



Spray Lake Sawmills

Detailed Forest Management Plan 2001 – 2026

Chapter 1 - Introduction



December 15, 2006

Chapter 1 – Introduction

1.1 The Company

Spray Lake Sawmills (SLS) is located in Cochrane, Alberta and runs an integrated operation that currently produces approximately 105MMfbm (million board feet) of lumber and 1.3 million posts annually. By-products including chips, shavings, sawdust and bark are also marketed. SLS directly employs approximately 150 people, plus another 75 people through various contracts.

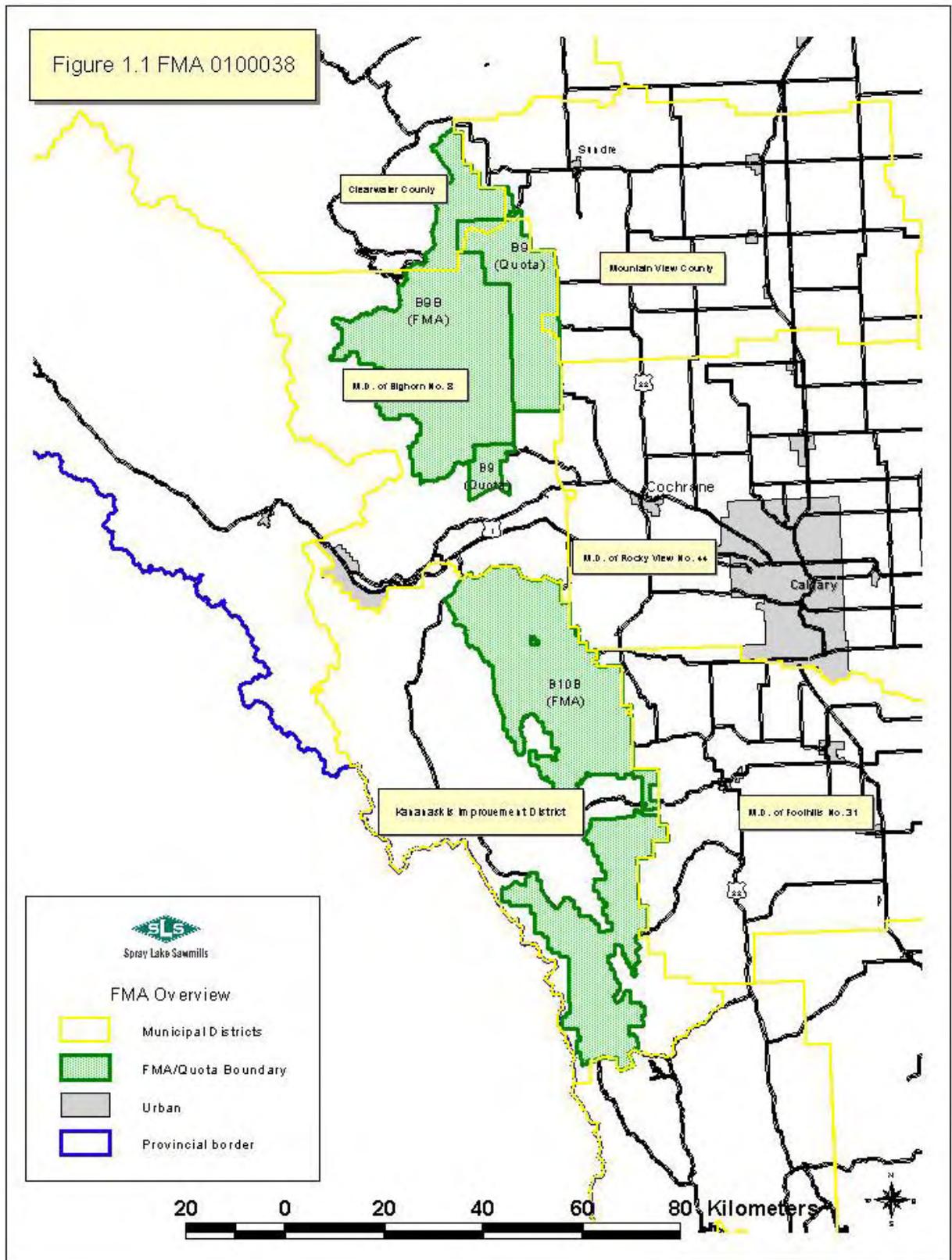
1.2 Forest Management Agreement

SLS received a Forest Management Agreement (FMA) on September 5, 2001. (Appendix 1.1) It is the southern most FMA in the Province, encompassing approximately 2800 km² of the southern east slopes of Alberta. (Figure 1.1) The FMA extends in a narrow band from Sundre in the north to the southern end of Kananaskis Country encompassing portions of Forest Management Units B10 and B9. SLS also retains a timber quota in the Eastern portion of B9. Total area of the gross landbase is 3374km². Of this, approximately 2224km² is available for timber harvesting.

This area covered by the FMA has a long-standing history of timber harvesting, which includes SLS activity dating back to 1943. More recently, SLS operated as a quota holder within the B7, B8 and B6 Forest Management Units under Forest Management Plans (FMPs) prepared by the Government of Alberta. The boundaries of the units changed as part of the FMA establishment and the units were re-numbered to reflect the administrative changes.

The FMA was established “to provide for a perpetual sustained yield of timber for such operations...” (FMA preamble). In addition to committing a supply of timber to SLS, the FMA defines timber commitments to other parties. These commitments are defined in Paragraph 8(2) of the FMA. Included is a commitment of 15,000m³ of deciduous timber annually to Sundre Forest Products Ltd. and commitments of 180,500m³ of coniferous timber and 2,500m³ of deciduous timber in each five-year cut control period to the Community Timber Use program (CTU). A further 50,000m³ of coniferous timber was available to the CTU program for the period of May 1, 2001 to April 30, 2006.

The FMA outlines a “first-right-of-refusal” area in FMU B10 on the west side of the Fisher Mountain Range. This area does not form part of the Detailed Forest Management Plan (DFMP).



1.3 Detailed Forest Management Plan

The Company is required to develop long range forest management plans (DFMP) under the provisions of Paragraph 10 of the FMA for the FMA/ B9 Quota area. The DFMP sets out broad objectives and strategies based on sustainable forest management. These will guide forest harvest plans and operations and provide for a sustained yield of timber while recognizing other social and ecological values.

Specifically, the FMA states:

10. (4) Not more than five years after the commencement date of this Agreement, the Company shall submit for the Minister's approval a detailed forest management plan, and this plan when approved will replace that plan approved by the Minister under subparagraph (3).

Further to this:

2. The basis for the development of the Preliminary Forest Management Plan ("PFMP") and DFMP will be the Interim Forest Management Planning Manual dated April, 1998 and associated Supplemental Guidelines. The planning manual and guidelines will be implemented recognizing Company and site-specific factors and the other provisions of the Appendix "C". [FMA Paragraph 2, Appendix C]

and

7. The Company will develop a set of measurable objectives based on sustainable forest management. The focus of the plan objectives, strategies and assessments will be on the Company's projected timber management activities and how the vegetation mosaic of the landscape will be changing over time as a result. [FMA Paragraph 7, Appendix C]

This DFMP has been developed in accordance with the Forest Management Agreement, the DFMP Terms of Reference (Appendix 1.2¹) and all applicable Acts, Regulations, policies and ground rules. The primary documents guiding forest management are the Forests Act, the Timber Management Regulation, the Alberta Forest Legacy, the Interim Forest Management Planning Manual (1998) and the Alberta Timber Harvest Planning and Operating Ground Rules.

