

GOVERNMENT OF THE PROVINCE OF ALBERTA

FORESTS ACT FOREST MANAGEMENT AGREEMENT

(O.C. 218/2009)

MEMORANDUM OF AGREEMENT

BETWEEN:

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

OF THE FIRST PART

and

ANC TIMBER LTD., a body corporate, registered under the laws of Alberta, with a business office in Whitecourt, Alberta (hereinafter referred to as "the Company"),

OF THE SECOND PART

WHEREAS the Company owns and operates a chemithermomechanical pulp and paper mill ("the mill") in the vicinity of Whitecourt, Alberta, (for the manufacture of newsprint and which was built at a cost of approximately \$400 million to the Company resulting in significant permanent, full-time employment for local communities. The mill is the premier newsprint mill in North America in terms of newsprint quality, safety, and environmental performance. The Company has implemented many long-term initiatives that have improved the forest resources on the Company's forest management area); and

WHEREAS the Minister desires to provide for the fullest possible economic utilization of forest stands and employment in local communities, and to ensure a perpetual supply of benefits and products while maintaining a forest environment of high quality; and

WHEREAS it has been mutually agreed by the parties hereto that it is desirable to enter into this forest management agreement to replace the forest management agreement authorized under O.C. 313/89;

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) "Agreement" means this forest management agreement including all appendices or schedules attached hereto, and any written amendments made hereto from time to time by agreement of all the parties;

- (b) "annual allowable cut" is the amount of timber that may be harvested in any one forest management operating year as stipulated in the pertinent forest management plan approved by the Minister;
 - (c) "commencement date" has that meaning provided for in paragraph 2(1);
 - (d) "Crown" means Her Majesty the Queen in right of Alberta;
 - (e) "cubic metre" shall have the same meaning as that prescribed by the Timber Management Regulation;
 - (f) "cut control period" means a period of five consecutive forest management operating years or as otherwise mutually agreed by the Minister and the Company;
 - (g) "Department" means the Department of Sustainable Resource Development;
 - (h) "Dispositions and Fees Regulation" means Alberta Regulation 54/2000;
 - (i) "dollar" means Canadian currency of the value of one Canadian dollar, or the Canadian equivalent value in any other currency;
 - (j) "forest management area" refers to the tract of forest land as specifically defined in paragraph 3;
 - (k) "forest management operating year" shall mean the operating year established pursuant to paragraph 18(1);
 - (l) "forest planning standards" shall mean those forest planning standards prescribed by the Minister as amended from time to time;
 - (m) "original net forest management area" means the net area of the forest management area established as of the commencement date and agreed upon by the Company and the Minister;
 - (n) "periodic allowable cut" is the total of the annual allowable cuts approved for a five-year cut control period or as otherwise mutually agreed by the Minister and the Company;
 - (o) "Scaling Regulation" means Alberta Regulation 195/2002;
 - (p) "Timber Management Regulation" means Alberta Regulation 60/73; and
 - (q) "Timber Regulation" means Alberta Regulation 404/92.
- 1 (2) Any reference in this Agreement to an Act or regulation of Alberta shall mean for the purposes of this Agreement, those Alberta Acts and the regulations thereunder as each may from time to time be amended respectively or such Acts or regulations as may from time to time be substituted therefore, and terms defined in the *Forests Act* or the *Public Lands Act*, or the regulations made thereunder shall, for the purposes 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 first day of May, 2009 (hereinafter referred to as the "commencement date"), and shall expire on the last day of April, 2029 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, harvest, and remove timber on the forest management area for additional terms of twenty years if pursuant to subparagraph (3), 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 or provisions of this Agreement, the Company shall be entitled to a renewal of this Agreement whereby its rights under paragraph 7 to establish, grow, harvest, and remove timber are continued on condition that:

- (a) the Company gives notice to the Minister during or after the eighth year following the commencement date 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 negotiated at the time of renewal.
- (4) Within sixty (60) days of the Company giving a notice under subparagraph (3)(a), the Company and the Minister shall commence good faith negotiations in an attempt to agree on a renewal of the Agreement with a term of twenty years and have it approved by the Lieutenant Governor in Council.
- (5) The Company and the Minister may agree to commence negotiations at times other than that provided for in subparagraph (3).

