



Ministry of
Natural
Resources

Licence No. 550053

SUSTAINABLE FOREST LICENCE

Approved by Order-in-Council No. OIC 1534/2002

Dated August 28, 2002

And as amended as set out in Appendix G

And as most recently amended by Order-in-Council No. 536/2006

Dated March 1, 2006

SUBJECT to the Crown Forest Sustainability Act and the regulations thereto, and the terms and conditions hereinafter set forth, a licence is granted to

Hearst Forest Management Inc.

(herein called "the Company")

located at Hearst, Ontario

to harvest the following species of forest resources from the Licence Area in the **Hearst Forest**, which Licence Area is described in Appendix "A" hereto, for the term of this licence; and the Company is required to carry out renewal and maintenance activities in the Licence Area, on behalf of the Minister, which are necessary to provide for the sustainability of the Crown forest.

TREE SPECIES

All species

TERMS AND CONDITIONS

1.0 DEFINITIONS

1.1 In this Licence:

1. "Annual Work Schedule" means a statement, mainly tabular in form, showing the order and extent of all work of any nature to be carried out during one year consistent with the Forest Management Plan;
2. "Crown" means Her Majesty the Queen in Right of the Province of Ontario;
3. "Eligible Silviculture Work" means the work listed in Appendix "C" hereto, or as it may be amended from time to time;
4. "Forest Management Plan" means a forest management plan prepared in accordance with the Forest Management Planning Manual, or a plan deemed to be a Forest Management Plan pursuant to section 71 of the Crown Forest Sustainability Act;
5. "Forest Renewal Trust" means the Forest Renewal Trust established by the Minister pursuant to the Crown Timber Act, and continued under the Crown Forest Sustainability Act;
6. "Forest Renewal Trust Agreement" means the Forest Renewal Trust Agreement entered into between the Minister and the trustee pursuant to the Crown Timber Act, and continued under the Crown Forest Sustainability Act;
7. "Forestry Futures Trust" means the Forestry Futures Trust established by the Minister pursuant to the Crown Timber Act and continued under the Crown Forest Sustainability Act;
8. "Licence Area" means the lands designated in Appendix "A" hereto;
9. "Minister" means the Minister of Natural Resources;
10. "Management Unit" means the Crown forest designated as a management unit pursuant to section 7 of the Crown Forest Sustainability Act;
11. "Management Unit Account" is an account in the Forest Renewal Trust for a Management Unit and includes any Subaccounts thereof;
12. "Overlapping Licensee" means the holder of a forest resource licence on the Licence Area other than the Company;
13. "Person" includes a corporation;

14. "Productive Lands" means productive lands in the forest resource inventory that are not classified as muskeg, brush & alder, rock, developed agricultural land, grass & meadow, unclassified land or land covered by water;
15. "**Hearst Forest**" means the Management Unit in which this Sustainable Forest Licence has been granted;
16. "Special Purpose Account" means an account within the Consolidated Revenue Fund of the Province of Ontario into which a forest renewal charge may be paid pursuant to section 50 of the Crown Forest Sustainability Act;
17. "Subaccount" means any account within a Management Unit Account in the name of an Overlapping Licensee, or an account in the name of the applicable Sustainable Forest Licensee;
18. "Sustainable Forest Licence" means a licence granted or deemed to have been granted pursuant to section 26 or 74 respectively of the Crown Forest Sustainability Act;
19. "Sustainable Forest Licensee" means a person to whom a Sustainable Forest Licence has been granted pursuant to section 26 of the Crown Forest Sustainability Act, or a person who is, pursuant to section 74 of the Crown Forest Sustainability Act, deemed to have been granted such a licence;
20. "Trust Assets" means the assets of the Forest Renewal Trust as more particularly described in the Forest Renewal Trust Agreement;
21. "Trustee" means the Trustee of the Forest Renewal Trust;
22. "Withdrawal of land" means a reduction in the Licence Area through an amendment of the licence pursuant to section 34 of the Crown Forest Sustainability Act, but does not include a reduction in the Licence Area made to correct an error in the description or calculation of the Licence Area;
23. "Year" means the period commencing with the date of this licence and terminating with the 31st day of March next following and thereafter means a period commencing with the 1st day of April and terminating with the 31st day of March next following; and
24. "Yield" means the harvest, actual or estimated, howsoever measured over a given period of time.

2.0 AREA, TERM AND PRICING

- 2.1 This licence applies in respect of the Licence Area that is comprised of a total area of 11,726.8 square kilometres which total area is more particularly described in Appendix "A" hereto. The area of Productive Lands within the Licence Area is 9,863.2 square kilometres.
- 2.2 The Company shall pay area charges and forestry future charges in accordance with sections 32(1) and 51(5) of the Crown Forest Sustainability Act.
- 2.3 The term of this licence commences on the 1st day of April, 2002, and expires on the 31st day of March, 2022, subject to the Minister being satisfied the Company has complied with the terms and conditions of the Sustainable Forest Licence for the former Hearst Forest based on the results the Independent Forest Audit of the former Hearst Forest for the period April 1, 1997 to March 31, 2002. Should the Minister not be satisfied that there has been compliance with the terms and conditions of the licence based on the results of the audit for the former Hearst Forest, the term of the licence will commence on the 1st day of April, 2002, and expires on the 31st day of March, 2017. In either case the terms may be extended in accordance with section 26(4) of the Crown Forest Sustainability Act.
- 2.4 The Company shall pay the prices determined by the Minister under section 31 of the Crown Forest Sustainability Act for forest resources harvested under this licence.

