ASSET ACQUISITION AGREEMENT

By and Between

AVENOR INC.

And

ST. LAURENT PAPERBOARD INC./
CARTONS ST-LAURENT INC.

Made on the 15th day of June, 1994

#129863.7

TABLE OF CONTENTS

Page

ASSET ACQUISITION AGREEMENT

MEMORANDUM OF AGREEMENT made at Montreal, Quebec on the 15th day of June, 1994,

BY AND BETWEEN: **AVENOR INC.**, a corporation governed by the *Canada Business Corporations Act*, with its principal office at 1250 René-Lévesque Blvd. West, Montreal, Quebec

("**Avenor**"),

AND: **ST. LAURENT PAPERBOARD INC./CARTONS ST-LAURENT INC.**, a corporation governed by the *Canada Business Corporations Act*, with its registered office at 1250 René-Lévesque Blvd. West, Montreal, Quebec

("**St. Laurent**"),

THIS AGREEMENT WITNESSETH THAT, in consideration of the mutual covenants herein contained, it is agreed by and between the Parties as follows:

ARTICLE I
INTERPRETATION

1.1 **Definitions**. For the purposes of this Agreement or any notice, consent, authorization, direction or other communication required or permitted to be given hereunder, the following words and phrases shall have the following meanings, respectively, unless the context otherwise requires:

(a) "**Accounts Receivable**" shall mean all accounts receivable, trade accounts, notes receivable, book debts and other debts due or accruing due to Avenor (other than deposit accounts held with banks or other financial institutions) with respect to the Business as at the Effective Time.

(b) "**Affiliate**" shall have the meaning ascribed thereto in the *Canada Business Corporations Act*.

(c) **"Agreement"** shall mean this Asset Acquisition Agreement and all instruments supplemental hereto or in amendment or confirmation hereof; **"herein"**, **"hereof"**, **"hereto"**, **"hereunder"** and similar expressions mean and refer to this Agreement and not to any particular Article, Section, Subsection or other subdivision; **"Article"**, **"Section"**, **"Subsection"** or other subdivision of this Agreement means and refers to the specified Article, Section, Subsection or other subdivision of this Agreement.

(d) **"Assumed Liabilities"** shall have the meaning ascribed thereto at Section 2.5.

(e) **"Avenor Benefit Plans"** shall mean all pension, supplementary pension benefit, retirement, bonus, profit sharing, compensation, incentive, savings, life insurance, medical, disability, and other similar plans, programs, arrangements or practices covering any or all of the Employees, other than the Avenor Pension Plans and St. Laurent Pension Plans, which plans, programs, arrangements and practices are listed in Schedule 1.1(e) annexed hereto.

(f) **"Avenor Pension Plans"** shall mean the Employees' Retirement Plan (1988) of Avenor Inc. and the Employees' Retirement Plan (1946) of Avenor Inc. or those components thereof relating to Employees and Retirees, as the context requires.

(g) **"Books and Records"** shall mean all books, records, files and documentation (in whatever medium and wherever situated) of Avenor which pertain to the Business; for greater certainty, the phrase **"Books and Records"** shall include, without limitation, all statements, budgets, projections, books, ledgers, records, financial records, accounting records, consents, approvals, authorizations, written Contracts, Tax returns, Employee files, Retiree files, insurance policies, benefit plans, documentation, evidence or indication of ownership of Avenor in and to any Transferred Asset, all records and correspondence which pertain to the Environmental Permits. In the event any of the above books and records pertain to both the Business and the business of Avenor other than the Business, the phrase **"Books and Records"** shall mean copies thereof.

(h) **"Business"** shall mean the business now and heretofore conducted by Avenor and known as the paperboard group of Avenor and related woodland operations of Avenor, consisting of **(i)** a linerboard and solid bleached foodboard manufacturing facility located at La Tuque, Quebec; a corrugating medium manufacturing facility located at Matane, Quebec; a corrugated container converting plant located at Burlington, Ontario; a corrugated container converting plant located at Markham, Ontario; a paper products coating, laminating and printing plant and a research facility located at Montreal (Pointe-aux-Trembles), Quebec; the St. Maurice woodlands office in La Tuque, Quebec; approximately 366,000 hectares of private woodlands located in the Province of Quebec; a sales office located in Oakville, Ontario and related assets, including the Accounts Receivable, Inventory and Equipment including, in all cases, all related woodland and any transferable timber cutting rights, **(ii)** the functions of marketing and sales throughout the world of products produced at the above facilities, and **(iii)** all operations, activities and functions necessary or incidental to the above.

(i) **"Business Day"** shall mean any day, other than a Saturday, Sunday or other day on which the principal commercial banks located in Montreal, Quebec are not open for business during normal banking hours.

(j) **"Closing"** shall mean the completion of the transaction of assignment and transfer contemplated herein by the delivery to St. Laurent of instruments of conveyance for the Transferred Assets in form and substance satisfactory to the Parties, acting reasonably, and the payment to Avenor of the Transfer Consideration.

(k) **"Contaminant"** shall mean any of the following:

(i) any substance, solid, liquid or gaseous matter, fuel (including, without limitation, petroleum or petroleum products, crude oil, natural gas, natural gas liquid, liquified natural gas, synthetic fuel or any combination of the above), micro-organism, sound, vibration, ray, heat, odour, radiation, energy vector, plasma, organic or inorganic matter, whether or not animate or inanimate, container, transient reaction intermediate or any combination of the above deemed hazardous, toxic, a pollutant, a deleterious substance, a hazardous material, a contaminant or a source of pollution or contamination under any Environmental Laws as the same apply, as of the date hereof, to the Business and the Transferred Assets or any part thereof; and

(ii) any nuclear materials within the meaning of the *Nuclear Liability Act* (Canada).

(l) **"Contracts"** shall mean all written or oral contracts, agreements, indentures, instruments, commitments and orders made by or in favour of Avenor in connection with the Business, including rights to use, franchises and licenses; for greater certainty, the word **"Contracts"** shall include **"Material Contracts"**; however, the word **"Contracts"** shall not include any timber supply and forest management agreement (*contrat d'approvisionnement et d'aménagement forestier*).

