets and the operation or disposition thereof for the benefit of the holders of the Company's bonds, debentures or other securities.
40. The Minister does not guarantee any quality or quantity of timber on the forest management area.
41. No implied contract of any kind by or on behalf of the Minister shall arise or be construed from anything contained in this Agreement and the only rights, powers and privileges granted to the Company are those contained in this Agreement.
42. The Minister and the Company agree that the lines on the map shown in Appendix "A" hereunto annexed are intended, where those lines outline areas that are not surveyed, to be the survey lines of the townships, sections, or half sections, as the case may be, that would exist if such areas were surveyed under the system of township surveys prescribed by the Surveys Act of Alberta.
43. The Company shall comply with and observe all the provisions and requirements of all relevant Acts of the Province of Alberta and the regulations thereunder in force from time to time that apply to the Company or to this Agreement either specially or generally by express wording or by implication.
44. The Company shall during the term of this Agreement maintain an office in the Province of Alberta and maintain a registration under the *Business Corporations Act* and its regulations.
45. (1) Excepting a dispute arising under paragraph 28(2), where any dispute arises between the parties to this Agreement concerning the application or interpretation of this Agreement the dispute may be referred to arbitration pursuant to the *Arbitration Act* but only upon the mutual agreement of both parties.
- (2) Where both parties do not agree to refer a dispute concerning this Agreement to arbitration as provided in subparagraph (1), the dispute shall be resolved by means of civil action before the Courts of the Province of Alberta.
46. (1) The Company shall not assign this Agreement or any of the rights granted to it by this Agreement without the consent of the Minister in writing and such consent may in his sole discretion be withheld. Where the Minister refuses consent to an assignment, he shall advise the Company in writing of his reasons for so refusing.

- (2) Subparagraph (1) does not apply to:
- (a) the employment of one or more contractors in the normal conduct of its operations;
 - (b) an assignment or transfer of this Agreement by way of mortgage or charge or the grant of a security interest in this Agreement to lenders to or trustees for lenders to the Company.
47. Any waiver by the Minister of the strict performance by the Company of its covenants or of any term, condition, stipulation, agreement or provision under this Agreement is not binding upon the Minister unless such waiver is expressed in writing under the authority of the Minister, and any such waiver or any extension of time granted by the Lieutenant Governor in Council hereunder shall not abrogate such or any covenant, term, condition, stipulation, agreement or provision herein or constitute a waiver or extension of time as to any subsequent breach of the same or any other covenant, term, condition, stipulation, agreement or provision herein.
48. The Company covenants and agrees to observe, perform and keep all covenants, terms, conditions, stipulations, agreements and provisions herein on its part to be observed, performed and kept and time shall be and remain of the essence thereof and notwithstanding any binding waiver given by the Minister as referred to in paragraph 47 or any extensions of time given by the Lieutenant Governor in Council under this Agreement that thereby may affect the time for performing any particular act, covenant, term, condition, stipulation, agreement or provision of this Agreement herein, time shall remain of the essence pertaining to all subsequent performance by the Company of any and all acts, covenants, terms, conditions, stipulations, agreements and provisions herein contained and to this entire Agreement.
49. The Company assumes liability for and shall pay all claims of the Minister for all damages to any real or personal property (other than timber) of the Crown caused by the Company, its servants, agents, workmen and contractors, whether or not the damage so caused is due to the negligence of the Company, its servants, agents, workmen and contractors, as the case may be.
50. The Company agrees to hold the Minister harmless against any and all third party claims, demands or actions for which the Company is legally responsible, including those arising out of negligence, willful harm, or crimes by the Company or the Company's employees or agents.
51. The Company shall submit to the Minister when required any information or documents the Minister may reasonably request in respect of matters relating to this Agreement for the purpose of verifying the Company's continued compliance with the terms of this Agreement.

52. Any notice required to be given under this Agreement shall be deemed to be well and sufficiently given if delivered to the address set out below or if mailed at any government post office by prepaid registered mail addressed as follows:

(a) to the Company:

Canadian Forest Products Ltd.
Alberta Region
Postal Bag 100
Grande Prairie, Alberta
T8V 3A3

(b) to the Minister:

Minister of Environmental Protection
Legislature Building
Edmonton, Alberta
T5K 2B7

or to such other address any party may from time to time inform the other party in writing, and any such notice shall be deemed to have been received on the fourth business day after the mailing thereof, or if delivered, when delivered; provided that if mailed should there be between the time of mailing and the actual receipt of the notice a mail strike, slow down or other labour dispute which might affect the delivery of such notice then such notice shall only be effective if and when actually delivered.