3.0 WOOD SUPPLY COMMITMENTS AND OVERLAPPING LICENCES

- 3.1 The forest resources harvested pursuant to this licence are to provide a supply of forest resources to the existing forest resource processing facilities of the shareholders of the Company: Tembec Industries Inc. located at Hearst, Ontario, Lecours Lumber Company Limited located at Calstock, Ontario, and to the beneficiaries of forest resource supply commitments identified in Appendix "E" hereto.
- 3.2 Subject to complying with the wood supply commitments described in Appendix "E" and the special conditions described in Appendix "F", the Company shall be entitled to harvest and utilize the full available harvest described in the Forest Management Plan for the **Hearst Forest**.
- 3.3 If the allowable harvest levels permitted by a Forest Management Plan will not permit a sufficient amount of forest resources to be supplied from the Licence Area to the aforementioned processing facilities listed in paragraph 3.1 and Appendix "E", the amount of forest resources available shall be shared in a manner prescribed by the Minister unless the Company and the affected beneficiaries identified in Appendix "E" otherwise agree on the manner of sharing subject to the following:

- a) If an agreement on the manner of sharing is reached, the beneficiaries identified in Appendix “E”, who are parties to the agreement, shall acknowledge that the Minister’s obligations with respect to the wood supply commitments which are the subject of the agreement are satisfied by the agreement;
 - b) If the Minister is required to prescribe the manner in which the available harvest shall be shared, the Minister will take into consideration, among other things, the traditional wood supplies of those affected by such deficiency.
- 3.4 The Minister may grant an Overlapping Licence on the **Hearst Forest** pursuant to section 38 of the Crown Forest Sustainability Act.
- 3.5 This licence and any amendment thereto shall prevail over an agreement under section 38 of the Crown Forest Sustainability Act.
- 3.6 The Company shall provide copies of the agreements described in paragraph 3.5 herein to the Minister forthwith after such agreements are made, and as required by the Minister.
- 3.7 The Minister will provide to the Company a copy of the licence, harvest approvals and a monthly scaling summary regarding Overlapping Licensees at the same time they are provided to the Overlapping Licensee.

4.0 MANUALS

- 4.1 The Company shall prepare a forest management plan, work schedules, and reports for the **Hearst Forest** in accordance with the Crown Forest Sustainability Act and the Forest Management Planning Manual, and shall abide by that plan and all other requirements described in that manual and the Crown Forest Sustainability Act.
- 4.2 The Minister hereby requires the Company to conduct the inventories, surveys, tests and studies identified as being the responsibility of a Sustainable Forest Licensee in the Forest Information Manual, and the Company shall carry out those inventories, surveys, tests and studies in accordance with the Forest Information Manual.
- 4.3 The Minister hereby requires the Company to provide the Minister with information identified as being the responsibility of a Sustainable Forest Licensee in the Forest Information Manual, and the Company shall collect that information in accordance with the Forest Information Manual.
- 4.4 The Company shall not commit wasteful practices as described in either the Forest Operations and Silviculture Manual or the Scaling Manual.

5.0 DELETED

6.0 NATURAL DISTURBANCES AND SALVAGE

- 6.1 Where either the Minister or the Company becomes aware of killed or damaged forest resources on the Licence Area, the Minister or the Company shall give notice to the other party of the location of such forest resources. Within 30 days of the giving of notice, the Company shall notify the Minister whether or not the Company desires to salvage the killed or damaged forest resources, and,
- (a) where the Company desires to salvage such forest resources, the Company shall salvage such forest resources upon such terms and conditions, including the payment of Crown charges pursuant to the Crown Forest Sustainability Act, as set by the Minister in consultation with the Company, or
 - (b) where the Company does not desire to salvage such forest resources, the Minister may salvage such forest resources or have such forest resources salvaged in such manner as the Minister considers advisable including, but not limited to, the issuing of a forest resource licence(s) pursuant to section 38 of the Crown Forest Sustainability Act and the Company shall not have any interest in the salvaged forest resources.
- 6.2 Where the Minister intends to exercise his authority under section 38 of the Crown Forest Sustainability Act and issue a forest resource licence(s), the company will enter into overlapping agreements with the proposed licensees pursuant to section 38 (2) of the Crown Forest Sustainability Act and the regulations under the Act.
- 6.3 After commencement of the period of this licence, where forest on land forming part of the Licence Area is killed or damaged by fire or natural causes, the Company shall, if required, propose an amendment to the Forest Management Plan. The amendment shall describe the source of funding for its implementation.
- 6.4 Where the Company fails to give notice to the Minister under paragraph 6.1, the Company shall be deemed to have given notice to the Minister that it does not desire to harvest the killed or damaged forest resources.
- 6.5 The Minister may permit the harvesting of any forest resources that should, in the interests of economic forest utilization, be harvested with any killed or damaged forest resources to be salvaged under paragraph 6.1.
- 6.6 If a forest renewal charge is set for the salvage of killed or damaged forest resources on the Licence Area, such renewal charge shall be paid to the Trustee by the Licensee harvesting those forest resources, and shall be credited to the Management Unit Account for the Licence Area, or the Subaccount thereof applicable to the land from which such forest resources were harvested.

- 6.7 Where the harvesting of killed or damaged forest resources occurs, by the Company or an overlapping licensee, the Company will ensure the silvicultural standards described in paragraph 16.5 are met on the area harvested.
- 6.8 Where the Company has indicated no interest in the harvest of killed or damaged forest resources and the Minister is unable to have such forest resources harvested in a satisfactory fashion, then, the Company shall report the area identified in section 6.1 above as natural depletion in the annual report in accordance with requirements of the Forest Management Planning Manual.

