



This is the 1st affidavit
of Susan Danielisz in this case and
was made on March 29, 2012

NO. S-120712
VANCOUVER REGISTRY

IN THE SUPREME COURT OF BRITISH COLUMBIA

IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*,
R.S.C. 1985, c. C-36, AS AMENDED

AND

IN THE MATTER OF THE *CANADA BUSINESS CORPORATIONS ACT*,
R.S.C. 1985, c. C-44,

AND

IN THE MATTER OF THE *BUSINESS CORPORATIONS ACT*,
S.B.C. 2002, c. 57

AND

IN THE MATTER OF CATALYST PAPER CORPORATION
AND THE PETITIONERS LISTED IN SCHEDULE "A"

PETITIONERS

A F F I D A V I T

I, Susan Danielisz, Legal Assistant, of 2800 Park Place, 666 Burrard Street, Vancouver, British Columbia, SWEAR THAT:

1. I am a legal assistant with Davis LLP, Barristers and Solicitors, and therefore have personal knowledge of the matters hereinafter deposed, except where stated to be based on information and belief, and where so stated I do verily believe the same to be true.
2. Davis LLP is counsel to Edward C. Kress, Harry A. Goldgut and Richard Legault, the trustees of the Powell River Energy Trust ("PRET").
3. Attached hereto and marked as Exhibit "A" to this my Affidavit is a true copy of the results of a search of the Corporate Registry of British Columbia (the "Registry") conducted March 28, 2012 for Powell River Energy Limited Partnership ("PRELP").

4. Attached hereto and marked as **Exhibit “B”** to this my Affidavit is a true copy of the amended Certificate of Limited Partnership of PRELP filed with the Registry on January 31, 2001.
5. Attached hereto and marked as **Exhibit “C”** to this my Affidavit is a true copy of the limited partnership agreement (“**Limited Partnership Agreement**”) provided to Davis LLP by PRET, constituting PRELP between 3795659 Canada Limited, as general partner, and Pacifica Papers Inc. (“**Pacifica**”) and PRET, as limited partners.
6. Attached hereto and marked as **Exhibit “D”** to this my Affidavit is a true copy of the unanimous shareholder agreement (“**USA**”) provided to Davis LLP by PRET, between Pacifica, PRET and Powell River Energy Inc. (“**PREI**”).
7. Attached hereto and marked as **Exhibit “E”** to this my Affidavit is a true copy of the letter of intent (the “**Letter**”) provided to Davis LLP by PRET, whereby Catalyst Paper Corporation (formerly Pacifica) (“**Catalyst**”) transferred to Catalyst Paper Energy Holdings Inc. (“**CPEHI**”), a subsidiary of Catalyst, all of the shares in the capital of PREI held by Catalyst, all of Catalyst’s interest in PRELP and any indebtedness owing by PREI and/or PRELP to Catalyst. Attached to the Letter are joinder agreements wherein CPEHI agreed to be bound by the Unanimous Shareholder Agreement and the Limited Partnership Agreement, executed transfer forms and the board resolution of PREI approving the transfer.
8. Attached hereto and marked as **Exhibit “F”** to this my Affidavit is a true copy of a letter sent by Lance Williams of Davis LLP on March 28, 2012 to counsel to the Petitioners and counsel to the Monitor advising of the right of first refusal contained in the Limited Partnership Agreement and USA and requesting further information.

SWORN BEFORE ME at Vancouver,
British Columbia, on March 29, 2012.

A Commissioner for taking Affidavits in
and for the Province of British Columbia
H. LANCE WILLIAMS
Barrister and Solicitor
DAVIS LLP
2800 - 666 Burrard Street
Vancouver, B.C. V6C 2Z7
604.687.9444

This is Exhibit "A" referred to in the Affidavit of Susan Danielisz, sworn before me at Vancouver, British Columbia, this 29th day of March, 2012.



A Commissioner for taking Affidavits in
and for the Province of British Columbia



Limited Partnership Summary

For

POWELL RIVER ENERGY LIMITED PARTNERSHIP

Date and Time of Search: March 28, 2012 02:04 PM Pacific Daylight Time
Currency Date: March 15, 2012

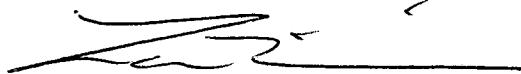
ACTIVE

Registration Number: LP0294706
Name of Limited Partnership: POWELL RIVER ENERGY LIMITED PARTNERSHIP
Registration Date: January 31, 2001
Termination Date:
TILMA Indicator: N

GENERAL PARTNER INFORMATION

Individual or Company Name: 3795659 CANADA LIMITED **Incorporation or Registration Number:** A0053718
Residential Address: Not on file

This is Exhibit "B" referred to in the Affidavit of Susan Danielisz, sworn before me at Vancouver, British Columbia, this 29th day of March, 2012.



A Commissioner for taking Affidavits in
and for the Province of British Columbia

AMENDED

CERTIFICATE OF LIMITED PARTNERSHIP
(Section 51 - Partnership Act)

294706-01

Powell River Energy Limited Partnership

FILED AND REGISTERED

JAN 31 2001

REGISTRAR OF COMPANIES

3795659 Canada Limited (the "General Partner"), having entered into a limited partnership agreement dated January 31, 2001 (the "Partnership Agreement") between the General Partner and the Limited Partners (as herein defined) to form Powell River Energy Limited Partnership (the "Limited Partnership") to be registered under the *Partnership Act* (British Columbia), hereby certifies that the Partnership Agreement contains the following provisions as set forth in this certificate (the "Certificate"):

1. The business name under which the Limited Partnership is to be conducted is Powell River Energy Limited Partnership.
2. The general nature of the business to be carried on or intended to be carried on by the Limited Partnership is activities which are directly or indirectly related to purchasing, selling and marketing electric power and energy and all complementary, incidental and ancillary activities relating thereto. ✓
3. The full name and address in British Columbia of the sole General Partner of the Limited Partnership is as follows:

NameAddress

3795659 Canada Limited

c/o Powell River Energy Inc.
1055 West Georgia Street
Suite 1632
Vancouver, British Columbia
V6E 3RS

(A53718)

4. The Limited Partnership is to exist for an indefinite term unless dissolved by the written agreement of the General Partner and the Limited Partners. ✓

5. The aggregate amount of cash to be contributed by Pacifica Papers Inc. and Powell River Energy Trust (collectively, the "Limited Partners") to the Limited Partnership is \$99.90. ✓
The Limited Partners have not made any additional contributions to the Limited Partnership.

6. The allocation of amounts is as follows: ✓

- (a) Profits and losses of the Limited Partnership for financial accounting purposes for any fiscal year of the Limited Partnership shall be determined in accordance with generally accepted accounting principles in Canada from time to time, consistently applied, and after deducting any and all amounts paid by the General Partner in

respect of claims, debts and obligations of the Limited Partnership and all expenses incurred on the Limited Partnership's behalf by the General Partner in the performance of its duties under the Partnership Agreement, and shall be allocated to and borne by the General Partner and the Limited Partners in proportion to their respective percentage ownership interest in the Limited Partnership immediately prior to the end of the fiscal year.

(b) The income and losses of the Limited Partnership for income tax purposes for any fiscal year of the Limited Partnership shall be determined in accordance with the rules in the *Income Tax Act* (Canada) and any applicable provincial income tax legislation and after deducting any and all amounts paid by the General Partner in respect of claims, debts and obligations of the Limited Partnership and all expenses incurred on the Limited Partnership's behalf by the General Partner in the performance of its duties under the Partnership Agreement, and shall be allocated to and borne by the General Partner and the Limited Partners in proportion to their respective percentage ownership interest in the Limited Partnership immediately prior to the end of the fiscal year.

(d) Except as otherwise unanimously agreed by the Limited Partners and subject to compliance with the terms of any debt agreement, the Limited Partnership shall declare and make a distribution of an aggregate amount equal to the excess of cash on hand, credit balances with banks and other banking institutions and realizable short term investments over any reserves on or before fifteen (15) days following March 31, June 30, September 30 and December 31 of each year. All such distributions shall be made to the General Partner and Limited Partners who were partners at the end of the calendar quarter immediately preceding the distribution date in proportion to their respective percentage ownership interest in the Limited Partnership.

7. No additional contributions have been agreed upon by the Limited Partners. ✓

8. Upon the dissolution of the Limited Partnership, the remaining assets of the Limited Partnership shall be sold or otherwise disposed of and the proceeds of such sales, together with any cash on hand and sums, if any, contributed by the General Partner to make up losses or deficiencies in capital, shall be allocated and distributed to the General Partner and Limited Partners as follows: (i) paying amounts due to the General Partner pursuant to the Partnership Agreement; (ii) paying to the General Partner and each Limited Partner rateably what is due to it from the Limited Partnership for advances as distinguished from capital contributions; (iii) distributing to the General Partner and each Limited Partner rateably what is due to it from the Limited Partnership in respect of capital contributions of the Limited Partnership; and (iv) distributing all remaining property of the Limited Partnership to the General Partner and the Limited Partners in accordance with their respective percentage ownership interest in the Limited Partnership.

9. There is no restriction, subject to restrictions in paragraphs 10 and 11 below, to the admittance of additional limited partners.
10. If at any time a Limited Partner (the "Selling Partner") obtains from a person with whom the Selling Partner is dealing at arm's length (a "Third Party") a bona fide offer (the "Third Party Offer") to purchase all (but not less than all) of the interest and partner debt, if any, of the Selling Partner (the "Offered Capital") for cash and the Limited Partner is willing and able to accept the Third Party Offer, the Selling Partner shall give notice thereof (the "First Refusal Notice") to the other Limited Partner (the "Other Partner"), and the Other Partner shall have the right, exercisable by notice given to the Selling Partner within thirty (30) days after receipt of the First Refusal Notice, to agree that it will either purchase all the Offered Capital or that the Selling Partner may sell all of the Offered Capital to the Third Party on the terms and conditions contained in the Third Party Offer, provided that, prior to the completion of such sale, such Third Party becomes subject to all of the obligations of the Selling Partner under the Partnership Agreement.
11. If the Other Partner has agreed to allow the Selling Partner to sell the Offered Capital to the Third Party on the terms and conditions contained in the Third Party Offer and has given the required notice thereof, the Other Partner may, not later than five (5) business days after the expiry of the thirty (30) day notice period referred to in paragraph 10 above, deliver to the Selling Partner a notice in writing (the "Piggy-Back Demand"). The delivery by the Other Partner of a Piggy-Back Demand shall be irrevocable and shall bind the Other Partner to sell all but not less than all of its interest and partner debt, if any (collectively, the "Piggy-Back Capital"). If the Other Partner delivers a Piggy-Back Demand, then, before completing any sale of the Offered Capital, the Selling Partner shall cause the Third Party to deliver to the Other Partner a bona fide offer in writing to purchase from the Other Partner the Piggy-Back Capital.
12. Removal and withdrawal of the General Partner shall occur as follows:
 - (a) Upon the passing of any resolution of the directors or shareholders of the General Partner requiring or relating to the bankruptcy, dissolution, liquidation or winding-up or the making of any assignment for the benefit of creditors of the General Partner, or upon the appointment of a receiver of the assets and undertaking of the General Partner, or upon the General Partner failing to maintain its status as required under the Partnership Agreement, the General Partner shall cease to be qualified to act as general partner and shall be deemed to have been removed thereupon as the general partner of the Limited Partnership effective immediately after the appointment of a new general partner. A new general partner shall, in such instances, be appointed by the unanimous agreement of the Limited Partners after receipt of written notice of such event (which written notice shall be provided by the General Partner forthwith upon the occurrence of such event).
 - (b) The General Partner may also be removed: (i) if the General Partner has committed a material breach of the Partnership Agreement, which subsists for a period of sixty

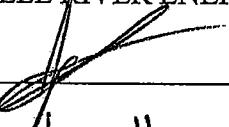
7.

(60) days after notice of breach has been given by a Limited Partner; and (ii) such removal is approved by the unanimous agreement of the Limited Partners. Any such action by the Limited Partners for removal of the General Partner must also provide for the election and succession of a new general partner. Such removal shall be effective immediately after the admission of the successor general partner to the Limited Partnership.

- (c) Subject to restrictions on removal or withdrawal of the General Partner under the Partnership Agreement, the General Partner may withdraw if such withdrawal is approved unanimously by the Limited Partners. Such withdrawal shall be effective immediately upon the admission of the successor general partner to the Limited Partnership.
- (d) The right of resignation or removal of the General Partner is subject to the Limited Partnership paying all amounts payable by the Limited Partnership to the General Partner pursuant to the Partnership Agreement accrued to the date of withdrawal or removal subject to any claims or liabilities of the General Partner to the Limited Partnership.

This Certificate is hereby certified correct and is executed at Vancouver, British Columbia by the General Partner as of the 31st day of January, 2001.

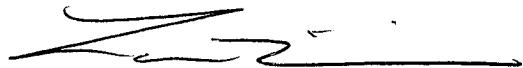
3795659 CANADA LIMITED.,
as General Partner for and on behalf of
POWELL RIVER ENERGY LIMITED PARTNERSHIP

By: 

Name: Jonathan Weisz

Title: Authorized Signatory

This is Exhibit "C" referred to in the Affidavit of Susan Danielisz, sworn before me at Vancouver, British Columbia, this 29th day of March, 2012.



A Commissioner for taking Affidavits in
and for the Province of British Columbia

3795659 CANADA LIMITED

- and -

PACIFICA PAPERS INC.

- and -

POWELL RIVER ENERGY TRUST

LIMITED PARTNERSHIP AGREEMENT
CONSTITUTING THE POWELL RIVER ENERGY LIMITED PARTNERSHIP

January 31, 2001

TORYS
NEW YORK TORONTO

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LIMITED PARTNERSHIP AGREEMENT

CONSTITUTING THE POWELL RIVER ENERGY LIMITED PARTNERSHIP

THIS AGREEMENT is made as of the 31st day of January, 2001

B E T W E E N:

3795659 CANADA LIMITED, a corporation incorporated under the laws of Canada, as General Partner

(the "General Partner")

- and -

PACIFICA PAPERS INC., a corporation amalgamated under the laws of Canada, as a Limited Partner

("Pacifica")

- and -

POWELL RIVER ENERGY TRUST, a trust established under the laws of Quebec, as a Limited Partner

("PRET")

RECITALS:

- A. The General Partner is a wholly-owned subsidiary of Powell River Energy Inc. ("PREI");
- B. PREI, through the General Partner, Pacifica and PRET have agreed to form a limited partnership under the laws of the Province of British Columbia on the terms and conditions set forth herein; and
- C. The Partnership is being formed for the purpose of purchasing, selling and marketing electric power and energy generated by PREI's facilities and all related services.

NOW THEREFORE in consideration of the mutual covenants and agreements contained in this Agreement and other good and valuable consideration (the receipt and sufficiency of which are hereby acknowledged by each of the parties), the parties hereto agree as follows:

ARTICLE 1. INTERPRETATION

1.1. Definitions

In this Agreement,

- 1.1.1. **“Act”** means the *Partnership Act* (British Columbia), as amended;
- 1.1.2. **“Agent”** means Maclarens Energy Inc., and all successors and assigns thereof, in its capacity as Agent under the Marketing Agreement;
- 1.1.3. **“Agreement”** means this agreement and all schedules, if any, attached to this agreement, in each case as they may be supplemented or amended from time to time, and the expressions “hereof”, “herein”, “hereto”, “hereunder”, “hereby” and similar expressions refer to this agreement, and unless otherwise indicated, references to Articles and sections are to Articles and sections in this agreement;
- 1.1.4. **“Ancillary Services”** means all services and products related to the attributes of electricity and to the capacity to generate electricity including frequency control, voltage control, reactive power, regulation, black-start service, operating reserves and green and renewable power premiums or credits and also includes transmission and wheeling services;
- 1.1.5. **“Arm’s Length”** has the meaning attributed to such term for the purposes of the *Income Tax Act* (Canada);
- 1.1.6. **“Auditors”** means the firm of chartered accountants referred to in section 5.4;
- 1.1.7. **“Business Day”** means any day, other than Saturday, Sunday or any statutory holiday in the Provinces of Ontario, Quebec or British Columbia;
- 1.1.8. **“Buyer Event of Default”** has the meaning attributed to such term in the *Pacifica Power Purchase Agreement*;
- 1.1.9. **“Capital Contribution”** means the total amount of money and, subject to section 3.3, property contributed to the Partnership by a Partner by way of capital;
- 1.1.10. **“Certificate”** means the certificate of limited partnership of the Partnership to be filed by the General Partner under the Act and all amendments thereto and renewals or replacements thereof required;
- 1.1.11. **“Control”** means
 - 1.1.11.1. when applied to the relationship between a Person and a corporation, the beneficial ownership by such Person at the relevant time of shares of such corporation carrying more than the greater of 50% of the voting rights ordinarily exercisable at meetings of shareholders of such corporation and the

percentage of voting rights ordinarily exercisable at meetings of shareholders of such corporation that are sufficient to elect a majority of the directors of such corporation; and

1.1.11.2. when applied to the relationship between a Person and a partnership, trust or joint venture, the beneficial ownership by such Person at the relevant time of more than 50% of the ownership interests of the partnership, trust or joint venture in circumstances where it can reasonably be expected that such Person directs the affairs of the partnership, trust or joint venture;

and the words "**Controlled by**", "**Controlling**", "**under common Control with**" and similar words have corresponding meanings; provided that a Person (the "**first-mentioned Person**") who Controls a corporation, trust, partnership or joint venture (the "**second-mentioned Person**") shall be deemed to Control a corporation, trust, partnership or joint venture which is Controlled by the second-mentioned Person and so on; and the words "**Control Directly**" and similar words mean Control otherwise than by reason of the application of the proviso above and the words "**Control Indirectly**" and similar words mean Control by reason of the application of such proviso;

1.1.12. "**Curtailment Benefits Side Letter**" means the letter agreement dated the date hereof between the Partnership and Pacifica pursuant to which Pacifica assigned certain benefits received by Pacifica under the terms of curtailment agreements between Pacifica and British Columbia Hydro Power and Authority to the Partnership, as such agreement may be amended or replaced from time to time

1.1.13. "**Defaulting Partner**" has the meaning attributed to such term in section 7.3;

1.1.14. "**Dispute**" has the meaning attributed to such term in section 10.1;

1.1.15. "**Distributable Cash**" means for any calendar quarter cash on hand, credit balances with banks and other banking institutions and realizable value of short term investments;

1.1.16. "**First Refusal Notice**" has the meaning attributed to such term in section 7.1.1;

1.1.17. "**General Partner**" means the general partner of the Partnership, the first general partner being 3795659 Canada Limited and any Person who is admitted to the Partnership as a successor to the General Partner;

1.1.18. "**Governmental Approval**" means the consent of any Governmental Authority which may be required at any time and from time to time to ensure that the purchase by a Partner of an Interest or Partnership Debt is not in contravention of any law, regulation or published policy of, or administered by, the Governmental Authority or which may be required in order to ensure that, notwithstanding the purchase by a Partner of an Interest or Partnership Debt, the holding or continued holding by the Partnership of any franchise,

licence, permit or other permission or authority required to carry on its business is unaffected;

1.1.19. **“Governmental Authority”** means any legislative, executive, judicial or administrative body, court or person whether federal, provincial, state, local or municipal and any governmental authority, governmental tribunal or governmental commission of any kind whatever having, or purporting to have, jurisdiction in the relevant circumstances;

1.1.20. **“Interest”** means, when used in connection with a Partner’s interest in the Partnership, the Percentage Interest of that Partner in the Partnership;

1.1.21. **“Limited Partner”** means, unless the context otherwise requires, any of PREI or Pacifica, a successor thereto, a permitted Transferee thereof, or any other Person who is admitted as a limited partner to the Partnership so long as any such Person owns an Interest;

1.1.22. **“Management Fee”** means the fee payable by PREI to the Partnership pursuant to the terms of the Power Purchase Agreement;

1.1.23. **“Marketing Agreement”** means the Management and Power Marketing Agreement between the Partnership and the Agent dated the date hereof pursuant to which the Agent agrees to provide management services to the Partnership and to act as the Partnership’s agent, as amended, supplemented and restated from time to time;

1.1.24. **“Non-Defaulting Partner”** has the meaning attributed to such term in section 7.3.1;

1.1.25. **“Notice Period”** has the meaning attributed to such term in section 7.4;

1.1.26. **“Offered Capital”** has the meaning attributed to such term in section 7.1.1;

1.1.27. **“Other Limited Partner”** has the meaning attributed to such term in section 7.1.1;

1.1.28. **“Pacifica Credit Agreement”** means the amended and restated multi-option credit facility agreement dated as of March 12, 1999 among Pacifica, Pacifica Power Co. Ltd., Pacifica Papers Co. Limited Partnership, the Canadian Imperial Bank of Commerce (on its own behalf and as agent) and others as amended from time to time;

1.1.29. **“Pacifica Power Purchase Agreement”** means the power purchase agreement between PREI and Pacifica dated the date hereof;

1.1.30. **“Paper Mill”** means the pulp and paper processing facilities and related land, equipment, works and undertaking owned by Pacifica and located in the Powell River area;

1.1.31. **“Partners”** means the General Partner and the Limited Partners and **“Partner”** means any one of them;

1.1.32. **"Partner Debt"** means indebtedness which is owed by the Partnership to a Limited Partner for advances or loans or support made or provided by such Limited Partner to the Partnership at the request of the Partnership and with the consent of the other Partners;

1.1.33. **"Partnership"** means the limited partnership formed pursuant to this Agreement;

1.1.34. **"Partnership Business"** means the purchase for resale and marketing of electric power and energy generated by PREI's facilities and the provision of all related services including Ancillary Services;

1.1.35. **"Partnership Debt"** has the meaning attributed to such term in section 3.9;

1.1.36. **"Percentage Interest"** means the ownership interest held from time to time by a Partner in the Partnership, expressed as a percentage, which interest is initially as provided in section 3.2;

1.1.37. **"Permitted Encumbrances"** means:

- (i) in the case of Pacifica, any pledge, hypothecation or security interest over the Interest and/or Partner Debt of Pacifica granted by Pacifica to any third party financial institution including, without limitation, pursuant to the Pacifica Credit Agreement as the same may be amended or replaced from time to time; and
- (ii) in the case of PRET, any pledge, hypothecation or security interest over the Interest and/or Partner Debt of PRET granted by PRET to any third party financial institution;

1.1.38. **"Person"** means any individual, partnership, limited partnership, joint venture, syndicate, sole proprietorship, company or partnership with or without share capital, unincorporated association, trust, trustee, executor, administrator or other legal personal representative, regulatory body or agency, government or governmental agency, authority or entity however designated or constituted;

1.1.39. **"Piggy-Back Capital"** has the meaning attributed to such term in section 7.2.2;

1.1.40. **"Piggy-Back Demand"** has the meaning attributed to such term in section 7.2.1;

1.1.41. **"Piggy-Back Offer"** has the meaning attributed to such term in section 7.2.2;

1.1.42. **"Possessory Interest Agreements"** means, collectively, the possessory interest agreements between Pacifica and PREI dated the date hereof regarding the personal possessory rights of Pacifica in PREI's facilities, as such agreements may be amended from time to time;

1.1.43. **"Power Purchase Agreement"** means the 50 year power purchase letter agreement between the Partnership and PREI dated the date hereof, whereby PREI agrees to sell electricity to the Partnership;

1.1.44. **"Purchase Price"** has the meaning attributed to such term in section 8.1;

1.1.45. **"Register"** means the register of the Limited Partners which the General Partner is required to maintain under the Act;

1.1.46. **"Related Entity"** means, with respect to a Limited Partner, a Person Controlled by, Controlling or under common Control with the Limited Partner;

1.1.47. **"Reserves"** means reserves which in the opinion of the Agent or the General Partner are necessary or advisable, having regard to the current and anticipated cash resources of the Partnership to:

- (a) pay the Partnership's liabilities as they become due in the ordinary course of business; or
- (b) comply with any commitments as to the financial condition of the Partnership as contained in any loan agreement, trust deed or other security providing for or securing financial accommodation to the Partnership;

1.1.48. **"Risk Management Policy"** has the meaning attributed to such term in the Marketing Agreement;

1.1.49. **"Sale Notice"** has the meaning attributed to such term in section 7.4;

1.1.50. **"Selling Partner"** has the meaning attributed to such term in section 7.1.1;

1.1.51. **"Share Purchase Agreement"** means the share purchase agreement dated November 3, 2000 between Pacifica, Pacifica Power Co. Ltd., PRET and PREI pursuant to which PREI purchased and Pacifica sold 90,001 shares in the capital of Pacifica Power Co. Ltd.;

1.1.52. **"Shared Facilities Agreement"** has the meaning attributed to such term in the Share Purchase Agreement;

1.1.53. **"Shareholder Agreement"** means the unanimous shareholder agreement entered into by PREI, PRET and Pacifica, dated the date hereof, as amended, restated or replaced from time to time;

1.1.54. **"Shareholder Debt"** has the meaning attributed to such term in the Shareholders Agreement;

1.1.55. **"Shares"** has the meaning attributed to such term in the Shareholders Agreement;

1.1.56. "Third Party" has the meaning attributed to such term in section 7.1.1;

1.1.57. "Third Party Offer" has the meaning attributed to such term in section 7.1.1;

1.1.58. "Transfer" includes any sale, exchange, assignment, gift, bequest, disposition, mortgage, charge, pledge, encumbrance, grant of security interest or other arrangement by which possession, legal title or beneficial ownership passes from one Person to another, or to the same Person in a different capacity, whether or not voluntary and whether or not for value, and any agreement to effect any of the foregoing; and the words "Transferred", "Transferring", "Transferor" and "Transferee" and similar words have corresponding meanings; and

1.1.59. "Triggering Event" has the meaning attributed to such term in section 7.3.