1.4 Management Philosophy

SLS is committed to sustainable forest management; a long-term goal to maintain natural ecosystems, communities and native species in the FMA in balance with social and economic needs. This approach features a continuous feedback loop that involves:

- using existing knowledge/information from completed studies,
- building new knowledge of ecological relationships, habitat supply and regional social values;
- integrating this knowledge into the forest management planning process and into the development of management strategies; and
- monitoring aspects of the implementation and its impact on the ecosystem over time.

¹ DFMP Terms of Reference approved as part of PFMP Submission August 2003. For PFMP Appendices please refer to PFMP Submission.

A description of the landscape is provided in Chapter 2 that looks at biological, economic and social needs. The Landscape Assessment includes a general description of the FMA and information for the forest management area that will act as a baseline against which DFMP objectives can be measured. The baseline information from the assessment will also provide benchmarks against which forest management scenarios will be evaluated in arriving at the preferred forest management strategy.

Baseline information will include data such as forest age class distribution, seral stage distribution, cover group distribution, ecological land classification inventory, wildlife habitat supply and habitat fragmentation.

In building knowledge of ecological relationships, SLS subscribes to the coarse-filter approach; the management of broad ecosystem functions and patterns in order to maintain broad species diversity based on a natural disturbance history dominated by fire. Local level indicators developed through the DFMP process will also point to the need for a fine filter approach of management to address specific values or issues.

This approach is the foundation for adaptive management. Adaptive management is a formal process of issue assessment, planning, implementation, monitoring, evaluation, and feedback. This management approach will require the regular monitoring of measurable ecological and operational benchmarks related to the objective statements developed for the DFMP and related to the modeled results of the Preferred Forest Management Strategy. Ongoing research initiatives will also be evaluated and incorporated into harvest planning and operations where practical. The Ground Rules and harvest plans coming out of the DFMP are considered “living” documents and management of the FMA will be responsive to the results of monitoring activities.

Monitoring is a joint government/SLS responsibility. Under the terms of the FMA, the crown is responsible for assessing cumulative impacts as part of its Integrated Resource Management program. SLS is responsible for annual monitoring and the submission of a five-year stewardship report. As such, the objectives and strategies developed for the DFMP will be monitored for effectiveness. The monitoring will include annual harvest volumes, annual harvest areas, reforestation performance and validation of yield curves and five-year summaries of changes to vegetation cover groups and seral stages. [refer to Chapter 10 for more detail] As well, SLS will develop and maintain a list of items that will need to be addressed in the next DFMP due September 2016.

1.5 Timber Harvest Planning

The objectives and strategies contained in Chapter 5 as well as the assumptions built into the Preferred Forest Management Strategy will provide general direction and guidance to timber harvest planning and operations. Further guidance will take the form of detailed operational planning and referral processes, operational standards and operational tactics written into a set of FMA specific ground rules.

In general, the timber harvest design will follow the spatial harvest sequence defined in the DFMP. However, SLS will conduct an annual review to validate the spatial harvest sequence from a timber harvest resource and operational efficiency perspective and to review other resource values and stakeholder interests in the area scheduled for harvest. An annual meeting will be held with Sustainable Resource Development (Public Lands and Forests Division, Fish and Wildlife Division) and Alberta Community Development (Parks and Protected Areas) to review harvest designs and operating plans prior to submission and to discuss mitigation measures. The intent is to maintain

open communication with the management/regulatory agencies and to ensure other resource values are accommodated.

1.6 Resource Management Issues and Values

Under the Forest Management Agreement, the primary use of the forest management area is “for establishing, growing, harvesting and removing timber.” Within this context is the need to recognize other resource values and uses.

SLS has reviewed the Kananaskis Country Sub-Regional IRP, the Nordegg-Red Deer River Sub-Regional IRP and the Ghost River Sub-Regional IRP for issues and resource values important to the FMA area. These IRPs provide direction to the DFMP in terms of the integration of important ecological and social values. We have also reviewed the input received from the public during our McLean Creek and Etherington Creek public involvement processes. This list of issues and values was presented in the DFMP Terms of Reference included in our approved Preliminary Forest Management Plan (PFMP).

Finally, the input received from the DFMP public involvement process was assessed to finalize the list of issues and values. The updated issues/values list formed the basis for the development of the objectives and strategies and form the specific subject areas discussed in Chapter 5.

GOVERNMENT OF THE PROVINCE OF ALBERTA

FORESTS ACT

FOREST MANAGEMENT AGREEMENT

(O.C. 284/2001)

Approved and Ordered

Lois Hole
Lieutenant Governor

Edmonton, July 24, 2001

Upon the recommendation of the Honourable Minister of Sustainable Resource Development, the Lieutenant Governor in Council, pursuant to section 16 of the Forests Act, approves the entry by the Minister of Sustainable Resource Development into a forest management agreement with Spray Lake Sawmills (1980) 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 Sustainable Resource Development, (hereinafter referred to as "the Minister"),

OF THE FIRST PART

and

SPRAY LAKE SAWMILLS (1980) LTD. a body corporate, registered under the laws of Alberta, with a business office in Cochrane, 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 Cochrane, Alberta for the manufacturing of lumber, wood chips and other forest products with a rated capacity of 90 million board feet of lumber annually; 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 that it is a convenient time to enter into a forest management agreement to supply a portion of the Company's timber needs for the operation of the Sawmill and to provide for planning with respect to timber dispositions outside the forest management area; and

WHEREAS the Minister desires to provide for sustainable development of all resources and to provide for the fullest possible utilization of timber from the forest

management area and stable employment in local communities by maximizing 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) "Agreement" means this forest management agreement, including all appendices and schedules attached hereto and all written amendments made hereto from time to time by agreement of the parties;
 - (b) "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;
 - (c) "commencement date" has the meaning provided for in paragraph 2.(1) hereof;
 - (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;
 - (g) "Department" means the Department of Sustainable Resource Development;
 - (h) "dollar" means Canadian currency of the value of one Canadian dollar, or the equivalent value in any other currency;
 - (i) "forest management area" refers to the tract of forest land as specifically defined in paragraph 3 over which the Company has been given management rights for establishing, growing, harvesting and removing timber on a perpetual sustained yield basis for a defined period of time;
 - (j) "original net forest management area" means the net area for the forest management area established as of the commencement date of this Agreement and agreed upon by the Company and the Minister;
 - (k) "periodic allowable cut" is the total of the annual allowable cuts approved for a five-year cut control period;
 - (l) "Scaling Regulation" means Alberta Regulation 336/79 authorized by Ministerial Order 40/79;
 - (m) "Surface Materials Regulation" means Alberta Regulation 11/78;