7.0 FOREST PROTECTION

- 7.1 Where injurious insects or diseases may reduce the amount of forest resources available for harvest, the Company and Minister may protect the Licence Area from pest damage by planning, publicly announcing, and executing pest control programs. The Company and the Minister shall jointly plan pest control programs and may make joint application to the Forestry Futures Trust for the funding of such programs. There is no obligation on either the Company or the Minister to engage in such protection unless funding is available from the Forestry Futures Trust.
- 7.2 The Company will participate in pest control programs by assisting in the identification and mapping of affected areas, in the assessment of potential damage to forested lands within the Licence Area, and by recommending to the Minister the specific areas where controls should be undertaken. Additional responsibilities of the Company, if any, shall be agreed upon by the Company and the Minister at a local level.

8.0 COMPENSATION FOR WITHDRAWALS

- 8.1 Where land is withdrawn from the Licence Area, the Company shall remove from such lands within such reasonable period of time as is specified in writing by the Minister, all chattels and all portable buildings and structures. The Company may remove from the withdrawn area such non-portable buildings and structures that the Company desires to remove unless the Company agrees with the Minister to do otherwise. The Minister shall compensate the Company for:
- (a) the reasonable cost of removing the aforementioned things from the withdrawn lands and, when necessary, re-establishing them elsewhere on the Licence Area,
 - (b) the cost less depreciation as defined in the depreciation schedules under the Income Tax Act (Canada), or on such other basis as is mutually agreeable to the Minister and the Company, of the non-portable buildings and structures that are not removed by the Company from the withdrawn lands,

- (c) the cost of all Eligible Silviculture Work that has been conducted on the withdrawn lands and for which the Company has not, and will not, receive reimbursement from the Forest Renewal Trust or the Forestry Futures Trust, and
- (d) the cost less depreciation as defined in the depreciation schedules under the Income Tax Act (Canada), or on such other basis as is mutually agreeable to the Minister and the Company, for all primary and secondary forest access roads on the withdrawn lands constructed or maintained by the Company except those roads for which the Company has received any funding from the Province of Ontario, and except as provided in subparagraph 8.2.

8.2 No compensation may be payable in the circumstances described in subparagraph 8.1(d) if, after the withdrawal, the Company is allowed to use the road(s) for the purpose for which it was constructed.

9.0 PERIODIC REVIEW OF LICENSEE'S PERFORMANCE

- 9.1 A periodic review of the Company's compliance with the terms and conditions of this licence for the period April 1, 2002 to March 31, 2007 and every five year period thereafter will be conducted in accordance with:
- (a) the regulation made under Crown Forest Sustainability Act with respect to independent forest audits, or
 - (b) the review procedure set out in Appendix B, in the absence of the regulation described in (a) above.
- 9.2 If the review does not satisfy the Minister that the licensee has complied with the terms and conditions of the licence, the term of the licence will not be extended pursuant to subsection 26(4) of the Crown Forest Sustainability Act.
- 9.3 If the term of this licence is not extended pursuant to section 26(4) of the Crown Forest Sustainability Act, the licence shall, subject to being amended, suspended, or cancelled, remain in effect until the date of expiry described in paragraph 2.3 herein.
- 9.4 The Company shall complete an action plan, subject to written approval of the Minister, responding to the audit recommendations within 2 months of receiving the final audit report, unless otherwise directed by the Minister.
- 9.5 The Company will implement the action plan, unless otherwise directed in writing by the Minister.
- 9.6 A status report will be prepared within 2 years following the Minister's approval of the action plan, unless otherwise directed by the Minister.

10.0 FOREST RENEWAL TRUST

- 10.1 The Company shall be invoiced by the Crown for the forest renewal charge to be paid by the licensee pursuant to the Crown Forest Sustainability Act. The Company shall pay the forest renewal charge to the Trust.
- 10.2 The amounts paid by the Trustee in its capacity as Trustee of the Forest Renewal Trust in respect of Eligible Silviculture Work are paid to or for the benefit of the Crown.
- 10.3 Subject to paragraph 15.1 herein, the specific feature of the Forest Renewal Trust Agreement whereby the share of the Trust Assets credited to the Management Unit Account for the Licence Area will only be used to reimburse the cost of Eligible Silviculture Work performed on the Licence Area will not be amended or revoked unless the Company and the Minister so agree.
- 10.4 When paying the forest renewal charge referred to in paragraph 10.1, the Company shall provide the Trustee with the following information in writing:
- (a) the Forest Management Unit Account to which the payment shall be credited;
 - (b) the name and licence number of the licensee making the payment;
 - (c) a copy of the invoice being paid; and
 - (d) such other related information required by the Minister.
- 10.5 The Company shall submit such documentation and at such times as directed by the Minister, and is not entitled to any payment from the trust unless the eligible silvicultural work is consistent with Appendix C and based on the Company's approved Forest Management plan or Annual Work Schedule.