1.2. Headings and Table of Contents

The inclusion of headings and a table of contents in this Agreement are for convenience of reference only and shall not affect the construction or interpretation hereof.

1.3. Gender and Number

In this Agreement, unless the context otherwise requires, words importing the singular include the plural and vice versa and words importing gender include all genders.

1.4. Currency

Except as otherwise expressly provided in this Agreement, all amounts in this Agreement are stated and shall be paid in Canadian currency.

1.5. Invalidity of Provisions

Each of the provisions contained in this Agreement is distinct and severable and a declaration of invalidity or unenforceability of any such provision or part thereof by a court of competent jurisdiction shall not affect the validity or enforceability of any other provision hereof. If a court of competent jurisdiction or other Governmental Authority declares that any of the provisions contained in this Agreement is invalid or unenforceable or that, for any reason, it is unlawful for the Partnership to carry on all or any part of the Partnership Business, the Partners shall, in good faith, negotiate an amendment of such provisions of this Agreement or negotiate such alternative arrangements as are necessary to facilitate the continued operation of the Partnership Business either directly or indirectly by contract or otherwise by the Partnership or by another Person in which the Partners have substantially similar rights and obligations so as to substantially preserve the respective rights and obligations of the Partners hereunder. If the Partners are unable to agree in writing upon such amendment within a reasonable period of time, then the Partners waive any provision of law which renders any provision of this Agreement invalid or unenforceable in any respect.

1.6. Entire Agreement

This Agreement constitutes the entire agreement between the parties pertaining to the subject matter of this Agreement. There are no warranties, conditions or representations (including any that may be implied by statute) and there are no agreements in connection with such subject matter except as specifically set forth or referred to in this Agreement. No reliance is placed on any warranty, representation, opinion, advice or assertion of fact made either prior to, contemporaneous with, or after entering into this Agreement or any amendment or supplement thereto, by any party to this Agreement or its directors, officers and agents to any other party to this Agreement, or its directors, officers and agents, except to the extent that the same has been reduced to writing and included as a term of this Agreement, and none of the parties to this Agreement has been induced to enter into this Agreement or any amendment or supplement thereto by reason of any such warranty, representation, opinion, advice or assertion of fact. Accordingly, there shall be no liability, either in tort or in contract, assessed in relation to any such warranty, representation, opinion, advice or assertion of fact, except to the extent contemplated above.

1.7. Waiver, Amendment

Except as expressly provided in this Agreement, no amendment or waiver of this Agreement shall be binding unless executed in writing by the party to be bound thereby. No waiver of any provision of this Agreement shall constitute a waiver of any other provision nor shall any waiver of any provision of this Agreement constitute a continuing waiver unless otherwise expressly provided.

1.8. Governing Law

This Agreement shall be governed by and construed in accordance with the laws of the Province of British Columbia and the laws of Canada applicable therein.

ARTICLE 2.
FORMATION OF THE PARTNERSHIP

2.1. Formation of Partnership

The General Partner and the Limited Partners agree to form a limited partnership in accordance with the laws of the Province of British Columbia and the provisions of this Agreement. The Partnership shall be effective as a limited partnership from the date on which the Certificate is filed in accordance with the Act until such time as this Agreement is terminated in accordance with Article 9.

2.2. Name

The Partnership shall carry on business under the name "Powell River Energy Limited Partnership" or such other name as the General Partner may from time to time deem appropriate to comply with the laws of the jurisdictions in which the Partnership may carry on

business. The General Partner shall have the right to change the name of the Partnership and to file an amendment to the Certificate changing the name of the Partnership.

2.3. Purpose

2.3.1. Generally

The purpose of the Partnership shall be to carry on the Partnership Business either directly or by contract.

2.3.2. Scope of Partnership

The rights, duties, obligations and liabilities of the Partners in their capacity as partners pursuant to the partnership relationship created hereby shall be limited to those rights, duties, obligations and liabilities contemplated by this Agreement. Nothing herein contained shall be construed to create a general or any other partnership between the Partners extending beyond the scope of the Partnership Business.

2.4. Business in Other Jurisdictions

The Partnership shall not carry on business in any jurisdiction unless the General Partner has taken all steps which may be required by the laws of that jurisdiction for the Limited Partners to benefit from limited liability to the same extent that such Limited Partners enjoy limited liability under the Act. The Partnership shall not carry on business in any jurisdiction in which the laws do not recognize the liability of the Limited Partners to be limited unless, in the opinion of the General Partner, the risks associated with the possible absence of limited liability in such jurisdiction are not significant considering the relevant circumstances. The Partnership shall carry on business in such a manner as to ensure, to the greatest extent possible, the limited liability of the Limited Partners, and the General Partner shall register the Partnership in other jurisdictions where the General Partner considers it appropriate to do so.

2.5. Registered Office

The registered office of the Partnership shall be located at Vancouver, British Columbia, or such other place in British Columbia as may be established from time to time by the General Partner.

2.6. Limitation on Authority of Limited Partner

No Limited Partner shall;

- (a) take part in the administration, control, management or operation of the Partnership Business or exercise any power in connection therewith or transact business on behalf of the Partnership;
- (b) execute any document which binds or purports to bind any other Partner or the Partnership;

- (c) hold himself, herself or itself out as having the power or authority to bind any other Partner or the Partnership;
- (d) have any authority or power to act for or undertake any obligation or responsibility on behalf of any other Partner or the Partnership;
- (e) bring any action for partition or sale or otherwise in connection with the Partnership or any interest in any property of the Partnership, whether real or personal, tangible or intangible, or file or register or permit to be filed, registered or remain undischarged any lien or charge in respect of any property of the Partnership; or
- (f) compel or seek a partition, judicial or otherwise, of any of the assets of the Partnership distributed or to be distributed to the Partners in kind in accordance with this Agreement.

2.7.

Limited Liability of Limited Partners

Subject to the provisions of the Act and of similar legislation in other jurisdictions, the liability of each Limited Partner for the debts, liabilities and obligations of the Partnership shall be limited to the Limited Partner's Capital Contribution, plus the Limited Partner's *pro rata* share of any undistributed income of the Partnership.

2.8.

Indemnity of Limited Partners

The General Partner shall indemnify and hold harmless each Limited Partner for all costs, expenses, damages or liabilities suffered or incurred by the Limited Partner if the limited liability of such Limited Partner is lost for or by reason of the negligence of the General Partner in performing its duties and obligations hereunder.

2.9.

Other Activities of PRET

2.9.1. Conflict of Interest and Competition

PREI, PRET and/or its Related Entities are engaged in and intend to continue to engage in the business of producing, transmitting, distributing, purchasing, marketing and selling electricity in Canada, the United States of America or elsewhere during the term of this Agreement and providing related products and services. Any Partner and/or its Related Entities may engage or continue to engage in any business activities, whether or not the same are competitive with the Partnership Business, and may act as shareholders, partners or joint venturers in other corporations, partnerships or joint ventures which engage in such business activities, whether or not the same are competitive with the Partnership Business; pursuant to such business activities, any Partner and/or its Related Entities may acquire business opportunities in which the Partnership will not be offered an interest or may acquire information relevant to such business activities which will not be disclosed to the Partnership or the other Partner. Each Partner agrees that the activities of the other Partner and/or its Related Entities consistent with the foregoing are deemed not to be a conflict of interest or breach of fiduciary

duty with respect to the operations of the Partnership and each Partner consents to such activities provided that such activities do not contravene any specific contractual commitment made by a Partner and/or its Related Entities in favour of the Partnership or the other Partner.

2.9.2. No Accounting

A Partner and/or its Related Entities shall not be required to account to the Partnership or to the other Partner for any benefit or profit derived from any activity or any transactions relating thereto specifically provided for in section 2.9.1 by reason of any conflict of interest or the fiduciary relationship created by virtue of this Agreement unless such activity is contrary to the express terms of any contractual obligations of such Partner and/or its Related Entities to the Partnership or to the other Partner, in which case such Partner and/or its Related Entities shall be liable to the Persons in whose favour such express contractual obligations were incurred.

2.10. Obligations Exhaustive

Each Partner acknowledges that the obligations of the Partners contained in this Agreement are in substitution for any obligations which each of the Partners may now or hereafter owe to the Partnership or the other Partner in their capacity as Partners and which exist apart from this Agreement and replace any rights of the Partnership or the Partners with respect to any such obligation that would otherwise exist under applicable laws.

ARTICLE 3. CONTRIBUTIONS AND FINANCIAL MATTERS

3.1. Contributions to Partnership

Contemporaneously with the execution of this Agreement each of the Partners has made the following Capital Contributions:

General Partner	\$0.10
PRET	\$49.95
Pacifica	\$49.95

3.2. Percentage Interests

In consideration of the Capital Contributions of the Partners pursuant to section 3.1, the Percentage Interest of each Partner as of the date hereof is as follows:

General Partner	0.1%
PRET	49.95%
Pacifica	<u>49.95%</u>
	100.0%

3.3. Contributions to Capital

Where property has been contributed to the capital of the Partnership by a Limited Partner, that Limited Partner may require the General Partner, where and at any time permitted by the *Income Tax Act* (Canada) and any corresponding applicable provincial taxing legislation, to jointly elect so that the proceeds of disposition of the property to the Limited Partner shall be such amount as is elected by the Limited Partner, within any limits prescribed by applicable law. In the event of a subsequent disposition or deemed disposition of such property by the Partnership, any income for tax purposes resulting from such election having been made shall be allocated, notwithstanding any other provision of this Agreement, to the Limited Partner having contributed such property.

3.4. Partnership Interest

The Interest of each Partner shall be personal property for all purposes. All property, real, personal or mixed, of the Partnership shall be deemed to be owned by the Partnership as an entity, and no Partner shall have any separate ownership of or interest in such property.

3.5. Expenses of the Partnership

Prior to making any distribution pursuant to section 3.8, the Partnership will pay the General Partner for all amounts paid by the General Partner in respect of claims, debts and obligations of the Partnership and all expenses incurred on the Partnership's behalf by the General Partner in the performance of its duties hereunder, including reasonable costs directly incurred for the benefit of the Partnership, professional fees and reasonable indirect and general office and administrative expenses of the General Partner incurred in connection with the services rendered by the General Partner under this Agreement.

3.6. Allocation of Profits and Losses

Profits and losses of the Partnership for financial accounting purposes for any fiscal year of the Partnership shall be determined in accordance with generally accepted accounting principles in Canada from time to time, consistently applied and after deducting the amounts referred to in section 3.5, and shall be allocated to and borne by the Partners in proportion to their respective Percentage Interests immediately prior to the end of the fiscal year.

3.7. Allocation of Income and Losses

The income and losses of the Partnership for income tax purposes for any fiscal year of the Partnership shall be determined in accordance with the rules in the *Income Tax Act* (Canada) and any applicable provincial income tax legislation and after deducting the amounts referred to in section 3.5 and shall be allocated to and borne by the Partners in proportion to their respective Percentage Interests immediately prior to the end of the fiscal year.

3.8. Distributions

Except as otherwise unanimously agreed by the Limited Partners and subject to compliance with the terms and conditions of any Partnership Debt, the Partnership shall declare and make a distribution of an aggregate amount equal to the excess of Distributable Cash over Reserves on or before fifteen (15) days following March 31, June 30, September 30 and December 31 of each year. All such distributions shall be made to the Partners who were Partners at the end of the calendar quarter immediately preceding the distribution date in accordance with their respective Percentage Interests.

3.9. Funding

The Partnership may incur such amount of indebtedness, including Partner Debt, (the "Partnership Debt") in connection with the operation and expansion of the Partnership Business as the General Partner shall determine to be advisable and prudent, provided that the terms of such Partnership Debt shall limit recourse of the lender thereof to the property and assets of the Partnership and not the property and assets of the individual Partners. No Limited Partner shall be required to guarantee or otherwise provide support for any Partnership Debt, and furthermore the terms of such indebtedness may not, unless approved by the General Partner, limit or restrict the ability of the Partnership to make distributions to Partners in which event the distribution policy shall be amended to give effect to such limitations or restrictions.

ARTICLE 4.
POWERS, DUTIES AND OBLIGATIONS OF GENERAL PARTNER

4.1. Powers, Duties and Obligations

4.1.1. The General Partner has:

4.1.1.1. unlimited liability for the debts, liabilities and obligations of the Partnership;

4.1.1.2. subject to the terms of this Agreement and to any applicable limitations set forth in the Act and applicable similar legislation, the full and exclusive right, power and authority to manage, control, administer and operate the business and affairs and to make decisions regarding the undertaking and business of the Partnership; and

4.1.1.3. subject to any applicable limitations set forth in the Act and applicable similar legislation, the full and exclusive right, power and authority to do any act, take any proceeding, make any decision and execute and deliver any instrument, deed, agreement or document necessary for or incidental to carrying out the Partnership Business.

An action taken by the General Partner on behalf of the Partnership is deemed to be the act of the Partnership and binds the Partnership.

4.1.2. Notwithstanding any other agreement that the Partnership or the General Partner may enter into, and except as provided in the Marketing Agreement, all material transactions or agreements entered into by the Partnership must be approved by the sole shareholder of the General Partner.

4.2. Specific Powers and Duties

4.2.1. Without limiting the generality of section 4.1, the General Partner shall have full power and authority for and on behalf of and in the name of the Partnership to:

4.2.1.1. negotiate, execute and perform all agreements which require execution by or on behalf of the Partnership involving matters or transactions with respect to the Partnership Business (and such agreements may limit the liability of the Partnership to the assets of the Partnership, with the other party to have no recourse to the assets of the General Partner, even if the same results in the terms of the agreement being less favourable to the Partnership);

4.2.1.2. open and manage bank accounts in the name of the Partnership and spend the capital of the Partnership in the exercise of any right or power exercisable by the General Partner hereunder;

4.2.1.3. borrow money in the name of the Partnership from time to time as the General Partner may determine without limitation with regard to amount, cost or conditions of reimbursement of such loan;

4.2.1.4. mortgage, charge, assign, hypothecate, pledge or otherwise create a security interest in all or any property of the Partnership now owned or hereafter acquired, to secure any present and future borrowings and related expenses of the Partnership and to sell all or any of such property pursuant to a foreclosure or other realization upon the foregoing encumbrances;

4.2.1.5. establish Reserves that are determined to be necessary or appropriate for the proper management and operation of the Partnership and Partnership Business including, but not limited to, cash Reserves for future capital or maintenance expenditures to reduce debt or as necessary to comply with the terms of any agreement or obligation of the Partnership;

4.2.1.6. see to the sound management of the Partnership, and to manage, control and develop all the activities of the Partnership and take all measures necessary or appropriate for the business of the Partnership or ancillary thereto;

4.2.1.7. incur all costs and expenses in connection with the Partnership;

4.2.1.8. employ, retain, engage or dismiss from employment, personnel, agents, representatives or professionals or other investment participants with the powers and duties upon the terms and for the compensation as in the discretion of

the General Partner may be necessary or advisable in the carrying on of the Partnership Business;

4.2.1.9. engage agents, including the Agent, to assist the General Partner in carrying out its management obligations to the Partnership or subcontract administrative functions to any Person;

4.2.1.10. invest cash assets of the Partnership that are not immediately required for the Partnership Business in investments which the General Partner considers appropriate;

4.2.1.11. act as attorney in fact or agent of the Partnership in disbursing and collecting monies for the Partnership, paying debts and fulfilling the obligations of the Partnership and handling and settling any claims of the Partnership;

4.2.1.12. commence or defend any action or proceeding in connection with the Partnership;

4.2.1.13. file returns or other documents required by any Governmental Authority;

4.2.1.14. sign and file tax elections with any Governmental Authority;

4.2.1.15. retain legal counsel, experts, advisors or consultants as the General Partner considers appropriate and rely upon the advice of such Persons;

4.2.1.16. acquire or dispose of assets of the Partnership;

4.2.1.17. execute, acknowledge and deliver the documents necessary to effect any or all of the foregoing or otherwise in connection with the Partnership Business;

4.2.1.18. obtain any insurance coverage including, without limitation, arranging for the provision of insurance for the Partnership and the Partnership Business, if appropriate; and

4.2.1.19. do anything that is in furtherance of or incidental to the Partnership Business or that is provided for in this Agreement.

4.2.2. No Persons dealing with the Partnership shall be required to enquire into the authority of the General Partner to do any act, take any proceeding, make any decision or execute and deliver any instrument, deed, agreement or document for or on behalf of or in the name of the Partnership.

4.2.3. The General Partner may contract with any Person, including the Agent, to carry out any of the duties of the General Partner hereunder and may delegate to such Person any

power and authority of the General Partner hereunder, but no such contract or obligation will relieve the General Partner of any of its obligations hereunder.

4.2.4. The General Partner shall execute and file the Certificate forthwith after the execution of this Agreement and shall execute and file such amendments to the Certificate as are from time to time required.

4.3. Title to Property

The General Partner may hold legal title to any of the assets or property of the Partnership in its name for the benefit of the Partnership and will execute one or more Declarations of Trust thereof in favour of the Partnership.

4.4. Exercise of Duties

Except as provided herein, the General Partner covenants that it shall exercise the powers and discharge its duties under this Agreement honestly, in good faith, and in the best interests of the Partnership, and that it shall exercise the degree of care, diligence and skill that a reasonably prudent Person would exercise in comparable circumstances. Furthermore, the General Partner covenants that it shall maintain the confidentiality of financial and other information and data which it may obtain through or on behalf of the Partnership, the disclosure of which may adversely affect the interests of the Partnership or a Limited Partner, except to the extent that disclosure is permitted as provided herein, is required by law or is in the best interests of the Partnership.

4.5. Limitation of Liability

The General Partner is not personally liable for the return of any Capital Contribution made by a Limited Partner to the Partnership. Moreover, notwithstanding anything else contained in this Agreement, but subject to section 4.7, neither the General Partner nor any Affiliates thereof nor their respective officers, directors, shareholders, employees or agents are liable, responsible for or accountable in damages or otherwise to the Partnership or a Limited Partner for an action taken or failure to act on behalf of the Partnership within the scope of the authority conferred on the General Partner by this Agreement or by law provided the General Partner has acted in good faith, in a manner which the General Partner believed to be in, or not opposed to, the best interests of the Partnership.

4.6. Indemnity of General Partner

The Partnership hereby indemnifies the General Partner, its officers, directors, shareholders, employees or agents from and against costs or damages by reason of acts, omissions or alleged acts or omissions arising out of the activities of the General Partner on behalf of the Partnership or in furtherance of the interests of the Partnership, but only if the acts, omissions or the alleged acts or omissions on which the actual or threatened action, proceeding or claim are based were not performed or omitted fraudulently or in bad faith and are not attributable to the fraud, bad faith, wilful misfeasance or gross negligence in the performance of

the obligations or reckless disregard of such obligations of the General Partner, its officers, directors, shareholders, employees or agents.

4.7. Indemnity of Partnership

The General Partner hereby indemnifies and holds harmless the Partnership and each Limited Partner from and against all costs, expenses, damages or liabilities suffered or incurred by the Partnership or such Limited Partners, by reason of an act of willful misconduct, gross negligence by the General Partner or any act or omission not reasonably believed by the General Partner in good faith to be within the scope of the authority conferred on the General Partner by this Agreement.

4.8. Restrictions upon the General Partner

The General Partner's powers and authority do not extend to any powers, actions or authority not enumerated in sections 4.1.1 and 4.1.2 unless and until unanimously agreed to by the Partners. Further, the General Partner shall not:

- 4.8.1. commingle the funds of the Partnership with the funds of the General Partner or with the funds of any other Person;
- 4.8.2. dissolve the Partnership except in accordance with the provisions of Article 9 hereof;
- 4.8.3. except in accordance with section 9.4, effect a bulk sale of the assets of the Partnership;
- 4.8.4. assign, transfer or otherwise dispose of its Interest or withdraw as General Partner except in accordance with the provisions of this Article 4; or
- 4.8.5. except with the prior written consent of the Limited Partners, pledge, hypothecate, mortgage or grant a security interest in the Interest of the General Partner.

4.9. Removal of General Partner

4.9.1. Except as provided for in this section, the General Partner may not be removed as general partner of the Partnership.

4.9.2. Upon the passing of any resolution of the directors or shareholders of the General Partner requiring or relating to the bankruptcy, dissolution, liquidation or winding-up or the making of any assignment for the benefit of creditors of the General Partner, or upon the appointment of a receiver of the assets and undertaking of the General Partner, or upon the General Partner failing to maintain its status under section 6.7.2 hereof, the General Partner shall cease to be qualified to act as general partner hereunder and shall be deemed to have been removed thereupon as the general partner of the Partnership effective immediately upon the appointment of a new general partner. A new general partner shall, in such instances, be appointed by the unanimous agreement of the Limited Partners after receipt of

written notice of such event (which written notice shall be provided by the General Partner forthwith upon the occurrence of such event).

4.9.3. The General Partner may also be removed: (i) if the General Partner has committed a material breach of this Agreement, which subsists for a period of 60 days after notice of breach having been given by a Limited Partner; and (ii) such removal is approved by the unanimous agreement of the Limited Partners. Any such action by the Limited Partners for removal of the General Partner under this section 4.9.3 must also provide for the election and succession of a new general partner. Such removal shall be effective immediately upon the admission of the successor general partner to the Partnership.

4.10. Voluntary Withdrawal of General Partner

The General Partner agrees not to voluntarily withdraw as general partner. However, the General Partner may withdraw if such withdrawal is approved unanimously by the Limited Partners. Such withdrawal shall be effective immediately upon the admission of the successor general partner to the Partnership.

4.11. Conditions Precedent

As a condition precedent to the withdrawal or removal of the General Partner, the Partnership shall pay all amounts payable by the Partnership to the General Partner pursuant to this Agreement accrued to the date of withdrawal or removal subject to any claims or liabilities of the General Partner to the Partnership.

4.12. Transfer to New General Partner

On the admission of a new general partner to the Partnership on the removal or withdrawal of the General Partner, the General Partner being removed or withdrawing shall do all things and take all steps to transfer the administration, management, control and operation of the Partnership Business and the books, records and accounts of the Partnership to the new general partner and shall execute and deliver all deeds, certificates, declarations and other documents necessary or desirable to effect such transfer in a timely fashion. For greater certainty, nothing in this section 4.12 shall affect the effective time upon which the General Partner is removed or withdraws and a successor general partner of the Partnership is admitted pursuant to sections 4.9 and 4.10.

4.13. Transfer of Title to New General Partner

On the removal or withdrawal of the General Partner and the admission of a new general partner, the General Partner being removed or withdrawing shall, at the cost of the Partnership, transfer title to the Partnership's property to such new general partner and shall execute and deliver all deeds, certificates, declarations and other documents necessary or desirable to effect such transfer in a timely fashion.