- (n) "Timber Management Regulation" means Alberta Regulation 60/73 authorized under Order-in-Council 309/73; and
 - (o) "Timber Regulation" means Alberta Regulation 268/78.
- (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*, and 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 September, 2001 (hereinafter referred to as the "commencement date"), and shall expire on the 4th day of September, 2021, 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 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, harvest and remove 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 good faith 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) areas which are the subject of any existing timber dispositions issued pursuant to the *Forests Act*, to parties other than the Company, prior to the date of this Agreement;
 - (b) lands which 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* has been approved but which issuance is pending prior to the date of this Agreement;
 - (c) lands which have been reserved under section 17(d) of the *Public Lands Act* or in respect of which a reservation has been approved but which has not been granted prior to the commencement date of this Agreement;
 - (d) the beds and shores of all permanent and naturally occurring bodies of water and all naturally occurring rivers, streams, watercourses and lakes; and
 - (e) lands contained within any Provincial Park, Forest Recreation area, Provincial Recreation areas, Natural Area or Ecological Reserve prior to the date of this Agreement.
5. Whenever any of the 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 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 add those lands to the forest management area in a 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;
 - (b) any lands required for rights-of-way, water resource 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)
 - (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 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 withdrawals;
 - (b) for use by the Crown where the cumulative net aggregate area withdrawn does not exceed 0.35% 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 or increased costs reasonably incurred by the Company in harvesting an equivalent volume of coniferous timber elsewhere;
 - (c) for use by the Crown where the cumulative net aggregate area withdrawn does exceed 0.35% 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 coniferous timber and for any loss or damage suffered by the Company, including damage to coniferous timber, regeneration, forest growth, improvements, or to its operations on the forest management area.
- (4) The Company shall not be entitled to compensation under subparagraph (3) in respect of deciduous timber, regeneration and forest growth.
- (5) For the purposes of applying subparagraphs (3)(b) and (c), 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).
- (6) Compensation under subparagraphs (3)(b) and (c) may be monetary or by the addition of available productive forestland to the forest management area or a combination of both.
- (7) 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.

- (8) Monetary compensation received by the Company under subparagraph (3)(a) and paragraph 8(1)(b) shall only be used to repair damage to improvements such as plantations, roads, bridges or other facilities and to replace timber resources. This subparagraph shall not apply to monetary compensation received under subparagraph (3)(a) related to any withdrawal for third party commercial or industrial activity that materially adversely affects the continued economic viability of the Sawmill.
- (9) The Company shall maintain complete and accurate records of the receipt and use of all compensation funds received under this paragraph and paragraph 8(1)(b).
- (10) 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 and deciduous 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) 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 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, fees or rental charges under the *Public Lands Act* or any regulation thereunder being paid but such dispositions shall otherwise be subject to any pertinent regulations.
 - (4) Notwithstanding subparagraph (3), 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 (the "primary use") 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, subject to the primary use, 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 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 cut such timber has been granted to a third party under timber disposition;
 - (c) the right to maintain and 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 coniferous timber is not impaired and the coniferous 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 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) the right, after consultation with the Company, pursuant to paragraph 19(5) to issue deciduous timber dispositions within the forest management area providing for up to an aggregate annual volume of 15,000 cubic metres of deciduous timber;
 - (b) the right, if the Minister issues timber dispositions providing for up to an aggregate annual volume of 15,000 cubic metres of deciduous timber under paragraph 19(5), and after consultation with Company, to manage and reforest deciduous tree species on any lands which may be required to maintain the deciduous annual allowable cuts as set out in the approved forest management plans;
 - (c) the right, after consultation with the Company, to issue timber dispositions from within the forest management area and the quota area as depicted on Appendix "A", to provide timber for
 - (i) 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
 - (ii) for a Community Timber Use ("CTU") program and allocate timber for local contractors

provided that the total aggregate volume under this subparagraph (2)(c) for these dispositions does not exceed 180,500 cubic metres of coniferous timber and 2,500 cubic metres of deciduous timber in each five-year cut control period.

- (d) the right, after consultation with the Company, to issue timber dispositions from within the forest management area and the quota area as depicted on Appendix "A" for the period May 1, 2001 to April 30, 2006, to provide timber for a CTU program and allocate timber for local contractors provided that the total aggregate volume under this subparagraph (2)(d) for these dispositions does not exceed 50,000 cubic metres of coniferous timber.
- (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 between the operations authorized under timber disposition 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 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.
10. (1) Before the Company submits a plan referred to in subparagraphs (4) and (5) to the Minister for his review and approval, the Company shall,
- (a) make the necessary arrangements required for and shall conduct public reviews of their proposed forest management plans, and
 - (b) provide the opportunity for third parties holding timber dispositions on the forest management area to participate in the formulation of the Company's detailed forest management plans to ensure that the long-term sustainable objectives and principles of forest management are maintained.
- (2) After these reviews with the public and timber disposition holders, the Company shall incorporate in the detailed 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 (4) and (5), as the case may be, for the Minister's review and approval.
- (3) Not more than twelve months following the commencement date of this Agreement, the Company shall submit for the Minister's approval a preliminary forest management plan. Prior to approval of the preliminary forest management plan, the Company will continue to conduct harvesting of timber in accordance with the Crown's approved forest management unit plans and the Company's approved annual operating plans.

- (4) Not more than five years after the commencement date of this Agreement, the Company shall submit for the Minister's approval a detailed forest management plan, and this plan when approved will replace that plan approved by the Minister under subparagraph (3).
 - (5) Not later than the fifteenth 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 (4).
 - (6) Appendix "C" forms an integral part of this Agreement and of the quota depicted on Appendix "A".
 - (7) The Company shall prepare the forest management plans referred to in subparagraphs (3), (4) and (5) in accordance with Appendix "C".
 - (8) 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, provided such changes are consistent with Appendix "C".
 - (9) The management strategies in the detailed forest management plan under subparagraphs (4) and (5) must provide for the sustainability of the coniferous annual allowable cut and deciduous annual allowable cut subject to the occurrence of natural disasters and the provisions of Appendix "C".
 - (10) The Minister agrees that so long as a plan required under paragraph 10 has been submitted by the Company within the time period 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 authorized to carry out its operations pursuant to the existing approved plan, pending approval being granted by the Minister to the newly submitted plan.
11. Subject to paragraphs 10(3) and 10(10), 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. The Company may 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.
 12. When, in the opinion of the Minister, any plan approved by him under this Agreement becomes obsolete or inadequate, he may, by reasonable notice in writing, require the Company to submit a revised plan consistent with Appendix "C", for his approval within a specified time, or within any extended period of time he may subsequently allow.
 13.
 - (1) The Company shall recommend in its forest management plans for the Minister's approval, areas available for harvesting by holders of timber dispositions.
 - (2) The Minister shall consult with the Company concerning proposed areas, harvest design and methods of harvesting by holders of timber dispositions in the forest management area and the quota area as depicted on Appendix "A" before designating the areas in which their operation may be carried on.

- (3) The Company shall, through sustainable forest management planning, integrate and co-ordinate the management of the forest resources with all holders of timber dispositions operating within the forest management area and the quota area as depicted on Appendix "A".
14. The Minister shall require third party holders of timber dispositions operating within the forest management area to conduct all harvesting operations in accordance with the Company's approved plans and to refrain from hindering or obstructing the lawful operations of the Company.
15.
 - (1) Subject to Appendix "C", 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 by the parties, and shall update all depletions and reforestation.
 - (3) After May 1, 2006, the Company shall establish and implement 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.
 - (5) All information and data related to the forest management area that has been or will be collected by the Company or the Minister relating to forest inventory, other resource uses, the inventory referred to in subparagraph (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 timely and confidential basis.
16.
 - (1) The Company shall conduct its timber harvesting and reforestation operations in accordance with the approved "Alberta Timber Harvest Planning and Operating Ground Rules" until such time as they are replaced by the established set of ground rules under subparagraphs (2) or (3).
 - (2) Within six months following the approval of the detailed forest management plan under paragraph 10(4) or such earlier time as may be agreed to by both parties, the Minister and the Company will jointly develop a new set of ground rules consistent with the detailed forest management plan, for the preparation of operating plans and to guide harvesting and reforestation operations.
 - (3) In the event that a set of ground rules, or a revision to a set of ground rules cannot be established by mutual agreement after good-faith negotiations, the Minister may establish or revise a set of ground rules that are consistent with the detailed forest management plan but only with the approval of the Lieutenant Governor in Council.
 - (4) At the initiative of either party the 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 or as otherwise agreed to by the Minister.
 - (2) If the Company overcuts the periodic allowable cut the Minister shall reduce the annual allowable cut during the subsequent cut control period by an amount equivalent to the entire overcut volume, except to the extent the overcut results from salvage of dead, damaged, endangered, diseased, decadent or fire killed timber.
 - (3) Where production is lower than the periodic annual cut, the Company may submit a program satisfactory to the Minister making up the undercut volume in the subsequent cut control period or such other period as may be approved by the Minister.
18. (1) The Company shall forthwith upon the commencement date of this Agreement establish a forest management operating year that shall commence and end on dates approved by the Minister.
 - (2) Subject to paragraph 10(3), 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 for coniferous timber shall not be greater than the periodic allowable cut.
 - (6) In the event that the Minister has determined that a commercially material volume of timber is to be harvested for salvage or other purposes on
 - (a) the areas identified in Appendix "B" which are located outside the forest management area,
 - (b) those lands that have been excepted from the forest management area under paragraph 4, or