11.0 SUBACCOUNTS OF FOREST RENEWAL TRUST

- 11.1 A Subaccount can be opened at the request of the Company only. When the Company and an Overlapping Licensee on the Licence Area agree to establish Subaccounts for the Management Unit Account for the Licence Area, the Company shall provide the Minister with a copy of an agreement between the Company and Overlapping Licensee containing provisions which, at a minimum, provide for the following:
- (a) How much transitional funding for the Licence Area will be allocated to the Subaccount for the Licence Area and to any other Subaccount(s) of the Forest Management Unit Account;
 - (b) The licence number of the Overlapping Licensee(s);

- (c) A commitment by the Company to submit for each subaccount, such documentation and at such times as directed by the Minister for the purposes of forest renewal;
 - (d) The minimum balance to be in each Subaccount on March 31, 1999 and on every March 31 thereafter;
 - (e) That only persons authorized by the Company will submit interim and final invoices for Subaccounts; and
 - (f) The Overlapping Licensee will conduct the necessary Eligible Silviculture Work to ensure that the Company's obligations to meet the silvicultural standards described in paragraphs 16.5, 16.7 and 16.8 herein are met on all lands harvested on the Licence Area by the Overlapping Licensee.
- 11.2 A Subaccount can be closed at the request of the Company only. If the Company closes a Subaccount, the value of that Subaccount at the time of its being closed shall be credited to the management unit account for the Licence Area. The Company shall ensure that an amount no less than such value will be spent for Eligible Silviculture Work performed on the lands harvested by the Overlapping Licensee which gave rise to the forest renewal charges which were credited to that Subaccount.
- 11.3 If the Company closes a Subaccount in the name of an Overlapping Licensee, the Company's minimum balance obligation described in paragraph 12.4 herein will be increased by an amount equal to the minimum balance obligation of the Overlapping Licensee regarding the closed Subaccount.
- 11.4 The Company shall report annually to the Minister regarding monies spent pursuant to paragraph 11.2.

12.0 FOREST RENEWAL CHARGES and MINIMUM BALANCE

- 12.1 Forest renewal charges will be determined in accordance with the Crown Forest Sustainability Act.
- 12.2 Forest renewal charges for the Licence Area, or where applicable for each licensee in whose name a Subaccount exists, required to be paid from April 1, 1997 onwards will be calculated as provided in paragraph 12.3 hereof.
- 12.3 For any period after March 31, 1997, the forest renewal charges for those licensees with an account for the Licence Area in the Forest Renewal Trust will be determined after an analysis which includes, at a minimum:
- (a) the licensee's past reimbursements for Eligible Silviculture Work on the Licence Area,

- (b) a forecast of the amount of Eligible Silviculture Work to be undertaken by that licensee in the period for which the forest renewal charge is being calculated, including Eligible Silviculture Work to be undertaken on areas which have failed to meet silvicultural standards and retreatment is therefore necessary,
 - (c) a forecast of the volume and species to be harvested by that licensee in the period for which the forest renewal charge is being calculated,
 - (d) any transitional funding required to be paid by the Minister to the Trustee to be credited to that account for the licensed area, and
 - (e) the existing value of that account at the time the analysis is undertaken so as to ensure that each account will have sufficient value to fund Eligible Silviculture Work planned in the period for which the forest renewal charge is being calculated, and to ensure that each account has the minimum balance described in Appendix "D" hereto on March 31, 1999 and every March 31 thereafter.
- 12.4 The minimum balance for the Management Unit Account for the Licence Area shall be equal to the Amount in Appendix D.
- 12.5 After March 31, 1997 the forest renewal charge for the **Hearst Forest**, or where applicable for each licensee in whose name a Subaccount exists, may be increased or decreased after the type of analysis referred to in paragraph 12.3 above. Such analysis shall be undertaken at times to be determined by the Minister but no less frequently than every five years in conjunction with the term of the forest management plan for the **Hearst Forest**. In addition, the Company may request such an analysis at any time.
- 12.6 The analysis described in paragraph 12.3 shall be made jointly by the Minister, the Company, and Overlapping Licensees, where those Overlapping Licensees have an account for the licence area. If they do not agree on such analysis the forest renewal charge shall be set as provided by the Crown Forest Sustainability Act and regulations thereto.

13.0 RECORD KEEPING AND AUDIT (FOREST RENEWAL TRUST)

- 13.1 To facilitate the annual audit of the Forest Renewal Trust:
- (a) the Company shall maintain records, including maps, of the amount of Eligible Silviculture Work implemented and the cost thereof.;
 - (b) an auditor retained by the Trustee shall at all reasonable times and upon reasonable notice to the Company be entitled to full access to the Company's records, including maps, which are required for the purpose of verifying that the reimbursements from the Forest Renewal Trust received by the Company were for legitimate claims regarding Eligible Silviculture Work.

13.2 When a Company or Overlapping Licensee calculates the cost of Eligible Silviculture Work:

- (a) the following elements of cost may be included:
 - (i) the cost of salaries, wages and normally applied payroll burden associated with staff or contract staff directly engaged in implementing Eligible Silviculture Work;
 - (ii) the cost of transporting and sustaining personnel engaged in implementing Eligible Silviculture Work;
 - (iii) depreciation allowances for any and all equipment and vehicles when employed by the Company in renewal operations including depreciation allowances for that portion of the costs of specialized harvesting equipment designed to facilitate renewal by natural or artificial means, and the cost of transporting and operating such equipment and other equipment or vehicles for the purpose of implementing Eligible Silviculture Work;
 - (iv) planning, data collection and record keeping for Eligible Silviculture Work; and,
 - (v) the costs of other goods and services directly related to implementing Eligible Silviculture Work.
- (b) the following shall not be included as elements of cost of Eligible Silviculture Work:
 - (i) depreciation allowances for any and all equipment, vehicles, camps or other facilities owned by the Company when employed by the Company in logging operations;
 - (ii) wages or salaries for any personnel not directly engaged in Eligible Silviculture Work; and,
 - (iii) the cost of constructing or maintaining roadways within the Licence Area.