4.14. Release by Partnership

On the removal or withdrawal of the General Partner, the Partnership shall release and hold harmless the General Partner, being removed or withdrawing from any costs, expenses, damages or liabilities suffered or incurred by the General Partner as a result of or arising out of events which occur in relation to the Partnership after such removal or withdrawal.

4.15. New General Partner

A new general partner shall be a corporation and shall not be a "non-resident" of Canada within the meaning of the *Income Tax Act* (Canada) and shall become a party to this Agreement by signing a counterpart hereof and shall agree to be bound by all of the provisions hereof and to assume the obligations, duties and liabilities of the General Partner hereunder as from the date the new general partner becomes a party to this Agreement.

ARTICLE 5. **ACCOUNTS, BANKING AND INSURANCE**

5.1. Maintenance of Accounts

The accounts of the Partnership shall be maintained by the Agent in accordance with generally accepted accounting principles in Canada from time to time, consistently applied. The books and records of the Partnership shall be available for inspection during normal business hours by the Partners and their authorized representatives upon reasonable prior notice to the Secretary at the principal office of the Partnership. The Agent and the General Partner shall provide to the Partners, all relevant information including interim reports, trading reports, financial reports and such other information as the Partners may reasonably request.

5.2. Capital Accounts

A capital account shall be maintained for each of the Partners. A Partner's capital account shall consist of the Capital Contributions made by the Partner and by the Partner's share of net profits of the Partnership allocated to it pursuant to section 3.6, and shall be decreased by the Partner's share of net losses of the Partnership allocated to it pursuant to section 3.6 and by distributions made to the Partner, other than payments that are deductible in determining the net income or loss of the Partnership.

5.3. Fiscal Year

The fiscal year of the Partnership shall terminate on the 31st of December in each year or such other time as the General Partner may from time to time determine.

5.4. Auditors

The auditors of the Partnership shall be Ernst & Young LLP, or such other chartered accountants as may be appointed by the General Partner.

5.5. Financial Statements

The Agent shall provide each Partner with unaudited financial statements within 15 days of the end of each quarter and audited financial statements, together with the report of the auditors thereon, within sixty (60) days of the end of each fiscal year.

5.6. Banker and Bank Signing Authorities

The bankers of the Partnership shall be the Canadian Imperial Bank of Commerce or such other bank or trust company as the Agent may from time to time determine. The Agent shall determine the bank accounts that shall be maintained for the Partnership and all signing authorities for Partnership bank accounts.

5.7. Insurance

5.7.1. The Agent, on behalf of the Partnership, shall obtain and maintain reasonable insurance coverage in respect of the Partnership's business operations and activities of a nature and to the extent customarily carried by Persons carrying on a similar undertaking, including such coverage as affords reasonable protection to the Partners and the Partnership from all costs, losses, charges, damages or expenses which may arise by reason of personal injury or death. The General Partner may require that the insurance coverage of the Partnership be increased, beyond that approved by the Agent. In the event of a claim for loss, any proceeds relating directly to such increased coverage shall be payable to the Partner bearing the cost of same. All insurance policies shall name each Partner as additional named insureds and all Partners will be provided with certificates of insurance evidencing such insurance upon request. The Agent will review, at least annually, the levels and conditions of coverage.

5.7.2. Deductibles on insurance obtained by any Partner on behalf of the Partnership shall be mutually agreed upon by the Partners on an annual basis. In the event of a loss, any applicable deductibles will be shared by the Partnership and the Partners in the same proportion as the value of each party's loss bears to the total loss.

ARTICLE 6.
GENERAL MATTERS RELATING TO THE
HOLDING OF PARTNERSHIP INTERESTS

6.1. General Prohibition on Transfer

None of the Partners shall deal with or Transfer its Interest or Partner Debt, if any, or any of its right, title or interest in this Agreement except in accordance with this Agreement. For greater certainty, any Transfer made in accordance with this Agreement shall consist of all (but not less than all) of the Interests and Partner Debt, if any, of the Transferor. A purported Transfer of any Interest and/or Partner Debt, as the case may be, in violation of this Agreement shall not be valid nor shall any rights provided herein attaching to or relating to such Interest and/or Partner Debt, as the case may be, be exercised, nor shall any purported exercise of such

rights be valid or effective. No distributions in respect of Interests and/or Partner Debt, as the case may be, purported to be Transferred in violation of this Agreement shall be made until such time as (i) the Interest and/or Partner Debt, as the case may be, is Transferred back to the Transferring Partner, (ii) a further Transfer is completed in accordance with section 6.2, or (iii) the General Partner determines to make such distributions. Each Partner who purports to make a Transfer of any Interest and/or Partnership Debt, as the case may be, in violation of this Agreement agrees to donate and hereby donates to the Partnership all dividends and distributions paid or made on such Interest and/or Partnership Debt, as the case may be, during the period of such prohibited Transfer. For greater certainty, no interest shall be payable in respect of any distributions withheld in accordance with this section. The provisions of the immediately preceding sentence are in addition to, and not in lieu of, any other remedies to enforce the provisions of this Agreement.

6.2. Permitted Transfers

6.2.1. Subject to section 6.2.2, a Limited Partner may at any time and from time to time Transfer all (but not less than all) of its Interest and Partner Debt, if any, to the following, provided that the Proposed Transferee is a resident of Canada for the purposes of the *Income Tax Act* (Canada), and notice of such Transfer is given to the other Partners prior to or concurrently with such Transfer:

6.2.1.1. a Related Entity of the Limited Partner provided that

6.2.1.1.1. the Related Entity will remain a Related Entity so long as it holds the Interest and Partner Debt, if any, Transferred by the Limited Partner;

6.2.1.1.2. prior to ceasing to be a Related Entity, the Related Entity agrees to Transfer the Interest and Partner Debt, if any, back to the Transferring Limited Partner;

6.2.1.1.3. the Related Entity agrees to be bound by this Agreement; and

6.2.1.1.4. the Transferring Limited Partner guarantees the obligations of the Related Entity;

6.2.1.2. in the case of either Limited Partner, if the Transfer is a mortgage, hypothecation, pledge, or granting of a security interest, to a third party financial institution as security for *bona fide* indebtedness, provided that the financial institution has agreed by instrument, in form and substance satisfactory to the other parties then bound by this Agreement, acting reasonably, (such instrument to be delivered to such other parties prior to the time the mortgage, hypothecation, pledge or security interest becomes effective or attaches) that, in the event of realization, the financial institution shall deal with the Interest and Partner Debt, if any, only in accordance with the terms of this Agreement as if the financial

institution were the Limited Partner who mortgaged, pledged, hypothecated or granted a security interest in the Interest and Partner Debt, if any, it being the intention that all the provisions of this Agreement which relate to the Transfer by a Limited Partner of its Interest and Partner Debt, if any, shall apply to the financial institution;

6.2.1.3. any Person provided such Transfer is made with the written consent of the other Partners;

6.2.1.4. any Person provided such Transfer is made as part of a reorganization of the Transferring Limited Partner which does not result in a change of Control of the Transferring Limited Partner; or

6.2.1.5. any Person that purchases (directly or indirectly) all or substantially all the assets comprising the Paper Mill.

6.2.2. A Limited Partner shall not be entitled to Transfer the Interest and Partner Debt, if any, held by the Limited Partner pursuant to section 6.2.1 unless, concurrently with such Transfer, the Transferring Limited Partner Transfers all (but not less than all) of the Shares and Shareholder Debt, if any, held by the Transferring Limited Partner to the proposed Transferee of the Interest and Partner Debt, if any, in accordance with Article 3 of the Shareholders Agreement.

6.3. Assumption of Obligations and Admission to Partnership

Upon a Transfer of an Interest and Partner Debt, if any, which is made in accordance with this Agreement, the Transferee shall, prior to completion of the Transfer, execute and deliver an instrument, in form and substance satisfactory to the Partners acting reasonably, in which the Transferee makes representations and warranties which are, in substance, the same as the representations and warranties made by the Partners under this Agreement, agrees to be bound by all the provisions of this Agreement as if the Transferee were an original signatory hereto, and agrees to pay and perform the liabilities and obligations of the Transferor under this Agreement. Such Transfer and assumption shall not serve to release or discharge the Transferor from any liabilities or obligations under this Agreement, whether contingent or otherwise, except those liabilities and obligations accruing with respect to the Interest and Partner Debt, if any, Transferred after the date of the Transfer. Upon compliance with the foregoing, the Transferee shall be entitled to exercise all the rights of the Transferor under this Agreement and, if the Transferee is not already a Limited Partner, the General Partner shall enter the name of the Transferee in the Register and the Transferee shall thereupon become a Limited Partner.

6.4. References in this Agreement

Following the transfer of an Interest permitted by this Agreement, references to the Transferor shall be deemed to be modified as necessary to refer to the Transferee.

6.5. No Termination of Agreements

The Transfer of an Interest as permitted by this Agreement shall not result in the termination of this Agreement.

6.6. No Dissolution of Partnership

For greater certainty, the Partnership shall not be dissolved and a new partnership shall not be created by the admission of any new Limited Partner to the Partnership (whether by way of Transfer to such new Limited Partner of all or part of an Interest of an existing Limited Partner, a subscription for a new Interest by such new Limited Partner, or otherwise) or by an existing Limited Partner withdrawing from the Partnership or otherwise ceasing to be a Limited Partner in the Partnership (whether by way of transfer to a new Limited Partner of all or part of the Interest of such existing Limited Partner, a withdrawal of such existing Limited Partner, or otherwise provided that a new Limited Partner is admitted on or before such withdrawal).

6.7. Representations and Warranties by Partners

Each Partner represents and warrants:

6.7.1. that such Partner owns beneficially its Interest and that such Interest is not subject to any mortgage, lien, charge, pledge, encumbrance, security interest or adverse claim other than Permitted Encumbrances and that no Person has any rights to acquire any interest in such Interest other than pursuant to Permitted Encumbrances;

6.7.2. if such Partner is a corporation, that it is duly incorporated or organized and validly existing under the laws of its jurisdiction of incorporation or organization and has the corporate power and capacity to own its assets and to enter into and perform its obligations under this Agreement;

6.7.3. if such Partner is a trust, partnership or joint venture, that it is duly constituted under the laws which govern it and has the power and authority to own its assets and to enter into and perform its obligations under this Agreement;

6.7.4. that this Agreement has been duly authorized, executed and delivered by it and constitutes a valid and binding obligation enforceable in accordance with its terms, subject to the usual exceptions as to bankruptcy and the availability of equitable remedies;

6.7.5. that the execution, delivery and performance of this Agreement does not and will not contravene the provisions of its articles, by-laws, constituting documents or other organizational documents or the documents by which it was created or established or the provisions of any indenture, agreement or other instrument to which it is a party or by which it may be bound;

6.7.6. that such Partner is not a non-Canadian under the *Investment Canada Act* (Canada); and

6.7.7. that all of the foregoing representations and warranties will continue to be true and correct during the continuance of this Agreement.

ARTICLE 7.
MATTERS RELATING TO THE
DISPOSITION AND ACQUISITION OF PARTNERSHIP INTERESTS

7.1. Right of First Refusal

7.1.1. Selling Partner to Give First Refusal Notice

Subject to section 7.1.5, if at any time a Limited Partner (the "Selling Partner") obtains from a Person with whom the Selling Partner is dealing at Arm's Length (a "Third Party") a bona fide offer (a "Third Party Offer") to purchase all (but not less than all) of the Interest and Partner Debt, if any, of the Selling Partner (the "Offered Capital") for cash and the Selling Partner is willing and able to accept the Third Party Offer, the Selling Partner shall give notice thereof (the "First Refusal Notice") to the other Limited Partner (the "Other Partner"). A Third Party Offer shall not provide for any consideration other than cash consideration. The First Refusal Notice shall state that the Selling Partner has received an offer which such Selling Partner is willing and able to accept, and that the offer is bona fide and is made by a Person with whom the Selling Partner is dealing at Arm's Length and shall be accompanied by a copy of the Third Party Offer and details as to the identity and business of the Third Party.

7.1.2. Rights of the Other Partner Upon Receipt of First Refusal Notice

The Other Partner shall have the right, exercisable by notice given to the Selling Partner within thirty (30) days after receipt of the First Refusal Notice:

7.1.2.1. to agree that it will purchase all the Offered Capital on the terms and conditions contained in the Third Party Offer; or

7.1.2.2. to agree that the Selling Partner may sell all the Offered Capital to the Third Party on the terms and conditions contained in the Third Party Offer, provided that, prior to completion of such sale, such Third Party becomes subject to all of the obligations of the Selling Partner under this Agreement and agrees to be bound by all of the provisions hereof as contemplated in section 6.3, in which case such Third Party shall become entitled to exercise all the rights of the Selling Partner under this Agreement.

If no notice is given by the Other Partner under this section, the Other Partner shall be deemed to have given the notice referred to in section 7.1.2.2.

7.1.3. Completion of Purchase and Sale

Subject to section 7.1.4, if the Other Partner gives the notice referred to in section 7.1.2.1, the purchase by the Other Partner of the Offered Capital, shall be completed in accordance with the terms of the Third Party Offer.

If the Other Partner gives or is deemed to have given the notice referred to in section 7.1.2.2, the Selling Partner may accept the Third Party Offer and, subject to compliance with sections 7.1.2.2 and 7.1.4 and 7.2, may sell the Offered Capital in accordance with the terms of the Third Party Offer for a period of ninety (90) days after the expiry of the thirty (30) day period referred to in section 7.1.2. If the sale is not completed within such ninety (90) day period, the provisions of section 7.1.1 shall again apply to any proposed sale of Interests and so on from time to time.

7.1.4. Mandatory Sale of Shares

The Selling Partner shall not be entitled to sell the Offered Capital pursuant to this section 7.1 unless, concurrently with such sale, the Selling Partner sells all (but not less than all) of the Shares and Shareholder Debt, if any, held by the Selling Partner to the Third Party or the Other Partner, as the case may be, in accordance with Article 4 of the Shareholder Agreement.

7.1.5. Restriction on Exercise of First Refusal

A Limited Partner shall not be entitled to deliver a First Refusal Notice during the period from the date on which a Triggering Event with respect to such Limited Partner has occurred or an event has occurred, which, with notice or lapse of time or both, would constitute such a Triggering Event, in each case to the date which is one hundred and eighty (180) days thereafter. After the expiry of such period, such Limited Partner shall be entitled to deliver a First Refusal Notice.

7.2. Piggy-Back Right

7.2.1. **Other Partner to Give Piggy-Back Demand.** In the event that the Other Partner has given or is deemed to have given the notice referred to in section 7.1.2.2, the Other Partner may, not later than five (5) Business Days after the expiry of the thirty (30) day period referred to in section 7.1.2 deliver to the Selling Partner a notice in writing (a "Piggy-Back Demand").

7.2.2. **Consequence of Piggy-Back Demand.** The delivery by the Other Partner of a Piggy-Back Demand shall be irrevocable and shall bind the Other Partner to sell all but not less than all of the Interest and Partner Debt, if any, held by it (collectively, the "Piggy-Back Capital"), in accordance with the provisions of this section 7.2.3. If the Other Partner delivers a Piggy-Back Demand, then, before completing any sale of the Offered Capital, the Selling Partner shall cause the Third Party to deliver to the Other Partner a bona fide offer in writing (a "Piggy-Back Offer") to purchase from the Other Partner the Piggy-Back Capital.

7.2.3. **Piggy-Back Offer.** The Piggy-Back Offer shall contain terms and conditions identical to those contained in the Third Party Offer, except that the obligations of the Third Party under the Piggy-Back Offer may be conditional upon completion of the transaction contemplated by the Third Party Offer. The Piggyback Offer will be binding upon the Third Party.

7.2.4. **Closing of Sale.** The closing date and other closing arrangements for the purchase and sale of the Piggy-Back Capital shall be specified in the Piggyback Offer and shall be the same, *mutatis mutandis*, as those for the purchase and sale of the Offered Capital.

7.2.5. **Mandatory Sale of Shares.** The Other Partner shall not be entitled to deliver a Piggy-Back Demand or sell the Piggy-Back Capital unless, concurrently, the Other Partner gives an equivalent demand under the Shareholder Agreement and sells all of the Shares and Shareholder Debt, if any, held by it in accordance with the Shareholder Agreement.

7.3. **Triggering Events Defined**

A Triggering Event is the occurrence of any one of the following events with respect to a Limited Partner (the "Defaulting Partner"):

7.3.1. the Limited Partner fails to perform or is otherwise in breach of any material obligation under this Agreement, or under any instrument or document delivered pursuant to this Agreement at any time hereafter, and the failure or breach is not corrected within fifteen (15) days after receipt by such Limited Partner of notice of the failure or breach from the other Limited Partner;

7.3.2. any representation and warranty of the Limited Partner contained in this Agreement, or in any instrument or document delivered pursuant to this Agreement at any time hereafter, is or becomes not true and correct in any material respect and the Limited Partner has not taken all necessary steps, to the satisfaction of the other Limited Partner acting reasonably, to ensure that the representation and warranty becomes true and correct no later than fifteen (15) days after receipt by such Limited Partner of notice from the other Limited Partner that the representation and warranty is not true and correct;

7.3.3. the Limited Partner: (i) makes an assignment for the benefit of its creditors generally; (ii) files a proposal under the *Bankruptcy and Insolvency Act* (Canada); or (iii) makes an application under the *Companies' Creditors Arrangement Act* (Canada);

7.3.4. a receiving order is made or a petition is filed under the *Bankruptcy and Insolvency Act* (Canada) against the Limited Partner which is not vacated or stayed within fifteen (15) days thereof;

7.3.5. a resolution is passed for, or a judgment or order is issued by any court of competent jurisdiction ordering, the winding-up or other liquidation or dissolution of the Limited Partner;

7.3.6. any receiver, agent, receiver-agent, liquidator or trustee of the property, assets or undertaking of the Limited Partner is appointed pursuant to the terms of a debenture or similar instrument and such appointment is not revoked or withdrawn within fifteen (15) days of the appointment;

7.3.7. a default occurs which has not been remedied or cured within fifteen (15) days of its occurrence under any loan or obligation for which security has been granted by way of an assignment, pledge, mortgage, hypothecation of or the granting of a security interest in the Interest of the Limited Partner (including any loan or obligation for which security has been granted in accordance with section 6.2.1.2) with the result that, absent any provision of this Agreement and upon compliance with applicable law, the lender or obligee could realize upon such security;

7.3.8. subject to the curative provision set out in section 7.3.7 the Limited Partner permits its Interest to be liable to seizure;

7.3.9. the Limited Partner is required to make any payment to the other Limited Partner or the Partnership pursuant to this Agreement, the Share Purchase Agreement, the Shareholder Agreement, the Shared Facilities Agreement, the Curtailment Benefits Side Letter or one or more of the Possessory Interest Agreements and such payment is not made within 5 days of a final order being issued by a court of competent jurisdiction with respect to such payment which said order has not been stayed;

7.3.10. a Buyer Event of Default pursuant to section 8.1(a) of the Pacifica Power Purchase Agreement occurs and such default has not been cured pursuant to the terms of the Pacifica Power Purchase Agreement (in which case Pacifica is the Defaulting Partner); or

7.3.11. a final determination is made by the arbitrator appointed pursuant to the terms of the Pacifica Power Purchase Agreement that a Buyer Event of Default has occurred pursuant to sections 8.1(b) or (c) (in which case Pacifica is the Defaulting Partner).

A Defaulting Partner shall give notice to the other Partners that an event has occurred with respect to such Defaulting Partner which constitutes a Triggering Event or which would, if such event is not corrected or remedied or otherwise resolved to the satisfaction of the other Limited Partner as contemplated above, constitute such a Triggering Event. Such notice shall be given forthwith after the occurrence of the particular event.

For the purposes of this Agreement and for greater certainty, (i) a Triggering Event referred to in sections 7.3.1, 7.3.2, 7.3.4, 7.3.6, 7.3.7 or 7.3.8 shall be deemed to have occurred on the expiry of the fifteen (15) day period referred to in those sections, respectively, (ii) a Triggering Event referred to in section 7.3.9 shall be deemed to have occurred on the expiry of the five (5) day period referred to in that section, and (iii) all other Triggering Events shall be deemed to have occurred on the date the Defaulting Partner first gives notice to the other Partners of the occurrence of the particular Triggering Event, or on the date any other Partner first becomes aware of the occurrence of such Triggering Event, whichever is earlier.

7.4.

Obligation of a Partner following Triggering Event

Upon the occurrence of a Triggering Event, other than a Triggering Event under sections 7.3.1 or 7.3.2, the Defaulting Partner shall forthwith offer to sell its Interest and Partner Debt, if any, to the other Limited Partner (in such case, the "Non-Defaulting Partner") by notice to the Non-Defaulting Partner (the "Sale Notice"). The Purchase Price for such Interest and Partner Debt shall be determined in accordance with section 8.1 and shall be payable by way of certified cheque or bank draft as provided in section 8.2.1. The offer shall be irrevocable. The Sale Notice may be accepted by the Non-Defaulting Partner by written notice to the Defaulting Partner within 15 days after receipt of the Sale Notice (the "Notice Period"). The Non-Defaulting Partner shall be entitled to designate another Person as the purchaser of the Interest and Partner Debt, if any, in which case the Defaulting Partner shall sell its Interest and Partner Debt, if any, to such Person. If no written notice is given under this section, the Non-Defaulting Partner shall be deemed to have rejected the offer made available to it to purchase the Interest and Partner Debt, if any. The completion of a purchase and sale of an Interest and Partner Debt, if any, under this section 7.4 shall take place on the 15th day after the expiry of the Notice Period, provided that if the Purchase Price of the Interest has not been determined by such day, the completion shall take place on the 10th day after the date on which the Purchase Price has been conclusively determined pursuant to section 8.1.

7.5.

Governmental Approvals

If any Governmental Approval is required by a Limited Partner who is purchasing an Interest and Partner Debt, if any, (a "purchaser") under any provision of this Agreement, then, notwithstanding anything contained in this Agreement, the time period specified in this Agreement for acceptance of the offer by the purchaser shall be extended for an additional 90 days to permit the purchaser to obtain the necessary Governmental Approval. Any such application for Governmental Approval shall be the sole responsibility of the purchaser who shall also be responsible for all costs and expenses incurred in connection therewith. The other Partners shall use reasonable efforts to cooperate with the purchaser in any application for Governmental Approval.

7.6.

Other Remedies

Upon the occurrence of any Triggering Event (including, for greater certainty, a Triggering Event under sections 7.3.3 to 7.3.11), in addition to the rights in section 7.4, if applicable, the Non-Defaulting Partner shall be entitled to bring any action at law or in equity as may be permitted in order to recover damages or to bring any proceedings in the nature of specific performance, injunction or other equitable remedy, it being acknowledged by the Partners that damages at law may be an inadequate remedy for a default, breach or threatened breach of this Agreement.

7.7.

Non-Waiver

No consent or waiver of any breach or Triggering Event by any Limited Partner in the performance of its obligations under this Agreement shall be deemed to be construed to be

consent to or waiver of any other breach or Triggering Event in the performance by that Partner of the same or any other obligations of that Limited Partner under this Agreement. Failure by any Limited Partner to complain of any act or failure to act of the other Limited Partner or to declare a Triggering Event in respect of the other Limited Partner, irrespective of how long such failure continues, shall not constitute a waiver by that Limited Partner of its rights under this Agreement.

ARTICLE 8. CLOSING PROCEDURES

8.1. Determination of Purchase Price

8.1.1. **Appraisal.** For the purposes of this Agreement, the "Purchase Price" shall be equal to the aggregate of the Appraised Value of the Interest as determined pursuant to this section 8.1 and the face amount of the Partner Debt, if any, together with accrued and unpaid interest thereon, if any, recorded in the books of the Partnership.

8.1.2. **Appraisal of Interest.** If there are three appraisers selected in accordance with section 8.1.3., the Partners shall disregard any appraisal, the amount of which differs by more than 5% from the amount of that appraisal which is neither the highest nor lowest in amount, and the average of the amounts of the remaining appraisals, or the amount of the remaining appraisal, if two of the appraisals are to be disregarded, shall be deemed the Appraised Value. If there is one appraiser, the appraisal of such appraiser shall be the Appraised Value. The Partners shall be bound by the Appraised Value determined in accordance with this section 8.1.2 and judgment based on such value may be entered by any court having jurisdiction.