53. This Agreement is made subject to its approval by the Lieutenant Governor in Council.

54. This Agreement inures to the benefit of and is binding upon the Crown and Her assigns, and the Company and its successors and assigns if approved by the Minister in accordance with the provisions of this Agreement.

55. This Agreement shall be construed as having been made in the Province of Alberta and the laws of the Province of Alberta shall be applied in the event of any action or arbitration mutually agreed to, respecting any dispute arising from this Agreement, its formulation, interpretation, and each and every other aspect pertaining to or resulting from its entire contents.

IN WITNESS WHEREOF the party of the first part executes this Agreement under the hand of the Minister subscribed hereunder and the party of the second part executes this Agreement by subscribing hereunder the signatures of its duly authorized corporate officers at Edmonton, Alberta, this 22nd day of June, 1999.

Her Majesty the Queen
in Right of Alberta



Witness



Minister of Environment

Witness

Canadian Forest Products Ltd.

Witness

Per: 

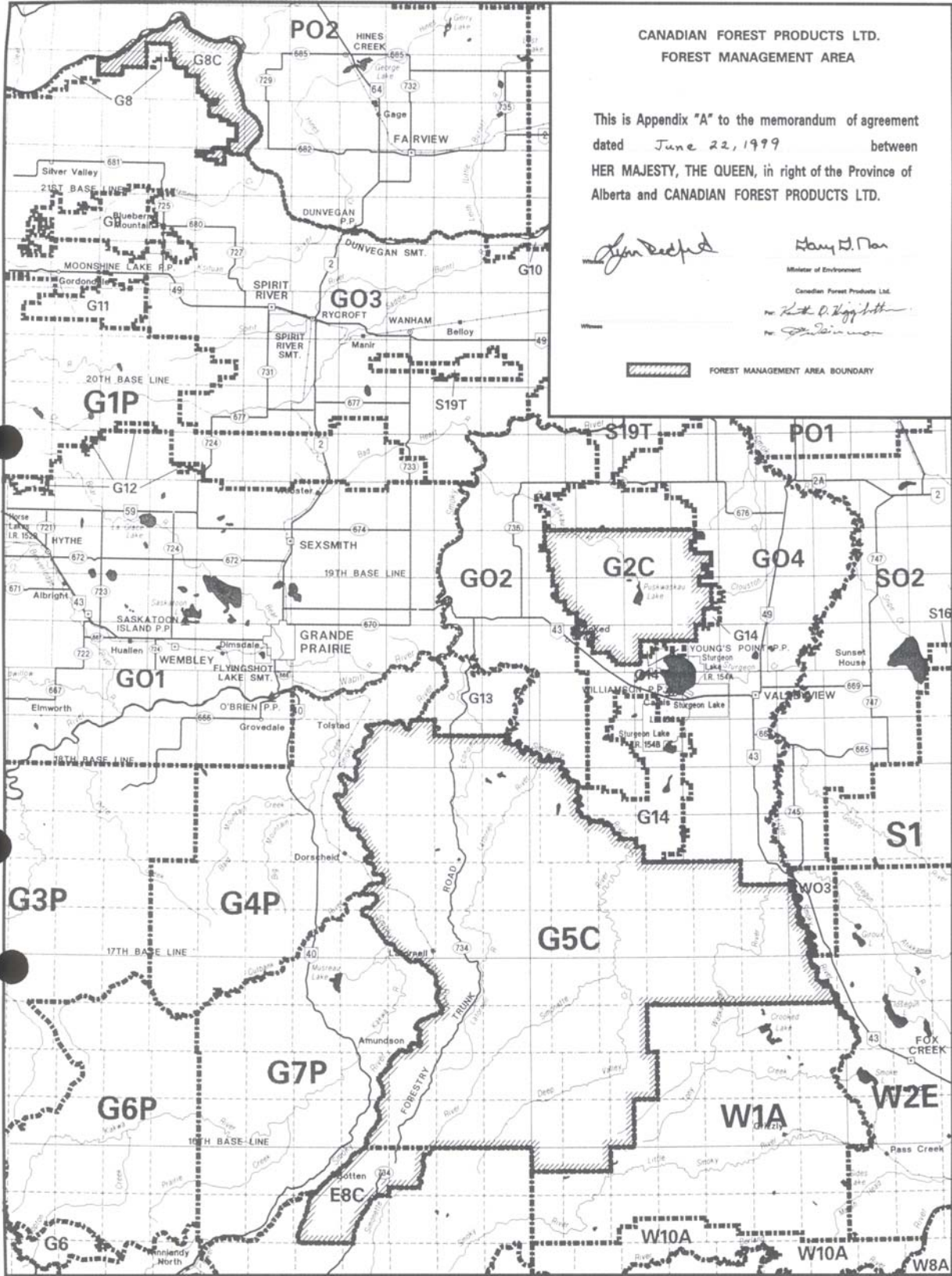
Group Vice President

Witness

Per: 

Vice-President
And Secretary

APPENDIX "A"



CANADIAN FOREST PRODUCTS LTD.