13.3 If a Company or Overlapping Licensee contracts out all or part of the work associated with Eligible Silviculture Work, payments by such Company or Overlapping Licensee to contractors performing such work shall be deemed to be expenditures on Eligible Silviculture Work incurred by such Company or Overlapping Licensee for which such Company or Overlapping Licensee is to be reimbursed from the Forest Renewal Trust.

13.4 In the event of disputes or audits regarding the cost of Eligible Silviculture Work, generally accepted accounting principles and auditing standards as certified by a person or firm licensed under The Public Accountancy Act, R.S.O. 1990, c. P.37 shall be used.

14.0 EFFECT OF TRANSFER, ASSIGNMENT, OR OTHER DISPOSITION OF LICENCE ON FOREST RENEWAL TRUST

- 14.1 Where the Company requests the written consent of the Minister to the transfer, assignment, charge, or other disposition of this licence pursuant to section 35 of the Crown Forest Sustainability Act, such request shall be in writing and shall be made at least 30 days prior to the date of the proposed transfer, assignment, charge, or other disposition of the licence.
- 14.2 In the event that the licence is transferred, assigned or otherwise disposed of, the Company may claim any expenditures for Eligible Silvicultural Work incurred before the transfer, assignment, or disposition against the Management Unit Account for the Licence Area. The claim for such reimbursements shall be made within three (3) months of the assignment, transfer, or termination of the licence. The balance of that Management Unit Account shall be administered in accordance with the applicable trust agreement. Payments to a new Licensee shall only be made for Eligible Silviculture Work performed after the date that the Licence was assigned or transferred to that Licensee.
- 14.3 Unless otherwise provided for by the written consent of the Minister pursuant to section 35 of the Crown Forest Sustainability Act, the Company's obligation to fulfil responsibilities described in paragraph 16.5 herein continue regardless of any transfer, assignment, charge, or other disposition of this licence.
- 14.4 If the Company's obligation to pay forest renewal charges ceases, the share of the Trust Assets attributable to the Management Unit Account for the Licence Area shall continue to be held by the Trustee and be administered in accordance with the Forest Renewal Trust Agreement.
- 14.5 Nothing in this licence shall affect the Crown's right to seek payment from the Company in a court of competent jurisdiction for any monies received by the Company from the Forest Renewal Trust for Eligible Silviculture Work not performed or which is established to have been negligently performed.

15.0 EFFECT OF WITHDRAWAL OF AREA ON FOREST RENEWAL TRUST

- 15.1 If any land harvested after April 1, 1995 is withdrawn from the Licence Area, and forest renewal charges have been paid for forest resources harvested on that withdrawn area, the amount of such payment credited to the Management Unit Account for the Licence Area less reimbursement for Eligible Silviculture Work on that harvested area shall be determined by the Minister and the Company and shall be dealt with as follows:
- (a) if the withdrawn area becomes part of another Management Unit for which a Management Unit Account exists, it shall be credited to that Management Unit Account;

- (b) if, at the time of the withdrawal, the Crown indicates that Eligible Silviculture Work will not be implemented on the harvested areas within the withdrawn area, it shall continue to be credited to the Management Unit Account for the Licence Area to be used for Eligible Silviculture Work on the remaining Licence Area; and,
- (c) if the withdrawn area does not become part of another Management Unit for which a Management Unit Account exists, but the Crown indicates that Eligible Silviculture Work will be implemented on the withdrawn area, it shall be paid out as requested by the Crown for Eligible Silviculture Work undertaken on the withdrawn area.

15.2 The Company's responsibility to conduct Eligible Silviculture Work on or to meet silvicultural standards for a withdrawn area ceases as of the date that area is withdrawn.

16.0 SILVICULTURAL STANDARDS

16.1 For the purpose of this paragraph, lands within the Licence Area can be classified and categorized as follows:

Class A Lands:

- i) Areas harvested prior to April 1, 1994 on which no Eligible Silviculture Work has been initiated nor would have been initiated on those areas prior to April 1, 1994 due to a lack of silviculture funding provided by the Minister for the Licence Area;
- ii) Areas harvested prior to April 1, 1994 on which no Eligible Silviculture Work has been initiated nor would have been initiated on those areas prior to April 1, 1994 due to the area having been reported as untreatable in Table 6.1 prescribed by the Forest Management Planning Manual (Annual Report of Depletion by Area).

Class B Lands:

Areas harvested prior to April 1, 1994 on which no Eligible Silviculture Work has been initiated nor would have been initiated on those areas prior to April 1, 1994 due to the silvicultural prescription having been planned natural regeneration.

Class C Lands:

Areas harvested prior to April 1, 1994 on which Eligible Silviculture Work has been performed, but the Company and the designated Crown representative for the Licence Area have agreed that the Company is not responsible for meeting the silvicultural standards described in paragraph 16.5 due to special circumstances.

Class D Lands:

Areas harvested prior to April 1, 1994 on which Eligible Silviculture Work has been initiated or is planned to be initiated, plus all areas harvested on or after April 1, 1994.

Category 1:

Category 1 lands are defined as any lands on the Licence Area falling into Class A or C.

Category 2:

Category 2 lands are defined as any lands on the Licence Area falling into Classes B or D.