FOREST MANAGEMENT AREA

- 3 The Minister and the Company hereby enter into this 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 with the Department, a copy of which is annexed hereto as Appendix "A".
- 4 Out of the area shown within the boundaries outlined in Appendix "A" the following are excepted:
- (a) lands which are the subject of a disposition issued pursuant to the *Public Lands Act*, other than a Forest Grazing Licence, prior to the commencement date or lands in respect of which a disposition under the *Public Lands Act*, other than a Forest Grazing Licence, has been approved but which issuance is pending prior to the commencement date;
 - (b) lands which have been reserved under section 18(c) of the *Public Lands Act* prior to the commencement date or in respect of which a reservation has been approved but which has not been granted prior to the commencement date;
 - (c) 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, Provincial Recreation Area, Natural Area or Ecological Reserve existing prior to the commencement date.
- 5 Whenever any of the land excepted under paragraph 4 or subsequently withdrawn pursuant to paragraph 6 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 notify the Company when such land becomes available and where the Company requests that such land be returned to timber production by the Minister, the Minister shall return these lands back to the forest management area.

WITHDRAWALS

- 6 (1) The Minister may, at any time and from time to time in the Minister's 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 harvested 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 or water resource development;
 - (c) any lands required for any other purposes deemed by the Minister to be required for the human or physical resource development of the Province;
 - (d) any lands required for commercial or industrial purposes; and
 - (e) any lands that are not capable of producing timber unless those lands are required to support forest management planning objectives in the approved forest management plan.
- (2) A withdrawal shall take effect:
 - (a) on the date that a notice of withdrawal is given by the Minister to the Company, or
 - (b) where the notice given to the Company states that the withdrawal shall take effect on a future date, on the date stated in the notice.
- (3) In the event from time to time, after consultation with the Company, of any withdrawal or withdrawals of land from the forest management area by the Minister under subparagraph (1):
 - (a) for disposition to users other than the Crown, the Company shall be entitled to reasonable compensation from the users of the area withdrawn 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, improvements, regeneration, forest growth, or to its operations on the forest management area resulting from such withdrawals;
 - (b) for use by the Crown wherein the cumulative net aggregate area withdrawn does not exceed 1% of the original 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;
 - (c) for use by the Crown wherein the cumulative net aggregate area withdrawn does exceed 1% of the original 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, improvements, regeneration, forest growth, or to its operations on the forest management area.
- (4) The Minister may, from time to time, designate a withdrawal of lands under subparagraph (1) as exempt from subparagraph (3)(a) and where the Minister has so designated, the compensation with respect to such withdrawal shall be paid by the user requesting the withdrawal as prescribed by the appropriate Alberta timber damage assessment table. Such designated withdrawals shall contribute to cumulative net aggregate area withdrawn in subparagraph 6(3)(b).
- (5) Compensation under subparagraphs (3)(b) and (c) may be monetary or by the addition of available public land to the forest management area or a combination of both.

- (6) 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 (3) as if the lands were withdrawn for use by the Crown.
- (7) For the purposes of applying subparagraphs (3)(b) and (c),
 - (a) the original net forest management area means the area of the forest management area established as of the commencement date and agreed upon by the Company and the Minister; and
 - (b) the cumulative net aggregate area withdrawn shall be calculated taking into consideration all exceptions and additions to the original net forest management area under subparagraph (5) and paragraphs 4 and 5 and all withdrawals under subparagraph (1) for use by the Crown.
- (8) Monetary compensation received by the Company under subparagraph (3)(a) and paragraph 8(1)(b) shall only be used to replace loss of property, to repair damage to improvements, to replace lost fibre resource, to compensate for lost annual allowable cut, to integrate land management activities on the forest management area and to reforest public lands returned to the forest management area.
- (9) The Company shall maintain complete and accurate records of the receipt and use of all compensation funds received under subparagraph (3)(a) and paragraph 8(1)(b) for a period of 5 years.
- (10) The Minister may from time to time at the Minister's discretion request verifiable documentation of the use of compensation funds received under subparagraph (3)(a) 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:
 - (a) establish, grow, harvest, and remove timber thereon on a perpetual sustained yield basis as provided for in the approved forest management plan;
 - (b) carry out silviculture and other programs that are approved by the Minister in accordance with this Agreement; and
 - (c) construct, operate and maintain roads, bridges, camps, timber processing operations, wood concentration yards, and other installations necessary and incidental to the Company's right to establish, grow, harvest, and remove timber from the forest management area.
- (2) For the purpose of interpreting the *Surface Rights Act*, the Company is an occupant of the public lands comprising the forest management area.
- (3) The Company shall be required to pay all fees prescribed pursuant to the *Public Lands Act* with respect to any dispositions issued, renewed or amended on or after the commencement date. However, the Company shall not be required to pay such fees with respect to any disposition held by it before the commencement date until such time as that disposition is renewed or amended.
- (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 Disposition and Fees Regulation, subject to the payment by the Company of all required fees and royalties. In no case, however, shall the Company be required to pay fees or

royalties for *in situ* right-of-way material located and used where it is found within the right-of-way.

