

## MEMORANDUM OF AGREEMENT

This agreement is dated February 7, 2014,

BETWEEN:

**J.D. IRVING, LIMITED ("Irving")**

- and -

**HER MAJESTY THE QUEEN IN RIGHT OF THE PROVINCE OF NEW  
BRUNSWICK** as represented by the **MINISTER OF NATURAL  
RESOURCES** (the "**Minister**")

(each a "**Party**", collectively the "**Parties**")

**WHEREAS** the spirit and intent of this agreement is to ensure the ongoing global competitiveness and sustainability of Irving's forestry operations in the Province of New Brunswick (the "**Province**"), by accomplishing the following:

- (i) growing the wood supply in an environmentally sustainable manner;
- (ii) working together to improve efficiencies and reduce costs;
- (iii) sustaining and attracting investment and economic activity to the Province; and
- (iv) creating employment and security for the Provincial supply chain.

**AND WHEREAS** Irving is prepared to make substantial investments in its and its affiliates' forestry, wood processing and manufacturing operations in New Brunswick conditional on the commitments by the Minister as outlined in this agreement;

**AND WHEREAS** the Parties agree that the commitments made under this agreement will benefit the Province;

The Parties therefore agree as follows:

### 1. Investment and Commitment

- 1.1. Irving will invest approximately \$513 million dollars, in accordance with Schedule A, attached, in its and its affiliate's operations in the Province.
- 1.2. All investments by Irving will be subject to substitution at Irving's discretion with reasonable alternative investments of approximately equivalent value.
- 1.3. Upon request by the Minister, Irving will deliver evidence of the investments made pursuant to this agreement, to the satisfaction of the Minister, acting reasonably.
- 1.4. The Parties acknowledge and agree that:
  - a) Irving's commitment to invest is (i) predicated on certainty of increased wood supply, competitive wood costs, and reduced costs in Irving's forestry operations in the Province, and (ii) made in reliance on the terms set out in this agreement; and

- b) the Minister's commitments herein are made in reliance on Irving's commitment to invest in its New Brunswick operations as per the terms and conditions of this agreement.

2. **Forest Management**

- 2.1. The Parties will negotiate in good faith and use best efforts to sign a new outcome-based forest management agreement ("**FMA**") by July 1, 2014, covering Crown Timber Licenses #6 and #7 (collectively, "**License 7**"). The FMA will include the following terms and conditions:

- a) the initial term will be 25 years, and at the end of the first five years and each fifth anniversary thereof, the Minister shall, provided Irving satisfies the key performance indicators set out in the FMA, recommend to the Lieutenant-Governor in Council to approve an extension of the term for a further five years; and
- b) the FMA will apply to the present area of License 7;

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- 2.4. Licensees and sub-licensees who satisfactorily demonstrate their compliance with the requirements under their operating plan, management plan and industrial plan, will be given their proportionate share of future volume changes resulting from forest growth, policy changes and/or management practices.

3. **Wood supply** – Irving's annual allocation of timber is currently 2,045,000 m<sup>3</sup> (1,500,000 m<sup>3</sup> of spruce/fir/jack pine tree-length (SFJP), 117,000 m<sup>3</sup> of white pine sawlogs (wP), and 428,000 m<sup>3</sup> of hardwood). The Parties acknowledge that the hardwood annual allowable cut on License 7 may be adjusted to reflect future hardwood inventories. The Minister will:

- a) increase Irving's annual allocation of SFJP and wP to 2,027,000 m<sup>3</sup> (with a minimum of 1,898,000 m<sup>3</sup> of SFJP), by permanently assigning an additional 410,000 m<sup>3</sup> by April 1, 2016; provided that with respect to this additional 410,000 m<sup>3</sup>, the Minister will make available to Irving 386,000 m<sup>3</sup> of SFJP tree length through permanent allocation by July 1, 2014;
- b) make up the 24,000 m<sup>3</sup> shortfall in the 2014-16 operating seasons with a minimum of 50% SFJP; and the 24,000 m<sup>3</sup> shortfall will be made permanent by April 1, 2016;
- c) assign these annual allocations in Irving's traditional operating areas;
- d) not reduce Irving's annual allocations except as expressly permitted in the FMA; and
- e) not increase the softwood veneer grade allocation on License 7 (currently 9,800 m<sup>3</sup>),