- 16.2 Except as provided in paragraphs 16.4, and 16.8 herein, the Company shall meet the silvicultural standards described in paragraph 16.5 herein, on all Category 2 Lands regardless of who harvested a specific area or who performed or is to perform Eligible Silviculture Work. The Company's obligation to meet these silvicultural standards is not diminished where Eligible Silviculture Work is performed by an Overlapping Licensee or by a contractor retained by the Company.
- 16.3 The lands falling into Category 1 must be mapped and documented to the satisfaction of the Minister and the Company. A copy of that map(s), initialled by both the Minister and the Company, shall reside with the Company and the Minister for the purpose of enforcing the terms of this licence.
- 16.4 Neither the Company or the Minister will have renewal obligations in relation to lands which are described as Category 1 lands in paragraph 16.1 herein.
- 16.5 The Company will implement the necessary silvicultural prescriptions on lands described in paragraph 16.2 herein so as to meet the silvicultural standards described in the approved Forest Management Plan for the **Hearst Forest** when the silvicultural prescriptions were made, or in accordance with any amendment of that standard.
- 16.6 The Company shall meet the silvicultural standards described in paragraph 16.5 herein regardless of the balance in the Management Unit Account for the Licence Area at any given time, or the amount of transitional funding available to the Company in any one year or in total.
- 16.7 The Company shall assess and report on, in accordance with the Forest Operations and Silvicultural Manual, the Forest Information Manual, and the Forest Management Planning Manual, the achievement of its regeneration efforts to ensure the obligations and standards outlined in paragraph 16.5 are met.

- 16.8 The obligation to meet the silviculture standards and prescriptions described in paragraphs 16.5 and 16.7 herein may be varied or waived in writing by the Minister in circumstances deemed appropriate by the Minister such as the renewal of areas set aside for experimental studies or for the purpose of tree improvement.

17.0 TERMINATION OF FOREST RENEWAL TRUST

- 17.1 If the Forest Renewal Trust is terminated, the Trust Assets paid to the Crown by the Trustee upon such termination shall be used to pay for Eligible Silviculture Work on the Licence Area as if the Forest Renewal Trust was still in effect until the value of the Management Unit Account for the Licence Area is completely dissipated.

18.0 CONSTRUCTION LIENS

- 18.1 If a lien claimant under the Construction Lien Act, R.S.O. 1990, Chapter C.30 that has performed Eligible Silviculture Work on the Licence Area, or has supplied services or materials in relation thereto, serves a notice of lien in accordance with that Act in relation to such Eligible Silviculture Work, the Minister shall not make any payment to that lien claimant directly or into court relating to that claim without the Minister first giving the Company reasonable notice of his/her intention to do so.

19.0 HERBICIDES

- 19.1 If the government of Ontario or Canada disallows or restricts the use of herbicides which are registered for forestry use in Canada, or such herbicides cease being registered for such use, and such disallowance or lack of registration adversely affects the Company's ability to meet the silvicultural standards described in paragraph 16.5 herein, the Company's obligations to meet those standards or the standards themselves will be reasonably amended in accordance with the amendment process for Forest Management Plans.

20.0 ABORIGINAL OPPORTUNITIES

- 20.1 The Company shall work co-operatively with the Minister and local Aboriginal communities in order to identify and implement ways of achieving a more equal participation by Aboriginal communities in the benefits provided through forest management planning.

21.0 COMPLIANCE PLANNING AND MONITORING

- 21.1 The Company shall prepare a forest compliance plan which describes the proposed planning, monitoring, reporting and education/prevention activities to be undertaken by the Company and any Overlapping Licensees which have been granted approval by the

Ministry of Natural Resources to directly assume compliance responsibilities on the Forest.

- 21.2 The compliance plan will describe the responsibilities of the Company and Overlapping Licensees with respect to ensuring compliance with the Forest Management Plan, the Annual Work Schedule, and all applicable legislation, regulations and manuals and guidelines affecting those operations. The forest compliance plan shall be prepared in accordance with standards established by the Minister, in consultation with representatives of Ontario's forest industry.
- 21.3 The forest compliance plan prepared by the Company requires the approval of the Minister or delegate, before forest operations may commence.
- 21.4 The compliance plan will include an annual assessment of compliance and a schedule of all monitoring activities (inspection and reporting) for the Licence Area, including a distinct schedule for each Overlapping Licensee having compliance responsibilities.
- 21.5 The Company and those Overlapping Licensees referred to in paragraph 21.1 are responsible for establishing and delivering internal prevention/education programs and for providing individual staff training to competency standards approved by the Ministry of Natural Resources. The compliance plan must describe the internal prevention/education program responsibilities of the Company and applicable Overlapping Licensees.
- 21.6 The Company and those Overlapping Licensees referred to in paragraph 21.1 must conduct inspections of forest operations, provide inspection reports to the Ministry of Natural Resources and otherwise comply with the requirements of the approved forest compliance plan. Overlapping Licensees which have been granted the inspection and reporting responsibility will provide such information directly to the Ministry in accordance with the compliance plan and Ministry standards for reporting.

22.0 FORESTRY OPERATIONS ON MINING CLAIMS

- 22.1 Throughout the Licence area land may be staked or leased for mining potential. Should the Company undertake forestry activities on any mining leases or claims, the Company will assume full responsibility for all forestry activities on these areas and will hold the Minister free from any damages from Company activities.
- 22.2 Following receipt of a Company prepared Annual Work Schedule, the Minister will advise all recorded and patented claim holders located within the proposed operating area of the Company's intent. Claim holders will be instructed to address their concerns to the Company within thirty days. The Company will in turn be available to discuss stated concerns or conflicts with the claim holders.

- 22.3 Subject to the Minister complying with the Freedom of Information and Protection of Privacy Act, the Minister will advise the Company of any known, new or existing activities within the Licence Area authorized by the Minister pursuant to the Public Lands Act.

23.0 MISCELLANEOUS

- 23.1 Appendix “F” attached hereto shall form part of this licence and the Company shall comply with the conditions set out in Appendix “F”.