- (c) areas in the forest management area where timber harvesting had previously been prohibited

the Minister shall offer the Company the right to harvest and utilize that timber.

19. (1) The Company shall use every reasonable effort to purchase roundwood 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 the Sawmill.
- (2) Within twelve months following the direction of the Minister, the Company shall offer to Sunpine Forest Products Ltd. ('Sunpine'), on reasonable terms and conditions, 15,000 cubic metres of merchantable deciduous timber annually. If there is any dispute as to whether or not the offer made by the Company is on reasonable terms and conditions, the matter in dispute shall be referred to arbitration by either of the Company or Sunpine pursuant to the *Arbitration Act*, and the offer shall be held in abeyance pending the arbitrator(s) determination, which determination shall be final and binding on the Company and Sunpine.
- (3) If Sunpine cannot accept the volume of merchantable deciduous timber referred to in subparagraph (2), or any part thereof, such volume of merchantable deciduous timber may be used, disposed of or left standing by the Company as it may determine in its sole discretion, and such merchantable deciduous timber will not be subject to further direction by the Minister and the Company shall not be considered in default under this Agreement.
- (4) The Company shall pay to the Minister timber dues on all deciduous timber harvested under subparagraphs (2) and (3) at the rates set out in the Timber Management Regulation. The Company shall be entitled, under the terms of the volume supply agreement described in subparagraph (2) pursuant to which the Company supplies deciduous timber, to recover from any party receiving such deciduous timber, all timber dues that have been paid by the Company on that deciduous timber.
- (5) If the Company does not supply the contracted volume of merchantable deciduous timber to Sunpine in accordance with the terms of the volume supply agreement described in subparagraph (2), then the Minister may issue deciduous timber dispositions from within the forest management area to Sunpine for the volume of merchantable deciduous timber remaining undelivered under the terms of the agreement under subparagraph (2).
20. The Company shall utilize all merchantable timber cut in road construction and incidental operations of the Company unless otherwise provided under the annual operating plan.
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 cut over by or for the Company, including all lands cut over under paragraph 19(2) (regardless of who cut the said lands), under this Agreement to the required reforestation standard and shall describe its reforestation program in its forest management plans and annual operating plans.
- (2) The Company shall be responsible for reforesting those lands cut over by the Company prior to the commencement date of this Agreement that comprise part of the forest management area, the reforestation of which was the responsibility of the Company and that have not been recognized by the Minister as being satisfactorily regenerated and shall reforest those lands to the reforestation standard under subparagraph (4).
- (3) Subject to subparagraph (1), the Company shall not be responsible for reforesting any lands that comprise part of the forest management area which were cut over after the commencement date of this Agreement by persons other than the Company, its employees, agents or contractors.
- (4) In this Agreement the required reforestation standard means the reforestation standard under the Timber Management Regulation.
24. 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 coniferous reforestation needs.
25. 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.
26. (1) The Company shall be solely responsible for reforesting to the required reforestation standard all productive lands burned by fire within the forest management area, when the fire has been caused by the Company, its employees, agents or contractors.
- (2) If, on the forest management area, any lands cut over after the commencement date of this Agreement by persons other than the Company, its employees, agents or contractors are not reforested to the reforestation standard under paragraph 23(4), resulting in a reduction of the annual allowable cut approved by the Minister in the Company's forest management plans submitted under paragraph 10, then the Minister shall reduce the aggregate volume referred to in paragraph 8(2)(c) of this Agreement in an amount equal to the reduction in annual allowable cut.
27. (1) The Company may devise and implement enhanced forest management practices beyond 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 forest management plans submitted under paragraph 10.
- (2) Where the Company implements enhanced forest management practices 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 silvicultural efforts will only be offered to the Company free of timber dues after the Company has fully utilized the annual allowable cut approved in the Company's forest management plans.

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, 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 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 as specified in the Forest and Prairie Protection Regulations and shall train such employees in fire suppression as reasonably 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 co-operate 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 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) the combined production volumes of primary timber products manufactured and sold by and for the Company from the Sawmill; and
 - (d) the combined volume of timber and primary timber products purchased for use in its Sawmill, and the land or harvest authority 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, on the commencement date of this Agreement the charges in subparagraph (1) will be \$0.15 per cubic metre of the annual allowable cut approved under paragraph 10.
- (3) Subsequent holding charges and forest protection charges shall be adjusted annually on the anniversary of the commencement date of this Agreement as follows:
- (a) For the years 2002 to 2005, the holding charges and forest protection charges shall be adjusted 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:

$$2002 \text{ Holding and Protection Charge} = \$0.15 \times \frac{2001 \text{ Index}}{2000 \text{ Index}}$$

- (b) For the year 2006, the holding charges and forest protection charges on the anniversary of the commencement date of this Agreement shall be \$0.20 per cubic metre of the annual allowable cut approved under paragraph 10.

- (c) For the years 2007 to 2011, the holding charges and forest protection charges will be increased by \$0.13 per cubic metre of the annual allowable cut approved under paragraph 10 each year such that for the year 2011 the charges on the anniversary of the commencement date of this Agreement shall be \$0.85 per cubic metre of the annual allowable cut approved under paragraph 10.
- (d) For the years 2012 and following, the 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:

$$2012 \text{ Holding and Protection Charge} = \$0.85 \times \frac{2011 \text{ Index}}{2010 \text{ Index}}$$

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) (a) Notwithstanding subparagraphs (2) and (3), 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 (6).
- (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.
- (5) For the purposes of subparagraph (4), eligible expenditures shall not include costs of suppressing forest fires or epidemics of insects or disease.
- (6) The Company shall submit annually a forest protection plan for the Minister's approval.
- (7) The forest protection plan shall include a description and an estimated cost for those proposed expenditures the Company wishes to claim under subparagraph (4). 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.
- (8) 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 (6). 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.

- (9) The Company shall maintain and retain for three years such records of the expenditures claimed under subparagraph (4) 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. 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.