(m) **"Deeds of Sale"** shall mean **(i)** the deeds of sale of immoveables located in the Province of Quebec between the Parties executed before John Howard Watson, Notary, on June 6, 1994, under his minute numbers 21747, 21748 and 21749, respectively as well as the deed of correction between Talbert Inc. and Avenor dated June 2, 1994, executed before Notary John Howard Watson under his minute number 21746 and the deed of correction between Avenor and St. Laurent dated June 10, 1994, executed before Notary John Howard Watson under his minute number 21751, and **(ii)** the transfers/deeds of land registered on the date hereof with respect to the real property located in the Province of Ontario.

(n) **"Discharge"** shall mean the natural or accidental release, emission, discharge, deposit, issuance, spraying, injection, inoculation, abandonment, burial, spilling, incineration, disposal, leaking, seeping, pouring, emptying, throwing, dumping, placing or exhausting of a Contaminant.

(o) **"Division Date"** shall have the meaning ascribed thereto at Subsection 7.4.

(p) **"dollar"** and **"dollars"** and the symbol **"$"** shall mean lawful money of Canada unless otherwise specified.

(q) **"Effective Time"** shall mean 12:01 a.m., June 4, 1994.

(r) **"Employees"** shall mean:

(i) all of the employees of Avenor employed exclusively in the Business;

(ii) the head office employees of Avenor set out in Schedule 1.1(r),

in each case immediately prior to the date hereof; for greater certainty, the word **"Employees"** shall include part-time employees and employees on short-term or long-term disability, workmen's compensation, sick leave, maternity leave, or leave of absence or laid-off employees at the Effective Time.

(s) **"Environment"** shall mean all components of the Earth including, without limitation, all layers of the atmosphere, air, land (including, without limitation, all underground spaces and cavities and all land submerged under water), soil, water (including, without limitation, surface and underground water), all organic and inorganic matter and living organisms, animal life, vegetation and property, and the interacting natural systems that include components referred to above in this Subsection 1.1(s).

(t) **"Environmental Laws"** shall mean all Laws applicable to the Business or the Transferred Assets, or any of them, in Canada relating in whole or in part to the Environment or its protection including, without limitation, any Laws relating to **(i)** Discharge of any Contaminant into the Environment or affecting or likely to affect the Environment or any threat to do any of the above in connection with any Contaminant, **(ii)** preventive or remedial measures in connection with any event or occurrence referred to in paragraph 1.1(t)(i) above, **(iii)** the storage, disposal, destruction, incineration, burial, recycling, handling, transportation, use, manufacture, processing, advertising, display, packaging, labelling or sale of any Contaminant, or any solicitation or offer to do any activity referred to in this paragraph 1.1(t)(iii) in connection with any Contaminant or **(iv)** any nuisance or abuse of right in connection with the Environment.

(u) **"Environmental Permits"** shall mean all permits, certificates, certificates of authorization, certificates of compliance, authorizations, approvals, registrations and licenses issued or issuable by any Governmental Body pursuant to any Environmental Laws in connection with the Business or the Transferred Assets, or any of them.

(v) **"Equipment"** shall mean **(i)** all machinery, spare parts, equipment, tools, computers, furniture, fixtures, furnishings, office equipment (including, without limitation, word processing, accounting, communication and reproduction equipment) of Avenor located in, on or about or normally located in, on or about the Immoveables and in, on or about the immoveables and real property covered by the Real Property Leases used in connection with and in the Business, and **(ii)** all assignable warranties of any Person covering all or any part of the aforesaid Equipment; for greater certainty, with respect to furniture, fixtures, furnishings and office equipment located at the principal office of Avenor, "**Equipment**" shall only include the furniture, fixtures, furnishings and office equipment designated on Schedule 1.1(v) annexed hereto.

(w) "**Financial Statements**" shall mean the audited combined balance sheets of the Business as at December 31, 1993 and 1992; the audited combined statements of operations of the Business and audited combined statements of cash flow from (used in) operations and investing activities of the Business for each of the years in the three year period ended December 31, 1993; the unaudited combined balance sheet of the Business as at March 31, 1994; the unaudited combined statements of operations of the Business and unaudited combined statements of cash flow from (used in) operations and investing activities of the Business for the three month periods ended March 31, 1994 and 1993; together in each case with the notes thereto and, in the case of the audited combined balance sheets of the Business as at December 31, 1993 and 1992 and the audited combined statements of operations of the Business and audited combined statements of cash flow from (used in) operations and investing activities of the Business for each of the years in the three year period ended December 31, 1993, the report of the auditors thereon, a copy of which financial statements form part of the Prospectus.

(x) "**Freehold Immoveables**" shall mean those immoveables designated as such in the Deeds of Sale for the immoveables located in the Province of Quebec together with buildings, structures, erections, appurtenances, fixtures and other improvements situated on, in, over or under such immoveables, if any, and all assignable warranties of any Person covering all or any part of aforesaid Immoveables.

(y) "**Generally Accepted Accounting Principles**" shall mean generally accepted accounting principles from time to time approved by the Canadian Institute of Chartered Accountants applicable as at the date on which the relevant calculation has been made, is made or is required to be made in accordance with generally accepted accounting principles; accounting terms not otherwise defined herein have the meanings ascribed thereto under generally accepted accounting principles.

(z) "**Governmental Body**" shall mean **(i)** any domestic or foreign national, federal, provincial, state, municipal, intermunicipal or other government or body, **(ii)** any international or multilateral body, **(iii)** any subdivision, ministry, department, secretariat, bureau, agency, commission, board, instrumentality or authority of any of the foregoing governments or bodies, **(iv)** any quasi-governmental or private body exercising any regulatory, expropriation or taxing authority under or for the account of any of the foregoing governments or bodies, or **(v)** any domestic, foreign, international, multilateral, or multinational judicial, quasi-judicial, arbitration or administrative court, grand jury, tribunal, commission, board or panel.