- (5) It is recognized by the Minister that the use of the forest management area to establish, grow, harvest and remove timber is to be the primary but not exclusive use thereof in keeping with the principles of sustainable forest management.
- 8 (1) The Minister reserves all rights on the forest management area not specifically given hereby to the Company in this Agreement, 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 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 Regulation; provided that the Company shall be entitled to reasonable compensation, from the person or company that 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 timber, 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 timber or forest growth caused by any such geological or geophysical exploration where the right to such timber has been granted to a third party under a timber disposition;
 - (c) the right to maintain and enhance forest resources, including fish and wildlife resources, provided the Company's right to establish, grow, harvest, and remove timber is not significantly impaired; and
 - (d) the right to authorize trapping and, after consultation with the Company, to authorize domestic stock grazing provided that the domestic stock grazing will not damage regeneration of managed species to the point where growth performance and the overall stocking are reduced below the reforestation standards provided for in or agreed to pursuant to the Timber Management Regulation and provided that the Company's right to establish, grow, harvest, and remove timber is not significantly impaired.
- (2) The Minister also reserves the following rights to the timber on the forest management area:
- (a) (i) the right, after consulting with the Company, provided it follows the approved Forest Management Plan spatial harvest sequence, issue 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 right of Alberta or Canada, and for local residents for their own use and sale provided, however, that the total volume of timber cut under authority of such timber dispositions does not exceed 1.0% of the Company's approved annual allowable cut;
 - (ii) should the volume of timber available under subparagraph 8(2)(a) remain unused on a periodic basis, the Company may request to harvest and utilize this volume.
 - (b) the right, after consulting with the Company, to issue timber dispositions on the forest management area to those timber disposition holders listed in Appendix "B", but shall not issue any new or additional quota certificates, and will not increase

existing quotas beyond provisions that exist in the quota certificates or provided for by legislation; and

- (c) the right, after consulting with the Company, to manage and reforest tree species on any lands which may be required to meet the Minister's obligations to those disposition holders in accordance with the approved forest management plan.
- (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 that 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, in accordance with the approved forest management plan, follow sound forest management practices designed to provide a perpetual sustained yield of timber while not reducing the productivity of the land.
- 10 (1) The Company shall submit a forest management plan in accordance with the forest planning standards for the Minister's approval on or before May 1, 2010 and a new forest management plan on or before May 1, 2020.
- (2) Each forest management plan developed under subparagraph (1), when approved, shall replace the previously approved forest management plan.
 - (3) Before the Company submits a forest management plan referred to in subparagraph (1) to the Minister for review and approval, the Company shall make the necessary arrangements required for and shall conduct presentations and reviews of their proposed forest management plans with the public and timber disposition holders in accordance with the forest planning standards as well as with potentially affected First Nations having Reserve land located within or in close proximity to the forest management area and such other potentially affected First Nations as may be identified by the Minister to the Company in writing from time to time as prescribed by the First Nation Consultation Guidelines.
 - (4) After such presentations and reviews referred to in subparagraph (3), the Company shall incorporate in the forest management plan its response to the public, First Nations, and timber disposition holders respecting the proposed forest management plan.
 - (5) The Minister may require the Company, after consulting with the Company, to alter any of the methods described in its forest management plans before approving such plans provided, however, that the changes required by the Minister are consistent with the forest planning standards.
 - (6) The Minister agrees that so long as a plan required under this paragraph has been submitted by the Company within the time periods herein specified and provided such plan complies with the requirements of this Agreement, unless the Minister has sent a notice under paragraph 12, the Company is hereby authorized to continue to carry on its operations pursuant to the existing approved plan, pending approval being granted by the Minister to the newly submitted plan.
 - (7) Should the company fail to submit a forest management plan by the dates identified in subparagraph (1) or the submitted plan is not satisfactory to the Minister, without in any way limiting the Minister's other rights or remedies hereunder, the Minister may set new dates by reasonable notice in writing for revised forest management plan submissions.