24.0 GENERAL

- 24.1 The headings in this licence are inserted for convenience of reference only and shall not be used to construe the licence.
- 24.2 The Minister may amend this licence pursuant to section 34 of the Crown Forest Sustainability Act.
- 24.3 Unless as otherwise expressly provided herein, this licence shall not be interpreted as in any way limiting the authority conferred upon the Minister by statute or regulation to manage the Licence Area and the resources thereon, including authority regarding forest resource licences under the Crown Forest Sustainability Act and the regulations thereto.
- 24.4 The failure of the Minister to insist in one or more instances upon the performance by the Company of any term or condition of this licence or the management documents shall not be construed as a waiver of the future performance of any such term or condition and the obligation of the Company with respect to such future performance shall continue in full force and effect.
- 24.5 (1) Where any notice is required to be given under this licence or the management documents, such notice shall be given in writing and shall be personally served, mailed by prepaid registered post addressed, or sent by facsimile to the addresses set out below, unless an alternative address has been provided in writing.

- (a) in the case of notice to the Minister, to the

Minister of Natural Resources
6th Floor, Whitney Block
99 Wellesley Street West
Toronto, Ontario, M7A 1W3
Facsimile Number: (416) 314-2216

and

- (b) in the case of notice to the Company, to

General Manager
Hearst Forest Management Inc.
P.O. Box 746
Hearst, Ontario
P0L 1N0

Facsimile Number: (705) 362-7057

- (2) Any notice mailed in accordance with subparagraph 1 shall be deemed to have been received on the fifth day next following the day it is mailed at any post office.

GIVEN under my hand and seal of the Ministry of Natural Resources this 5th day of May, 2006.

Original Signed by Hon. David Ramsay
MINISTER OF NATURAL RESOURCES
FOR THE PROVINCE OF ONTARIO

LIST OF APPENDIXES

Appendix "A"

Legal Description of Licence Area

Appendix "B"

Procedure for the Periodic Review of A Company's Obligations With Respect to a Sustainable Forest Licence

Appendix "C"

List of Eligible Silviculture Work for the Forest Renewal Trust

Appendix "D"

Minimum Balances

Appendix "E"

Wood Supply Commitments

Appendix "F"

Special Conditions

Appendix "G"

Summary of Sustainable Forest Licence Amendments

APPENDIX "A"**LEGAL DESCRIPTION OF LICENCE AREA**

All that parcel or tract of land in the Territorial Districts of Algoma and Cochrane as identified on the Plan map dated the 1st day of March 2004, prepared by the Ministry of Natural Resources, a print of which said map is attached and forms part of this Appendix.

Saving and excepting thereout and therefrom all those lands which have been alienated from the Crown, Ontario and all areas identified as First Nations, other Federal land, parks and conservation reserves as shown for illustration purposes on the attached map

APPENDIX "B"

Procedure for the Periodic Review of a Company's Obligations With Respect to a Sustainable Forest Licence

- (a) An independent review team will conduct a review of the Company's compliance with the terms and conditions of this licence for the period April 1, 2002 to March 31, 2007 and every five-year period thereafter.
- (b) The Minister will appoint a review team of no less than three persons, one of whom must be a professional forester as defined in the Crown Forest Sustainability Act. The review team will possess qualifications and experience in at least the following areas:
 - i) business management science, and evaluation,
 - ii) recent and relevant experience in forest management planning and operations in forest ecosystems similar to that in which the audit is being conducted
 - iii) biology with specialization in terrestrial ecosystems.
- (c) Prior to the formalization of the review team, the Company shall be given the opportunity to identify to the Minister any material conflict of interest that a review team member may have in relation to the Company. Where the Minister is satisfied that such material conflict may exist, the Minister may replace that review team member.
- (d) The Minister will issue the review team with terms of reference that require the review team to review, at a minimum, the performance of the Company in respect of its obligations on the **Hearst Forest** as described in the following paragraphs of this licence:
4.1, 4.2, 4.3, 4.4, 6.1, 6.2, 6.3, 6.4, 6.6, 6.7, 6.9, 7.1, 7.2, 9.4, 9.5, 9.6, 10.1, 10.3, 10.4, 10.5, 11.1, 11.4, 12.3, 12.5, 12.6, 13.1, 16.2, 16.5, 16.6, 16.8, 20.1, 21.1, 21.2 and 21.3.
- (e) The review team will select and inspect harvest cuts, silvicultural projects and road construction projects which are typical of the techniques employed on the management unit for conformity with the approved Forest Management Plans and the field application of implementation manuals and silvicultural ground rules, and the records that support them.
- (f) The review team will consult with management staff of the Company to identify and address problem areas or concerns on the part of the Company with respect to this licence, its administration and the working relationship with Ministry staff.
- (g) The review team will consult with district Ministry staff to identify and address problem areas or concerns on the part of the Ministry with respect to this licence, its administration and the working relationship with the Company's staff.

- (h) The review team will consult with the public and the Local Citizens Committee for the **Hearst Forest** to identify and address problem areas or concerns on the part of the public or that committee with respect to the Company's performance in the preparation and implementation of the Forest Management Plan for the management unit.
- (i) The review team will:
 - i) prepare a written report setting out both positive and negative observations, together with conclusions and recommendations resulting from the review;
 - ii) publish its report no later than four months after the initiation of the review;
 - iii) submit the report to the Minister; and
 - iv) recommend to the Minister whether the term of this licence should be extended for five years.
- j) After the review team submits its report to the Minister, the Company will have an opportunity to review the review team's report, and to provide its response thereto to the Minister. The Company's response shall be provided to the Minister in writing within 30 days of the review report being provided to the Company.
- k) After receipt by the Minister of the Company's response to the report of the review team or the expiration of the 30 day period for providing such response, the Minister shall take whatever action the Minister deems appropriate in relation to that report, and the Company shall take such action as is prescribed by the Minister.