8.1.3. **Selection of Appraiser.** Following a Triggering Event, the Non-Defaulting Partner shall appoint an appraiser. The Defaulting Partner may, upon giving written notice to the Non-Defaulting Partner, within ten (10) days following the appointment of the first appraiser, appoint a second appraiser. If no second appraiser is appointed within the ten (10) day period, the first appraiser shall be the sole appraiser. Within ten (10) days following the appointment of the second appraiser, the first appraiser and second appraiser shall appoint a third appraiser and give written notice of such appointment to the Partners, failing which any Limited Partner may on not less than ten (10) days' written notice to the other Partners apply to an arbitrator appointed in accordance with the *Commercial Arbitration Act* (British Columbia) or any replacement or extension thereof (the "Arbitration Act"), for the appointment of the third appraiser. In case of failure, refusal or inability of any appraiser to act, a new appraiser shall be appointed in his stead in the same manner as provided for the appointment of the appraiser so failing, refusing or unable to act.

8.1.4. **Access.** The Partnership and the Partners shall grant access to each appraiser to all books of account, records, statements and documents of the Partnership and each of the Partners which may relate to the business and affairs of the Partnership. Each Partner shall cooperate with each appraiser and provide to all appraisers all information and documents

requested by any one of them. The Partners shall allow each appraiser to retain such experts as the appraiser may deem necessary to assist him in making his appraisal.

8.1.5. **Costs.** The Defaulting Partner shall bear the costs and expenses of the appraisal, including the fees of the appraiser or appraisers.

8.2. Closing Procedures

If a purchase and sale of an Interest and Partner Debt, if any, is made pursuant to this Agreement, the following shall apply, subject to any express provisions to the contrary:

8.2.1. Payment of Purchase Price and Delivery of Transfer and Releases

The Purchase Price shall be paid on closing by negotiable cheque certified by a Canadian chartered bank or trust company or official bank draft drawn on a Canadian chartered bank against a transfer by the vendor of the Interest being purchased, in form and substance satisfactory to the purchaser acting reasonably, duly executed by the vendor, together with releases in favour of the Partnership of all claims which the vendor may have against the Partnership.

8.2.2. Date and Time of Closing

If the date for completion of any transaction of purchase and sale falls on a day which is not a Business Day, the transaction shall be completed on the first Business Day following such date. Closing shall take place at 11:00 a.m. on the date for completion at the principal office of the Partnership or at another location agreed in writing by the Partners.

8.2.3. Title

The acceptance by the vendor of payment for the Interest and Partner Debt, if any, being purchased and sold shall constitute a representation and warranty by the vendor that the vendor has good and marketable title to such Interest and Partner Debt, free and clear of any lien, charge, pledge, encumbrance, security interest or adverse claim, except the terms of this Agreement. Notwithstanding the foregoing, the vendor shall deliver to the purchaser all such documents, instruments and releases and shall do all such acts and things as the purchaser may reasonably request, whether before or after completion of the transaction, to vest such title in the purchaser.

8.2.4. Vendor Indebted to Partnership

If, at the time of sale, the vendor is indebted to the Partnership or the purchaser, the purchaser shall have the right to set off, appropriate and apply the Purchase Price payable for the Interest and Partner Debt, if any, against and on account of such indebtedness.

8.2.5. Assignment of Partner Debt

If, at the time of sale, the Partnership is indebted to the vendor in respect of Partner Debt, the purchaser shall, concurrently with the completion of the sale, purchase such Partner Debt from the vendor and shall pay the price therefor to the vendor on closing in the manner provided in section 8.2.1 against delivery of an assignment to the purchaser of such indebtedness, such assignment to be without recourse to the vendor and otherwise to be in form and substance satisfactory to the purchaser.

8.2.6. Liability as Guarantor

If, at the time of sale, the vendor is liable or responsible as a guarantor for any debts, liabilities or obligations of the Partnership, the purchaser shall use reasonable efforts to cause all such guarantees to be released at or before the time of sale and, if the purchaser is unable to effect the release of such guarantees, the purchaser shall execute and deliver in favour of the vendor an indemnity, in form and substance satisfactory to the vendor acting reasonably, whereby the purchaser indemnifies and saves harmless the vendor from all claims arising out of such guarantees.

8.2.7. Failure to Complete Sale

If, at the time of closing, the vendor shall not complete the sale for any reason, the purchaser shall have the right to deposit the Purchase Price for the Interest and Partner Debt, if any, to be purchased and sold for the account of the vendor in an account with the bankers of the Partnership and such deposit shall constitute valid and effective payment of the Purchase Price to the vendor. Thereafter the purchaser shall have the right to execute and deliver any deeds, transfers, assignments, resignations, releases and other documents as may, in the reasonable opinion of the purchaser, be necessary or desirable in order to complete the transaction. If payment of the Purchase Price is so deposited, then from and after the date of deposit the purchase of the Interest and Partner Debt, if any, shall be deemed to have been fully completed and the records of the Partnership shall be amended accordingly and all right, title, benefit and interest in and to the Interest and Partner Debt shall be conclusively deemed to have been transferred and assigned to and become vested in the purchaser and all right, title, benefit and interest of the vendor and of any other Person (other than the purchaser) having any interest therein, legal or equitable, in any capacity whatsoever shall cease.

8.2.8. Purchaser Appointed as Attorney

Each Limited Partner hereby appoints, in the event that such Limited Partner is a vendor of an Interest or Partner Debt hereunder, each other Limited Partner who may from time to time be a purchaser of an Interest or Partner Debt hereunder, as the vendor's attorney, with full power of substitution, in the name of the vendor but on behalf of and at the expense of the purchaser, to execute and deliver all deeds, transfers, assignments and assurances necessary to effectively transfer the interest being sold to the purchaser or its nominees. Such appointment, being coupled with an interest, is irrevocable by each Limited Partner and shall not be revoked by the insolvency, bankruptcy, dissolution, liquidation or other termination of the existence of such

Limited Partner. Each Limited Partner agrees to ratify and confirm all that a purchaser may do or cause to be done pursuant to the foregoing. Each Partner consents to any Transfer of an Interest made pursuant to the foregoing.

8.2.9. Taxes

If the Interest being sold constitutes "taxable Canadian property" within the meaning of the *Income Tax Act* (Canada), the vendor shall provide to the purchaser at the time of the sale either:

8.2.9.1. a statutory declaration of the vendor that the vendor is not a non-resident of Canada for purposes of the *Income Tax Act* (Canada); or

8.2.9.2. a certificate from the Canada Customs and Revenue Agency under section 116 of such Act certifying that all taxes payable in connection with the transaction have been paid or that no taxes are payable in respect of the transaction;

provided that if no declaration or certificate is delivered by the vendor, the purchaser shall be entitled to deduct from the purchase price payable to the vendor an amount equal to the amount of tax for which the purchaser may be liable (as determined solely by the purchaser) under the *Income Tax Act* (Canada).

8.2.10. Vendor to Have No Further Rights

Upon completion of the sale of an Interest the vendor shall have no further right, title or interest in the Partnership or in its operations.

8.2.11. Covenants of the Parties

From and after the occurrence of an event giving rise to a transaction of purchase and sale to which this Article 8 applies until the closing of such purchase and sale, the Partners shall not do, nor cause, nor permit to be done anything except that which is in the ordinary course of business of the Partnership. Further, the parties hereto covenant and agree that from and after the occurrence of an event giving rise to a transaction of purchase and sale pursuant to the terms hereof, they shall do all things necessary or desirable to cause the transaction of purchase and sale to be completed as soon as possible.

ARTICLE 9.
DISSOLUTION AND WINDING-UP

9.1. No Dissolution of Partnership

The Partnership shall not be dissolved by the appointment of a new General Partner in accordance with Article 4 or any Transfer of the Interest of a Limited Partner in the Partnership (whether or not in compliance with the provisions of this Agreement provided that a

Transfer which is not a permitted Transfer under Article 6 or 7 shall give rise to the remedies contemplated therein and in this Article 9), the admission of a new Limited Partner, the bankruptcy, insolvency, liquidation or winding up or the making of an assignment for the benefit of creditors or the appointment of a receiver of the assets and undertaking of a Partner, or the giving by any Limited Partner of a notice purporting to dissolve the Partnership. Except as provided in section 9.2, no Limited Partner shall have the right to ask for the dissolution of the Partnership, the winding-up of its affairs or the distribution of its assets.

9.2. Dissolution of Partnership

The Partnership shall be dissolved on the first to occur of the following:

- 9.2.1. upon the written agreement of all the Partners;
- 9.2.2. the removal of the General Partner unless the General Partner is replaced as provided in sections 4.12 or 4.13;
- 9.2.3. on the date on which the Partnership makes an assignment for the benefit of its creditors generally or files a proposal under the *Bankruptcy and Insolvency Act* (Canada) or a receiving order is made or a petition is filed under the *Bankruptcy and Insolvency Act* (Canada) against the Partnership;
- 9.2.4. on the date on which a resolution is passed for, or a judgment or order is issued by any court of competent jurisdiction ordering, the winding-up or other liquidation or dissolution of the Partnership; and
- 9.2.5. upon the happening of any event that makes it unlawful for the business of the Partnership to be carried on or for the Partners to carry it on in partnership.

9.3. Operation after Dissolution of Partnership

Upon the dissolution of the Partnership pursuant to section 9.2, and notwithstanding the dissolution, the Partnership Business shall continue to be operated pursuant to this Agreement so far as may be necessary to wind up the affairs of the Partnership to complete transactions begun but unfinished at the time of dissolution, and to dispose of all the assets of the Partnership but not otherwise, and any authority which, pursuant to this Agreement, the General Partner has to bind the Partnership shall continue (except in the case of the bankruptcy or insolvency of the General Partner) and the other rights and obligations of the Partners under this Agreement shall continue, notwithstanding the dissolution, for such limited purposes.

9.4. Winding-up of Partnership

Upon dissolution of the Partnership pursuant to section 9.2, the General Partner (or in the event of an occurrence specified in section 9.2.2, such other Person as may be mutually agreed to by the Limited Partners) shall act as a receiver and liquidator of the assets of the Partnership and shall:

9.4.1. sell or otherwise dispose of all the property of the Partnership on the best terms obtainable;

9.4.2. apply the proceeds of such sales, together with any cash on hand and sums, if any, contributed by the Partners to make up losses or deficiencies of capital, in the following manner and order:

9.4.2.1. first, in paying the debts and liabilities of the Partnership to Persons who are not Partners;

9.4.2.2. second, in the setting up of such cash reserves as the General Partner, trustee, liquidator or other Person may consider reasonably necessary for any contingent or unforeseen liabilities or obligations of the Partnership;

9.4.2.3. third, in paying amounts due to the General Partner pursuant to the terms of this Agreement;

9.4.2.4. fourth, in paying to each Partner rateably what is due to it from the Partnership for advances as distinguished from Capital Contributions;

9.4.2.5. fifth, in distributing to each Partner rateably what is due to it from the Partnership in respect of Capital Contributions of the Partner;

9.4.2.6. sixth, in distributing all remaining property of the Partnership to the Partners in accordance with their respective Percentage Interests; and

9.4.3. filing the prescribed notice of dissolution and satisfying all applicable formalities in such circumstances as may be prescribed by applicable law.

9.5. Dissolution

The Partnership shall be dissolved upon the completion of the matters set forth in section 9.4.

ARTICLE 10. DISPUTE RESOLUTION

10.1. Partners Dispute Resolution

If any matter or question on which the Partners cannot agree in accordance with this Agreement (a "Dispute") shall arise among the Partners concerning the operation of the Partnership Business or the interpretation of this Agreement or any part thereof, the General Partner shall attempt to resolve in good faith such Dispute. If the General Partner has not agreed to a settlement of a Dispute within thirty (30) days from the date on which the Dispute arose, any Partner, by notice to the other Partners, may require that the Dispute be submitted to a senior executive designated by each of the Limited Partners. The written notice (a "Dispute Notice")

shall set forth with reasonable specificity the nature of the Dispute. Following the receipt of a Dispute Notice, the Senior Executives shall meet as soon as is practicable at a mutually acceptable time and place to negotiate in good faith a settlement of the Dispute, and shall meet thereafter as they reasonably deem necessary. All negotiations pursuant to this section 10.1 shall be confidential and shall be treated as compromise and settlement negotiations. Nothing said or disclosed, nor any document produced, in the course of such negotiations which is not otherwise independently discoverable shall be offered or received as evidence or used for impeachment or for any other purpose in any current or future arbitration or litigation.

10.2. Arbitration

If the Dispute has not been resolved within thirty (30) days after the receipt of a Dispute Notice through negotiation as provided in section 10.1, then the Dispute shall be finally settled by arbitration in accordance with the Arbitration Act. However, in all events, the arbitration provisions in this Article 10, shall govern over any conflicting rules that may now or hereafter be contained in the Arbitration Act. The arbitration shall be held in Vancouver, British Columbia unless the parties mutually agree to have the arbitration held elsewhere, and judgment upon the award made therein may be entered by any court having jurisdiction in Vancouver, British Columbia; provided, however, that at any time after the commencement of a proceeding hereunder, any party may make an application to the arbitrators or to any court having jurisdiction hereof seeking injunctive relief until such time as the arbitration award is rendered or the controversy is otherwise resolved. Any judgment upon the award rendered by the arbitrators may be entered in any court having jurisdiction over the subject matter hereof. The arbitrator shall have the authority to grant any equitable and legal remedies that would be available in any judicial proceeding instituted to resolve any claim hereunder; provided, however, the arbitrator shall have no authority to award punitive damages or any other damages not measured by the prevailing party's actual damages, and may not, in any event, make any ruling, finding or award that does not conform to the terms and conditions of this Agreement.

10.3. Arbitrators

If the Dispute is not resolved by the parties before the lapse of thirty (30) days after the Dispute Notice is delivered, the parties shall, if they can agree, select an arbitrator to resolve the dispute within ten (10) Business Days. In the event that the parties have not selected an arbitrator within such ten Business Day period, then the dispute shall be resolved by majority decision of a panel of three arbitrators; one of which shall be chosen by each of the Limited Partners, and the third chosen by the other two arbitrators. Each individual chosen to serve as an arbitrator shall be a neutral and impartial attorney who has had training and experience as an arbitrator. The decision of a majority of the arbitrators will be the decision of the arbitrators. The arbitrators shall permit such discovery of information related to the controversy or claim in arbitration as they shall determine is appropriate in the circumstances, taking into account the needs of the parties and the desirability of making discovery expeditious and cost-effective.

The award, if any, shall be made within thirty (30) days of the date that the Dispute is actually referred to the arbitrator(s), and the arbitrator(s) shall agree to comply with this schedule before accepting appointment. However, this time limit may be extended by

agreement of the parties. The failure to meet these time limits shall not invalidate the award when rendered.

Except as required by law or by regulation, or with the consent of all parties involved in the proceeding, no party hereto shall disclose or disseminate any information relating to the Dispute or to the dispute resolution proceedings called for hereby except for disclosure to those of its officers, employees, accountants, attorneys and agents whose duties reasonably require them to have access to such information.

10.4. Costs and Fees

All fees and expenses of the arbitrators, expenses for hearing facilities and other expenses of the arbitration shall be borne equally by the parties unless the arbitrators in the award assess such fees and expenses other than equally against the parties. Each party shall bear the fees and expenses of its own attorneys and witnesses except to the extent otherwise provided in this Agreement or by law; provided, that if the arbitrators determine that the claim or defense of any party was frivolous or lacked a reasonable basis in fact or law, the arbitrators may assess against such party all or part of the fees and expenses of attorneys and witnesses for the other party.

10.5. Burden of Proof

For any Dispute submitted to arbitration, the burden of proof will be as it would be if the claim were litigated in a judicial proceeding.

10.6. Award

Upon the conclusion of any arbitration proceedings hereunder, the arbitrators will render findings of fact and conclusions of law and a written opinion setting forth the basis and reasons for any decision reached and will deliver such documents to each party to this Agreement along with a signed copy of the award.

10.7. Agreement Controls

The arbitrators chosen in accordance with these provisions will not have the power to alter, amend or otherwise affect the terms of these arbitration provisions or the provisions of this Agreement.

ARTICLE 11. **MEETINGS OF THE LIMITED PARTNERS**

11.1. Requisitions of Meetings

The General Partner may call a general meeting of Partners at such time and place as it deems appropriate in its absolute discretion for the purpose of considering any matter set forth in the notice of meeting. In addition, where Limited Partners having an Interest of not less

than 50% of the aggregate Interest of all Limited Partners (the "Requisitioning Partners") give notice requesting a meeting of the Partnership signed by each of them to the General Partner, the General Partner will, within 10 days of receipt of such notice, convene a meeting, and if it fails to do so, any Requisitioning Partner may convene such meeting by giving notice in accordance with this Agreement. Every meeting, however convened, will be conducted in accordance with this Agreement.

11.2. Place of Meeting

Every meeting shall be held in Vancouver, British Columbia or at such other place in Canada as the General Partner may designate.

11.3. Notice of Meeting

Notice of any meeting will be given to each Partner and the Auditors by the General Partner prepaid registered mail or by personal delivery not less than 10 days (but not more than 60 days) prior to such meeting, and will state:

- (a) the time, date and place of such meeting; and
- (b) in general terms, the nature of the business to be transacted at the meeting provided that Requisitioning Partners inform the General Partner of the nature of the business.

11.4. Attendance of Others

Any officer or director of the General Partner, legal counsel for any Partner or the Partnership and representatives of the Auditors will be entitled to attend any meeting of Partners. The General Partner or Limited Partners, by unanimous agreement, may authorize the presence of any Person at a meeting regardless of whether the Person is a Partner. With the approval of the chairman of the meeting, any Person who is not a Partner or a proxy therefor is entitled to address the meeting.

11.5. Chairman

The General Partner may nominate any Person, including, without limitation, an officer or director of the General Partner to be chairman of a meeting of Partners and the Person nominated by the General Partner will be chairman of such meeting unless the Partners unanimously elect another chairman.

11.6. Quorum

A quorum at any meeting of Partners will consist of two or more Limited Partners present in person. If, within half an hour after the time fixed for the holding of such meeting, a quorum for the meeting is not present, the meeting:

- (a) if called by or on the requisition of Limited Partners, will be terminated; and

(b) if called by the General Partner, will be reconvened at the same time and place on the day which is 14 days later (or if that date is not a Business Day, the first Business Day after that date). The General Partner will give three days' notice to all Limited Partners of the date of the reconvening of the adjourned meeting and at such reconvened meeting the quorum will consist of the Partners then present in person or represented by proxy.

11.7. **Voting**

Every question submitted to a meeting will be decided by the unanimous vote of the Limited Partners. On any vote at a meeting of Partners, a declaration of the chairman concerning the result of the vote will be conclusive.

11.8. **Powers of Limited Partners, Resolutions Binding**

The Limited Partners shall have only the powers set forth in this Agreement and any additional powers provided by law. Subject to the foregoing sentence, any resolution passed in accordance with this Agreement will be binding on all the Partners and their respective heirs, executors, administrators, successors and assigns, whether or not any such Partner was present in Person or represented by proxy.

11.9. **Powers Exercisable by Limited Partners**

For greater certainty, except as otherwise provided in this Agreement, the following powers shall only be exercisable by resolution passed by the unanimous approval of the Limited Partners:

- (a) dissolving the Partnership;
- (b) removing the General Partner and electing a new General Partner as provided in section 4.9;
- (c) waiving any default on the part of the General Partner on such terms as the Limited Partners may determine;
- (d) amending, modifying, altering or repealing any resolution previously passed by the Limited Partners;
- (e) amending this Agreement with the consent of the General Partner;
- (f) engaging in any business other than the Partnership Business;
- (g) entering into transactions out of the ordinary course of business;
- (h) requiring the General Partner on behalf of the Partnership to enforce any obligation or covenant on the part of any Limited Partner;

- (i) deciding the time at which the capital or other assets of the Partnership shall be distributed to the Partners and the amount of any such distribution; and
- (j) determining, subject to generally accepted accounting principles, what proportion of a distribution is profits or capital.

11.10. Minutes

The General Partner will cause minutes to be kept of all proceedings and resolutions at every meeting and will cause all such minutes and all resolutions of the Partners consented to in writing to be made and entered in books to be kept for that purpose. Any minutes of a meeting signed by the chairman of the meeting will be deemed evidence of the matters stated in them and such meeting will be deemed to have been duly convened and held and all resolutions and proceedings shown in them will be deemed to have been duly passed and taken.

11.11. Additional Rules and Procedures

To the extent that the rules and procedures for the conduct of a meeting of the Partners are not prescribed in this Agreement, the rules and procedures will be determined by the General Partner.

11.12. Signed Instruments

Any action which may be taken or any powers which may be exercised by the Partners at a meeting may also be taken or exercised by a resolution in writing signed by Partners who hold at least 100% of the aggregate Interests of all Partners.

ARTICLE 12.
GENERAL PROVISIONS

12.1. Notices

Any notice or other communication required or permitted to be given hereunder shall be in writing and shall be given by facsimile or other means of electronic communication or by delivery as hereafter provided. Any such notice or other communication, if sent by facsimile or other means of electronic communication, shall be deemed to have been received on the Business Day following the sending, or if delivered by hand shall be deemed to have been received at the time it is delivered to the applicable address noted below either to the individual designated below or to an individual at such address having apparent authority to accept deliveries on behalf of the addressee. Notice of change of address shall also be governed by this section. Notices and other communications shall be addressed as follows:

- (a) if to the General Partner:

c/o Powell River Energy Inc.
1055 West Georgia Street

Suite 1632
Vancouver, B.C.
V6E 3R5

Attention: President
Fax No.: (604) 687-3419

(b) if to PRET:

c/o Great Lakes Power Inc.
P.O. Box 762
Suite 4400
BCE Place, 181 Bay Street
Toronto, Ontario
M5J 2T3

Attention: Harry A. Goldgut, President and Chief Operating Officer
And: Richard Legault, Vice President and Chief Financial
Officer
Telecopier number: (416) 363-2856

with a copy (which shall not constitute notice) to PRET's counsel at:

Torys
Suite 3000, Maritime Life Tower
Box 270, TD Centre
Toronto, Ontario
M5K 1N2

Attention: Philip J. Brown
Fax No.: (416) 865-7380

(a) if to Pacifica:

Pacifica Papers Inc.
2nd Floor
855 Homer Street
Vancouver, B.C.
V6B 5S2

Attention: Secretary
Fax No.: (604) 647-3580

with a copy (which shall not constitute notice) to Pacifica's counsel at:

Sangra, Moller
Suite 1000
925 West Georgia Street
Vancouver, B.C.
V6G 3L2

Attention: H.S. Sangra
Fax No.: (604) 669-8803

The failure to send or deliver a copy of a notice or other communication to any legal counsel shall not invalidate any notice given under this section.

12.2. Partnership to Register

The Partnership shall make and maintain current all such registrations as are necessary under the requisite statutes of any jurisdiction in which it carries on business and each Partner shall supply the Partnership with all information and documents required of it to effect such registrations.

12.3. No Partition

Each Partner waives the benefit of all provisions of law, as now in effect or as enacted in the future, relating to actions for partition of real and personal property and agrees that it will not resort to any action at law or in equity to partition the real or personal property owned by the Partnership.

12.4. Attornment

The parties hereby attorn to the exclusive jurisdiction of the courts of the Province of British Columbia situate in Vancouver.

12.5. Time of Essence

Time is of the essence of this Agreement.

12.6. Further Assurances

Each of the Partners shall use reasonable efforts to take all such steps, execute all such documents and do all such acts and things as may be reasonably within its power to implement to their full extent the provisions of this Agreement and to cause the Partnership to act in the manner contemplated by and to give effect to this Agreement.

12.7. Counterparts

This Agreement may be signed in counterparts and each of such counterparts shall constitute an original document and such counterparts, taken together, shall constitute one and the same instrument.

12.8. Enurement

This Agreement shall enure to the benefit of and be binding upon the parties hereto and their respective successors.

IN WITNESS WHEREOF the parties have executed this Agreement.