- (8) The Company shall co-operate with the development and implementation of integrated land management initiatives to the satisfaction of the Minister.
- 11 (1) The Company shall not digress from the approved plans without the Minister's consent in writing, with the understanding that the Minister shall provide a full explanation whenever consent is withheld.
- (2) Notwithstanding subparagraph (1), the Company may continue operations under approved plans submitted pursuant to the forest management agreement authorized by O.C. 313/89 until such time as those plans are either replaced by plans approved under this Agreement or the Minister deems the existing plans obsolete or inadequate pursuant to paragraph 12.
- 12 (1) When, in the opinion of the Minister, any plan approved by the Minister becomes obsolete or inadequate from a good forest management perspective, the Minister may, by reasonable notice in writing, require the Company to submit a revised plan for approval within a specified time, or within any extended time the Minister may subsequently allow.
- (2) In the event the Minister's dates for forest management plan submission under paragraph 10(1) or revised dates under paragraph 10(7) are not met or the Minister requires the Company to submit a revised plan under subparagraph (1), the Minister may, after consulting with the Company, impose remedies until such time as a new revised plan is approved. The remedies shall adhere to the planning standard and may include but are not limited to:
- (a) imposition of an annual allowable cut;
 - (b) modification of the approved harvest sequence;
 - (c) adjustment of the yield curves used in the approved forest management plan; and/or
 - (d) the requirement to develop cooperative landscape objectives.
- (3) If the Minister adjusts the dates for forest management plan submission under paragraph 10(7), the Company may continue to carry out operations in accordance with the approved forest management plan as modified by any remedies imposed by the Minister under subparagraph (2).
- 13 (1) The Company shall recommend, in its forest management plans, areas available for harvesting by other timber disposition holders on the forest management area.
- (2) The Minister shall consult with the Company concerning proposed areas and methods of harvesting by holders of timber dispositions on the forest management area before designating the areas in which holders of those timber dispositions may carry out their operations.
- (3) The Company shall, through sustainable forest management planning, make reasonable efforts to integrate and coordinate the management of the forest resources with all timber disposition holders operating on the forest management area.
- (4) The Minister shall, through sustainable forest management planning, require timber disposition holders operating within the forest management area to conduct all harvesting operations and management of forest resources in accordance with the Company's approved plans and 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 reasonably necessary to prepare the plans required by this Agreement.
- (2) The Company shall maintain a reasonably complete and accurate forest inventory in accordance with forest planning standards.

- (3) Unless otherwise agreed to by the parties, the Company shall maintain or participate in a deciduous and coniferous growth and yield program consistent with prevailing standards and policies and acceptable to the Minister.
- 15 All information and data related to the forest management area that has been collected or generated by the Company or the Minister in the development of forest management plans or annual operating plans including forest inventory, other resource uses, 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 timely and confidential basis.
- 16 (1) The Company shall conduct its 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 developed in accordance with subparagraphs (2) or (3).
- (2) Concurrently with the development of the forest management plans developed under paragraph 10(1), or at such time as may be agreed to by the Minister and the Company, the Minister and the Company shall jointly develop a new set of ground rules that are consistent with the forest management plans.
- (3) If a set of ground rules, or a revision to a set of ground rules, cannot be established by mutual agreement, the Minister may establish or revise a set of ground rules that are consistent with the approved forest management plans and the "Timber Harvest Planning and Operating Ground Rules" published by the Minister, as amended from time to time.
- (4) At the initiative of either party, the Minister and the Company shall jointly review the ground rules. 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 or as otherwise agreed by the Minister and the Company.
- (2) If the Company over cuts the periodic allowable cut, the Minister may, after consulting with the Company, reduce the periodic allowable cut during the subsequent cut control period by any amount up to the entire over cut volume at the Minister's sole discretion.
- (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, or such other period as may be approved by the Minister.
- 18 (1) The forest management operating year shall commence on May 1 and end on April 30.
- (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 prepared in accordance with the approved forest management plan and include operating projections showing the proposed harvesting operation intended by the Company. Such operating projections shall be in accordance with the forest planning standards.
- (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, diseased, or decadent timber, the Minister may give notice to the Company that the Minister requires provision for its salvage in such a plan. The Company shall amend the plan, or justify the exclusion of such timber from its plan within the notice period specified below. 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 without compensating the Company and the volume of timber so disposed may be charged by the Minister as production under this Agreement. For the purposes of this subparagraph, "notice period" shall mean thirty (30) days, unless the timber disposition exceeds two years, in which case "notice period" shall mean one year.
- (6) When the annual operating plan does not provide for the utilization of all harvested fibre generated as a result of the Company's harvesting operations, the Minister may give notice to the Company that the Minister requires provision for its utilization in such a plan. The Company shall amend its plan, or justify the exclusion of such fibre from its plan within the notice period specified below. 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 unutilized fibre to any person by a disposition without compensating the Company. For the purposes of this subparagraph, "notice period" shall mean thirty (30) days, unless the disposition exceeds two years, in which case "notice period" shall mean one year. No such disposition shall authorize any activities that might reasonably be expected to hinder or obstruct the lawful timber operations of the Company.
- 19 The Company shall utilize all the merchantable timber cut in road construction and other incidental operations of the Company unless otherwise permitted in writing by the Minister.
- 20 (1) The Company shall not hinder or obstruct the lawful timber operations of other timber disposition holders.
- (2) It is recognized that during their operations, other timber disposition holders may cause some incidental damage to timber on the forest management area. No claim shall be made by the Company against any timber disposition holder, or the Minister, for reasonably unavoidable incidental damage to timber.
- (3) The Minister shall ensure that all timber dispositions issued on the forest management area after the commencement date shall include a provision preventing a claim against the Company for reasonably unavoidable incidental damage to timber.
- (4) The Minister shall require other timber disposition holders operating within the forest management area to conduct all harvesting operations in accordance with the Company's approved ground rules and to refrain from hindering or obstructing the lawful operations of the Company.