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4. **Outcome-based Management** - In order to maximize the efficiencies of its operations, reduce administration costs, and provide increased accountability to the Minister, Irving requires an outcome-based management approach on License 7 (as opposed to the current prescriptive-based system). The basis for an outcome-based forest management agreement is to practice sound science-based forest management, which supports a globally competitive forest industry, provides strong local employment and economic benefits to the Province, and meets third party forest certification standards. Accordingly, the Parties agree:
- a) to finalize the principles, objectives, measures and indicators of an outcome-based management system under the terms and conditions of the FMA to be agreed upon by July 1, 2014, and to fully implement an outcome-based management system on License 7 by September 1, 2014; and
  - b) that under the terms and conditions of the new FMA:
    - (i) the current forest management manual will be replaced by one that aligns to the agreed outcome-based management system;
    - (ii) the Minister will fund the reimbursed basic silviculture program as needed to support the outcomes required under the management plan forming part of the FMA, subject to annual funding allocation (Irving's previous 2007-2012 management plan required funding of approximately \$7 million per year). Irving's obligations with respect to the outcomes set out in the management plan will correspond to the level of basic silviculture funding provided by the Minister; and
    - (iii) in order to ensure compliance with its obligations under the FMA, the Minister will require that Irving (and all other licensees/sub-licensees who operate under an outcome-based forest management agreement), post a mutually agreed upon performance bond with the Minister.

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**6. Private Wood**

6.1. Access to, and the purchase of, wood from private woodlot owners in the Province is of critical importance to Irving and the Minister. Accordingly, Irving agrees that:

- a) it will not displace current private wood supply with the additional 410,000 m<sup>3</sup> allocation of Crown wood referenced in Section 3(a) above (the "**Additional Crown Wood**"); and
- b) upon completion of its investments as outlined in Schedule A and the usage of the Additional Crown Wood, Irving estimates that it will still have additional sawmill production capacity of 50 million board feet. This additional capacity will provide new market opportunities of approximately 170,000 m<sup>3</sup> of saw material in southern New Brunswick for third party suppliers including New Brunswick private woodlot owners and producers.

6.2. Irving's ability to increase its saw material consumption (as noted in Section 6.1(b) above) is conditional upon market conditions and unfettered market access.

7. **Research and Development** – The Minister will work with Irving's Forest Research Advisory Committee to identify knowledge gaps and forest research priorities pertaining to science-based forest sustainability concerns. The Parties will contribute annual funding (on terms and in amounts to be agreed to between the Parties), to undertake prioritized relevant science-based research. New and existing knowledge and improvements will be implemented through adaptive management.

**8. Irving Land Management**

8.1. Irving commits to use commercially reasonable efforts to maintain in good standing third party sustainable forestry management certification, such as the Sustainable Forestry Initiative, on all the lands it owns or manages.

8.2. Irving will use commercially reasonable efforts to manage its New Brunswick Industrial freehold lands to match or exceed the forest productivity, growth, and sustainable harvest rates that are achieved on License 7 in support of New Brunswick facilities. To maintain transparency, Irving will provide the Minister with (i) an annual report of wood deliveries from Crown and Irving industrial freehold lands to Irving mills in New Brunswick; (ii) copies of forest certification audit reports; and (iii) copies of Irving's corporate sustainability report substantially in its current form as it relates to forest management.

9. **Ongoing Efficiencies** - In the event that any Crown timber licenses become available, Irving will be given equal consideration to provide the license management services for that license, under terms similar to the FMA. Irving and the Minister agree to work

together to ensure alignment and cost efficiencies for both license management and operations.