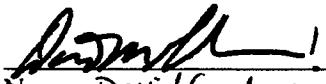
3795659 CANADA LIMITED

Name:
Title:



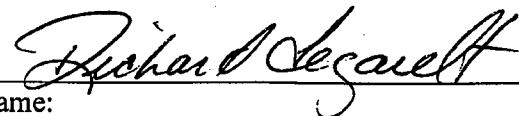
Name:
Title:

PACIFICA PAPERS INC.


Name: David Gandoosi
Title: Secretary

Name:
Title:

POWELL RIVER ENERGY TRUST



Name:

Title:

Name:

Title:

This is Exhibit "D" referred to in the Affidavit of Susan Danielisz, sworn before me at Vancouver, British Columbia, this 29th day of March, 2012.



A Commissioner for taking Affidavits in
and for the Province of British Columbia

PACIFICA PAPERS INC.

- and -

POWELL RIVER ENERGY TRUST

- and -

POWELL RIVER ENERGY INC.

UNANIMOUS SHAREHOLDER AGREEMENT

January 31, 2001

TORYS
NEW YORK TORONTO

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SCHEDULE 2.1.19 - Capital Expenditure Plan

UNANIMOUS SHAREHOLDER AGREEMENT

THIS AGREEMENT is made as of the 31st day of January, 2001

B E T W E E N:

POWELL RIVER ENERGY TRUST, a trust established under the laws of Quebec

("PRET")

- and -

PACIFICA PAPERS INC., a corporation amalgamated under the laws of Canada

("Pacifica")

- and -

POWELL RIVER ENERGY INC., a corporation incorporated under the laws of Canada

(the "Corporation")

RECITALS:

- A. The authorized capital of the Corporation consists of an unlimited number of common shares, of which 52,630 common shares are issued and outstanding, and securities of the Corporation which are convertible into 47,370 common shares are issued and outstanding;
- B. PRET is the registered and beneficial owner of 2,629 common shares of the Corporation and of securities of the Corporation which are convertible into 47,370 common shares of the Corporation;
- C. Pacifica is the registered and beneficial owner of 50,001 common shares of the Corporation; and
- D. PRET and Pacifica wish to enter into this Agreement to provide for the conduct of the business and affairs of the Corporation, to provide for restrictions on the transfer and ownership of shares in the capital of the Corporation and to govern their relationship as shareholders of the Corporation with the intent that it shall constitute a unanimous shareholder agreement.

NOW THEREFORE in consideration of the mutual covenants and agreements contained in this Agreement and other good and valuable consideration (the receipt and

sufficiency of which are hereby acknowledged by each of the parties), the parties hereto agree as follows:

ARTICLE 1. INTERPRETATION

1.1. Definitions

In this Agreement,

1.1.1. **“Act”** means the *Canada Business Corporations Act*, as the same may be amended from time to time, and any successor legislation thereto, except where otherwise expressly provided;

1.1.2. **“Affiliate”** means an affiliate within the meaning of the Act;

1.1.3. **“Agreement”** means this agreement and all schedules, if any, attached to this agreement, in each case as they may be supplemented or amended from time to time, and the expressions “hereof”, “herein”, “hereto”, “hereunder”, “hereby” and similar expressions refer to this agreement, and unless otherwise indicated, references to Articles and sections are to the specified Articles and sections in this agreement;

1.1.4. **“Annual Operating Plan”** has the meaning attributed to such term in section 2.1.18;

1.1.5. **“Arm’s Length”** has the meaning attributed to such term for the purposes of the *Income Tax Act* (Canada);

1.1.6. **“Auditors”** means the firm of chartered accountants referred to in section 2.1.14;

1.1.7. **“Board”** means the board of directors of the Corporation;

1.1.8. **“Business Day”** means any day, other than Saturday, Sunday or any statutory holiday in the Provinces of Ontario, Quebec or British Columbia;

1.1.9. **“Buyer Event of Default”** has the meaning attributed to such term in the *Pacifica Power Purchase Agreement*;

1.1.10. **“Capital Expenditure Plan”** has the meaning attributed to such term in section 2.1.19;

1.1.11. **“Certificate”** has the meaning attributed to such term in the *Partnership Agreement*;

1.1.12. **"Control"** means:

1.1.12.1. when applied to the relationship between a Person and a corporation, the beneficial ownership by such Person at the relevant time of shares of such corporation carrying more than the greater of 50% of the voting rights ordinarily exercisable at meetings of shareholders of such corporation and the percentage of voting rights ordinarily exercisable at meetings of shareholders of such corporation that are sufficient to elect a majority of the directors of such corporation; and

1.1.12.2. when applied to the relationship between a Person and a partnership, trust or joint venture, the beneficial ownership by such Person at the relevant time of more than 50% of the ownership interests of the partnership, trust or joint venture in circumstances where it can reasonably be expected that such Person directs the affairs of the partnership, trust or joint venture;

and the words **"Controlled by"**, **"Controlling"**, **"under Common Control with"** and similar words have corresponding meanings; provided that a Person (the **"first-mentioned Person"**) who Controls a corporation, trust, partnership or joint venture (the **"second-mentioned Person"**) shall be deemed to Control a corporation, trust, partnership or joint venture which is Controlled by the second-mentioned Person and so on; and the words **"Control Directly"** and similar words mean Control otherwise than by reason of the application of the proviso above and the words **"Control Indirectly"** and similar words mean Control by reason of the application of such proviso;

1.1.13. **"Corporation"** includes any successor to the Corporation resulting from any amalgamation, merger, arrangement or other reorganization of or including the Corporation or any continuance under the laws of another jurisdiction;

1.1.14. **"Defaulting Shareholder"** has the meaning attributed to such term in section 4.3;

1.1.15. **"Dispute"** has the meaning attributed to such term in section 7.1;

1.1.16. **"Distributable Cash"** means for any calendar quarter cash on hand, credit balances with banks and other banking institutions and realizable value of short term investments;

1.1.17. **"First Refusal Notice"** has the meaning attributed to such term in section 4.1.1;

1.1.18. **"Governmental Approval"** means the consent of any Governmental Authority which may be required at any time and from time to time to ensure that the purchase by a Shareholder of all or any part of the Shares or Shareholder Debt of another Shareholder is not in contravention of any law, regulation or published policy of, or administered by, such Governmental Authority or which may be required in order to ensure that, notwithstanding the purchase by a Shareholder of all or any part of the Shares of another Shareholder, the

holding or continued holding by the Corporation of any franchise, licence, permit or other permission or authority required to carry on its business is unaffected;

1.1.19. **“Governmental Authority”** means any legislative, executive, judicial or administrative body, court or person whether federal, provincial, state, local or municipal and any governmental authority, governmental tribunal or governmental commission of any kind whatever having, or purporting to have, jurisdiction in the relevant circumstances;

1.1.20. **“Guarantee”** means the guarantee given by Great Lakes Power Inc. in favour of the Corporation in respect of the purchase of electricity under the Pacifica Power Purchase Agreement;

1.1.21. **“Interest”** has the meaning attributed to such term in the Partnership Agreement;

1.1.22. **“Manager”** means Maclaren Energy Management Services Inc., and all successors and assigns thereof, in its capacity as Manager under the O&M Agreement;

1.1.23. **“Marketing Agreement”** has the meaning attributed to such term in the Partnership Agreement;

1.1.24. **“Offered Capital”** has the meaning attributed to such term in section 4.1.1;

1.1.25. **“O&M Agreement”** means the Management, Operations & Maintenance Agreement between the Corporation and the Manager dated the date hereof pursuant to which the Manager agrees to provide management services to the Corporation and operations and maintenance services for the Corporation’s facilities, as amended, supplemented and restated from time to time;

1.1.26. **“Other Shareholder”** has the meaning attributed to such term in section 4.1.1;

1.1.27. **“Pacifica Credit Agreement”** means the amended and restated multi-option credit facility agreement dated as of March 12, 1999 among Pacifica, Pacifica Papers Co. Limited Partnership, the Canadian Imperial Bank of Commerce (on its own behalf and as agent) and others;

1.1.28. **“Pacifica Power Purchase Agreement”** means the power purchase agreement between the Corporation and Pacifica dated the date hereof;

1.1.29. **“Paper Mill”** means the pulp and paper processing facilities and related land, equipment, works and undertaking owned by Pacifica and located in the Powell River area;

1.1.30. **“Partner Debt”** has the meaning attributed to such term in the Partnership Agreement;

1.1.31. **“Partnership”** means the Powell River Energy Limited Partnership and its successors;

1.1.32. **"Partnership Agreement"** means the limited partnership agreement between PRET, Pacifica and the Corporation constituting the Powell River Energy Limited Partnership dated the date hereof, as amended, restated or replaced from time to time;

1.1.33. **"Partnership Business"** has the meaning attributed to such term in the Partnership Agreement;

1.1.34. **"Partnership Power Purchase Agreement"** means the 50 year power purchase letter agreement between the Partnership and the Corporation dated the date hereof;

1.1.35. **"Permitted Encumbrances"** means:

- (i) in the case of Pacifica, any pledge, hypothecation or security interest over Shares and/or Shareholder Debt of Pacifica granted by Pacifica to any third party financial institution including, without limitation, pursuant to the Pacifica Credit Agreement as the same may be amended or replaced from time to time; and
- (ii) in the case of PRET, any pledge, hypothecation or security interest over Shares and/or Shareholder Debt of PRET granted by PRET to any third party financial institution;

1.1.36. **"Person"** means any individual, partnership, limited partnership, joint venture, syndicate, sole proprietorship, company or corporation with or without share capital, unincorporated association, trust, trustee, executor, administrator or other legal personal representative, Governmental Authority or entity however designated or constituted;

1.1.37. **"Piggy-Back Capital"** has the meaning attributed to such term in section 4.2.2;

1.1.38. **"Piggy-Back Demand"** has the meaning attributed to such term in section 4.2.1;

1.1.39. **"Piggy-Back Offer"** has the meaning attributed to such term in section 4.2.2;

1.1.40. **"Possessory Interest Agreements"** means, collectively, the possessory interest agreements between Pacifica and the Corporation dated the date hereof regarding the personal possessory rights of Pacifica in the Corporation's facilities, as such agreements may be amended from time to time;

1.1.41. **"Purchase Notice"** has the meaning attributed to such term in section 2.3.1;

1.1.42. **"Purchase Price"** has the meaning attributed to such term in section 5.1;

1.1.43. **"Related Entity"** means, with respect to a shareholder, a Person Controlled by, Controlling or under common Control with the Shareholder;

1.1.44. **"Reserves"** means reserves which have been provided in the Annual Operating Plan or in the opinion of the Board are necessary or advisable, having regard to the current and anticipated cash resources of the Corporation to:

- (a) pay the Corporation's liabilities as they become due in the ordinary course of business; or
- (b) comply with any commitments as to the financial condition of the Corporation as contained in any loan agreement, trust deed or other security providing for or securing financial accommodation to the Corporation;

1.1.45. **"Selling Shareholder"** has the meaning attributed to such term in section 4.1.1;

1.1.46. **"Share Purchase Agreement"** means the share purchase agreement dated November 3, 2000 between Pacifica, PRET and the Corporation pursuant to which the Corporation purchased and Pacifica sold 90,001 shares in the capital of Pacifica Power Co. Limited;

1.1.47. **"Shared Facilities Agreement"** has the meaning attributed to such term in the Share Purchase Agreement;

1.1.48. **"Shareholder"** means either of PRET and Pacifica so long as PRET or Pacifica, as the case may be, or any of their respective Related Entities, hold any Shares, a successor thereto, a permitted Transferee thereof, or any other Person who is a registered holder of Shares;

1.1.49. **"Shareholder Debt"** means indebtedness which is owed by the Corporation to a Shareholder for advances or loans or support made or provided by such Shareholder to the Corporation at the request of the Corporation and with the consent of all the Shareholders;

1.1.50. **"Shares"** means the common shares of the Corporation at the date hereof and includes any shares or securities into which common shares may be converted or changed or which result from a consolidation, subdivision, reclassification or redesignation of common shares, any shares or securities which are received as a stock dividend or distribution payable in shares or securities of the Corporation, any shares received on the exercise of any option, warrant or other similar right and any shares or securities which may be received by the parties hereto or bound hereby as a result of an amalgamation, merger, arrangement or other reorganization of or including the Corporation, and where the context permits, including without limitation in Articles 3, 4 and 5, includes any instrument of the Corporation that is convertible into Shares or evidences the right to acquire Shares;

1.1.51. **"Subsidiary"** means a subsidiary within the meaning of the Act;

1.1.52. **"Third Party"** has the meaning attributed to such term in section 4.1.1;

1.1.53. **"Third Party Offer"** has the meaning attributed to such term in section 4.1.1;

1.1.54. "Transfer" includes any sale, exchange, assignment, gift, bequest, disposition, mortgage, charge, pledge, encumbrance, grant of security interest or other arrangement by which possession, legal title or beneficial ownership passes from one Person to another, or to the same Person in a different capacity, whether or not voluntary and whether or not for value, and any agreement to effect any of the foregoing; and the words "Transferred", "Transferring", "Transferor" and "Transferee" and similar words have corresponding meanings; and

1.1.55. "Triggering Event" has the meaning attributed to such term in section 4.3.

1.2. Schedules

The following are the schedules to this Agreement:

Schedule 2.1.19 - Capital Expenditure Plan

1.3. Headings and Table of Contents

The inclusion of headings and a table of contents in this Agreement are for convenience of reference only and shall not affect the construction or interpretation hereof.

1.4. Gender and Number

In this Agreement, unless the context otherwise requires, words importing the singular include the plural and vice versa and words importing gender include all genders.

1.5. Currency

Except as expressly provided in this Agreement, all amounts in this Agreement are stated and shall be paid in Canadian currency.

1.6. Invalidity of Provisions

Each of the provisions contained in this Agreement is distinct and severable and a declaration of invalidity or unenforceability of any such provision or part thereof by a court of competent jurisdiction shall not affect the validity or enforceability of any other provision hereof. To the extent permitted by applicable law, the parties waive any provision of law which renders any provision of this Agreement invalid or unenforceable in any respect. The parties shall engage in good faith negotiations to replace any provision which is declared invalid or unenforceable with a valid and enforceable provision, the economic effect of which comes as close as possible to that of the invalid or unenforceable provision which it replaces.

1.7. Entire Agreement

This Agreement constitutes the entire agreement between the parties pertaining to the subject matter of this Agreement. There are no warranties, conditions, or representations (including any that may be implied by statute) and there are no agreements in connection with

such subject matter except as specifically set forth or referred to in this Agreement. No reliance is placed on any warranty, representation, opinion, advice or assertion of fact made either prior to, contemporaneous with, or after entering into this Agreement, or any amendment or supplement thereto, by any party to this Agreement or its directors, officers and agents, to any other party to this Agreement or its directors, officers and agents, except to the extent that the same has been reduced to writing and included as a term of this Agreement, and none of the parties to this Agreement has been induced to enter into this Agreement or any amendment or supplement by reason of any such warranty, representation, opinion, advice or assertion of fact. Accordingly, there shall be no liability, either in tort or in contract, assessed in relation to any such warranty, representation, opinion, advice or assertion of fact, except to the extent contemplated above.

1.8. Waiver, Amendment

Except as expressly provided in this Agreement, no amendment or waiver of this Agreement shall be binding unless executed in writing by the party to be bound thereby. No waiver of any provision of this Agreement shall constitute a waiver of any other provision nor shall any waiver of any provision of this Agreement constitute a continuing waiver unless otherwise expressly provided.

1.9. Governing Law

This Agreement shall be governed by and construed in accordance with the laws of the Province of British Columbia and the laws of Canada applicable therein.

ARTICLE 2.
BUSINESS AND AFFAIRS OF THE CORPORATION

2.1. Business and Affairs of the Corporation

The Shareholders shall cause such meetings to be held, votes to be cast, resolutions to be passed, by-laws to be made and confirmed, documents to be executed and all other things and acts to be done to ensure that, at all times, the following provisions are in effect or are complied with:

2.1.1. **Board of Directors.** There shall be four directors of the Corporation, of whom two shall be nominated by each Shareholder.

2.1.2. **Qualification of Directors.** Each nominee for the position of director of the Corporation shall be a resident Canadian as that term is defined in the Act and an individual who is not disqualified under applicable corporate law from acting as a director.

2.1.3. **Replacement Directors.** If a director ceases to be a director for any reason (a "retiring director"), the Shareholders shall fill the vacancy thereby created by appointing as soon as reasonably possible that individual who is nominated by the Shareholder who nominated the retiring director. Until the vacancy is filled, the directors shall not transact

any business or exercise any of their powers or duties. If the Shareholder entitled to do so fails for any reason to nominate an individual to fill the vacancy within 30 days after the vacancy arises, the remaining directors shall appoint an individual to fill the vacancy. In the event of the proposed removal of any director, each Shareholder agrees to vote for such removal if, and against such removal unless, it has been proposed or approved by the Shareholder who nominated such director. The Shareholder who nominated a director who is subsequently removed shall be responsible for and indemnify the Corporation and the other Shareholder from and against any claim by such director for wrongful dismissal or other consequences of removal.

2.1.4. **Initial Directors.** The initial directors of the Corporation shall be:

Appointee of PRET

Harry A. Goldgut

Richard Legault

Appointee of Pacifica

Trevor Johnstone

Wayne Nystrom

2.1.5. **Meetings of Directors.** The Board shall meet at least once in every calendar quarter in such place as the directors may unanimously agree from time to time and otherwise at the principal office of the Corporation and the period of time between meetings shall not be more than one hundred and twenty (120) days. Meetings of the directors may be called at any time or from time to time by any director of the Corporation upon not less than five days' notice which notice shall contain a statement as to the business proposed to be transacted at such meeting. No business other than the business outlined in the notice of meeting may be conducted at a meeting. Meetings of directors may be conducted by telephone conference calls.

2.1.6. **Meetings of Shareholders.** Meetings of Shareholders shall be held in the City of Vancouver or at such place as the directors may agree from time to time and may be called by any two directors of the Corporation upon not less than 21 days' notice, which notice shall contain a statement as to the business proposed to be transacted at such meeting. No business other than the business outlined in the notice of meeting may be conducted at a meeting. Meetings of Shareholders may be conducted by telephone conference calls. The annual meeting of shareholders of the Corporation shall be held at least annually, not later than fifteen (15) months after the last preceding annual meeting.

2.1.7. **Quorum.** A quorum for a meeting of directors shall be not less than a majority of the directors of the Corporation, except as hereinafter provided. If at any meeting of directors (the "first meeting") a quorum shall not be present by reason only of the fact that the nominees of one Shareholder are absent, then, notwithstanding anything herein contained, the directors present at such meeting may call a supplementary meeting of the Board on not less than seven days' notice to each director, solely to address the business proposed to be transacted at the first meeting. If the directors who did not attend the first meeting do not attend the supplementary meeting, the directors attending the supplementary

meeting shall constitute a quorum for the transaction of the business referred to in the notice of meeting.

A quorum for a meeting of Shareholders shall be at least two individuals present in person and holding or representing by valid proxy not less than 66.7% of the outstanding Shares.

2.1.8. **Decisions of Directors.** In order to be effective, a decision of the directors must be approved either by a resolution passed by the affirmative vote of not less than that number of directors present and constituting a quorum at a meeting of directors duly called or by an instrument signed by all the directors.

2.1.9. **Casting Vote.** The Chairman of any meeting of the directors or Shareholders shall not have a casting vote.

2.1.10. **Chair.** The directors shall elect from time to time a chair (the "Chair") from among the directors nominated by the Shareholders in the following manner: in the first fiscal year of the Corporation, by Pacifica, thereafter in each succeeding fiscal year of each two years, first by PRET, then Pacifica. The Chair shall be chair of any meeting of the Board at which he or she is present. Otherwise, the directors who are present shall choose from among their number a chair of the meeting. The chair of any meeting shall be entitled to vote on all matters.

2.1.11. **Officers.** The officers of the Corporation shall be those individuals designated by the directors from time to time.

2.1.12. **Banker and Bank Signing Authorities.** The Canadian Imperial Bank of Commerce shall be the banker of the Corporation. The Corporation shall maintain such bank account(s) at such financial institutions as the Manager shall from time to time determine. The signature of any two of the officers of the Corporation shall be required in order to draw any cheques on the Corporation's bank accounts or to execute any documents required to make any borrowing which has been approved by the Board.

2.1.13. **Accounting Records.** Proper books of account shall be kept by the Manager on behalf of the Corporation and entries shall be made therein of all matters, terms, transactions and things as are usually written and entered into books of account in accordance with Canadian generally accepted accounting principles and each of the parties hereto shall at all times furnish to the others correct information, accounts and statements of and concerning all transactions pertaining to the Corporation without any concealment or suppression. Within sixty (60) days of the end of the fiscal year of the Corporation, the books and accounts and the annual financial statements of the Corporation shall be audited and certified by the Auditors and shall thereupon be submitted to the Board for approval.

2.1.14. **Auditors.** Ernst & Young LLP shall be the auditors of the Corporation.

2.1.15. **Fiscal Year.** The fiscal year of the Corporation shall end on December 31 in each year.

2.1.16. **Business of the Corporation.** The Corporation's sole business shall be the ownership and operation, either directly or by contract, of the Facilities, which includes, for greater certainty, the production, transmission, distribution and sale of electricity generated by the Facilities and the provision of transmission and wheeling services.

2.1.17. **Manager.** The Corporation shall enter into the O&M Agreement with the Manager.

2.1.18. **Preparation of Operating Plan.** The Manager shall prepare the annual operating plan (the "Annual Operating Plan") in accordance with the O&M Agreement. The Annual Operating Plan shall be submitted by the Manager to the Board for approval in accordance with the O&M Agreement.

2.1.19. **Capital Expenditure Plan.** The Corporation shall implement the capital expenditure plan (the "Capital Expenditure Plan") attached as Schedule 2.1.19.