B. REFORESTATION

- 21 (1) The Company shall reforest at its own expense all lands cut over by the Company under this Agreement and under the Forest Management Agreement authorized by O.C. 313/89 to the required reforestation standard and shall describe its reforestation program in its forest management plans and annual operating plans.
- (2) In this Agreement the required reforestation standard means the reforestation standards provided for in or agreed to pursuant to the Timber Management Regulation.
- (3) 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.
- (4) 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.
- 22 (1) The Company shall be solely responsible for reforesting to the required reforestation standard all productive forested lands burned by fire within the forest management area, when the fire has been caused by or arises out of any operations or activities conducted on the forest management area by the Company, its employees, agents or contractors.

- (2) The Company shall not be required to reforest lands cut over or burned after the commencement date unless such cutting or burning was 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.
- 23 The Minister shall be responsible for ensuring 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.
- 24 The Company may devise and implement enhanced forest management programs. The Company and the Minister may enter into an agreement that will define the programs and conditions that, in the Minister's opinion, will establish a sustainable increase in the annual allowable cut approved by the Minister in the Company's forest management plans submitted under paragraph 10.

C. FOREST PROTECTION

- 25 (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 shall 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, its 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 has been negotiated and entered into by the Minister and the Company. If the cause of any fire is disputed by the Company and the Company has entered into a Fire Control Agreement with the Minister, the dispute shall be resolved as set out in the Fire Control Agreement. If there is no Fire Control Agreement in force and 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) If a Fire Control Agreement between the Minister and the Company is more than five years old at the commencement date, then notwithstanding any provision in that Fire Control Agreement, that Fire Control Agreement will terminate on the first anniversary of the commencement date unless it has been replaced by a new Fire Control Agreement or the Minister has directed otherwise.
- (4) Where there is no Fire Control Agreement in effect, the Company agrees to have on hand in good working order such fire fighting equipment as specified in the Forest and Prairie Protection Regulations and shall train its employees in fire suppression as reasonably specified by the Minister.
- (5) 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.
- (6) 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

- 26 (1) All scaling and measuring of timber weights and volumes by or on behalf of the Company shall be conducted in accordance with the Timber Regulation, the Scaling Regulation and the published instructions of the Department.
- (2) Consistent with subparagraph (1), the Company shall maintain, in the form and in the manner approved by the Minister, complete and accurate records of its operations conducted 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).
- 27 (1) Unless otherwise prescribed in the Timber Management Regulation, within thirty (30) days of the termination of every calendar quarter, the Company shall submit to the Minister in writing, on 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) at the request of the Minister, the volumes of primary timber products manufactured and sold by and for the Company from its operations in Alberta;
 - (d) at the request of the Minister and on a confidential basis, the volumes of timber and primary timber products purchased for use in its facilities, the names of all persons from whom timber and primary timber products were purchased, and the land from which the timber was cut; and
 - (e) at the request of the Minister and on a confidential basis, the geographic destination of timber and primary timber products sold by the Company from its operations in Alberta.
- (2) The Company, or its agent, shall remit to the Minister with each timber return the amount of all dues payable by the Company for the volume of timber shown on such returns and when done by the Company's agent it shall not relieve the Company of this responsibility.