10. **Confidentiality** - The Parties agree that the existence and terms of this agreement and any and all discussions between the Parties relating to or arising from this agreement are confidential information (the "**Confidential Information**") and each Party agrees to hold the Confidential Information in confidence. Neither Party will divulge any of the Confidential Information to any third party except as required by applicable laws without the prior written consent of the other Party. The Parties agree to cooperate in the organizing of any public announcements with respect to the subject matter discussed herein.
11. **Force Majeure**
  - 11.1. For the purposes of this agreement, "Force Majeure" means any circumstance, act or event beyond the reasonable control of a Party, including, without limitation, (i) war, acts of terrorism, civil demonstrations, acts of government or agencies under government authority (including changes in laws), acts of public enemy, riots, lightning, fires, explosions, storms, floods, infestation, power failures, other acts of God or nature, labor strikes or lockouts by employees; and (ii) a suspension or reduction of Irving's operations wholly or partially as a result of market conditions for its products or other similar circumstances, which, despite the reasonable efforts of the Party claiming Force Majeure (the "Affected Party") to prevent its occurrence or mitigate its effects, causes a delay or disruption in the performance of any obligation under this agreement.
  - 11.2. Notwithstanding any other provision of this agreement, if by reason of Force Majeure, the Affected Party is wholly or partly unable to perform its obligations under this agreement, it shall be relieved of those obligations to the extent, and for the period, that it is affected by Force Majeure provided that the Affected Party gives the other Party written notice of such inability in accordance with Section 16.2.
  - 11.3. An Affected Party shall, within ten (10) Business Days of the Party becoming aware of the Force Majeure, give written notice to the other Party setting out the nature and expected duration of the Force Majeure.
  - 11.4. An Affected Party shall take commercially reasonable steps to mitigate the consequences of a Force Majeure upon the performance of its obligations under this agreement, shall continue to perform its obligations under this agreement to the extent possible notwithstanding the Force Majeure and shall use commercially reasonable efforts to resume performance of its obligations affected by the Force Majeure as soon as practical.
12. **Limitation of Liability** – Notwithstanding any other provision hereof, neither Party shall be liable to the other under this agreement for any losses of an indirect, incidental, contingent, special, consequential or punitive nature.
13. **Term** - This agreement will commence on the Execution Date and will remain in effect for the duration of the FMA unless earlier terminated in accordance with the provisions hereof.
14. **Termination**
  - 14.1. In the event that the terms and conditions of the FMA have not been agreed to by the Parties by July 1, 2014, Irving may at its option terminate this agreement on 30 days prior written notice, without limiting the remedies available to Irving under law or in equity.