(aa) **"Immoveables"** shall mean **(i)** the Mill-Area-Immoveables and **(ii)** the Freehold Immoveables.

(ab) **"Indemnified Party"** shall have the meaning ascribed thereto at Section 9.5.

(ac) **"Indemnifying Party"** shall have the meaning ascribed thereto at Section 9.5.

(ad) **"Insurance Policies"** shall mean the insurance policies of Avenor which cover the Transferred Assets on the date hereof and at the Effective Time.

(ae) **"Intellectual Property Rights"** shall mean **(i)** all domestic and foreign patents (including patents for which Avenor has made or intends to make application), trademarks, trade names, service marks, copyrights, industrial designs, trade secrets, processes, inventions, know-how, recipes, manuals, technology, customer and supplier lists, formulae, drawings, specifications for products, materials and equipment, process development, manufacturing information, quality control information, performance data, plant service information, computer software, operating systems and other intellectual property, in each case whether registered or unregistered and used in connection with the Business, including, without limitation, those Intellectual Property Rights listed in Schedule 1.1(ae) annexed hereto, and **(ii)** all registrations and applications for registration of the aforesaid Intellectual Property Rights.

(af) **"Interim Period"** shall have the meaning ascribed thereto in Section 2.8.

(ag) **"Inventory"** shall mean all inventories, finished goods, work-in-progress, raw materials, operating supplies, shipping supplies, maintenance items and advertising materials, in each case on hand, in transit, ordered but not delivered, warehoused or wherever situate, of the Business.

(ah) **"Knowledge"** or **"Knowledge of Avenor"** shall, when used in Section 4.1, mean the knowledge which any director or officer of Avenor **(i)** actually has, or **(ii)** should have after having conducted due enquiry and, in addition, when used in Section 4.1(z), mean as well the knowledge which any senior employee of Avenor **(iii)** has, or **(iv)** should have to comply or cause Avenor to comply with Environmental Laws.

(ai) **"Laws"** shall mean:

(i) all constitutions, treaties, laws, statutes, codes, ordinances, orders, decrees, rules, regulations, and municipal by-laws, whether domestic, foreign or international;

(ii) all judgments, orders, writs, injunctions, decisions, rulings, decrees, and awards of any Governmental Body;

(iii) all policies, practices and guidelines of any Governmental Body which, although not actually having the force of law, are considered by such Governmental Body as requiring compliance as if having the force of law; and

(iv) all provisions of the foregoing;

in each case binding on or affecting the Party or Person referred to in the context in which such word is used; however "**Laws**" exclude Environmental Laws.

(aj) "**Liens**" shall mean **(i)** all hypothecs, mortgages, pledges, privileges, prior claims, liens, security interests, transfers of property in stock, security granted under the *Bank Act* (Canada), charges, deposits, servitudes, easements, reserves, conditional sale contracts, ownership or title retention agreements, leases, occupation rights, encroachments, homologated lines, restrictive covenants, title defects and other encumbrances or rights of others of any nature whatsoever or however arising, **(ii)** any arrangement or condition that in substance secures payment or performance of an obligation, and **(iii)** all actions, claims or demands of any nature whatsoever or howsoever arising.

(ak) "**Litigation Claims**" shall mean all actions, suits, claims, trials, demands, investigations, arbitrations or other proceedings pending, or to the knowledge of Avenor, threatened with respect to, or in any manner affecting, the Business or the Transferred Assets (other than the Suits) and which are described at Schedule 1.1(ak) annexed hereto.

(al) "**Losses**" shall have the meaning ascribed thereto at Section 9.1.

(am) "**Material Contracts**" shall have the meaning ascribed thereto at Subsection 4.1(ac).

(an) "**Master Trust**" shall have the meaning ascribed thereto at Subsection 7.4(a).

(ao) "**Mill-Area-Immoveables**" shall mean the immoveables described in the Deeds of Sale (other than the Freehold Immoveables) together with all buildings, structures, erections, appurtenances, fixtures and other improvements situated on, in, over or under such Immoveables, and all assignable warranties of any Person covering all or any part of aforesaid Immoveables.

(ap) "**Offer**" shall, when used in Section 5.1, have the meaning ascribed thereto in Section 5.1 and, when used in Section 5.10, shall have the meaning ascribed thereto in Section 5.10.

(aq) "**Offer Period**" shall, when used in Section 5.1, have the meaning ascribed thereto in Section 5.1 and, when used in Section 5.10, shall have the meaning ascribed thereto in Section 5.10.

(ar) "**Optioned Land**" shall have the meaning ascribed thereto in Section 5.1.

(as) **"Original Offer"** shall, when used in Section 5.1, have the meaning ascribed thereto in Section 5.1 and, when used in Section 5.10, shall have the meaning ascribed thereto in Section 5.10.

(at) **"Parties"** shall mean Avenor and St. Laurent; and **"Party"** shall mean any one of them.

(au) **"Pension Liabilities"** shall have the meaning ascribed thereto at Subsection 7.4(a).

(av) **"Permits"** shall mean each of the following which are assignable: franchises, permits, licenses, certificates of compliance, consents, approvals and authorizations of, and registrations with, any Governmental Body necessary to conduct the Business as described in the Prospectus; however, **"Permits"** shall not include **"Environmental Permits"**.

(aw) **"Permitted Encumbrances"** shall mean title defects, irregularities, balances of sale, privileges, prior claims, rights of the Crown, leases, reserves, easements and servitudes which, individually or in the aggregate, do not materially impair the value of any Immoveable or the use of such Immoveable for the purposes for which it is held, including, without limitation, those charges satisfying the requirements of this Subsection 1.1(aw) which are set forth in the Deeds of Sale.

(ax) **"Person"** shall mean an individual, corporation, company, cooperative, partnership, trust, unincorporated association, entity with juridical personality or Governmental Body, and pronouns which refer to a Person have a similarly extended meaning.