CHARGES AND DUES

- 28 (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) (a) Initially, the charge in subparagraph (1) will be \$156,008.82.
- (b) The holding and forest protection charge established in subparagraph (2)(a) shall be adjusted upon approval of a new forest management plan submitted in accordance with paragraph 10.
- (3) Subsequent holding and forest protection charges shall be adjusted annually on the anniversary of the commencement date 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:

$$2010 \text{ Holding and Forest Protection Charge} = \$156,008.82 \times \frac{2009 \text{ Index}}{2008 \text{ Index}}$$

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 subparagraphs (1), (2), and (3), the Lieutenant Governor in Council may by regulation establish the amounts of annual holding and forest protection charges to be paid by the Company. After five years following the commencement date, if the holding and forest protection charges are established by regulation then the holding and forest 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).
- 29 (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), in the event the Company harvests timber from the forest management area with the sole purpose of using that timber in the Company's own mill, the Company shall pay to the Minister timber dues:
 - (a) for all coniferous timber, \$1.90 per cubic metre; and
 - (b) for all deciduous timber, \$0.20 per cubic metre.
 - (3) The Company shall co-operate with the reconciliation of timber production and dues associated with the timber production on an annual basis or as mutually agreed upon in accordance with the methods prescribed by and to the satisfaction of the Minister.
- 30 (1) The Company shall maintain a program or programs to enhance its ability to establish, grow, harvest, and remove timber and the level of understanding of forest resources and forest products within Alberta. The minimum annual expenditure by the Company in respect of such a program or programs shall equal or exceed, on average, during each five (5) year term of this Agreement, \$0.25 per cubic metre per year based on all timber cut by or for the Company from the forest management area. The annual funding shall be comprised of direct funding of Canadian research or academic institutes, cooperatives, consultants, in-Company innovations in manufacturing and harvesting technology, silviculture, tree improvement and costs associated with the hiring of scientific personnel in the Company.
- (2) The Company shall annually or as otherwise requested by the Minister provide a report that details the activities of the program referred to in subparagraph (1).

FACILITY OPERATION

- 31 The Company shall notify the Minister, in writing, of any intended reduction in production levels of twenty (20) percent annual capacity or more of its manufacturing facilities, and such notification shall be submitted to the Minister at least six (6) weeks prior to the intended reduction taking effect.
- 32 (1) If, at any time, the Company's mill facility in the vicinity of Whitecourt, Alberta ceases to be in production and operation for a period of twelve (12) consecutive months, the Company shall have no right to and shall not harvest timber on the forest management area until such time as the Company advises the Minister in writing of its intentions to resume production and operation of the mill. The Minister shall have the right to issue short-term timber dispositions to third parties on the forest management area for up to one-hundred (100) percent 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 mill. The volume of timber harvested under timber dispositions issued to third parties under this paragraph shall be charged as production under this Agreement.

- (2) Notwithstanding subparagraph (1), if the Company submits a proposal prior to the end of the twelve (12) consecutive month period referred to in subparagraph (1) or up to an additional twenty-four (24) months thereafter that is acceptable to the Minister for the utilization of timber harvested from the forest management area in another facility, the Company shall retain all of its rights under this Agreement and the Minister shall not issue timber dispositions to third parties on the forest management area.
- (3) If the mill facility referred to in subparagraph (1) ceases to be in production and operation for a cumulative, but not necessarily consecutive, period of thirty-six (36) months (where each such shutdown is at least two (2) months in duration), the Minister shall have the right to cancel this Agreement.
- (4) At the Minister's request, on a confidential basis, the Company shall report on value added initiatives in relation to commercialization of products, new product development, strategic partnerships, and forest management and fibre utilization.