2.1.20. **Certain Matters Requiring Unanimous Shareholder Approval.** Without the prior written consent of all the Shareholders, the Corporation shall not:

2.1.20.1. in connection with this Agreement and the business of the Corporation:

2.1.20.1.1. amend, modify, or revise this Agreement;

2.1.20.1.2. confirm annual audited and quarterly unaudited financial statements of the Corporation;

2.1.20.1.3. approve any Annual Operating Plan and any material amendment or revision to any Annual Operating Plan;

2.1.20.1.4. approve any material amendment to the Capital Expenditure Plan;

2.1.20.1.5. amend its articles or other constating documents or make, amend or repeal any by-law;

2.1.20.1.6. issue, or enter into any agreement to issue, any shares of any class or any securities convertible into any shares of any class or grant any option or other right to purchase any such shares or securities convertible into any such shares;

2.1.20.1.7. redeem, purchase for cancellation or otherwise retire or pay off any of its outstanding shares of any class;

2.1.20.1.8. determine the applicable interest rate for, or repay the principal amount of, any Shareholder Debt other than the promissory note dated the date hereof in the amount of \$2 million payable to PRET;

2.1.20.1.9. except as required by this Agreement declare or pay any dividends or make any distribution, whether in cash, in stock or in specie, on any of its outstanding shares of any class;

2.1.20.1.10. acquire or sell, lease, transfer or otherwise dispose of any assets of the Corporation in excess of \$500,000 except as contemplated by the Annual Operating Plan or the Capital Expenditure Plan;

2.1.20.1.11. create, assume or become liable for any borrowing or mortgage, pledge, charge, grant a security interest on or otherwise encumber any of its assets, except for the Shareholder Debt and third party financing created (and the related security granted) in connection with the acquisition by the Corporation of all the shares of Pacifica Power Co. Limited pursuant to the Share Purchase Agreement or except as contemplated by the Annual Operating Plan or the Capital Expenditure Plan;

2.1.20.1.12. give security for or guarantee, or otherwise become liable or give any support in respect of, any debt, liability or obligation of any Person;

2.1.20.1.13. make any capital expenditure in excess of \$500,000 except as contemplated in the Annual Operating Plan or the Capital Expenditure Plan;

2.1.20.1.14. enter into any contract, agreement or commitment which requires expenditures or financial commitments on behalf of the Corporation in excess of \$500,000 or establish any additional business (except as contemplated in section 2.1.16) or make any material change in, or terminate or suspend any material part of, its existing business, in each case except as contemplated in the Annual Operating Plan or the Capital Expenditure Plan;

2.1.20.1.15. take, hold, subscribe for or agree to purchase or acquire shares of any corporation or take or have any interest in a joint venture or partnership or similar undertaking;

2.1.20.1.16. enter into or complete any related party transaction (other than transactions entered into on or before the date hereof) unless the transaction is on terms and conditions that are at least as favourable to the Corporation as those of similar transactions in the ordinary course of business entered into with an Arm's Length party and involves or has an aggregate value of less than \$100,000;

2.1.20.1.17. sell or otherwise dispose of, by conveyance, transfer, lease or otherwise, its undertaking as an entirety or substantially as an entirety or

amalgamate or merge with or into any other corporation or apply to be continued as a corporation under the laws of any jurisdiction;

2.1.20.1.18. take or institute any proceedings for the winding-up, reorganization or dissolution of the Corporation;

2.1.20.1.19. create any committees of the Board;

2.1.20.1.20. amend or terminate the O&M Agreement;

2.1.20.1.21. depart from any of the provisions of sections 2.1.1 to 2.1.18; or

2.1.20.1.22. permit any Subsidiary of the Corporation to do any of the matters contemplated by sections 2.1.20.1.5 to 2.1.20.1.18;

2.1.20.2. in connection with the Partnership Business, permit, direct or cause 3795659 Canada Limited to exercise its powers as general partner of the Partnership to:

2.1.20.2.1. amend, modify or revise the Partnership Agreement;

2.1.20.2.2. amend, modify or revise the Certificate;

2.1.20.2.3. confirm the annual audited and quarterly unaudited financial statements of the Partnership;

2.1.20.2.4. approve policies for the destruction of books and records of the Partnership;

2.1.20.2.5. waive any default on the part of the partners of the Partnership;

2.1.20.2.6. acquire or sell, lease, transfer, mortgage, pledge or otherwise dispose of assets of the Partnership with a value greater than \$100,000 other than energy pursuant to the terms of the Marketing Agreement;

2.1.20.2.7. enter into any contractual commitments other than the Partnership Power Purchase Agreement which require expenditures or financial commitments on behalf of the Partnership not expressly provided for in the Marketing Agreement;

2.1.20.2.8. incur or increase the Partnership Debt or grant security or guarantees;

2.1.20.2.9. make any capital expenditure in excess of \$25,000 other than pursuant to the terms of the Marketing Agreement;

- 2.1.20.2.10. acquire or dispose of any business;
- 2.1.20.2.11. form any new business entities;
- 2.1.20.2.12. expand or reduce the scope of, or materially change the nature of, the Partnership Business;
- 2.1.20.2.13. approve any related party transaction other than pursuant to the Partnership Power Purchase Agreement unless the transaction is on terms and conditions that are at least as favourable to the Partnership as those of similar transactions in the ordinary course of business entered into with an Arms' Length party and involves or has an aggregate value of less than \$100,000;
- 2.1.20.2.14. acquire an ownership interest of any kind in any other entity;
- 2.1.20.2.15. approve a distribution in respect of Interests or Partner Debt pursuant to section 6.1 of the Partnership Agreement;
- 2.1.20.2.16. admit any new Partner, other than as a result of a transaction pursuant to and in accordance with the terms of section 6.2 of the Partnership Agreement; or
- 2.1.20.2.17. dissolve the Partnership.

2.1.21. **Board of Directors.** Except as expressly provided in this Agreement or in the O&M Agreement, subject to applicable law, all matters affecting the Corporation or the Business shall be determined by resolution of the Board. Subject to applicable law, the Board has the power to delegate any of its powers and duties to the Manager.

2.1.22. **Examination by Shareholders.** The Corporation shall permit the Shareholders to examine the books, accounts and other records of the Corporation during normal business hours and provide to the Shareholders all relevant information including interim management reports, operating reports, trading reports, financial reports and such other information as the Shareholders may reasonably require to keep them properly advised about the business and prospects of the Corporation.

2.1.23. **Board Appointees.** The Shareholders each covenant and agree to ensure that (i) its appointees to the Board shall operate in accordance with and to give effect to the terms of this Agreement, (ii) the Corporation takes such action as is necessary to comply at all times with its obligations under contracts to which the Corporation is a party from time to time or under applicable laws and (iii) the Corporation shall discontinue the supply of energy to Pacifica as required under section 8.1 of the Pacifica Power Purchase Agreement.

2.2. Financing of the Corporation and Distributions

2.2.1. **Third Party Financing.** Any funds required for carrying on the business of the Corporation shall be obtained, to the greatest extent possible, by borrowing from a Canadian or U.S. third party financial institution. Financing shall be arranged by the Board when appropriate having regard to the requirements of the business of the Corporation and the state of the financial markets.

2.2.2. **No Obligation to Provide Financing.** Except as contemplated by sections 2.2.1 and 2.2.3 or as expressly provided for in an Annual Operating Plan or as otherwise determined by the Shareholders, the Shareholders shall not be obliged to advance any funds to or on behalf of the Corporation, to enter into any guarantee of the indebtedness of the Corporation or to pledge their respective credit on behalf of the Corporation.

2.2.3. **Shareholder Financing with the Agreement of the Shareholders.** If all the Shareholders agree, the Shareholders may be required to advance funds to the Corporation in such amounts and on the terms and conditions agreed to by the Shareholders.

2.2.4. **Distribution Policy.** Except as otherwise determined from time to time by the Board and subject to compliance with the terms and conditions of any third party financing and applicable law, the Corporation shall declare and pay dividends in an aggregate amount equal to the excess of Distributable Cash over Reserves on or before fifteen (15) days following March 31, June 30, September 30 and December 31 of each year. All such dividends shall be paid to the Shareholders who were Shareholders at the end of the calendar quarter immediately preceding the distribution date.

2.3. Default by Manager

2.3.1. In the event that, pursuant to the terms of the O&M Agreement, a final determination is made by the arbitrator appointed under the O&M Agreement that a Manager Event of Default has occurred as such term is defined under the O&M Agreement, PRET shall forthwith offer to purchase the Shares and Shareholder Debt, if any, of Pacifica by notice to Pacifica (the "Purchase Notice"). The purchase and sale of Shares and Shareholder Debt contemplated in the Purchase Notice shall be completed in accordance with section 2.3.2, unless, prior to the date of completion of such purchase and sale, the Guarantee is terminated or Pacifica delivers a full, final and unconditional release in favour of Great Lakes Power Inc. from Canadian Imperial Bank of Commerce and any other Person having rights under the Guarantee in respect of any and all obligations under the Guarantee, in which case Pacifica shall have the right, in its sole and unfettered discretion, on behalf of the Corporation, to (i) immediately terminate the O&M Agreement in accordance with the terms of the O&M Agreement and (ii) appoint as Manager a person with experience managing hydroelectric generation facilities similar to the Corporation's facilities, and such termination and appointment shall be deemed to be an act of the Board as a whole and shall be binding on the Shareholders and the Corporation; provided that, if Pacifica does not exercise the right to terminate the O&M Agreement and appoint a Manager pursuant to this section 2.3.1 within a period of 180 days from the date Pacifica first has notice of the

particular Manager Event of Default, the right of Pacifica to terminate the O&M Agreement and appoint a Manager in respect of such Manager Event of Default shall expire. For greater certainty, Pacifica may deliver the full, final and unconditional release in favour of Great Lakes Power Inc. referred to above concurrently with the termination of the O&M Agreement and appointment of a Manager contemplated by this section 2.3.1.

2.3.2. The Purchase Price for the Shares and Shareholder Debt of Pacifica shall be determined in accordance with section 5.1 and shall be payable by way of certified cheque or bank draft as provided in section 5.2.1. The offer shall be irrevocable. The Purchase Notice may be accepted by Pacifica by written notice to PRET within fifteen (15) days after receipt of the Purchase Notice (in this section, the "Notice Period"). PRET shall be entitled to designate another Person as the purchaser of the Shares and Shareholder Debt, if any, in which case Pacifica shall sell its Shares and Shareholder Debt, if any, to such Person. If no written notice is given under this section, Pacifica shall be deemed to have rejected the offer made available to it to sell the Shares and Shareholder Debt, if any. The completion of a purchase and sale of Shares and Shareholder Debt, if any, under this section shall take place on the 15th day after the expiry of the Notice Period, provided that if the Purchase Price of the Shares has not been determined by such day, the completion shall take place on the 10th day after the date on which the Purchase Price has been conclusively determined pursuant to section 5.1.

2.4. Termination of Possessory Interest Agreements

2.4.1. In the event that a Buyer Event of Default occurs and such default has not been cured pursuant to the terms of the Pacifica Power Purchase Agreement or an Event of Default (as such term is defined in the Possessory Interest Agreements) occurs under one or more of the Possessory Interest Agreements, PRET shall have the right, in its sole and unfettered discretion, on behalf of the Corporation to immediately terminate the Possessory Interest Agreements, and such termination shall be deemed to be an act of the Board as a whole and shall be binding on the Shareholders and the Corporation; provided that, if PRET does not exercise the right to terminate the Possessory Interest Agreements pursuant to this section 2.4 within a period of 180 days from the date PRET first has notice of the particular Buyer Event of Default or Event of Default, as the case may be, the right of PRET to terminate the Possessory Interest Agreements in respect of such Buyer Event of Default or Event of Default, as the case may be, shall expire.

ARTICLE 3. GENERAL MATTERS RELATING TO THE HOLDING OF SHARES AND PERMITTED TRANSFERS

3.1. General Prohibition on Transfer

During the continuance of this Agreement, none of the Shareholders shall deal with any Shares or Shareholder Debt, if any, or any interest therein or Transfer any Shares or Shareholder Debt, if any, now or hereafter held by such Shareholder except in accordance with

this Agreement. For greater certainty, any Transfer made in accordance with this Agreement shall consist of all (but not less than all) of the Shares and Shareholder Debt, if any, held by the Transferor. A purported Transfer of any Shares and/or Shareholder Debt, as the case may be, in violation of this Agreement shall not be valid and the Corporation shall not register, nor permit any transfer agent to register, any such Shares on the securities register of the Corporation, nor shall any voting rights attaching to or relating to such Shares be exercised, nor shall any purported exercise of such voting rights be valid or effective, nor shall any dividend or distribution be paid or made on such Shares and/or Shareholder Debt, as the case may be, until such time as (i) the Shares and/or Shareholder Debt, as the case may be, are Transferred back to the Transferring Shareholder, (ii) a further Transfer is completed in accordance with section 3.2, or (iii) the Board determines to make such dividend or distribution. Each Shareholder who purports to make a Transfer of any Shares and/or Shareholder Debt, as the case may be, in violation of this Agreement agrees to donate and hereby donates to the Corporation all dividends and distributions paid or made on such Shares and/or Shareholder Debt, as the case may be, during the period of such prohibited Transfer. For greater certainty, no interest shall be payable in respect of any dividends or distributions withheld in accordance with this section. The provisions of the immediately preceding sentence are in addition to, and not in lieu of, any other remedies to enforce the provisions of this Agreement.

3.2. Permitted Transfers

3.2.1. Subject to section 3.2.2, a Shareholder may at any time and from time to time Transfer all (but not less than all) of the Shares and Shareholder Debt, if any, held by such Shareholder to the following, provided that the proposed Transferee is a resident of Canada for the purposes of the *Income Tax Act* (Canada), and notice of such Transfer is given to the other Shareholder and the Corporation prior to or concurrently with such Transfer:

3.2.1.1. a Related Entity of the Shareholder provided that

3.2.1.1.1. the Related Entity will remain a Related Entity so long as it holds the Shares and Shareholder Debt, if any, Transferred by the Shareholder;

3.2.1.1.2. prior to ceasing to be a Related Entity, the Related Entity agrees to Transfer the Shares and Shareholder Debt, if any, back to the Transferring Shareholder;

3.2.1.1.3. the Related Entity agrees to be bound by this Agreement; and

3.2.1.1.4. the Transferring Shareholder guarantees the obligations of the Related Entity;

3.2.1.2. in the case of either Shareholder, if the Transfer is a mortgage, hypothecation, pledge, or granting of a security interest, to a third party financial institution as security for *bona fide* indebtedness, provided that the financial

institution has agreed by instrument, in form and substance satisfactory to the other parties then bound by this Agreement, acting reasonably, (such instrument to be delivered to such other parties prior to the time the mortgage, hypothecation, pledge or security interest becomes effective or attaches) that, in the event of realization, the financial institution shall deal with the Shares and Shareholder Debt, if any, only in accordance with the terms of this Agreement as if the financial institution were the Shareholder who mortgaged, pledged, hypothecated or granted a security interest in the Shares and Shareholder Debt, if any, it being the intention that all the provisions of this Agreement which relate to the Transfer by a Shareholder of its Shares and Shareholder Debt, if any, shall apply to the financial institution;

3.2.1.3. any Person provided such Transfer is made with the written consent of the other Shareholder; or

3.2.1.4. any Person provided such Transfer is made as part of a reorganization of the Transferring Shareholder which does not result in a change of Control of the Transferring Shareholder; or

3.2.1.5. any Person that purchases (directly or indirectly) all or substantially all the assets comprising the Paper Mill.

3.2.2. A Shareholder shall not be entitled to Transfer the Shares and Shareholder Debt, if any, held by the Shareholder pursuant to section 3.2.1 unless, concurrently with such Transfer, the Transferring Shareholder Transfers all (but not less than all) of the Interest and Partner Debt, if any, held by the Transferring Shareholder to the proposed Transferee of the Shares and Shareholder Debt, if any, in accordance with Article 6 of the Partnership Agreement.

3.3. Assumption of Obligations

Upon a Transfer of Shares and Shareholder Debt, if any, which is made in accordance with this Agreement, the Transferee shall, prior to completion of the Transfer, execute and deliver an instrument, in form and substance satisfactory to the Shareholders, in which the Transferee agrees to be bound by all the provisions of this Agreement as if the Transferee were an original signatory hereto, and agrees to pay and perform the liabilities and obligations of the Transferor under this Agreement. Unless the Shareholders otherwise agree, such Transfer and assumption shall not serve to release or discharge the Transferor from any liabilities or obligations under this Agreement, whether contingent or otherwise, except those liabilities and obligations accruing with respect to the Shares and Shareholder Debt, if any, Transferred after the date of the Transfer. Upon compliance with the foregoing, the Transferee shall be entitled to exercise all the rights of the Transferor under this Agreement and the Transferee shall thereupon become a Shareholder and shall succeed to the rights of the Transferor under this Agreement.

3.4. No Registration of Transfer Unless Transferee is Bound

If, pursuant to any provision of this Agreement, a Shareholder Transfers such Shareholder's Shares to any other Person, no Transfer of such Shares shall be made nor shall be effective and no application shall be made to the Corporation or to the Corporation's transfer agent to register the Transfer, and the Corporation shall not register any such Transfer, on the securities register of the Corporation until, in the case of a Transfer contemplated by section 3.2, the documentation referred to in that section has been delivered, and, in the case of any other Transfer, the proposed Transferee becomes subject to all of the obligations of the Transferor under this Agreement (in which case the proposed Transferee shall become entitled to exercise all the rights of the Transferor under this Agreement) and agrees to be bound by all of the provisions hereof as if it was an original signatory hereto pursuant to an agreement in writing, in form and substance satisfactory to the other parties then bound by this Agreement. The foregoing does not apply to a Transfer of Shares by a Shareholder to the other Shareholder pursuant to Article 4.

3.5. Notation on Share Certificates

All share certificates representing Shares shall have the following statement conspicuously noted thereon:

"There are restrictions on the right to transfer the shares represented by this certificate. In addition, such shares are subject to a Unanimous Shareholder Agreement dated the 31st day of January, 2001 between Powell River Energy Inc., Powell River Energy Trust and Pacifica Papers Inc., as the same may be amended from time to time, and may not be pledged, sold or otherwise transferred except in accordance with the provisions thereof."

All certificates representing securities issued by the Corporation which are convertible into Shares or evidencing a right to acquire Shares shall contain a statement substantially to the same effect.

3.6. References in this Agreement

Following the Transfer of Shares permitted by this Agreement, references to the Transferor shall be deemed to be modified as necessary to refer to the Transferee.

3.7. Shareholders to Facilitate Permitted Transfers

Each of the Shareholders agrees that it shall give and execute all necessary consents and approvals required to facilitate a Transfer of Shares pursuant to this Agreement as soon as the relevant provisions of this Agreement relating to the Transfer have been complied with.

3.8. Representations and Warranties by Shareholders

Each Shareholder represents and warrants:

- 3.8.1. that such Shareholder owns beneficially and of record the number of Shares which are expressed to be owned by it in the recitals to this Agreement, that such Shares are not subject to any mortgage, lien, charge, pledge, encumbrance, security interest or adverse claim other than Permitted Encumbrances and that no Person has any rights to become a holder or possessor of any of such Shares or of the certificates representing the same other than pursuant to Permitted Encumbrances;
- 3.8.2. if such Shareholder is a corporation, that it is duly incorporated and validly existing under the laws of its jurisdiction of incorporation and that it has the corporate power and capacity to own its assets and to enter into and perform its obligations under this Agreement;
- 3.8.3. if such Shareholder is a trust, partnership or joint venture, that it is duly constituted under the laws which govern it and that it has the power and authority to own its assets and to enter into and perform its obligations under this Agreement;
- 3.8.4. that this Agreement has been duly authorized, executed and delivered by it and constitutes a valid and binding obligation enforceable in accordance with its terms, subject to the usual exceptions as to bankruptcy and the availability of equitable remedies;
- 3.8.5. that the execution, delivery and performance of this Agreement does not and will not contravene the provisions of its articles, by-laws, constituting documents or other organizational documents or the documents by which it was created or established or the provisions of any indenture, agreement or other instrument to which it is a party or by which it may be bound;
- 3.8.6. that such Shareholder is not a non-Canadian under the *Investment Canada Act* (Canada); and
- 3.8.7. that all of the foregoing representations and warranties will continue to be true and correct during the continuance of the Agreement.

3.9. Representations and Warranties by the Corporation

The Corporation represents and warrants:

- 3.9.1. that the issued and outstanding common shares of the Corporation and the securities of the Corporation convertible into common shares of the Corporation are the only issued and outstanding Shares or securities convertible into Shares; and
- 3.9.2. that no person has any agreement or option or right that is capable of becoming an agreement for the purchase, subscription or issuance of any of the unissued Shares or securities convertible into Shares.

ARTICLE 4.
MATTERS RELATING TO THE
DISPOSITION AND ACQUISITION OF SHARES

4.1. Right of First Refusal

4.1.1. **Selling Shareholder to Give First Refusal Notice.** Subject to section 4.1.5, if at any time a Shareholder (a "Selling Shareholder") obtains from a Person with whom the Selling Shareholder is dealing at Arm's Length (a "Third Party") a bona fide offer (a "Third Party Offer") to purchase all (but not less than all) of the Shares and Shareholder Debt, if any, held by the Selling Shareholder (the "Offered Capital") for cash and the Selling Shareholder is willing and able to accept the Third Party Offer, the Selling Shareholder shall give notice thereof (the "First Refusal Notice") to the other Shareholder (the "Other Shareholder"). A Third Party Offer shall not provide for any consideration other than cash consideration. The First Refusal Notice shall state that the Selling Shareholder has received an offer which such Selling Shareholder is willing and able to accept, and that the offer is bona fide and is made by a Person with whom the Selling Shareholder is dealing at Arm's Length and shall be accompanied by a copy of the Third Party Offer and details as to the identity and business of the Third Party.

4.1.2. **Rights of the Other Shareholder Upon Receipt of First Refusal Notice.** The Other Shareholder shall have the right, exercisable by notice given to the Selling Shareholder within thirty (30) days after receipt of the First Refusal Notice:

4.1.2.1. to agree that it will purchase all the Offered Capital on the terms and conditions contained in the Third Party Offer; or

4.1.2.2. to agree that the Selling Shareholder may sell all the Offered Capital to the Third Party on the terms and conditions contained in the Third Party Offer, provided that, prior to completion of such sale, such Third Party becomes subject to all of the obligations of the Selling Shareholder under this Agreement and agrees to be bound by all of the provisions hereof as contemplated in section 3.4, in which case such Third Party shall become entitled to exercise all the rights of the Selling Shareholder under this Agreement.

If no notice is given by the Other Shareholder under this section, the Other Shareholder shall be deemed to have given the notice referred to in section 4.1.2.2.

4.1.3. **Completion of Purchase and Sale.** Subject to section 4.1.4, if the Other Shareholder gives the notice referred to in section 4.1.2.1, the purchase by the Other Shareholder of the Offered Capital shall be completed in accordance with the terms of the Third Party Offer.

If the Other Shareholder gives or is deemed to have given the notice referred to in section 4.1.2.2, the Selling Shareholder may accept the Third Party Offer and, subject to compliance with sections 4.1.2.2, 4.1.4 and 4.2, may sell the Offered Capital in accordance

with the terms of the Third Party Offer for a period of 90 days after the expiry of the 30 day period referred to in section 4.1.2. If the sale is not completed within such 90 day period, the provisions of section 4.1 shall again apply to any proposed sale of Shares and so on from time to time.

4.1.4. **Mandatory Sale of Partnership Interest.** The Selling Shareholder shall not be entitled to sell the Offered Capital pursuant to this section 4.1 unless, concurrently with such sale, the Selling Shareholder sells all (but not less than all) of the Interest and Partner Debt, if any, held by the Selling Shareholder to the Third Party or the Other Shareholder, as the case may be, in accordance with Article 7 of the Partnership Agreement.

4.1.5. **Restriction on Exercise of First Refusal.** A Shareholder shall not be entitled to deliver a First Refusal Notice during the period from the date on which a Triggering Event with respect to the Shareholder has occurred or an event has occurred which, with notice or lapse of time or both, would constitute such a Triggering Event, in each case to the date which is one hundred and eighty (180) days thereafter. After the expiry of such period, such Shareholder shall be entitled to deliver a First Refusal Notice.

4.2. Piggy-Back Right

4.2.1. **Other Shareholder to Give Piggy-Back Demand.** In the event that the Other Shareholder has given or is deemed to have given the notice referred to in section 4.1.2.2, the Other Shareholder may, not later than five (5) Business Days after the expiry of the thirty (30) day period referred to in section 4.1.2 deliver to the Selling Shareholder a notice in writing (a "Piggy-Back Demand").

4.2.2. **Consequence of Piggy-Back Demand.** The delivery by the Other Shareholder of a Piggy-Back Demand shall be irrevocable and shall bind the Other Shareholder to sell all but not less than all of the Shares and Shareholder Debt, if any, held by it (collectively, the "Piggy-Back Capital"), in accordance with the provisions of this section 4.2. If the Other Shareholder delivers a Piggy-Back Demand, then, before completing any sale of the Offered Capital, the Selling Shareholder shall cause the Third Party to deliver to the Other Shareholder a bona fide offer in writing (a "Piggy-Back Offer") to purchase from the Other Shareholder the Piggy-Back Capital.

4.2.3. **Piggy-Back Offer.** The Piggy-Back Offer shall contain terms and conditions identical to those contained in the Third Party Offer, except that the obligations of the Third Party under the Piggy-Back Offer may be conditional upon completion of the transaction contemplated by the Third Party Offer. The Piggy-Back Offer will be binding upon the Third Party.

4.2.4. **Closing of Sale.** The closing date and other closing arrangements for the purchase and sale of the Piggy-Back Capital shall be specified in the Piggy-Back Offer and shall be the same, *mutatis mutandis*, as those for the purchase and sale of the Offered Capital.

4.2.5. **Mandatory Sale of Partnership Interest.** The Other Shareholder shall not be entitled to deliver a Piggy-Back Demand or sell the Piggy-Back Capital unless, concurrently, the Other Shareholder gives an equivalent demand under the Partnership Agreement and sells all of the Interest and Partner Debt, if any, held by it in accordance with the Partnership Agreement.