(ay) **"Prime Rate"** shall mean the annual rate of interest announced from time to time by the National Bank of Canada as a reference rate then in effect for determining annual interest rates on Canadian dollar commercial loans.

(az) **"Prospectus"** shall mean the final prospectus dated June 3, 1994 relating to the offering of 64,353 units of St. Laurent and filed in each province of Canada.

(ba) **"Real Property Leases"** shall mean the leases for immoveable and real property made in favour of Avenor, as lessee or tenant, in connection with the Business, including, without limitation, those described in <u>Schedule 1.1(ba)</u> annexed, and all leasehold improvements on, in, over or under such leased immoveables and real property.

(bb) **"Remedial Order"** means any direction, order or sanction issued, filed or imposed by any Governmental Body pursuant to any Environmental Law requiring any remediation or clean-up, or requiring that any on-going activity be reduced, modified or remedied, in each case as a result of any Discharge from the Immoveables by Avenor of any Contaminant or any actual or alleged violation by Avenor of any Environmental Law or in connection with the operations pertaining to the Business or conducted on the Immoveables by Avenor or any Environmental Permit.

(bc) **"Retirees"** shall mean all former employees of Avenor who were employed in the Business and who, immediately prior to the Effective Time, had rights under the Avenor Benefit Plans and/or the St. Laurent Pension Plans.

(bd) **"Rights"** shall have the meaning ascribed thereto at Section 2.3.

(be) **"Rolling Stock"** shall mean **(i)** the automobiles, trucks, trailers, material handling equipment and other rolling stock owned or used in connection with the Business, and **(ii)** all assignable warranties of any Person covering all or any part of the aforesaid Rolling Stock.

(bf) **"Statement of Debts"** shall mean the statement prepared and delivered by Avenor on the date hereof listing **(i)** no less than ninety-six percent (96%) of the aggregate amount of indebtedness of Avenor on the date hereof (other than those liabilities which are included in paragraph (ii) of this definition); and **(ii)** no less than ninety percent (90%) of the liabilities of Avenor relating to the Business as of the Effective Time.

(bg) **"St. Laurent Benefit Plans"** shall have the meaning ascribed thereto in Subsection 7.4(a)(xi).

(bh) **"St. Laurent Pension Plans"** shall mean the Employees' Retirement Plan of Avenor Inc. (Paperboard Division) (1946), the Basic Plan and Supplemental Plans B, B-1, B-3, E, P, Q-1, R-1, S-4 and S-5 and the Employees' Retirement Plan of Avenor Inc. (Paperboard Division) (1988).

(bi) **"Suits"** shall have the meaning ascribed thereto in Section 5.3.

(bj) **"Taxes"** shall mean all taxes (including, without limitation, income, corporation, capital, value added, sales, withholding, franchise, profits, gross receipts, excise, property, stamp, transfer, land transfer, water, business and goods and services taxes), imposts, duties (including, without limitation, customs duties), levies, deductions, withholdings, charges, assessments, reassessments or fees of any nature (including, without limitation, interest, penalties and additions) that are imposed under any Laws or by any relevant taxing authority.

(bk) **"Third Party Claim"** shall have the meaning ascribed thereto at Section 9.7.

(bl) **"Time of Closing"** shall mean one minute after midnight (12:01 a.m.) eastern standard time on the date hereof.

(bm) **"Transfer Amounts"** shall have the meaning ascribed thereto in Subsection 7.4(a).

(bn) **"Transfer Consideration"** shall mean two hundred and forty-seven million five hundred and six thousand two hundred dollars ($247,506,200) and the assumption by St. Laurent of the Assumed Liabilities.

(bo) **"Transfer Date"** shall have the meaning ascribed thereto in Section 7.4(a).

(bp) **"Transferred Assets"** shall have the meaning ascribed thereto at Section 2.1.

(bq) **"Umbrella Contracts"** shall mean those contracts and other instruments which relate to both the Business and other operations of Avenor or Affiliates of Avenor, including those contracts listed in Schedule 1.1(bq) annexed hereto which are material to the Business.

1.2 **Gender**. Any reference in this Agreement to any gender shall include all genders and words used herein importing the singular number only shall include the plural and vice versa.

1.3 **Headings**. The division of this Agreement into Articles, Sections, Subsections and other subdivisions and the insertion of headings are for convenience of reference only and shall not affect or be utilized in the construction or interpretation hereof.

1.4 **Severability**. Any Article, Section, Subsection or other subdivision of this Agreement or any other provision of this Agreement which is, or becomes, illegal, invalid or unenforceable shall be severed herefrom and shall be ineffective to the extent of such illegality, invalidity or unenforceability and shall not affect or impair the remaining provisions hereof, which provisions shall **(a)** be severed from any illegal, invalid or unenforceable Article, Section, Subsection or other subdivision of this Agreement or any other provision of this Agreement and **(b)** otherwise remain in full force and effect.

1.5 **Entire Agreement**. This Agreement, together with any documents to be delivered pursuant hereto, constitutes the entire agreement by and between the Parties pertaining to the subject matter hereof and supersedes all prior agreements, understandings, negotiations and discussions, whether oral or written, of the Parties.

1.6 **Amendment**. No amendment of this Agreement shall be binding unless expressly provided in an instrument duly executed by the Parties.

1.7 **Waiver**. No waiver, whether by conduct or otherwise, of any of the provisions of this Agreement shall be deemed to constitute a waiver of any other provisions (whether or not similar) nor shall such waiver constitute a continuing waiver unless otherwise expressly provided in an instrument duly executed by the Parties.

1.8 **Governing Law**. This Agreement shall be interpreted and construed in accordance with the Laws of the Province of Quebec and the Laws of Canada applicable therein and shall be treated in all respects as a Quebec contract.