APPENDIX "B"

The coniferous and deciduous timber growing on the forest management area shall be managed, harvested and reforested in accordance with the provisions of this Agreement including the following guidelines:

1. For planning purposes, timber stands in the forest management area shall be classified in accordance with the forest timber type classification as designated on maps produced using Alberta Vegetation Inventory Standards version 2.1 or such other criteria as may be approved by the Minister.
2. As a benchmark, allocation of the forest land base in the forest management area will be guided by the principles set out in Appendix "B" of the forest management agreement approved by Order in Council 1292/77 as amended from time to time. Any changes to the proportionate land base allocations of Phase 3 to AVI must be approved by the Minister in writing through the detailed forest management plan under paragraph 10.
3. For purposes of establishing the benchmark, stands in the forest management area will be managed and harvested in accordance with the following provisions:
 - (1) Pure coniferous and mixedwood stands (C, CD, and DC) and pure deciduous stands with established coniferous understorey identified on timber type maps produced under paragraph 1 of this Appendix and which form part of the coniferous cut in the detailed forest management plan approved on December 3, 1991 or, when approved, in the detailed forest management plan referred to in paragraph 10(3), shall be managed for coniferous production. The detailed forest management plan shall provide for the sustainability of the volume of deciduous timber harvested from those stands managed for coniferous production.
 - 2) All pure deciduous stands (D and D(C)) except for those identified in subparagraph (1), shall be managed for deciduous production. The detailed forest management plan shall provide for the sustainability of the volume of coniferous timber harvested from those deciduous stands managed for deciduous production.
3. Other companies to be designated by the Minister (each hereinafter referred to as the "Deciduous Company") shall have the right to harvest deciduous timber in the forest management area by means of deciduous timber dispositions. No Deciduous Company shall have rights to the coniferous timber on the forest management area.
4. So as to accommodate the full utilization of the timber resource growing on the forest management area by incorporating the integration of deciduous and coniferous mixedwood harvesting on a joint "one-pass" system, or such other harvesting systems as may be approved by the Minister from time to time, the Minister will require:
 - (a) the appropriate Deciduous Company to contact the Company and make mutually agreeable arrangements for the harvest and removal of the coniferous timber from deciduous cutovers; and
 - (c) the Company to contact the appropriate Deciduous Company and make mutually agreeable arrangements for the harvest and removal of the deciduous timber from coniferous cutovers.

5. All secondary species of coniferous and deciduous timber shall be felled, skidded and decked and made available to either party as the case may be in accordance with a mutually acceptable business arrangement between the Company and the appropriate Deciduous Company.
6.
 - (1) Harvesting of deciduous timber by the Company shall be subject to the prior approval of their annual operating plan submitted pursuant to this Agreement. The deciduous timber cut by the Company will be made available to the Deciduous Company through mutually agreeable arrangements under paragraphs 5 and 6 of this Appendix "B".
 - (2) Harvesting of coniferous timber by the Deciduous Company shall be subject to the prior approval of their annual operating plan submitted pursuant to their active timber dispositions. The coniferous timber cut by the Deciduous Company will be made available to the Company through mutually agreeable arrangements under paragraphs 5 and 6 of this Appendix "B".
7. Unless otherwise agreed to by the Minister, the Company shall have no rights in or to any deciduous timber harvested by the Company on the forest management area.
8. The Minister may allow the Deciduous Company to harvest merchantable deciduous trees from stands designated in the approved annual operating plan even if they contain a coniferous understorey, provided that damage to the coniferous understorey is minimized through current harvesting techniques. Where the Minister, after consulting with the Company, determines that appreciable damage is being done to the coniferous understorey, the Minister shall order the cessation of timber harvesting operations being carried out by the Deciduous Company in those stands.
9. All coniferous timber cut on the forest management area shall be considered as production against the forest management area.
10. If the Company and a Deciduous Company are unable to make a mutually acceptable arrangement as required by either of paragraphs 5 or 6 of this Appendix "B" the issue will be referred to arbitration pursuant to the *Arbitration Act*.

APPENDIX "C"