FACILITY OPERATION

33. The Company will notify the Minister in writing, of any intended major reduction in production levels of the Sawmill. Such notification will be submitted to the Minister at least six weeks prior to the intended reduction taking effect.
34. If, at any time the Sawmill ceases to be in production and operation for a period of eighteen consecutive months, the Company shall have no right to and shall not harvest 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 coniferous 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. The volume of timber harvested under timber dispositions issued to third parties under this paragraph will be charged as production under this Agreement.
35. (1) If, at anytime the Sawmill ceases to be in production and operation, excluding maintenance shutdowns, for a cumulative, but not necessarily consecutive, period of thirty-six months, the Minister shall have the right to cancel this Agreement.
- (2) Notwithstanding subparagraph (1), if the Company submits a proposal for a forest industry project, including an implementation time table as a replacement for the Sawmill, which project is acceptable to the Minister, the Minister shall delay exercising his right to cancel this Agreement under subparagraph (1).
- (3) If the Company has submitted a proposal acceptable to the Minister under subparagraph (2) 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.

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) 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).

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.
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 Sawmill or forest management impact of the 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 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 at the Sawmill and which constitute a material part of the Company's assets located thereat, and which are liable to distress, 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 paragraph 36 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, half sections, legal subdivisions or natural features, 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 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 including, but not limited to, judicial review 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;
 - (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 facilities, provided that any such assignment, transfer or other disposition shall not be made without the consent of the Minister in writing, such consent not to be unreasonably withheld.

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. (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 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, 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 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.
50. The Company agrees to hold the Minister harmless against any and all third party claims, demands or action for which the Company is legally responsible, including those arising out of negligence, wilful harm, or crimes by the Company or the Company's employees or agents.
51. The Company shall submit, in confidence, 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:

Spray Lake Sawmills (1980) Ltd.
305 Griffin Road West
Cochrane, Alberta
T4C 2C4

(b) to the Minister:

Minister of Sustainable Resource Development
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. (1) The Company agrees that upon the execution of this Agreement by the parties, the Minister shall cancel Coniferous Timber Quota Certificates CTQB060009, CTQB070003 and CTQR090010 and shall amend Coniferous Timber Quota Certificate CTQB080010 in the manner as agreed to by the parties.
- (2) In the event that this Agreement is cancelled for any reason, the Minister shall grant to the Company for the sum of \$1.00 each, coniferous timber quotas for the volume of coniferous timber that becomes available as a result of the cancellation of this Agreement.
- (3) The obligation of the Minister to grant coniferous timber quotas under this Agreement shall survive the cancellation of this Agreement.
55. Where any information, data or documents are provided to the Crown in confidence under this Agreement, that confidentiality is subject to any restriction on disclosure or obligation to disclose imposed on the Crown by law.
56. 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.

57. 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 5th day of September, 2001

Her Majesty the Queen
in Right of Alberta

Original signed

Original signed by the Minister

Witness

Minister of Sustainable Resource
Development

Spray Lake Sawmills (1980) Ltd.

Original signed

*Original signed by the
Company representative*

Witness

Per: _____

Original signed

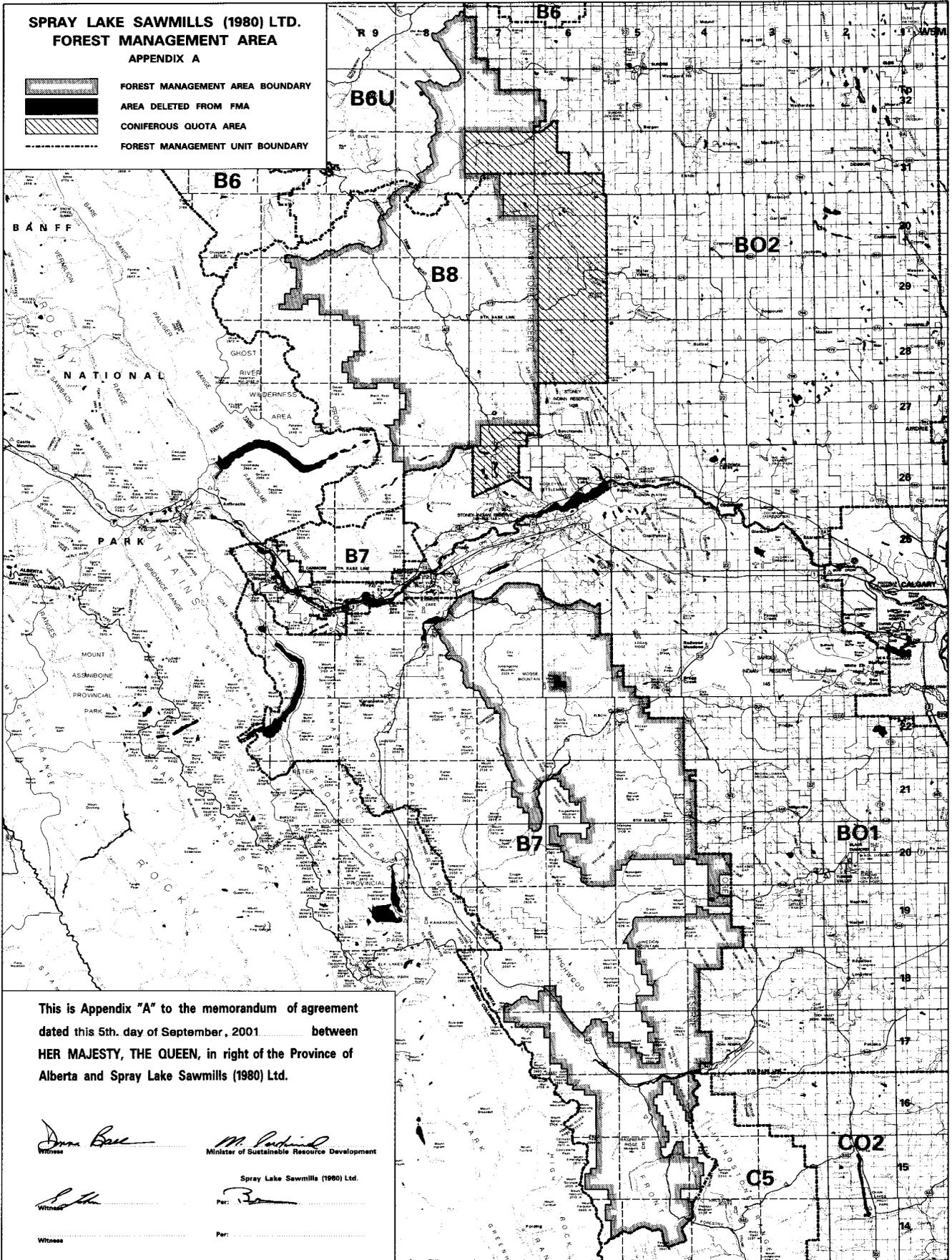
*Original signed by the
Company representative*