1.9 **Language**. The Parties have required that this Agreement and all contracts, documents or notices relating thereto be in the English language, but without prejudice to any such documents or instruments which may from time to time be drawn up in French only, or in both French and English; *les parties ont exigé que cette convention et tout contrat, document ou avis* *afférent soient en langue anglaise, mais sans préjudice cependant à tous tels documents qui pourront à l'occasion être rédigés en français seulement ou à la fois en français et en anglais.*

1.10 **Delays**. When calculating the period of time within which or following which any act is to be done or step taken pursuant to this Agreement, the date which is the reference date shall be excluded in calculating such period.

1.11 **Schedules**. The following are the Schedules annexed to and incorporated in this Agreement by reference and deemed to be an integral part hereof:

Schedule 1.1(e)	-	Avenor Benefit Plans
Schedule 1.1(r)	-	Head Office Employees Transferred to St. Laurent
Schedule 1.1(v)	-	Head Office movables to be Transferred
Schedule 1.1(ae)	-	Intellectual Property Rights
Schedule 1.1(ak)	-	Litigation Claims
Schedule 1.1(ba)	-	Real Property Leases
Schedule 1.1(bq)	-	Umbrella Contracts
Schedule 3.3	-	Allocation of Purchase Price/Tax Elections
Schedule 4.1(n)	-	Leases
Schedule 4.1(v)	-	Employee Matters
Schedule 4.1(y)	-	Jurisdictions
Schedule 4.1(z)	-	Environmental Matters
Schedule 4.1(ab)	-	Unusual Transactions
Schedule 4.1(ac)	-	Material Contracts
Schedule 5.4	-	Estimates of Avenor Reimbursable Expenditures
Schedule 5.7	-	Remedial Work Conducted by Avenor
Schedule 7.4(a)	-	Pension Matters
Schedule 9.3(a)	-	Identification of Environmental Audit Reports
Schedule 10.4	-	Expenses of Issue

1.12 **Inconsistency**. This Asset Acquisition Agreement shall override the schedules annexed hereto to the extent of any inconsistency.

ARTICLE II
ASSIGNMENT AND TRANSFER

2.1 **Transferred Assets**. Upon and subject to the terms and conditions hereof, Avenor hereby assigns, transfers and conveys to St. Laurent, and St. Laurent hereby acquires from Avenor, as of and from the Effective Time, the assets, undertaking, business and operations used or consumed in the Business as a going concern at the Effective Time including, without limitation, the right, title and interest of Avenor in and to the following properties owned by Avenor or to which it was entitled at the Effective Time in connection with such undertaking, business and operations, (collectively, the "**Transferred Assets**"):

(a) the Immoveables;

(b) the Real Property Leases;

(c) the Equipment;

(d) the Rolling Stock;

(e) the Inventory;

(f) the Accounts Receivable;

(g) the Contracts;

(h) the rights of Avenor under the Umbrella Contracts to the extent such rights relate to the Business;

(i) the Intellectual Property Rights;

(j) the Books and Records;

(k) the Permits;

(l) the Environmental Permits;

(m) all prepaid expenses and deferred charges relating to the Business or any Transferred Assets;

(n) any goodwill associated with the Business;

(o) the three (3) transmission towers known as the Lac Pope Tower, the Gouin Tower and the Cooper Tower; and

(p) all other property, assets and rights, immoveable or real, movable or personal, tangible or intangible to which Avenor was entitled at the Effective Time or to which it had rights in connection with the Transferred Assets or the Business at the Effective Time (other than cash, near-cash, securities and bank deposits).

Notwithstanding the Deeds of Sale for the Immoveables located in the Province of Quebec and the Collateral Agreement executed by the Parties on June 6, 1994 before Notary John Watson, the transfer of the Immoveables located in the Province of Quebec shall retroact to the Effective Time.

2.2 **Instruments of Conveyance**. In order to effectuate more fully and completely the assignment, transfer and conveyance of the Transferred Assets pursuant to the terms and conditions hereof, Avenor shall deliver to St. Laurent such bills of sale, assignments and instruments of conveyance as requested by St. Laurent, acting reasonably, to permit the assignment, transfer and conveyance from Avenor to St. Laurent and the acquisition by

St. Laurent from Avenor of all right, title and interest in, to and under the Transferred Assets, the whole with effect as of the Effective Time.

2.3 **Assignment of Contracts**. Nothing in this Agreement shall be construed as an assignment, transfer or conveyance of, or an attempt to assign, transfer or convey, any Real Property Leases, Contracts, the rights of Avenor under the Umbrella Contracts which relate to the Business, Accounts Receivable, Permits, Environmental Permits, Intellectual Property Rights or other Transferred Assets (collectively, the "**Rights**") if:

(a) such Right is not saleable, assignable or transferable without the consent of another Person (if such consent has not been obtained) and such sale, assignment or transfer or attempted sale, assignment or transfer would constitute a breach of such Right; or

(b) the remedies for the enforcement of such Right available to Avenor would not pass to St. Laurent.

In order, however, that the full value of any Right may be realized for the benefit of St. Laurent, Avenor shall, at its expense and at the request and under the direction of St. Laurent, in the name of Avenor or as otherwise specified by St. Laurent, acting reasonably, take all such action and do or cause to be done all such things which are necessary or advisable from Avenor in order that the obligations of Avenor in connection with such Right may be performed in such manner that the value of such Right shall be preserved and shall enure to the exclusive benefit of St. Laurent, and that the collection of moneys due and payable to St. Laurent in connection with such Right shall be received by St. Laurent. Avenor shall promptly pay over to St. Laurent all moneys collected by or paid to or for Avenor in respect of every Right.

St. Laurent may at any time thereafter request a sale, assignment or transfer of any Right (other than Rights under Umbrella Contracts) notwithstanding that the third Party consent necessary for such sale, assignment and transfer has not been obtained. St. Laurent shall indemnify and hold Avenor harmless from any Losses resulting from, arising out of, or relating to such sale, assignment and transfer.