- 14.2. If either Party is in breach of any of its material obligations under this agreement, the other Party may give notice in writing of the breach to the defaulting party and request the latter to remedy it. If the party in breach fails to remedy the breach within thirty (30) days after the date of delivery of such written notice, then this agreement may be terminated immediately by further written notice of termination given by the complaining party. Notwithstanding the foregoing, if a breach by its nature requires more than 30 days to cure and the defaulting party is using reasonable efforts to cure that breach promptly, that breach will not constitute a default if the defaulting party continues to use reasonable efforts to cure it and cures it no later than 180 days (or such longer period as may be agreed to by the Parties) after the defaulting party is notified of that breach.
- 14.3. The Parties acknowledge that in the event of breach of the terms of this agreement, the non-breaching party could suffer significant and irreparable harm that may not be satisfactorily compensated in monetary terms, and that the remedies at law available to such party may otherwise be inadequate and the non-breaching party will be entitled, in addition to any other remedies to which it may be entitled to under law or in equity, to specific performance of this agreement by the breaching party.
15. **Dispute Resolution.** In the event of any dispute or difference under or arising out of this agreement between the Parties which cannot be settled by the Parties themselves, the Parties shall, unless otherwise agreed to between the Parties, subject the matter in dispute to arbitration by three arbitrators, one of the arbitrators to be chosen by each of the Parties and the third arbitrator by the two chosen arbitrators. The arbitration will be seated in the City of Fredericton, New Brunswick under the laws of New Brunswick in accordance with the Arbitration Act (NB). The language of the arbitration will be English. The Party desiring arbitration shall serve upon the other Party written notice of its desire, specifying the question(s) to be arbitrated and naming the arbitrator chosen by it. The Party so notified shall in turn notify the same way the name of its arbitrator and its own question(s), if any. In the event that one of the Parties fails to choose its arbitrator after having been duly notified in writing by the other Party to do so, within twenty (20) days after such notice, or in the event that the two arbitrators chosen by both Parties with a period of twenty (20) days after the appointment of the second arbitrator fail to select the third arbitrator then respectively each Party or the other Party shall have the right to request the court to nominate the arbitrator(s) for the open place(s). The arbitrators will determine which Party or the proper proportion which each Party shall assume of the expenses of the arbitration, and the arbitration expenses so allocated will be paid directly by the Party or Parties by which such expenses are directed to be paid.
16. **Miscellaneous**
- 16.1. This agreement, including the schedules attached, constitutes the entire agreement between the Parties with respect to the subject matter hereof and supersedes and replaces all previous discussions and negotiations. Except as noted otherwise in this agreement, any amendment of this agreement must be in writing and signed by each Party.
- 16.2. Any demand, notice or other communication ("Notice") to be given in connection with this agreement shall be in writing and shall be given by personal delivery, by commercial courier service, by registered mail (postage prepaid) or by facsimile transmission addressed to the applicable Party as follows:

If to the Minister:

New Brunswick Department of Natural Resources  
Hugh John Flemming Forestry Centre  
P. O. Box 6000

1350 Regent Street  
Room 310, 3<sup>rd</sup> Floor  
Fredericton, NB  
E3B 5H1

Fax: (506) 453-2930

If to Irving:

J. D. Irving, Limited  
300 Union Street, PO Box 5777  
Saint John, NB E2L4M3  
Attention: President  
Facsimile: 506-634-6451

With a copy to Irving at:

300 Union Street, PO Box 5888  
Saint John, NB E2L4L4  
Attention: Secretary  
Facsimile: 506-658-0517

or to such other address, individual or facsimile number as may be designated by Notice given by either Party to the other.

- 16.3. Each Party represents that (i) it has the capacity to agree to the terms in this agreement, and this agreement constitutes a binding obligation, enforceable against each of them in accordance with its terms, and (ii) its obligations under this agreement will not violate any agreement or laws to which either Party is a party or subject to or by which either Party is bound.
- 16.4. Neither this agreement nor any rights or obligations hereunder, in whole or in part, may be assigned by a Party without the prior written consent of the other Party, which consent will not be unreasonably withheld or delayed.
- 16.5. This agreement may not be modified or amended except by an instrument in writing signed by the Parties.
- 16.6. Nothing in this agreement shall be deemed or construed to create a joint venture, agency or partnership relationship between the Parties with respect to the matters set out herein.
- 16.7. Subject to Section 16.8, the Parties agree that this agreement is intended to operate in accordance with applicable laws and within the parameters of trade agreements.
- 16.8. If any provision, or part of a provision, of this agreement is held to be invalid or unenforceable under any applicable law or trade agreement, then the Parties will use all commercially reasonable efforts to replace the invalid or unenforceable provision by a provision that, to the extent permitted by applicable law, achieves the purposes intended under the original provision and to allow the Parties to have the intended benefit of their bargain. If it cannot be so reformed, it will be omitted. The balance of this agreement shall remain valid and unchanged and in full force and effect.
- 16.9. This agreement may be executed simultaneously in any number of counterparts, each of which will be deemed an original, and all of which together will constitute one and the same instrument. A Party's transmission by facsimile or electronic mail of the agreement

signed by that Party will constitute effective delivery by that Party of a signed copy of this agreement.