GENERAL PROVISIONS

- 33 (1) If the Company at any time makes default under any of the covenants, terms, conditions, provisions, agreements or stipulations in this Agreement, the Minister may give written notice to the Company setting out the default complained of and requiring the Company to remedy the default within six (6) months of the giving of written notice.
- (2) The Minister 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).
- 34 The Minister shall have the right to have the Company perform all its covenants, terms, conditions, stipulations, provisions, agreements and obligations as contained in this 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 36 provided the remedies available to the Minister under paragraph 32 shall be limited to those set out in paragraph 32.
- 35 When any default or delay by the Company in the performance or observance of any of the terms, conditions, provisions, agreements, covenants or 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 forest products manufacturing facilities or woodlands operations; or
 - (c) 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 Godand 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.
- 36 (1) Except as otherwise provided in paragraphs 32, 33, and 35 the Minister may, by giving to the Company ninety (90) days prior notice in writing, cancel this Agreement when:
 - (a) any goods or chattels of the Company, located at the mill near Whitecourt, Alberta and which constitutes 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 or agreements required to be observed or performed by the Company under this Agreement, and having been given written notice of such failure under paragraph 33 of this Agreement, fails to remedy such failure within the time allowed by paragraph 33 for so doing, or any extension thereof given by the Minister.
- (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.
- (3) Subparagraphs 1(a) and (b) do not apply when the Company proposes a compromise or arrangement or otherwise brings proceedings under or becomes subject to the provisions of the *Companies' Creditors Arrangement Act* (Canada) or any successor or similar legislation thereto.
- 37 The Minister does not guarantee any quality or quantity of timber on the forest management area.
- 38 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 and other express agreements.
- 39 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*.
- 40 The Company shall comply with and observe all the provisions and requirements of all 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.
- 41 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.
- 42 (1) Except for a dispute as to the cause of any fire referred to in paragraph 25(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.
- 43 (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 the

Minister's sole discretion, be withheld. Where the Minister refuses consent to an assignment, the Minister shall advise the Company in writing of the 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; or
- (c) an assignment or transfer to a person, firm or corporation upon the sale or other disposition by or on behalf of lenders to, or trustees for lenders referred to in subparagraph (2)(b) in the course of realization or enforcement of security against the mill, provided that such assignment, transfer, or other disposition shall not be made without the consent of the Minister in writing. Where the Minister refuses to consent to an assignment, the Minister shall advise the lenders or trustees for lenders, as the case may be, in writing of the reasons for so refusing.

44 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 Minister 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.

45 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 44 or any extensions of time given by the Minister 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.

46 (1) 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 that was caused by, or arising out of, any of the operations or activities conducted on the forest management area by the Company, its employees, agents, or contractors, whether or not the damage so caused is due to the negligence of the Company, its employees, agents, or contractors, as the case may be, provided that such liability under this subparagraph shall not include economic loss or incidental and consequential loss and damage.

(2) Subparagraph (1) shall not restrict, in any manner, the ability of the Minister to pursue the Company under the common law (as opposed to pursuant to this Agreement) for economic loss or incidental and consequential loss and damage, which liability may be resolved by means of arbitration pursuant to the *Arbitration Act* with the mutual agreement of both parties, or failing such agreement, by civil action before the Courts of the Province of Alberta.

47 (1) 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, wilful harm, or crimes by the Company or its employees or agents.

(2) Subparagraph (1) does not apply to any claim alleging interference with an aboriginal right or title by the Company, its employees, agents or contractors provided the claim

does not relate to a breach by the Company, its employees, agents or contractors of this Agreement or the approved forest management plan or annual operating plans during the period of the alleged interference.

48 (1) The Company shall submit, in confidence, to the Minister, when required, any information, data, 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.

(2) Any information, data or documents provided to the Minister under this Agreement shall be kept in confidence recognizing that such confidentiality is subject to any restriction on disclosure or obligation to disclose imposed on the Minister by law including, without limitation, the *Freedom of Information and Protection of Privacy Act* (Alberta).

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

(1) to the Company:

ANC Timber Ltd.
Bag 9000
Whitecourt, Alberta
T7S 1P9

(2) to the Minister:

Minister of Sustainable Resource Development
Legislature Building
Edmonton, Alberta
T5K 2B6

or to such other address either 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.

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

51 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.


52 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 at Edmonton, Alberta, Canada this 25 day of May, 2009.

HER MAJESTY THE QUEEN in Right of Alberta



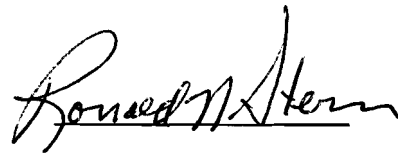
Minister of Sustainable Resource Development