2.4 **Consent to Assignments**. Subject to Section 2.3, Avenor shall use commercially reasonable best efforts to obtain all third Party consents necessary for the assignment, transfer and conveyance by Avenor to St. Laurent of the Rights and the re-issuance in the name and for the benefit of St. Laurent or its designee of permits to replace non-transferable permits of the Business on substantially the same terms, including, without limitation, the timber supply and forest management agreement *(contrat d'approvisionnement et d'aménagement forestier)*, the wood processing plant operating permits and forest management permits. It is acknowledged by the Parties that Avenor will lose its entitlement on the completion of the transactions contemplated herein to the timber supply and forest management agreement, wood processing plant operating permits and the forest management agreements associated with the Business, and St. Laurent will acquire rights upon and subject to agreement with the *Ministre d'énergie et ressources naturelles* (Quebec). St. Laurent shall cooperate in obtaining such consents. If any Person whose consent is required does not consent to the assignment, transfer and conveyance of a Right from Avenor to St. Laurent or to the re-issuance of permits, then Avenor shall, to the extent permitted by Law, carry out and comply with the terms and provisions of any such Right or permits as agent for St. Laurent at Avenor's expense and for St. Laurent's exclusive benefit.

2.5 **Assumption of Liabilities**. St. Laurent covenants and agrees, as part of the consideration for the Transferred Assets, to assume, discharge, satisfy, perform and fulfil in a timely manner, strictly in accordance with their terms, all of the liabilities and obligations of Avenor for the payment of amounts payable by Avenor at the Effective Time relating to the Business and which are identified on the Statement of Debts as being assumed by St. Laurent, as such amounts may be updated or supplemented on the updated Statement of Debts to be prepared pursuant to Section 5.6 hereof, plus up to an aggregate amount of liabilities and obligations of Avenor relating to the Business at the Effective Time equal to ten percent (10%) of the total liabilities relating to the Business listed on the updated Statement of Debts (collectively, the "**Assumed Liabilities**").

St. Laurent does not hereby assume or agree to assume any liabilities or obligations of Avenor whatsoever other than the Assumed Liabilities, and in each case (unless otherwise expressly provided herein) only as and from the Effective Time and up to the maximum aggregate amount listed on the Statement of Debts, as such maximum may be modified on the updated Statement of Debts, plus up to an aggregate amount of liabilities and obligations of Avenor relating to the Business at the Effective Time equal to ten percent (10%) of the total liabilities relating to the Business listed on the updated Statement of Debts.

2.6 **Assumption of Contracts, *Etc***. In addition to the assumption by St. Laurent of the Assumed Liabilities pursuant to Section 2.5, St. Laurent covenants and agrees to assume, discharge, satisfy, perform and fulfil in a timely manner, strictly in accordance with their terms, all of the liabilities and obligations of Avenor arising after the Effective Time under the Contracts, the Umbrella Contracts (to the extent such liabilities and obligations relate to the Business), the Real Property Leases, the St. Laurent Benefit Plans, the St. Laurent Pension Plans and the timber supply and forest management agreement *(contrat d'approvisionnement et d'aménagement forestier)*, the wood processing plant operating permits and forest management permits relating to the Business.

2.7 **Post-Effective Time Amounts Received and Paid**. All cash collected after the Effective Time from Accounts Receivable or accounts receivable relating to the Business shall belong to, and if received by Avenor, shall be received for the benefit and the account of, St. Laurent and Avenor shall, on a twice weekly basis, transfer and remit to St. Laurent all such amounts received by or paid to Avenor after the Effective Time. All accounts payable and amounts paid relating to the Business, whether an Assumed Liability or a liability of the Business relating to periods after the Effective Time, paid by Avenor after the Effective Time shall be for the account of St. Laurent and St. Laurent shall, on a twice weekly basis, reimburse Avenor for any such amounts paid by Avenor.

2.8 **Agency**. Without limiting the generality of Section 2.7, the Parties agree that, notwithstanding the execution of this Agreement on the date hereof, the assignment, transfer and conveyance of the Transferred Assets shall be deemed to have occurred as between the Parties at the Effective Time and that, between the Effective Time and the date hereof (the "**Interim Period**"), all acts of Avenor in relation to the Transferred Assets or the Business shall have been performed by Avenor as nominee and mandatary by gratuitous title for and on behalf of St. Laurent and for St. Laurent's account whether or not expressly so stated herein and whether or not any third Party dealing with Avenor was aware or made aware of such mandate. Such mandate was agreed to between the Parties on June 2, 1994 and is hereby terminated and extinguished concurrently with the execution of this Agreement for periods after the Interim Period.

All outlays and expenses incurred by Avenor in the course of fulfilling the mandate hereunder and operating the Transferred Assets and the Business shall be immediately reimbursed by St. Laurent to Avenor without the necessity of a prior demand therefor. Avenor shall provide St. Laurent with reasonable details of all such expenses, costs and other information necessary to substantiate the amounts reimbursable to Avenor under this Section. All revenue, whether by way of cash or accounts receivable or otherwise, received or to be received by Avenor, during or after the Interim Period, in the course of performing the mandate referred to hereunder and operating the Transferred Assets and the Business for and on behalf of St. Laurent shall be immediately paid, in the case of cash, or transferred, in all other cases, by Avenor to St. Laurent without the necessity of a prior demand therefor. Avenor shall provide St. Laurent with reasonable details of all such revenues and other information necessary to substantiate the amounts payable to St. Laurent under this Section.

In addition to the representation and warranty given by Avenor at Section 4.1(ab) hereto (which representation and warranty is given by Avenor in relation to a period which covers the Interim period), Avenor represents and warrants that it has performed the mandate referred to herein with prudence and diligence, acting honestly and faithfully in the best interests of St. Laurent and St. Laurent shall indemnify and hold Avenor harmless for all Losses it may incur in the course of fulfilling its mandate hereunder in a prudent, diligent, honest and faithful manner.

Avenor covenants and agrees that any payments from insurers of Avenor with respect to the fire at the Matane mill on June 11, 1994 will be paid to St. Laurent promptly upon receipt thereof by Avenor. St. Laurent shall be responsible for any deductibles under the insurance policies of Avenor with respect to such fire.