APPENDIX "C"

LIST OF ELIGIBLE SILVICULTURE WORK FOR THE FOREST RENEWAL TRUST

Cone Collection and Transport

Seed Extraction, Storage, Testing and Transport

Tree Improvement

Stock Purchase and Delivery

- Bareroot
- Container
- Cuttings
- Other

Tree Planting:

- Bareroot
- Container
- Cuttings
- Other

Seeding:

- Direct
- With Site Preparation

Scarification (for natural seeding)

Site Preparation:

- Mechanical
- Chemical¹
- Prescribed Burn

Tending:

- Cleaning¹
- Spacing, Thinning² and Improvement (Evenaged)
- Improvement (Unevenaged)

Tree Marking³

HARO

Modified Harvest Cutting

Silvicultural Surveys:

- NSR
- FTG

Other Silvicultural Work as set out in writing by the Minister

NOTE:

¹Chemical site preparation and chemical cleaning costs should include the cost of chemical applied.

²Only pre-commercial thinning is Eligible Silviculture Work. Commercial thinning is not eligible.

³Boundary marking is not Eligible Silviculture Work.

APPENDIX "D"

MINIMUM BALANCES

MANAGEMENT UNIT ACCOUNT

**HEARST FOREST
(LICENCE NO. 550053)**

1. April 1, 1994 - March 31, 1995	\$1,273,500
2. April 1, 1995 - March 31, 1996	\$0
3. April 1, 1996 - March 31, 1997	\$819,500
4. April 1, 1997 - March 31, 1998	\$819,500
5. April 1, 1998 - March 31, 1999	\$989,900
TOTAL TRANSITIONAL FUNDING	\$3,902,400

NOTE: Minimum balance is the balance as of March 31, 1999 and each March 31 thereafter. This balance equals the amount of the total transitional funding paid to the Account by the Crown to ensure that there are adequate funds to perform forest renewal on the unit. Where there are Subaccounts, the minimum balance for the Management Unit Account will be the total minimum balance required for all Subaccounts.

APPENDIX E**WOOD SUPPLY COMMITMENTS**

The Company shall comply with the following wood supply commitments on the Hearst Forest:

1. To make wood fibre available to Levesque Plywood Limited's Hearst veneer facility, through a long term memorandum of agreement in accordance and consistent with Supply Agreement 536233 dated December 5, 2005. The Company must enter into and execute the memorandum of agreement within six months of the amendment of this licence for the inclusion of this condition. A copy of the executed memorandum of agreement must be provided by the Company to the Ministry upon request. The requirements for a memorandum of agreement are not applicable where Levesque Plywood Limited is a shareholder of the Company.
2. To make available annually to Grant Forest Products Inc., for use in their oriented strandboard mill at Englehart, Ontario, through a long term MOA, a target volume of 115,057 m³ of non-veneer quality aspen poplar logs. The supply of non-veneer quality aspen fibre is made available consistent with a letter from the Minister of Natural Resources to Mr. Peter Grant, President, Grant Forest Products Inc., dated September 25, 1998. A copy of the MOA negotiated as a result of this commitment and this term and condition of the SFL, must be provided by the company to the Ministry upon request.
- 1) To make wood fibre available to Longlac Wood Industries Inc.'s facilities, through a long term memorandum of agreement in accordance and consistent with Supply Agreements #536234 dated December 5, 2005, and #536239 dated December 5, 2005. The Company must enter into and execute the memorandum of agreement within six months of the amendment of this licence for the inclusion of this condition. A copy of the executed memorandum of agreement must be provided by the Company to the Ministry upon request. The requirements for a memorandum of agreement are not applicable where Longlac Industries Inc. is a shareholder of the Company.

APPENDIX "F"**SPECIAL CONDITIONS**

1. The Company will provide annually, to Marcel Lacroix, the opportunity to obtain a licence to harvest a target volume of up to 6,515 m³ of conifer timber for sale to either Tembec Industries Inc., for their sawmill in Hearst, or Lecours Lumber Company Limited, for their sawmill in Calstock, This condition is consistent with traditional wood flow and licensing practices for the Hearst Forest and with a Memorandum of Agreement between Hearst Forest Management Inc. and Marcel Lacroix, dated March 28, 1997.
2. The Company will provide annually, to the Constance Lake First Nation, or to a company or individual, on behalf, and for the benefit of the First Nation, the opportunity to obtain a licence to harvest a target volume of up to 13,030 m³ of conifer timber for sale to either Tembec Industries Inc., for their sawmill in Hearst, or Lecours Lumber Company Limited, for their sawmill in Calstock, This condition is consistent with a letter dated February 5, 1990 from R. David Scott, Hearst District Manager, to Stanley Stephens, Constance Lake Band, and related correspondence. A copy of a letter from Constance Lake First Nation indicating their acceptance of a company or individual to harvest on their behalf must be provided by the SFL company to the Ministry upon request.
3. It is recognized that the opportunity to harvest the conifer allocation is divided between the shareholders of the company as indicated below.

Company	1986 (signing FMA)	1992 (Custom Allocation)	Total April 1, 1992 Baseline Volumes	Allocation of volumes less than or greater than April 1 1992 Baseline Volumes
Lecours Lumber Company Ltd	229,328 m3	82,089 m3	311,417 m3	(50%)
Tembec Industries Inc.	174,602 m3	82,089 m3	256,691 m3	(50%)