Witness

Per: _____

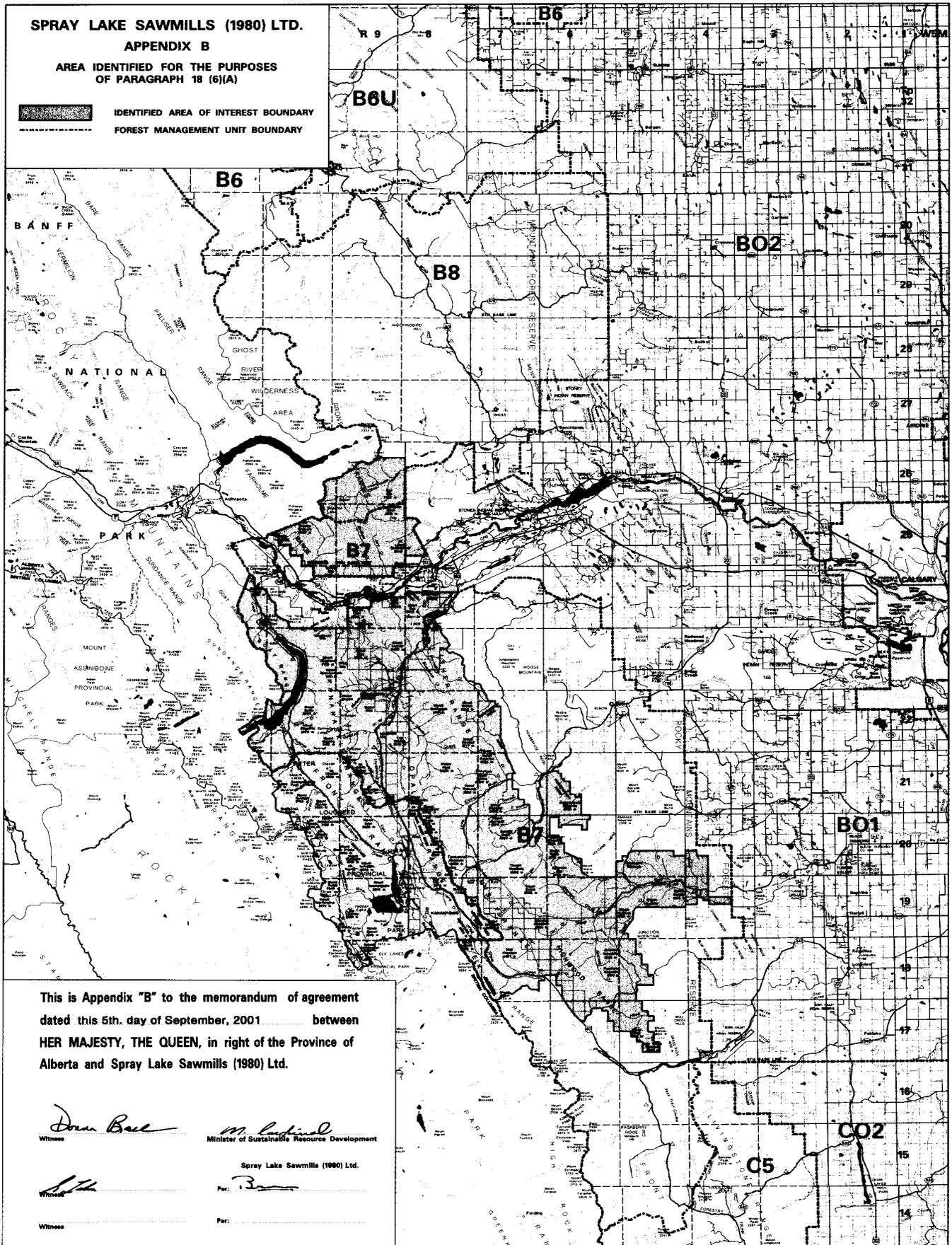
SPRAY LAKE SAWMILLS (1980) LTD.

APPENDIX "A"
FOREST MANAGEMENT AREA



SPRAY LAKE SAWMILLS (1980) LTD.

APPENDIX "B"
AREA IDENTIFIED FOR THE PURPOSES
OF PARAGRAPH 18.(6)(A)



SPRAY LAKE SAWMILLS (1980) LTD.**APPENDIX "C"
PLANNING CRITERIA**

Appendix "C" forms an integral part of this Agreement ("FMA") and of the quota depicted on Appendix "A".

1. The Company will be responsible for developing and leading a cost effective and meaningful public involvement process to gather public ideas, opinions and information for development of the Detailed Forest Management Plan ("DFMP"). The Company will work closely with the Area Managers and Regional Director of the Department of Sustainable Resource Development. The Minister will designate staff to participate in the process to ensure that the process progresses reasonably.
2. The basis for the development of the Preliminary Forest Management Plan ("PFMP") and DFMP will be the Interim Forest Management Planning Manual dated April, 1998 and associated Supplemental Guidelines. The planning manual and guidelines will be implemented recognizing Company and site specific factors and the other provisions of this Appendix "C". Newer versions of the planning manual may be adopted through mutual consent of both the Minister and the Company.
3. Cumulative effects need not be developed or addressed in the Company's forest management plans under this Agreement. The Integrated Resource Management ("IRM") initiative undertaken by the Crown may replace existing Integrated Resource Plans within the forest management area, in which case the new IRM plans would address issues related to land use and cumulative effects.
4. The Terms of Reference for the DFMP will define the Company's planning approach. It will detail the planning process including how the interests and expertise of others will be incorporated. The Company's approach will make use of the Company's staff, consultants, staff of the Department of Sustainable Resource Development, and the public in various forms of collaborative planning. The interests of timber permit holders within the CTU programs will be dealt with through communications with the Local Advisory Committees. The DFMP will include a detailed harvest sequence for all timber operations. The timeline for plan development will generally follow Figure 2, Forest Management Planning Timelines and Planning Products of the planning manual, dated, April, 1998.
5. For the preparation of the Company's Preliminary Forest Management Plan ("PFMP") and the DFMP, the Company is not expected to collect data on other resource values but will be entitled to rely on existing data for the purpose of integrating other resource values with forest management activities.
6. The DFMP will cover the forest management area and the forest management unit, which will contain the Company's quota area as depicted on Appendix "A". The Terms of Reference, public involvement, timber supply analysis, monitoring and Community Timber Use ("CTU") sequencing will cover both the forest management area and the quota area.
7. The Company will develop a set of measurable objectives based on sustainable forest management. The focus of the plan objectives, strategies and assessments will be on the Company's projected timber management activities and how the vegetation mosaic of the landscape will be changing over time as a result.
8. In accordance with paragraph 15(5) of this FMA, the Minister will share, at no charge, any available data or inventories relative to non-timber resources. The

Minister will also provide the Company with the AVI data for the forest management area and the quota area. The Company will then be responsible for maintaining the AVI inventory on the forest management area and the forest management unit for the quota area. Standards and procedures respecting data will be addressed in a separate data sharing agreement.

9. The DFMP will be implemented through the general development plan and the annual operating plans. Subject to other provisions of this Appendix "C", the plan requirements will initially be as outlined in the Alberta Timber Harvest Planning and Operating Ground Rules to be replaced by the FMA specific ground rules. The FMA ground rules will apply to both the forest management area and all quota operations of the Company.
10. The Company shall conduct annual monitoring and shall submit a five-year stewardship report in accordance with the DFMP. The components of the monitoring program will be defined in the DFMP and will be linked to the DFMP objectives.
11. The deciduous timber will be managed for its contribution towards other resource values on a landscape basis. There is no obligation to utilize or salvage the deciduous timber resource until such time as the Company proposes to harvest deciduous timber. The deciduous inventory, yield curve and AAC development will be completed by the Company using pre-existing information provided by the Minister of Sustainable Resource Development. The management of the deciduous timber will increase in rigour should the Company decide to harvest deciduous timber beyond the 15,500 cubic metres of AAC.
12. Financial information about the Company need not be disclosed to meet management planning requirements.
13. In calculating timber production for the purpose of determining periodic or annual timber production in the short term, the Minister agrees that all timber harvested from both the forest management area and the quota area as depicted on Appendix "A" will be charged as production against the FMA. On May 1 of each year, the volume of chargeable timber will be transferred from the FMA to the quota in an amount equal to the approved annual allowable cut for the quota, provided that the annual allowable cut for the forest management area and the quota separately are being managed on a sustained yield basis over the long-term.
14. The Minister will provide the Company with a detailed listing of all land exceptions referenced in paragraphs 4(a), (b) and (c) of the Agreement existing as of the commencement date of this Agreement.