4.3. **Triggering Events Defined**

A Triggering Event is the occurrence of any one of the following events with respect to a Shareholder (the "Defaulting Shareholder"):

4.3.1. the Shareholder fails to perform or is otherwise in breach of any material obligation under this Agreement, or under any instrument or document delivered pursuant to this Agreement at any time hereafter, and the failure or breach is not corrected within fifteen (15) days after receipt by such Shareholder of notice of the failure or breach from any other Shareholder or the Corporation;

4.3.2. any representation and warranty of the Shareholder contained in this Agreement, or in any instrument or document delivered pursuant to this Agreement at any time hereafter, is or becomes not true and correct in any material respect and the Shareholder has not taken all necessary steps, to the satisfaction of the other Shareholder and the Corporation acting reasonably, to ensure that the representation and warranty becomes true and correct no later than fifteen (15) days after receipt by such Shareholder of notice from any other Shareholder or the Corporation that the representation and warranty is not true and correct;

4.3.3. the Shareholder: (i) makes an assignment for the benefit of his creditors generally; (ii) files a proposal under the *Bankruptcy and Insolvency Act* (Canada); or (iii) makes an application under the *Companies' Creditors Arrangement Act* (Canada);

4.3.4. a receiving order is made or a petition is filed under the *Bankruptcy and Insolvency Act* (Canada) against the Shareholder which is not vacated or stayed within fifteen (15) days thereof;

4.3.5. a resolution is passed for, or a judgment or order is issued by any court of competent jurisdiction ordering, the winding-up or other liquidation or dissolution of the Shareholder;

4.3.6. any receiver, manager, receiver-manager, liquidator or trustee of the property, assets or undertaking of the Shareholder is appointed pursuant to the terms of a debenture or similar instrument and such appointment is not revoked or withdrawn within fifteen (15) days of the appointment;

4.3.7. a default occurs which is not remedied or cured within fifteen (15) days of its occurrence under any loan or obligation for which security has been granted by way of a mortgage, hypothecation or a pledge of, or the granting of a security interest in any Shares held by the Shareholder (including any loan or obligation for which security has been granted in accordance with section 3.2.1.2) with the result that, absent any provision of this

Agreement and upon compliance with applicable law, the lender or obligee could realize upon such security;

4.3.8. the Shareholder is required to make any payment to the other Shareholder or the Corporation pursuant to this Agreement, the Share Purchase Agreement, the Partnership Agreement, the Shared Facilities Agreement or one or more of the Possessory Interest Agreements, and such payment is not made within 5 days of a final order being issued by a court of competent jurisdiction with respect to such payment which said order has not been stayed;

4.3.9. a Buyer Event of Default pursuant to section 8.1(a) of the Pacifica Power Purchase Agreement occurs and such default has not been cured pursuant to the terms of the Pacifica Power Purchase Agreement (in which case Pacifica is the Defaulting Shareholder);

4.3.10. a final determination is made by the arbitrator appointed pursuant to the terms of the Pacifica Power Purchase Agreement that a Buyer Event of Default has occurred pursuant to sections 8.1(b) or (c) (in which case Pacifica is the Defaulting Shareholder); or

4.3.11. subject to the curative provision set out in section 4.3.7, the Shareholder permits its Shares to be liable to seizure.

A Defaulting Shareholder shall give notice to the other parties then bound by this Agreement that an event has occurred with respect to such Defaulting Shareholder which constitutes a Triggering Event or which would, if such event is not corrected or remedied or otherwise resolved to the satisfaction of the other Shareholder as contemplated above, constitute such a Triggering Event. Such notice shall be given forthwith after the occurrence of the particular event.

For the purposes of this Agreement and for greater certainty, (i) a Triggering Event referred to in sections 4.3.1, 4.3.2, 4.3.4, 4.3.6, 4.3.7 or 4.3.11 shall be deemed to have occurred on the expiry of the fifteen (15) day period referred to in those sections, respectively, (ii) a Triggering Event referred to in section 4.3.8 shall be deemed to have occurred on the expiry of the five (5) day period referred to in that section, and (iii) all other Triggering Events shall be deemed to have occurred on the date the Defaulting Shareholder first gives notice to the Corporation of the occurrence of the particular Triggering Event, or on the date the Corporation or the other Shareholder first becomes aware of the occurrence of such Triggering Event, whichever is earlier.

4.4. Obligation of a Defaulting Shareholder following Triggering Event

Upon the occurrence of a Triggering Event, other than a Triggering Event under sections 4.3.1 or 4.3.2, the Defaulting Shareholder shall forthwith offer to sell its Shares and Shareholder Debt, if any, to the other Shareholder (in such case, the "Non-Defaulting Shareholder") by notice to the Non-Defaulting Shareholder (the "Sale Notice"). The Purchase Price for such Shares and Shareholder Debt shall be determined in accordance with section 5.1 and shall be payable by way of certified cheque or bank draft as provided in section 5.2.1. The

offer shall be irrevocable. The Sale Notice may be accepted by the Non-Defaulting Shareholder by written notice to the Defaulting Shareholder within fifteen (15) days after receipt of the Sale Notice (the "Notice Period"). The Non-Defaulting Shareholder shall be entitled to designate another Person as the purchaser of the Shares and Shareholder Debt, if any, in which case the Defaulting Shareholder shall sell its Shares and Shareholder Debt, if any, to such Person. If no written notice is given under this section, the Non-Defaulting Shareholder shall be deemed to have rejected the offer made available to it to purchase the Shares and Shareholder Debt, if any. The completion of a purchase and sale of Shares and Shareholder Debt, if any, under this section shall take place on the 15th day after the expiry of the Notice Period, provided that if the Purchase Price of the Shares has not been determined by such day, the completion shall take place on the 10th day after the date on which the Purchase Price has been conclusively determined pursuant to section 5.1.

4.5. Governmental Approvals

If any Governmental Approval is required by a Shareholder who is purchasing Shares and Shareholder Debt, if any, (a "purchaser") under any provision of this Agreement, then, notwithstanding anything contained in this Agreement, the time period specified in this Agreement for acceptance of the offer by the purchaser shall be extended for an additional ninety (90) days to permit the purchaser to obtain the necessary Governmental Approval. Any such application for Governmental Approval shall be the sole responsibility of the purchaser who shall also be responsible for all costs and expenses incurred in connection therewith. The other Shareholder and the Corporation shall use reasonable efforts to cooperate with the purchaser in any application for Governmental Approval.

4.6. Other Remedies

Upon the occurrence of any Triggering Event (including, for greater certainty, a Triggering Event under sections 4.3.3 to 4.3.11), in addition to the rights in section 4.4, if applicable, the Non-Defaulting Shareholder shall be entitled to bring any action at law or in equity as may be permitted in order to recover damages or to bring any proceedings in the nature of specific performance, injunction or other equitable remedy, it being acknowledged by the Shareholders that damages at law may be an inadequate remedy for a default, breach or threatened breach of this Agreement.

4.7. Non-Waiver

No consent or waiver of any breach or Triggering Event by any Shareholder in the performance of its obligations under this Agreement shall be deemed to be construed to be consent to or waiver of any other breach or Triggering Event in the performance by that Shareholder of the same or any other obligations of that Shareholder under this Agreement. Failure by any Shareholder to complain of any act or failure to act of the other Shareholder or to declare a Triggering Event in respect of the other Shareholder, irrespective of how long such failure continues, shall not constitute a waiver by that Shareholder of its rights under this Agreement.

ARTICLE 5. VALUATION AND CLOSING PROCEDURES

5.1. Determination of Purchase Price

5.1.1. **Appraisal.** For the purposes of this Agreement, the "Purchase Price" of Shares and Shareholder Debt, if any, shall be equal to the aggregate of the Appraised Value of the Shares and securities of the Corporation convertible into Shares as determined pursuant to this section 5.1 and the face amount of the Shareholder Debt, if any, together with accrued and unpaid interest thereon, if any, recorded in the books of the Corporation.

5.1.2. **Appraisal of Shares.** If there are three appraisers selected in accordance with section 5.1.3, the Shareholders shall disregard any appraisal, the amount of which differs by more than 5% from the amount of that appraisal which is neither the highest nor lowest in amount, and the average of the amounts of the remaining appraisals, or the amount of the remaining appraisal, if two of the appraisals are to be disregarded, shall be deemed the Appraised Value. If there is one appraiser, the appraisal of such appraiser shall be the Appraised Value. The Shareholders shall be bound by the Appraised Value determined in accordance with this section 5.1.2 and judgment based on such value may be entered by any court having jurisdiction.

5.1.3. **Selection of Appraisers.** Following a Triggering Event, the Non-Defaulting Shareholder shall appoint an appraiser. The Defaulting Shareholder may, upon giving written notice to the Non-Defaulting Shareholder, within ten (10) days following the appointment of the first appraiser, appoint a second appraiser. If no second appraiser is appointed within the ten (10) day period, the first appraiser shall be the sole appraiser. Within ten (10) days following the appointment of the second appraiser, the first appraiser and second appraiser shall appoint a third appraiser and give written notice of such appointment to the Shareholders, failing which any Shareholder may on not less than ten (10) days' written notice to the other Shareholder apply to an arbitrator appointed in accordance with the *Commercial Arbitration Act* (British Columbia) or any replacement or extension thereof (the "Arbitration Act"), for the appointment of the third appraiser. In case of failure, refusal or inability of any appraiser to act, a new appraiser shall be appointed in his stead in the same manner as provided for the appointment of the appraiser so failing, refusing or unable to act.

5.1.4. **Access.** The Corporation and the Shareholders shall grant access to each appraiser to all books of account, records, statements and documents of the Corporation and each of the Shareholders which may relate to the business and affairs of the Corporation. Each Shareholder shall cooperate with each appraiser and provide to all appraisers all information and documents requested by any one of them. The Shareholders shall allow each appraiser to retain such experts as the appraiser may deem necessary to assist him in making his appraisal.

5.1.5. **Costs.** The Defaulting Shareholder shall bear the costs and expenses of the appraisals, including the fees of the appraiser or appraisers.

5.2. Closing Procedures

If a purchase and sale of Shares and Shareholder Debt, if any, is made pursuant to this Agreement, the following shall apply, subject to any express provisions to the contrary:

5.2.1. Payment of Purchase Price and Delivery of Certificates, Resignations and

Releases. The Purchase Price shall be paid on closing by negotiable cheque certified by a Canadian chartered bank or trust company or official bank draft drawn on a Canadian chartered bank against receipt by the purchaser of the share certificate or certificates representing the Shares being purchased, duly endorsed for transfer in blank, together with resignations by the vendor and his nominees, if any, as directors, officers and employees of the Corporation and releases in favour of the Corporation of all claims which such directors, officers and employees may have against the Corporation.

5.2.2. Date and Time of Closing. If the date for completion of any transaction of purchase and sale falls on a day which is not a Business Day, the transaction shall be completed on the first Business Day following such date. Closing shall take place at 11:00 a.m. on the date for completion at the registered office of the Corporation.

5.2.3. Title. The acceptance by the vendor of payment for the Shares and Shareholder Debt, if any, being purchased and sold shall constitute a representation and warranty by the vendor that the vendor has good and marketable title to such Shares and Shareholder Debt, free and clear of any lien, charge, pledge, encumbrance, security interest or adverse claim, except the terms of this Agreement. Notwithstanding the foregoing, the vendor shall deliver to the purchaser all such documents, instruments and releases and shall do all such acts and things as the purchaser may reasonably request, whether before or after completion of the transaction, to vest such title in the purchaser.

5.2.4. Vendor Indebted to Corporation or Purchaser. If, at the time of sale, the vendor is indebted to the Corporation or the purchaser, the purchaser shall have the right to set off, appropriate and apply the Purchase Price payable for the Shares and Shareholder Debt, if any, against and on account of such indebtedness.

5.2.5. Assignment of Shareholder Debt. If, at the time of sale, the Corporation is indebted to the vendor in respect of Shareholder Debt, the purchaser shall, concurrently with the completion of the sale, purchase such Shareholder Debt from the vendor and shall pay the price therefor to the vendor on closing in the manner provided in section 5.2.1 against delivery of an assignment to the purchaser of such indebtedness, such assignment to be without recourse to the vendor and otherwise to be in form and substance satisfactory to the purchaser. Notwithstanding the foregoing, if the purchaser is the Corporation, the Corporation shall, concurrently with the completion of the sale, pay the amount of the Shareholder Debt owed to the vendor on closing in the manner provided in section 5.2.1 against delivery of a release in favour of the Corporation of such indebtedness, such release to be in form and substance satisfactory to the Corporation.

5.2.6. **Liability as Guarantor.** If, at the time of sale, the vendor is liable or responsible as a guarantor for any debts, liabilities or obligations of the Corporation, the purchaser shall use reasonable efforts to cause all such guarantees to be released at or before the time of sale and, if the purchaser is unable to effect the release of such guarantees, the purchaser shall execute and deliver in favour of the vendor an indemnity, in form and substance satisfactory to the vendor acting reasonably, whereby the purchaser indemnifies and saves harmless the vendor from all claims arising out of such guarantees. If the purchaser is the Corporation, the Shareholders whose Shares are not being purchased shall execute and deliver in favour of the vendor an indemnity in form and substance and to the same effect as provided in the immediately preceding sentence.

5.2.7. **Failure to Complete Sale.** If, at the time of closing, the vendor shall not complete the sale for any reason, the purchaser shall have the right to deposit the Purchase Price for the Shares and Shareholder Debt, if any, to be purchased and sold for the account of the vendor in an account with the bankers of the Corporation and such deposit shall constitute valid and effective payment of the Purchase Price to the vendor. Thereafter the purchaser shall have the right to execute and deliver any deeds, stock transfers, assignments, resignations, releases and other documents as may, in the reasonable opinion of the purchaser, be necessary or desirable in order to complete the transaction. If payment of the Purchase Price is so deposited, then from and after the date of deposit, notwithstanding that certificates or instruments evidencing the Shares or Shareholder Debt may not have been delivered to the purchaser, the purchase of the Shares and the Shareholder Debt, if any, shall be deemed to have been fully completed and the records of the Corporation shall be amended accordingly and all right, title, benefit and interest, both at law and in equity, in and to the Shares and Shareholder Debt shall be conclusively deemed to have been transferred and assigned to and become vested in the purchaser and all right, title, benefit and interest of the vendor and of any other Person (other than the purchaser) having any interest therein, legal or equitable, in any capacity whatsoever shall cease.

5.2.8. **Purchaser Appointed as Attorney.** Each Shareholder hereby appoints, in the event that such Shareholder is a vendor of Shares or Shareholder Debt hereunder, each other Shareholder who may from time to time be a purchaser of Shares or Shareholder Debt hereunder, as the vendor's attorney, with full power of substitution, in the name of the vendor but on behalf of and at the expense of the purchaser, to execute and deliver all deeds, transfers, assignments and assurances necessary to effectively transfer the interest being sold to the purchaser or its nominees. Such appointment, being coupled with an interest, is irrevocable by each Shareholder and shall not be revoked by the insolvency, bankruptcy, dissolution, liquidation or other termination of the existence of such Shareholder and each Shareholder agrees to ratify and confirm all that a purchaser may do or cause to be done pursuant to the foregoing. Each Shareholder consents to any Transfer of Shares made pursuant to the foregoing.

5.2.9. **Taxes.** At the time of the sale, the vendor shall provide to the purchaser either:

- 5.2.9.1. a statutory declaration of the owner(s) of the Shares being sold that such owner(s) is not a non-resident of Canada for purposes of the *Income Tax Act* (Canada); or
- 5.2.9.2. a certificate from the Canada Customs and Revenue Agency under section 116 of such Act certifying that all taxes payable in connection with the transaction have been paid or that no taxes are payable in respect of the transaction;

provided that if no declaration or certificate is delivered by the vendor, the purchaser shall be entitled to deduct from the purchase price payable to the vendor an amount equal to the amount of tax for which the purchaser may be liable (as determined solely by the purchaser) under the *Income Tax Act* (Canada).

5.2.10. **Covenants of the Parties.** From and after the occurrence of an event giving rise to a transaction of purchase and sale to which this Article 5 applies until the closing of such purchase and sale, the Shareholders shall not do, nor cause, nor permit to be done anything except that which is in the ordinary course of business of the Corporation. Further, the parties hereto covenant and agree that from and after the occurrence of an event giving rise to a transaction of purchase and sale pursuant to the terms hereof, they shall do all things necessary or desirable to cause the transaction of purchase and sale to be completed as soon as possible.

ARTICLE 6. **COVENANTS OF THE SHAREHOLDERS**

6.1. Other Activities of PRET

6.1.1. **Conflict of Interest and Competition.** PRET and/or its Related Entities are engaged in and intend to continue to engage in the business of producing, transmitting, distributing, purchasing and/or selling electricity in Canada, the United States of America or elsewhere during the term of this Agreement. Any Shareholder and/or its Related Entities may engage or continue to engage in any business activities, whether or not the same are competitive with the business of the Corporation, and may act as shareholders, partners or joint venturers in other corporations, partnerships or joint ventures which engage in such business activities, whether or not the same are competitive with the business of the Corporation; pursuant to such business activities, any Shareholder and/or its Related Entities may acquire business opportunities in which the Corporation will not be offered an interest or may acquire information relevant to such business activities which will not be disclosed to the Corporation or the other Shareholder. Each Shareholder agrees that the activities of the other Shareholder and/or its Related Entities consistent with the foregoing are deemed not to be a conflict of interest or breach of fiduciary duty with respect to the operations of the Corporation and each Shareholder consents to such activities provided that such

activities do not contravene any specific contractual commitment made by a Shareholder and/or its Related Entities in favour of the Corporation or the other Shareholder.

6.1.2. **No Accounting.** A Shareholder and/or its Related Entities shall not be required to account to the Corporation or to the Other Shareholder for any benefit or profit derived from any activity or any transactions relating thereto specifically provided for in section 6.1.1 by reason of any conflict of interest or the fiduciary relationship created by virtue of this Agreement unless such activity is contrary to the express terms of any contractual obligations of such Shareholder and/or its Related Entities to the Corporation or to the other Shareholder, in which case such Shareholder and/or its Related Entities shall be liable to the Persons in whose favour such express contractual obligations were incurred.

6.2. **Obligations Not Exhaustive**

Each Shareholder acknowledges that the obligations contained in this Article are not in substitution for any obligations which such Shareholder may now or hereafter owe to the Corporation or the other Shareholder and which exist apart from this Article and do not replace any rights of the Corporation or the other Shareholder with respect to any such obligation.

ARTICLE 7. **DISPUTE RESOLUTION**

7.1. **Shareholders Dispute Resolution**

If any matter or question on which the Board or the Shareholders cannot agree in accordance with this Agreement including without limitation the approval of the applicable Annual Operating Plan (a "Dispute") shall arise among the Board concerning the operation of the business of the Corporation or the interpretation of this Agreement or any part thereof, the Board shall attempt to resolve in good faith such Dispute. If the Board has not agreed to a settlement of a Dispute within thirty (30) days from the date on which the Dispute arose, any Shareholder, by notice to the other Shareholder, may require that the Dispute be submitted to a senior executive designated by each of the Shareholders (each a "Senior Executive"). The written notice (a "Dispute Notice") shall set forth with reasonable specificity the nature of the Dispute. Following the receipt of a Dispute Notice, the Senior Executives shall meet as soon as is practicable at a mutually acceptable time and place to negotiate in good faith a settlement of the Dispute, and shall meet thereafter as they reasonably deem necessary. All negotiations pursuant to this section 7.1 shall be confidential and shall be treated as compromise and settlement negotiations. Nothing said or disclosed, nor any document produced, in the course of such negotiations which is not otherwise independently discoverable shall be offered or received as evidence or used for impeachment or for any other purpose in any current or future arbitration or litigation.

7.2. **Arbitration**

If the Dispute has not been resolved within thirty (30) days after the receipt of a Dispute Notice through negotiation as provided in section 7.1, then the Dispute shall be finally

settled by arbitration in accordance with the Arbitration Act. However, in all events, the arbitration provisions in this Article 7, shall govern over any conflicting rules that may now or hereafter be contained in the Arbitration Act. The arbitration shall be held in Vancouver, British Columbia unless the parties mutually agree to have the arbitration held elsewhere, and judgment upon the award made therein may be entered by any court having jurisdiction in Vancouver, British Columbia; provided, however, that at any time after the commencement of a proceeding hereunder, any party may make an application to the arbitrators or to any court having jurisdiction hereof seeking injunctive relief until such time as the arbitration award is rendered or the controversy is otherwise resolved. Any judgment upon the award rendered by the arbitrators may be entered in any court having jurisdiction over the subject matter hereof. The arbitrator shall have the authority to grant any equitable and legal remedies that would be available in any judicial proceeding instituted to resolve any claim hereunder; provided, however, the arbitrator shall have no authority to award punitive damages or any other damages not measured by the prevailing party's actual damages, and may not, in any event, make any ruling, finding or award that does not conform to the terms and conditions of this Agreement.

7.3. Arbitrators

If the Dispute is not resolved by the parties before the lapse of thirty days after the Dispute Notice is delivered, the parties shall, if they can agree, select an arbitrator to resolve the dispute within ten (10) Business Days. In the event that the parties have not selected an arbitrator within such ten (10) Business Day period, then the dispute shall be resolved by majority decision of a panel of three arbitrators; one of which shall be chosen by each of the Shareholders, and the third chosen by the other two arbitrators. Each individual chosen to serve as an arbitrator shall be a neutral and impartial attorney who has had training and experience as an arbitrator. The decision of a majority of the arbitrators will be the decision of the arbitrators. The arbitrators shall permit such discovery of information related to the controversy or claim in arbitration as they shall determine is appropriate in the circumstances, taking into account the needs of the parties and the desirability of making discovery expeditious and cost-effective.

The award, if any, shall be made within thirty (30) days of the date that the Dispute is actually referred to the arbitrator(s), and the arbitrator(s) shall agree to comply with this schedule before accepting appointment. However, this time limit may be extended by agreement of the parties. The failure to meet these time limits shall not invalidate the award when rendered.

Except as required by law or by regulation, or with the consent of all parties involved in the proceeding, no party hereto shall disclose or disseminate any information relating to the Dispute or to the dispute resolution proceedings called for hereby except for disclosure to those of its officers, employees, accountants, attorneys and agents whose duties reasonably require them to have access to such information.

7.4. Costs and Fees

All fees and expenses of the arbitrators, expenses for hearing facilities and other expenses of the arbitration shall be borne equally by the parties unless the arbitrators in the award

assess such fees and expenses other than equally against the parties. Each party shall bear the fees and expenses of its own attorneys and witnesses except to the extent otherwise provided in this Agreement or by law; provided, that if the arbitrators determine that the claim or defense of any party was frivolous or lacked a reasonable basis in fact or law, the arbitrators may assess against such party all or part of the fees and expenses of attorneys and witnesses for the other party.

7.5. Burden of Proof

For any Dispute submitted to arbitration, the burden of proof will be as it would be if the claim were litigated in a judicial proceeding.

7.6. Award

Upon the conclusion of any arbitration proceedings hereunder, the arbitrators will render findings of fact and conclusions of law and a written opinion setting forth the basis and reasons for any decision reached and will deliver such documents to each party to this Agreement along with a signed copy of the award.

7.7. Agreement Controls

The arbitrators chosen in accordance with these provisions will not have the power to alter, amend or otherwise affect the terms of these arbitration provisions or the provisions of this Agreement.

ARTICLE 8.
GENERAL PROVISIONS

8.1. All Shares Subject to this Agreement

Each of the Shareholders agrees that he shall be bound by the terms of this Agreement with respect to all Shares held by it from time to time.

8.2. Disclaimer of Partnership

No partnership is created by this Agreement. Nothing contained in this Agreement shall or shall be deemed to constitute the Shareholders as partners nor as agent of the other nor any other relationship whereby one Shareholder could be held liable for any act or omission of another, save as specifically provided by this Agreement. None of the Shareholders shall have any authority to act for the other or to incur any obligation on behalf of the other with respect to the subject matter of this Agreement, save as specifically provided by this Agreement. Each Shareholder covenants to indemnify the other Shareholder and hold it harmless from all claims, losses, costs, charges, fees, expenses, damages, obligations and responsibilities incurred by such Shareholders by reason of any action or omission of the other Shareholder outside the scope of the authority specifically provided by this Agreement.

8.3. Indemnity by the Corporation

To the fullest extent permitted by law, the Corporation shall indemnify and save harmless all directors, officers, former directors and former officers of the Corporation, the Shareholders of the Corporation to the extent that such Shareholders exercise the rights, powers, duties and liabilities of a director of the Corporation and all Persons who act or acted at the Corporation's request as a director or officer of a body corporate of which the Corporation is or was a shareholder or creditor, and his heirs and legal personal representatives, for and from all costs, charges and expenses, including any amount paid to settle any action or satisfy a judgment, reasonably incurred by him or her in respect of any civil, criminal or administrative action or proceeding to which he or she is made a party by reason of being or having been a director or officer of the Corporation or such body corporate or by reason of acting or having acted as a director of the Corporation if,

8.3.1. he or she acted honestly and in good faith with a view to the best interests of the Corporation or such body corporate, as the case may be; and

8.3.2. in the case of a criminal or administrative action or proceeding that is enforced by a monetary penalty, he or she had reasonable grounds for believing that his conduct was lawful.