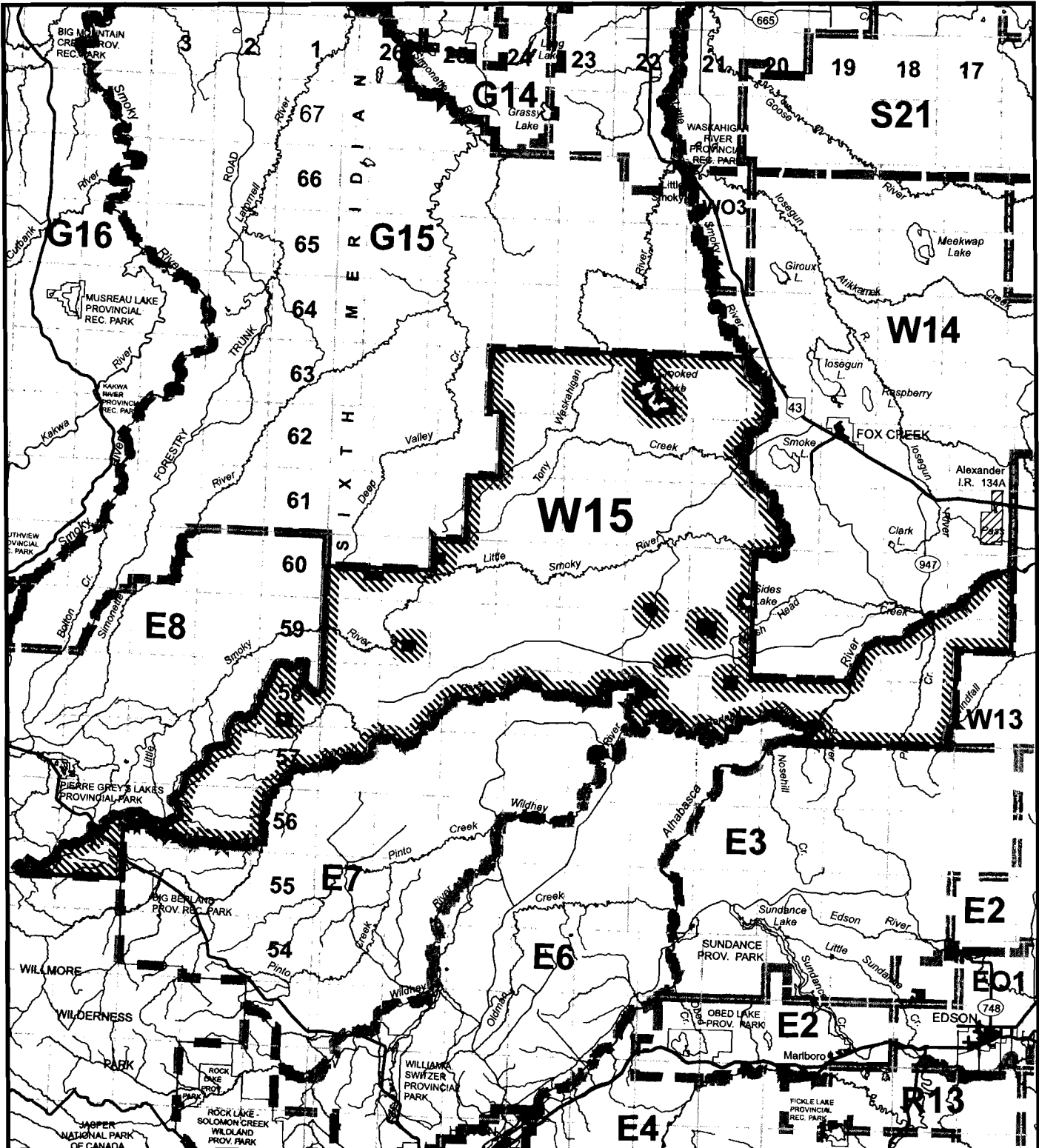
Witness

and the party of the second part executes this Agreement by subscribing hereunder the signatures of its duly authorized corporate officers at WHEATCOURT, AB, Canada this 12 day of MAY, 2009.

ANC Timber Ltd.





Witness



**ANC TIMBER LTD.
FOREST MANAGEMENT AREA
APPENDIX "A"**

This is Appendix "A" to the memorandum of agreement dated *May 25, 2009* between HER MAJESTY, THE QUEEN, in right of the Province of Alberta and ANC TIMBER LTD.

-  Forest Management Area
-  Area Deleted from FMA

 G6 Forest Management Unit

APPENDIX "B"

ANC TIMBER LTD.

LIST OF HOLDERS OF CONIFEROUS TIMBER QUOTA CERTIFICATES ISSUED WITHIN THE FOREST MANAGEMENT AREA

1	Blue Ridge Lumber Inc.	CTQW150001	19.96%
2	Millar Western Forest Products Ltd.	CTQW150002	15.56%

The following clause shall apply to the list of quotas in Appendix "B":

- (a) Where a coniferous quota listed in Appendix "B" is merged with one or more quotas, the new quota shall be deemed to be listed in Appendix "B" for the purpose of paragraph 8(2)(b) of this Agreement.