SPRAY LAKE SAWMILLS

(1980) LTD.

Spray Lake Sawmills (1980) Ltd.

Detailed Forest Management Plan

Terms of Reference

Submitted to:

**Land and Forest Division
Forest Management Branch
8th Floor, 9920 – 108 Street
Edmonton, Alberta
T5K 2M4**

Ed Kulcsar RPF



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6. Planning Team/Review Team 7

Appendix 1 – FMA Map..... **Error! Bookmark not defined.**

Appendix 2 – Spray Lake Sawmills – Current AAC Values **Error! Bookmark not defined.**

Appendix 3 – Interim Forest Management Planning Manual Excerpt **Error! Bookmark not defined.**

Appendix 4 – Planning Schedule Gantt Chart and Task List **Error! Bookmark not defined.**

**Spray Lake Sawmills 1980 Ltd.
Detailed Forest Management Plan
Terms of Reference**

1. Introduction

Spray Lake Sawmills 1980 Ltd. (SLS) received a Forest Management Agreement (FMA) on September 5, 2001. It is the southern most FMA in the Province, encompassing approximately 2800 km² of the southern east slopes of Alberta. The FMA extends in a narrow band from Sundre in the north to the southern end of Kananaskis Country encompassing Forest Management Units B10 and a large portion of B9.

This area covered by the FMA has a long-standing history of timber harvesting, which includes SLS activity dating back to 1943. More recently, SLS operated as a quota holder within the B7, B8 and B6 Forest Management Units under Forest Management Plans (FMPs) prepared by the Government of Alberta. The boundaries of the units changed as part of the FMA establishment and the units were re-numbered to reflect the administrative changes. (Appendix 1 – map of FMA)

SLS is located in Cochrane, Alberta and runs an integrated operation that currently produces approximately 80MMfbm of lumber and 1.8 million posts annually. By-products including chips, shavings, sawdust and bark are also marketed. SLS directly employs approximately 150 people, plus another 75 people through various contracts.

The FMA was established “to provide for a perpetual sustained yield of timber for such operations...” (FMA preamble). Appendix 2 details the historic allowable harvest levels based on values and inventories used in previous FMPs. In addition to committing a supply of timber to SLS, the FMA defines timber commitments to other parties. These commitments are defined in Paragraph 8(2) of the FMA. Included is a commitment of 15,000m³ of deciduous timber annually to Sunpine Forest Products Ltd. and commitments of 180,500m³ of coniferous timber and 2,500m³ of deciduous timber in each five-year cut control period to the Community Timber Use program. A further 50,000m³ of coniferous timber is available to the CTU program for the period of May 1, 2001 to April 30, 2006.

2. Plan Requirements

The Company is required to develop long range forest management plans under the provisions of Paragraph 10 of the FMA. Specifically, the FMA states:

10. (4) Not more than five years after the commencement date of this Agreement, the Company shall submit for the Minister's approval a detailed forest management plan, and this plan when approved will replace that plan approved by the Minister under subparagraph (3).

The initial step is the development of the following Terms of Reference for the long range planning process. This Terms of Reference has been prepared in accordance

with the Interim Forest Management Planning Manual (April 1998) as per Paragraph 10(7) and Appendix C of the FMA which states:

10. (7) The Company shall prepare the forest management plans referred to in subparagraphs (3), (4) and (5) in accordance with Appendix "C". [FMA Paragraph 10(7)]

Further to this:

2. The basis for the development of the Preliminary Forest Management Plan ("PFMP") and DFMP will be the Interim Forest Management Planning Manual dated April, 1998 and associated Supplemental Guidelines. The planning manual and guidelines will be implemented recognizing Company and site specific factors and the other provisions of the Appendix "C". [FMA Paragraph 2, Appendix C]

The forest management plans will be developed in accordance with all applicable Acts, Regulations, policies and ground rules. The primary documents guiding forest management are the Forests Act, the Timber Management Regulation, the Alberta Forest Legacy, the Interim Forest Management Planning Manual (1998) and the Alberta Timber Harvest Planning and Operating Ground Rules. An excerpt from the planning manual is provided in Appendix 3 that describes the components of the DFMP in more detail.

3. Schedule

The schedule for the completion of the Detailed Forest Management Plan (DFMP) is included in Appendix 4. The Gantt Chart summarizes the tasks and components of the plans. In addition, a more detailed Task List has also been included in Appendix 4. The DFMP Planning/Review Teams will track the progress of the plan development and will update the chart quarterly or as otherwise needed to ensure timely completion of the various plan components.

The PFMP was submitted to LFD on September 5, 2002 as per the FMA. The primary components of the PFMP are the Terms of Reference for the DFMP, the Interim Management Objectives and Strategies and the Public Involvement Plan. The Timber Supply Analysis will be part of the DFMP and the approved Annual Allowable Cut will be applied retroactively back to the commencement of the FMA, September 5, 2001 contingent on acceptance and approval of the submitted DFMP within a reasonable time frame around February 2005.

The Public Involvement Plan was submitted to LFD on January 9, 2002 for approval. The PIP was approved April 29, 2002.

Any inventories, photography or assessments required for the DFMP will flow out of the public involvement process to the DFMP Planning/Review Teams. SLS will be developing a net land base digital data layer. A disposition/reservation land use layer has been completed as has a historical resource assessment. SLS also completed a Mountain Pine Beetle rating map for an area that extended beyond the FMA boundary for use by LFD and the MPB Strategic Directions Council. Under the terms of the FMA, some information that may be required from the Crown includes wildlife inventories, fisheries inventories, dwarf mistletoe inventories (SLS has a copy of the inventory completed in 1986), recreational use patterns, Regional Wildfire Threat Assessments

and existing historical fire disturbance patterns. SLS will work with the Review Team and SRD to define the needs and data protocols (eg. ELC, HSI modeling) as development of the DFMP progresses.

The DFMP is scheduled to be submitted to LFD by October 3, 2004 with approval targeted for February 4, 2005. This represents a change in timing from the original Gantt chart. As indicated in the Gantt chart, components of the plan will be submitted to LFD throughout the process to obtain government feedback and approval-in-principle thereby facilitating the review and approval of the final plan.

4. Resource Management Issues and Values

Under the Forest Management Agreement, the primary use of the forest management area is “for establishing, growing, harvesting and removing timber.” Within this context is the need to recognize other resource values and uses.

SLS has reviewed the Kananaskis Country Sub-Regional IRP, the Nordegg-Red Deer River Sub-Regional IRP and the Ghost River Sub-Regional IRP for issues and resource values important to the FMA area. These IRPs will provide direction to the DFMP in terms of the integration of important ecological and social values. We have also reviewed the input received from the public during our McLean Creek and Etherington Creek public involvement processes.

Following is the list of issues and values pulled from those processes. The list also contains certain commitments included here for information at the request of SRD. It is recognized this list may change as SLS proceeds through its public involvement process. The updated issues/values list, in conjunction with the IRPs, will then form the basis for the development of the objectives and strategies in the DFMP.