The intention of this section is that all Persons referred to in this section shall have all benefits provided under the indemnification provisions of the Act to the fullest extent permitted by law, and the Corporation shall forthwith pass all resolutions and take such other steps as may be required to give full effect to this section.

8.4. Term

This Agreement shall come into force and effect as of the date set out on the first page of this Agreement and, except as provided below, shall continue in force until the earlier of:

8.4.1. the date on which one Shareholder holds all the Shares; or

8.4.2. the date on which this Agreement is terminated by written agreement of all the Shareholders.

8.5. Termination Not to Affect Rights or Obligations

A termination of this Agreement shall not affect or prejudice any rights or obligations which have accrued or arisen under this Agreement prior to the time of termination and such rights and obligations shall survive the termination of this Agreement.

8.6. Notices

Any notice or other communication required or permitted to be given hereunder shall be in writing and shall be given by facsimile or other means of electronic communication or by delivery as hereafter provided. Any such notice or other communication, if sent by facsimile

or other means of electronic communication, shall be deemed to have been received on the Business Day following the sending, or if delivered by hand shall be deemed to have been received at the time it is delivered to the applicable address noted below either to the individual designated below or to an individual at such address having apparent authority to accept deliveries on behalf of the addressee. Notice of change of address shall also be governed by this section. Notices and other communications shall be addressed as follows:

(a) if to PRET:

c/o Great Lakes Power Inc.
P.O. Box 762
Suite 4400
BCE Place, 181 Bay Street
Toronto, Ontario
M5J 2T3

Attention: Harry A. Goldgut, President and Chief Operating Officer
And: Richard Legault, Vice President and Chief Financial
Officer
Telecopier number: (416) 363-2856

with a copy (which shall not constitute notice) to PRET's counsel at:

Torys
Suite 3000, Maritime Life Tower
Box 270, TD Centre
Toronto, Ontario
M5K 1N2

Attention: Philip J. Brown
Fax No.: (416) 865-7380

(a) if to Pacifica:

Pacifica Papers Inc.
2nd Floor
Homer Street
Vancouver, B.C.
V6B 5S2

Attention: Secretary
Fax No.: (604) 647-3580

with a copy (which shall not constitute notice) to Pacifica's counsel at:

Sangra, Moller
Suite 1000
925 West Georgia Street
Vancouver, B.C.
V6C 3L2

Attention: H.S. Sangra
Fax No.: (604) 669-8803

(b) if to the Corporation:

1055 West Georgia Street
Suite 1632
Vancouver, B.C.
V6E 3R5

Attention: President
Telecopier number: (604) 687-3419

The failure to send or deliver a copy of a notice or communication to any legal counsel shall not invalidate any notice given under this section.

8.7. Time of Essence

Time is of the essence of this Agreement.

8.8. Further Assurances

Each of the Shareholders shall vote and act at all times as a shareholder of the Corporation and in all other respects use reasonable efforts to take all such steps, execute all such documents and do all such acts and things as may be reasonably within its power to implement to their full extent the provisions of this Agreement and to cause the Corporation to act in the manner contemplated by this Agreement.

8.9. Counterparts

This Agreement may be signed in counterparts and each of such counterparts shall constitute an original document and such counterparts, taken together, shall constitute one and the same instrument.

8.10. Enurement

This Agreement shall enure to the benefit of and be binding upon the parties hereto and their respective successors and legal personal representatives.

IN WITNESS WHEREOF the parties have executed this Agreement.

POWELL RIVER ENERGY TRUST

by: Richard Segalit
Name:
Title:

by: _____
Name:
Title:

PACIFICA PAPERS INC.

by: David Gandoosi
Name: David Gandoosi
Title: Secretary

by: _____
Name:
Title:

POWELL RIVER ENERGY INC.

by: John C. Gandy
Name:
Title:

by: _____
Name:
Title:

This is Exhibit "E" referred to in the Affidavit of Susan Danielisz, sworn before me at Vancouver, British Columbia, this 29th day of March, 2012.



A Commissioner for taking Affidavits in
and for the Province of British Columbia



Catalyst

March 5, 2010

VIA FACSIMILE AND COURIER

Catalyst Paper Corporation
2nd Floor, 3600 Lysander Lane
Richmond, British Columbia
Canada V7B 1C3

Tel: 604 247 4400
Fax: 604 247 0512

Powell River Energy Inc.
480 de la Cité Blvd.
Gatineau, Quebec J8T 8R3
Attention : Richard Legault, President and Chief Executive Officer
Fax: 819 561-7188

Powell River Energy Trust
c/o Brookfield Renewable Power Inc.
480 de la Cité Blvd.
Gatineau, Quebec J8T 8R3
Attention : Richard Legault, President and Chief Executive Officer
Fax: 819 561-7188

3795659 Canada Limited
c/o Powell River Energy Inc.
480 de la Cité Blvd.
Gatineau, Quebec J8T 8R3
Attention : Richard Legault, President and Chief Executive Officer
Fax: 819 561-7188

Re: Transfer of Shares of Power River Energy Inc. and Interest in Power River Energy Limited Partnership by Catalyst Paper Corporation to Catalyst Paper Energy Holdings Inc.

Dear Sirs/Madams:

Pursuant to Section 3.2 of the unanimous shareholder agreement (the "Shareholder Agreement") dated as of January 31, 2001 between Catalyst Paper Corporation (formerly Pacifica Papers Inc.) (the "Transferor"), Powell River Energy Trust ("PRET") and Power River Energy Inc. ("PREI") and Section 6.2 of the limited partnership agreement (the "LP Agreement") constituting the Powell River Energy Limited Partnership ("PRELP") dated as of January 31, 2001 between 3795659 Canada Limited, as general partner, and the Transferor and PRET, as limited partners, we hereby give notice that the Transferor is proposing to today transfer to Catalyst Paper Energy Holdings Inc., a newly formed wholly-owned subsidiary of the Transferor ("CPEHI"), all of the shares in the capital of PREI held by the Transferor (being 50,001 common shares), all of the Transferor's interest in PRELP (being a 49.95% interest) and any and all indebtedness owing by PREI and/or PRELP to the Transferor.

In connection with the transfers, we enclose executed copies of the following documents, each of which we understand is in a form acceptable to you:

1. executed joinder agreements wherein CPEHI has agreed to be bound by each of the Shareholder Agreement and the LP Agreement in the same manner and to the same extent as if it had been an original party to such agreements, and the Transferor has agreed to guarantee the obligations of CPEHI under the Shareholder Agreement and the LP Agreement, respectively; and
2. executed transfer forms in respect of the transfer of the shares of PREI and the interest in PRELP from the Transferor to CPEHI.

We also enclose the board resolution of PREI approving the transfer of the shares of PREI to CPEHI signed by Messrs. Robert Lindstrom and Brian Baarda, and the shareholder resolution of 3795659 Canada Limited, the general partner of PRELP, in respect of the transfer of the interest in PRELP to CPEHI signed by Mr. Lindstrom.

We trust that the enclosed are in order, however please let us know as soon as possible if there is something further that you require or if you have any questions or concerns.

If you agree that the enclosed are in order, we would appreciate your assistance in obtaining the remaining requisite signatures for the enclosed resolutions and in effecting the transfers on the books of PREI and PRELP. Once the transfers have been completed, please provide us with fully executed copies of the enclosed resolutions, a share certificate for 50,001 shares of PREI registered in the name of "Catalyst Paper Energy Holdings Inc." and dated today's date, and copies of the updated share register of PREI and amended certificate of limited partnership of PRELP.

As you are aware, the transfers are being completed in connection with a financing being arranged by the Transferor which is closing early next week. Accordingly, we would appreciate receiving the requested documents by no later than close of business Monday, March 8, 2010.

Yours very truly,



Valerie Seager

c: Philip J. Brown - Torys (via facsimile – 416-865-7380)
Pete Kalbfleisch - Blake, Cassels & Graydon LLP

JOINDER AGREEMENT

TO: **POWELL RIVER ENERGY TRUST ("PRET")**

AND TO: **POWELL RIVER ENERGY INC. (the "Corporation")**

AND TO: **CATALYST PAPER CORPORATION, formerly PACIFICA PAPERS INC. (the "Transferor")**

The undersigned hereby acknowledges and confirms that:

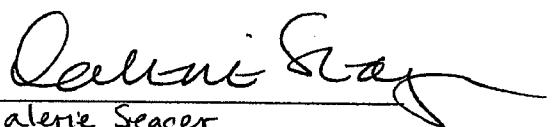
- (1) it is a "Related Entity" of the Transferor within the meaning of the unanimous shareholder agreement dated as of January 31, 2001 between PRET, the Transferor and the Corporation (the "Shareholder Agreement");
- (2) it proposes to acquire from the Transferor (the "Transfer") (a) 50,001 common shares (the **Common Shares**) in the capital of the Corporation, being all of the shares in the capital of the Corporation held by the Transferor, and (b) any and all indebtedness owing by the Corporation to the Transferor (the "Shareholder Debt"); and
- (3) in connection with the Transfer, the undersigned has received a copy of the Shareholder Agreement.

The undersigned hereby (a) makes the representations and warranties, in the same form and substance as those made by the Shareholders in Section 3.8 of the Shareholder Agreement; (b) covenants and agrees that (i) it will remain a Related Entity so long as it holds the Common Shares and Shareholder Debt, if any, transferred by the Transferor, (ii) prior to ceasing to be a Related Entity, it will transfer the Common Shares and Shareholder Debt, if any, back to the Transferor and (iii) it will be bound by the Shareholder Agreement as a Shareholder with respect to the Common Shares and Shareholder Debt in the same manner and to the same extent as if the undersigned had been an original party to the Shareholder Agreement; and (c) agrees to pay and perform the liabilities and obligations of the Transferor under the Shareholder Agreement.

DATED the 5th day of March, 2010.

CATALYST PAPER ENERGY HOLDINGS INC.

Per:


 Name: Valerie Seager
 Title: Corporate Secretary + Legal Counsel

Address of Transferee:

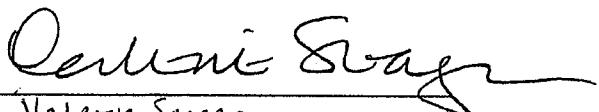
2nd Floor, 3600 Lysander Lane

Richmond, BC V7B 1C3

* * * * *

Pursuant to Section 3.2.1.1.4 of the Shareholder Agreement, the Transferor irrevocably, unconditional and absolutely guarantees to each Shareholder (as defined in the Shareholder Agreement) the punctual and full performance and payment of each and every obligation of the Transferee as and when such performance or payment is due in accordance with the terms of the Shareholder Agreement (each such obligation hereinafter referred to, individually, as an "Obligation" and, collectively, as the "Obligations") and agrees that, if the Transferee shall fail or be unable duly, punctually and fully to perform or pay any such Obligation, the Transferor shall, after written notice from any Shareholder, forthwith perform or pay such Obligation, or cause such Obligation to be performed or paid. This guarantee is a guarantee of due and punctual payment and performance and is not merely a guarantee of collection. This guarantee is in no way conditioned or contingent upon any attempt to collect from the Transferee or cause the Transferee to perform any Obligation.

CATALYST PAPER CORPORATION



Name: Valerie Seager
Title: Vice President and General Counsel

JOINDER AGREEMENT

TO: 3795659 CANADA LIMITED

AND TO: POWELL RIVER ENERGY TRUST

AND TO: CATALYST PAPER CORPORATION, formerly PACIFICA PAPERS INC. (the "Transferor")

The undersigned hereby acknowledges and confirms that:

(1) it is a "Related Entity" of the Transferor within the meaning of the limited partnership agreement (the "LP Agreement") constituting the Powell River Energy Limited Partnership (the "LP") dated as of January 31, 2001 between 3795659 Canada Limited, as general partner, and the Transferor and Powell River Energy Trust, as limited partners (collectively, the "Initial Partners");

(2) it proposes to acquire from the Transferor (the "Transfer") (a) the 49.95% ownership interest (the "Interest") held by the Transferor in the LP, being the Transferor's entire ownership interest in the LP, and (b) any and all indebtedness owing by the LP to the Transferor (the "Partner Debt"); and

(3) in connection with the Transfer, the undersigned has received a copy of the LP Agreement.

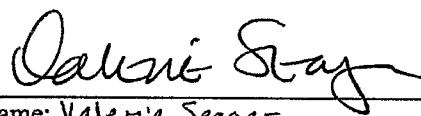
The undersigned hereby (a) makes the representations and warranties, in the same form and substance as those made by the Initial Partners in Section 6.7 of the LP Agreement; (b) represents and warrants that it is a resident of Canada for the purposes of the *Income Tax Act* (Canada); (c) covenants and agrees that (i) it will remain a Related Entity so long as it holds the Interest and Partner Debt, if any, transferred by the Transferor, (ii) prior to ceasing to be a Related Entity, it will transfer the Interest and Partner Debt, if any, back to the Transferor and (iii) it will be bound by the LP Agreement as a limited partner with respect to the Interest and the Partner Debt in the same manner and to the same extent as if the undersigned had been an original party to the LP Agreement; and (d) agrees to pay and perform the liabilities and obligations of the Transferor under the LP Agreement.

DATED the 5th day of March, 2010.

Legal name of Transferee:

CATALYST PAPER ENERGY HOLDINGS INC.

Per:



Name: Valerie Seager

Title: Corporate Secretary + Legal Counsel

Address of Transferee:

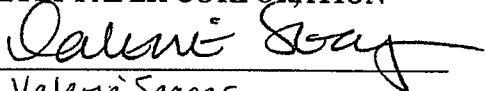
2nd Floor, 3600 Lysander LaneRichmond, BC V7B 1C3

* * * * *

Pursuant to Section 6.2.1.1.4. of the LP Agreement, the Transferor hereby irrevocably, unconditional and absolutely guarantees to each of the Partners (as defined in the LP Agreement) the punctual and full performance and payment of each and every obligation of the Transferee as and when such performance or payment is due in accordance with the terms of the LP Agreement (each such obligation hereinafter referred to, individually, as an "Obligation" and, collectively, as the "Obligations") and agrees that, if the Transferee shall fail or be unable duly, punctually and fully to perform or pay any such Obligation, the Transferor shall, after written notice from any Partner, forthwith perform or pay such Obligation, or cause such Obligation to be performed or paid. This guarantee is a guarantee of due and punctual payment and performance and is not merely a guarantee of collection. This guarantee is in no way conditioned or contingent upon any attempt to collect from the Transferee or cause the Transferee to perform any Obligation.

DATED the 5th day of March, 2010.

CATALYST PAPER CORPORATION



Name: Valerie Seager
Title: Vice President and General Counsel

SHARE TRANSFER

FOR VALUE RECEIVED, Catalyst Paper Corporation (the "Transferor") hereby transfers and assigns to Catalyst Paper Energy Holdings Inc. 50,001 common shares in the capital of Powell River Energy Inc. (the "Corporation") owned by the Transferor, represented by share certificate No. 4, and the Transferor hereby irrevocably appoints the Secretary of the Corporation as the attorney of the Transferor to record that transfer on the share registers of the Corporation, with full power of substitution to appoint any other person attorney for such purpose.

DATED as of the 5th day of March, 2010.

CATALYST PAPER CORPORATION

Per:


Name: Valene Seager
Title: Vice President and General Counsel

108.

TRANSFER

FOR VALUE RECEIVED, Catalyst Paper Corporation (the "Transferor") hereby transfers and assigns to Catalyst Paper Energy Holdings Inc. its 49.95% Interest and Partner Debt, if any, of Powell River Energy Limited Partnership (the "Partnership") standing in the name on the books of the Partnership. All capitalized terms used but not defined herein shall have the meanings ascribed thereto in the limited partnership agreement dated January 31, 2001 among 3795659 Canada Limited, Catalyst Paper Corporation (formerly Pacifica Papers Inc.) and Powell River Energy Trust.

DATED as of the 5th day of March, 2010.

CATALYST PAPER CORPORATION

Per: *Valerie Seager*
Name: Valerie Seager
Title: Vice President and General Counsel

RESOLUTIONS OF THE GENERAL PARTNER
3795659 CANADA LIMITED
(the "General Partner")
BY ITS SOLE SHAREHOLDER
POWELL RIVER ENERGY INC.
IN ACCORDANCE WITH
A SOLE SHAREHOLDER DECLARATION DATED JANUARY 31, 2001

FOR AND ON BEHALF OF
POWELL RIVER ENERGY LIMITED PARTNERSHIP
(the "Partnership")

WHEREAS Article 6 of the limited partnership agreement (the "Partnership Agreement") dated January 31, 2001 among 3795659 Canada Limited, Catalyst Paper Corporation (formerly Pacifica Papers Inc.) and Powell River Energy Trust provides for the transfer of a Limited Partner's Interest and Partner Debt, if any, (as defined below) to a Related Entity (as defined in the Partnership Agreement);

AND WHEREAS Catalyst Paper Corporation (the "Transferor") has provided notice under Section 6.2 of the Partnership Agreement that it is proposing to transfer its 49.95% ownership interest (the "Interest") and any and all indebtedness owing by the Partnership to the Transferor (the "Partner Debt") in the Partnership to Catalyst Paper Energy Holdings Inc. ("CPEHI");

APPROVAL OF TRANSFER OF LIMITED PARTNERSHIP INTEREST

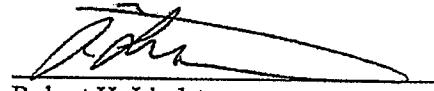
RESOLVED THAT:

1. Pursuant to Section 6.2 of the Partnership Agreement, the transfer of the Interest and the Partner Debt, if any, held by the Transferor to CPEHI is approved; and
2. The necessary particulars in respect of such transfer of the Interest and the Partner Debt be entered in the corporate records of the Partnership.

* * * * *

The foregoing resolutions are hereby consented to by the General Partner of the Partnership, 3795659 CANADA LIMITED, by its Sole Shareholder, **POWELL RIVER ENERGY INC.**, pursuant to the Unanimous Shareholder Declaration as of the day of March, 2010.

POWELL RIVER ENERGY INC.



Robert H. Lindstrom

Donald Tremblay

**RESOLUTIONS OF THE BOARD OF DIRECTORS
OF**

**POWELL RIVER ENERGY INC.
(the "Corporation")**

Transfer of Common Shares

WHEREAS the Corporation is the subject of a unanimous shareholders' agreement (the "USA") made January 31, 2001 between Powell River Energy Trust, Pacifica Papers Inc. (now Catalyst Paper Corporation) and the Corporation;

AND WHEREAS Catalyst Paper Corporation proposes to transfer its 50,001 Common shares (the "Shares") in the capital stock of the Corporation and any and all indebtedness owing by the Corporation to Catalyst Paper Corporation (the "Shareholder Debt"), to Catalyst Paper Energy Holdings Inc. ("CPEHI");

AND WHEREAS the Shares and the Shareholder Debt, if any, are being transferred in accordance with the provisions of the USA;

RESOLVED THAT:

1. The following transfer of 50,001 Common shares in the capital of the Corporation be approved and consented to, namely:

<u>Transferor</u>	<u>Transferee</u>	<u>Number and Kind of Shares</u>
Catalyst Paper Corporation	Catalyst Paper Energy Holdings Inc.	50,001 Common shares

2. The following share certificate(s) be cancelled:

<u>Certificate No.</u>	<u>Registered Holder</u>	<u>Number and Kind of Shares</u>
4	Catalyst Paper Corporation	50,001 Common shares

3. The following share certificates be issued to the following person representing the shares transferred:

<u>Certificate No.</u>	<u>Registered Holder</u>	<u>Number and Kind of Shares</u>
5	Catalyst Paper Energy Holdings Inc.	50,001 Common shares

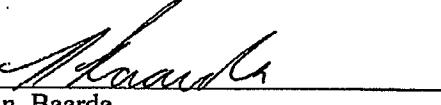
and that the necessary particulars in respect of such share transfer be entered in the Securities Register of the Corporation and that any one director of the Corporation be authorized to execute the said share certificate on behalf of the Corporation and deliver the said share certificate to the person entitled thereto.

4. The transfer of the Shareholder Debt, if any, held by Catalyst Paper Corporation to CPEHI is approved.

Each of the foregoing resolutions is hereby consented to by all the directors of the Corporation pursuant to the *Canada Business Corporations Act* and the provisions of the USA the _____ day of March, 2010.


Robert H. Lindstrom

Donald Tremblay


Brian Baarda

Ben Vaughan

This is Exhibit "F" referred to in the Affidavit of Susan Danielisz, sworn before me at Vancouver, British Columbia, this 29th day of March, 2012.



A Commissioner for taking Affidavits in
and for the Province of British Columbia



FROM THE OFFICE OF H. Lance Williams
 DIRECT LINE 604.643.6309
 DIRECT FAX 604.605.4877
 E-MAIL lwilliams@davis.ca

FILE NUMBER 41641-00031

March 28, 2012

DELIVERED BY E-MAIL

Blake, Cassels & Graydon LLP
 595 Burrard Street, P.O. Box 49314
 Suite 2600, Three Bentall Centre
 Vancouver, BC V7X 1L3

**Attention: William C. Kaplan, Q.C.
 Peter Rubin**

Fasken Martineau DuMoulin LLP
 2900 - 550 Burrard Street
 Vancouver, BC V6C 0A3

**Attention: John F. Grieve
 Kibben Jackson**

Dear Sirs:

Re: Catalyst Paper Corporation et al.

Please be advised we are counsel to Powell River Energy Trust ("PRET"). Our Response to Petition and Response to Application will be filed shortly.

Our client, along with Catalyst Paper Energy Holdings Inc. ("CEPH"), are the limited partners of the Powell River Energy Limited Partnership ("PREP"). We have reviewed the Notice of Application returnable April 2, 2012 to approve the Stalking Horse Purchase Agreement (the "APA"), and note that CEPH is a Seller pursuant to the APA. However, without the Seller Disclosure Letter and the Purchaser Disclosure Letter referenced therein, we are unable to ascertain what assets CEPH purports to sell, and what assets are excluded.

Please be advised that PRET holds a right of first refusal ("ROFR") in relation to any sale of CEPH's interest in PREP and Powell River Energy Inc. ("PREI") pursuant to the Limited Partnership Agreement and Unanimous Shareholders Agreement, respectively, dated January 31, 2001.

PRET accordingly requests:

1. a copy of the Seller Disclosure Letter and Purchaser Disclosure Letter referenced in the APA;

2. confirmation that either:

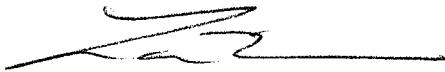
- (a) the interests of CEPH in PREP and PREI are Excluded Assets (as defined in the APA); or
- (b) the APA will be amended to clearly advise any potential purchaser's that any sale of CEPH's interest in PREP and PREI will be subject to our client's ROFR.

As we anticipate speaking to this matter at the April 2nd hearing, your timely response is requested and appreciated.

Regards,

DAVIS LLP

Per:



H. Lance Williams

LZW/sd

Enc.

cc: Client

Davis:11120150.1

NO. S-120712
VANCOUVER REGISTRY

IN THE SUPREME COURT OF BRITISH COLUMBIA

IN THE MATTER OF THE *COMPANIES' CREDITORS
ARRANGEMENT ACT*, R.S.C. 1985, c. C-36,
AS AMENDED

AND

IN THE MATTER OF THE *CANADA BUSINESS
CORPORATIONS ACT*, R.S.C. 1985, c. C-44,

AND

IN THE MATTER OF THE *BUSINESS CORPORATIONS
ACT*, S.B.C. 2002, c. 57

AND

IN THE MATTER OF CATALYST PAPER
CORPORATION AND THE PETITIONERS
LISTED IN SCHEDULE "A"

PETITIONERS

AFFIDAVIT OF SUSAN DANIELISZ

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File No. 75210-00002

LZW/sd