ARTICLE III
TRANSFER CONSIDERATION

3.1 **Transfer Consideration**. In consideration of the assignment, transfer and conveyance made pursuant to Article II and upon and subject to the terms and conditions hereof, St. Laurent shall pay the Transfer Consideration to Avenor on the date hereof.

3.2 **Payment and Satisfaction of the Transfer Consideration**. St. Laurent shall pay and satisfy the Transfer Consideration, as follows:

(a) by the assumption of the Assumed Liabilities by St. Laurent in accordance with Section 2.5;

(b) a promise to pay the sum of seventy-three million seven hundred fifty-three thousand one hundred dollars ($73,753,100), and St. Laurent shall, as evidence of such promise, execute, contemporaneously herewith, an interest-free demand promissory note in favour of Avenor for such amount; and

(c) as to the balance of the Transfer Consideration (being one hundred seventy-three million seven hundred fifty-three thousand one hundred dollars ($173,753,100), St. Laurent shall contemporaneously herewith issue to Avenor twelve million eight hundred seventy thousand six hundred (12,870,600) fully paid and non-assessable common shares in the capital of St. Laurent.

3.3 **Tax Elections/Allocation of Transfer Consideration**. The Transfer Consideration shall be allocated among the Transferred Assets listed in Schedule 3.3 annexed hereto and in the manner set forth in column A of such Schedule 3.3 annexed hereto. The allocation of the Transfer Consideration shall be final and binding upon the Parties for all purposes, including, without limitation, the filing of all tax or other returns and the preparation of all financial statements and other documents and records. Avenor and St. Laurent shall jointly execute an election, where such election is available, under the provisions of Section 85 of the *Income Tax Act* (Canada), Article 518 of the *Taxation Act* (Quebec) and the corresponding provisions of any other applicable provincial statute in respect of the transfer of the Transferred Assets. For the purposes of such elections, the amount agreed upon by the Parties as the proceeds of disposition of Avenor for the Transferred Assets shall be set forth in column B of Schedule 3.3 annexed hereto. Avenor and St. Laurent shall also file an election with respect to the Accounts Receivable under Section 22 of the *Income Tax Act* (Canada), Section 184 of the *Taxation Act* (Quebec) and the corresponding sections of any other applicable provincial statute and any regulations under such statutes in a manner consistent with the above allocation. The Parties further agree to make jointly the necessary elections and execute and file, within the prescribed delays, the prescribed election forms and any other documents required to give effect to the foregoing and shall also prepare and file all of their respective tax returns in a manner consistent with the aforesaid allocations set forth in Schedule 3.3 annexed hereto. The Parties agree that, with respect to the paperboard assets being transferred between Avenor America Inc. and St. Laurent Paperboard Corp., by agreement of even date, Avenor and St. Laurent are acting as agents for Avenor America Inc. and St. Laurent Paperboard Corp., respectively, with respect to the payment and allocation of the Transfer Consideration, as will be set forth and updated in Schedule 3.3.

The Parties agree that they shall work together to update Schedule 3.3 by no later than September 30, 1994.

3.4 **Transfer Taxes**. St. Laurent shall be liable and shall pay all land transfer Taxes, sales Taxes, registration fees or other like charges properly payable upon and in connection with the sale, assignment and transfer of the Transferred Assets from Avenor to St. Laurent hereunder.

3.5 **Goods and Services Tax Election**. Avenor and St. Laurent shall jointly execute an election under Section 167 of the *Excise Tax Act* (Canada) and Section 75 of *An Act Respecting the Québec Sales Tax* on the forms prescribed for such purposes along with any documentation necessary or desirable in order to effect the transfer of the Transferred Assets by Avenor without payment of any Goods and Services Tax or Quebec Sales Tax. St. Laurent shall file the election forms referred to above, along with any documentation necessary or desirable to give effect to such, with Revenue Canada and the *Ministère du Revenu du Québec*, respectively, together with St. Laurent's Goods and Services Tax and Quebec Sales Tax returns for the reporting period in which the transactions contemplated herein are consummated.

Notwithstanding such election, in the event that it is determined by Revenue Canada or by the *Ministère du Revenu du Québec* that there is a Goods and Services Tax or Quebec Sales Tax liability of St. Laurent to pay Goods and Services Tax or Quebec Sales Tax on all or part of the Transferred Assets, the Parties agree that such Goods and Services Tax or Quebec Sales Tax, as the case may be, shall, unless already collected from St. Laurent by Avenor, be forthwith remitted by St. Laurent to Revenue Canada or the *Ministère du Revenu du Québec*, as the case may be, and St. Laurent shall indemnify and hold Avenor harmless with respect to any such Goods and Services Tax or Quebec Sales Tax liability arising herein, as well as any interest and penalties related thereto.

3.6 **Retail Sales Tax (Ontario)**. Avenor represents and warrants **(a)** that none of the Transferred Assets has been transferred at any previous time on a tax exempt basis under the provisions of Section 13 of Regulation 1013 of the *Retail Sales Tax Regulations* (R.R.O. 1990) or any predecessor thereof and **(b)** that tax imposed by the *Retail Sales Tax Act* (Ontario) on a purchaser who acquired any of the Transferred Assets in a prior transfer or purchase has been paid. On the basis of this representation and warranty, Avenor and St. Laurent agree that the transfer of the Transferred Assets by Avenor is exempt from retail sales tax under the *Retail Sales Tax Act* (Ontario) pursuant to the provisions of the said Section 13 of the Regulation 1013.

ARTICLE IV
REPRESENTATIONS AND WARRANTIES

4.1 **Representations and Warranties of Avenor**. Avenor represents and warrants to St. Laurent as follows and acknowledges that St. Laurent is relying upon such representations and warranties in connection with the acquisition by St. Laurent from Avenor of the Transferred Assets and that St. Laurent would not have entered into this Agreement without such representations and warranties:

(a) **Due Incorporation**. Avenor:

(i) is duly incorporated and organized, validly existing and in good standing under the Laws of its jurisdiction of incorporation; and

(ii) has all necessary corporate power and authority to own, lease and operate its properties and to conduct its business (including, without limitation, the

Business) as and in the places where such properties are now owned, leased or operated or such business is now conducted.