- Aboriginal Values – SLS will communicate with local bands in the development of the DFMP. The Public Advisory Group will assist in defining the process for communication.
- Access management – development of new access and the management/use of existing access. A long-term road strategy will be developed as part of the DFMP. SRD is currently developing the Ghost Access Management Plan.
- Adaptive management – Company’s ability to change management strategies and practices in light of new research and monitoring results.
- Aesthetic values – concern over the impact of harvesting activity in areas of high visual sensitivity. Areas of high visual sensitivity are identified at the Preliminary Harvest Design stage of AOP development. Historically this has been dealt with on a licence by licence basis based on the stakeholder interest in the area and in some cases resulted in specific considerations at the time of operational planning. Historically it has not resulted in land base deletions. A process will be developed as part of the DFMP that provides a long-term strategic focus. In addition, as part of the DFMP process, areas around numbered highways and designated recreation facilities will be identified as priority areas for consideration at the Preliminary Harvest Design stage.
- Biodiversity/ecological integrity – concerns over the effects of long-term timber harvesting on biological diversity and ecosystems.

- Carbon Sequestration – This is a new, evolving issue. SLS will monitor and develop a process to meet any reporting requirements that may materialize.
- Community timber program – commitment to and sequencing of the fixed volume allocations.
- Environmental protection – concerns over the impacts of industrial activity on the environment and soil productivity.
- Forest Certification – This is an evolving area of interest. SLS will continue to monitor the development of Certification programs (CSA, SFI, FSC). SLS is currently committed to the Alberta Forest Products Association ForestCare program.
- Forest protection – potential for timber losses from fire, insects and diseases. Dwarf Mistletoe and Mountain Pine Beetle are the two primary issues. Non-native invasive plants are also an issue.
- Historical resources – concern over the potential loss of historical resource sites.
- Integration – potential for the integration of other values, non-commercial uses and other industrial activity with timber harvest planning and operations.
- Land base and tenure – security and the potential for land base losses.
- Motorized recreational values – the issue of impacts and access management.
- Non-motorized recreational values – the issue of impacts and access management.
- Public Involvement – process of public participation in the management of crown resources.
- Public safety – potential for interaction between the public and SLS operations.
- Reforestation – concern over the regeneration success in harvested areas.
- Research – investment in and application of research.
- Sustainable timber supply – issues and obligations in establishing and sustaining our level of timber harvesting based on ecological, economic and social needs. A spatial harvest sequence will be developed, the specific requirements to be determined by the Planning/Review Teams. This will include a 10 year mapped harvest sequence for the FMA/Quota and the CTU program, measured over-time against a 20% variance target. Formal compartmentalization of the FMA will be developed as part of the DFMP. SLS will also develop a plan for a Growth and Yield program to be implemented in 2006.
- Unique areas – concern over the potential loss of unique sites.
- Water quality and quantity – the effects of timber harvesting and road construction/reclamation on the water and fish habitat resources.
- Wilderness values and protected baseline areas – concerns over the effects of long-term timber harvesting. This is considered a social value that requires definition.
- Wildlife habitat supply – concerns over the effects of long-term timber harvesting on effective habitat.

5. Management Philosophy

Part of the SLS Mission statement is: *Conserving Our Environment – Conducting all our operations at high levels of environmental performance and our woodlands operations at high levels of sustainability while recognizing other forest values and users.*

The Alberta Forest Legacy provides the overall direction for the management of Alberta's forests. Specific to the FMA:

9. On the forest management area the Company shall 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. [FMA Paragraph 9]

SLS is committed to sustainable forest management; a long-term goal to maintain natural ecosystems, communities and native species in the FMA in balance with social and economic needs. This approach features a continuous feedback loop that involves:

- using existing knowledge/information from completed studies,
- building new knowledge of ecological relationships, habitat supply and regional social values;
- integrating this knowledge into the forest management planning process and into the development of management strategies; and
- monitoring aspects of the implementation and its impact on the ecosystem over time.

A description of the landscape will be provided as part of the DFMP planning process that looks at biological, economic and social needs. The Landscape Assessment will include a general description of the FMA and information for the forest management area that will act as a baseline against which DFMP objectives can be measured. The information required will be based in part on the results of the Public Involvement Process and through input from the Planning/Review Teams.

The general description of the FMA will include but not limited to:

Landscape area summary.

Landscape pattern, geology and soils.

Description of the timber, hydrology and wildlife resources.

Description of other non-timber resources and land uses.

Baseline information will include data such as forest age class distribution, seral stage distribution, forest patch size distribution, current land use dispositions and ecological land classification inventory.

In building knowledge of ecological relationships, SLS subscribes to the coarse-filter approach; the management of broad ecosystem functions and patterns in order to maintain broad species diversity based on a natural disturbance history dominated by fire. Local level indicators developed through the DFMP process will also point to the need for a fine filter approach of management to address specific values or issues.

This approach is the foundation for adaptive management. Adaptive management is a formal process of issue assessment, planning, implementation, monitoring, evaluation, and feedback. This management approach will require the regular monitoring of measurable ecological and operational parameters related to the objective and target statements developed for the DFMP. The DFMP is considered a "living" document and management of the FMA will be responsive to the results of monitoring activities.

Monitoring is a joint government/SLS responsibility. Under the terms of the FMA, the crown is responsible for assessing cumulative impacts as part of its Integrated Resource Management program. SLS is responsible for annual monitoring and the submission of a five year stewardship report. As such, the objectives and strategies developed for the DFMP will be monitored for effectiveness. The monitoring will include annual harvest volumes, annual harvest areas, reforestation performance and validation of yield curves. As well, SLS will develop and maintain a list of items that will need to be addressed in the next DFMP due September 2016.

6. Planning Team/Review Team

SLS has assembled a planning team of company staff and consultants to develop the Detailed Forest Management Plan. Following are the individuals and consultants identified to date:

Gord Lehn – SLS Woodlands Manager
Ed Kulcsar – SLS Planning Forester
Darrell Panas – SLS Silviculture Forester
Tjerk Huisman – SLS Operational Planner/Harvest Supervisor

Golder Associates Ltd. – Timber Supply Analysis, Historical resource assessments.

Golder Associates Ltd. – Net land base analysis, GIS based assessments and database management.

URSUS Ecosystems Management Ltd. – Wildlife consultants.

Suncor Centre for Applied Environmental Sciences (Mount Royal College) – Water Quality consultants.

Other consultants will be considered based on the finalization of the issues and objectives for the DFMP. Public involvement is described in the Public Involvement Process document.

Sustainable Resource Development has identified a Review Team that will work closely with the Planning Team throughout the development of the DFMP. The primary members of the Review Team are Dave Coish (FMB), Jean Lussier (SRD), Jon Jorgenson (FWD) and Don Cockerton (ACD). Other staff identified as resource people include Bev Wilson (FMB), Greg Gredanus (FMB), John Pousette (FMB), John Stadt (FMB), Ken Greenway (FMB), Barry White (FMB), Barry Northey, Dan Lux (Forest Health), Brian Lajeunesse (FWD), Rick Arthur (FPD), Al Sosiak (AE) and Neal Morehouse (ED&T). Other government staff may be involved depending on the DFMP topic.

The Planning Team/Review Team will develop a Terms of Reference as its first point of business. SLS will complete the first draft. Regular meetings will be set between now and December 2004 to facilitate the development and review of the DFMP. The Terms of Reference will also address the functioning of the Teams based on a collaborative approach to plan development but recognizing the need for a simple dispute resolution mechanism. In the event the Teams are unable to come to agreement on an item, the

matter will be referred to Gord Lehn, SLS Woodlands Manager, Robert Stokes, Manager Forest Planning Section and Rick Blackwood, Manager Southern Rockies Forest Area. The Executive Director of the Forest Management Branch will be the next level of dispute resolution.