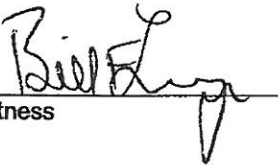
- 16.10. The provisions of this agreement are binding upon and will enure to the benefit of and be binding upon the Parties' heirs, successors and assigns.
- 16.11. The provisions of this agreement are governed by and enforced in accordance with the laws of the Province of New Brunswick.

*[Signature page follows.]*

A handwritten signature, possibly reading 'M', is located in the upper right area of the page.

IN WITNESS WHEREOF the Parties have executed and delivered this agreement.

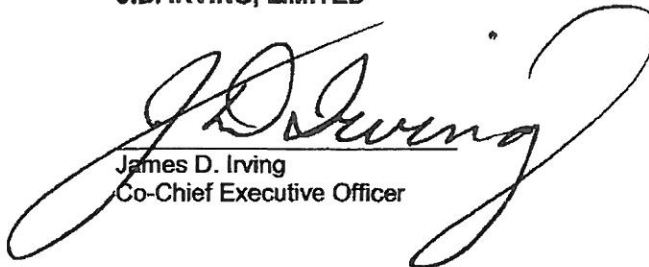
HER MAJESTY THE QUEEN IN RIGHT  
OF THE PROVINCE OF NEW BRUNSWICK

  
Witness

  
Hon. Paul Robichaud,  
Minister of Natural Resources

J.D. IRVING, LIMITED



  
James D. Irving  
Co-Chief Executive Officer

**SCHEDULE A  
COMMITMENT ON INVESTMENT\***

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<b>IRVING PULP &amp; PAPER MODERNIZATION - Phase 2:</b>	<b>\$198 million</b>
<ul style="list-style-type: none"><li>• Engineering complete</li><li>• Construction to commence Quarter 1, 2014 (24-month project)</li></ul>	
<b>IRVING PULP &amp; PAPER MODERNIZATION - Phase 3:</b>	<b>\$263 million</b>
<ul style="list-style-type: none"><li>• Engineering scheduled to commence Quarter 4, 2014</li><li>• Commencement of construction dependent on market conditions (30-month project)</li></ul>	
<b>SAWMILL MODERNIZATION in Chipman:</b>	<b>\$23 million</b>
<ul style="list-style-type: none"><li>• Construction to start Quarter 3/Quarter 4, 2014</li></ul>	
<b>SAWMILL MODERNIZATION in Doaktown:</b>	<b>\$15 million</b>
<ul style="list-style-type: none"><li>• Construction to start in 2015</li></ul>	
<b>INCREASE NORTHERN NB SAWMILLS CAPACITY:</b>	<b>\$3.5 million</b>
<ul style="list-style-type: none"><li>• Construction to start Quarter 4, 2014/Quarter 1, 2015</li></ul>	
<b>TREE IMPROVEMENT RESEARCH FACILITY in Sussex:</b>	<b>\$3.2 million</b>
<ul style="list-style-type: none"><li>• Construction to start Quarter 2, 2014</li><li>• Includes federal and provincial funding</li></ul>	
<b>INCREASED SILVICULTURE INVESTMENT on JDI FREEHOLD</b>	<b>\$7.3 million</b>
<ul style="list-style-type: none"><li>• Increase of \$7.3 million by 2015 over 2012 levels</li></ul>	<b>(annual)</b>

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<b>TOTAL INVESTMENT</b>	<b>\$513 million</b>
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**\*Note:**

- *It is estimated that the above investments will result in 326 new fulltime equivalent jobs (178 direct, 148 indirect) and 1,208 construction jobs (804 direct, 404 indirect).*
- *All capital investments, construction start dates, and employment numbers are estimates only. Indirect employment numbers are calculated by Jupia Consultants, Moncton, New Brunswick.*