(b) __Due Authorization__. Avenor has the necessary corporate power and authority to enter into and deliver this Agreement and to perform its obligations hereunder. The execution and delivery of this Agreement by Avenor and the performance by Avenor of its obligations hereunder have been duly authorized by all necessary corporate action on its part. Such execution, delivery and performance by Avenor does not require any action or consent of, or any registration with, or notification to, any Person, or any action or consent under any Laws to which Avenor is subject.

(c) __Enforceability__. This Agreement constitutes a legal, valid and binding obligation of Avenor enforceable against it in accordance with its terms subject, however, to:

(i) limitations with respect to enforcement imposed by bankruptcy laws, insolvency laws and other Laws affecting creditors' rights generally; and

(ii) general principles of equity including the availability of equitable remedies granted such as specific performance and injunction, which are remedies granted at the discretion of a court of competent jurisdiction from which they are sought.

(d) __No Conflict__. The execution and delivery of this Agreement, the consummation of the transactions contemplated herein, the performance by Avenor of its obligations hereunder and the compliance by Avenor with this Agreement do not:

(i) violate, contravene or breach, or constitute a default under, the constating instruments or by-laws of Avenor;

(ii) violate, contravene or breach, or constitute a default under any Material Contract or under any contract, agreement, indenture or other instrument binding upon Avenor or to which it is a Party in connection with the creation or assumption of indebtedness for borrowed money or the deferred purchase price of property;

(iii) result in the creation of, or require the creation of, any Lien upon any Transferred Assets;

(iv) result in **(1)** the termination, cancellation, modification, amendment, variation or renegotiation of any Material Contract (other than variations and renegotiations with co-contractants required to obtain their respective consents, which variations or renegotiations, individually or in the aggregate, do not have a material adverse effect upon the Transferred Assets or the Business), **(2)** the acceleration or forfeiture of any term of payment of any Material Contract, or **(3)** the loss in whole or in part of any benefit which would otherwise accrue to any Transferred Assets or the Business;

(v) result in St. Laurent being or becoming liable for the payment of any Tax, except for those Taxes which are the responsibility of St. Laurent hereunder in accordance with the provisions of Section 3.4 or which are so identified on the Statement of Debts, if any;

(vi) violate, contravene or breach any Laws.

(e) No Subsidiaries. Avenor does not in connection with the Business own, directly or indirectly, any shares of the capital stock of, and does not have any property interest in, any Person other than Avenor America Inc. (which shares are not transferred hereunder).

(f) No Options. There are no agreements (other than this Agreement) which grant to any Person the right to purchase or otherwise acquire any Transferred Assets, which agreements have not been subject to a valid waiver.

(g) Proceedings Pertaining to Transferred Assets. There are no material actions, suits, claims, trials, demands, investigations, arbitrations or other proceedings (whether or not purportedly on behalf of Avenor) pending or, to the Knowledge of Avenor, threatened with respect to or in any manner affecting the Transferred Assets or the Business other than the Litigation Claims, subject to the second to last paragraph of Subsection 4.1(s).

(h) Financial Records. The financial records of the Business have been maintained in accordance with sound business practices and fairly, accurately and completely present and disclose in accordance with Generally Accepted Accounting Principles applicable in Canada applied on a basis consistent with prior periods and throughout the periods involved (i) the financial position of the Business, and (ii) all transactions of the Business.

(i) Financial Statements. The Financial Statements fairly, accurately and completely present and disclose, in all material respects, in accordance with Generally Accepted Accounting Principles applied on a basis consistent with prior periods and throughout the periods involved (i) the assets, liabilities and obligations (whether or not accrued, contingent or absolute), income, losses, reserves and financial position of the Business, and (ii) the results of operations of the Business and the source and use of their funds, all as at the dates or for the periods covered by such statements.

(j) Liabilities. Except as set out otherwise in this Agreement, St. Laurent shall not be liable for any liability or obligation (whether known or unknown, absolute, accrued or contingent) arising as a consequence, direct or indirect, of any event, fact, condition or circumstance existing or accruing on or prior to the Effective Time other than the Assumed Liabilities.

(k) Title to Property. (i) Avenor was at the Effective Time the sole and unconditional owner of, and hereby transfers to St. Laurent with retroactive effect to the Effective Time, the title to all of the Transferred Assets free and clear of any and all Liens, other than Permitted Encumbrances, with the legal warranties (and no other) provided by Article 1716 and following of the *Civil Code of Quebec*; **(ii)** notwithstanding (i) hereto, with respect to:

(a) certain Mill-Area-Immoveables listed in the Deeds of Sale as being sold with no warranty (which immoveables are not material to the Business); and

(b) the Freehold Immoveables,

Avenor is hereby transferring to St. Laurent only the rights, title and interest it may have in such assets.

(l) **Immoveables**. The Deeds of Sale contain a true and complete description of the immoveables and real estate owned by Avenor in connection with the Business, save and except that, with respect to the Freehold Immoveables and certain Mill Area Immoveables which are not material to the Business, along with the descriptions contained in the deed of transfer from Talbert Inc. to CIP Inc. executed before John Howard Watson, Notary, on October 28, 1985, registered at the Registry Office of La Tuque under number 39464, in the deed of transfer from The Quebec, Montreal and Southern Railway Company to Brown Corporation, executed before Reginald Meredith, Notary, on March 13, 1919 and in the deed of exchange between the Government of Quebec and CIP Inc. and notice relating thereto registered at the Registry Office of La Tuque under numbers 42399 and 44904, such descriptions constitute the best descriptions currently available to Avenor.

Avenor has not received any notice that any of the Mill-Area-Immoveables **(i)** is not in compliance with any Laws, **(ii)** is not used in compliance with any Laws, and/or **(iii)** requires work to be done in connection therewith; except for any non-compliance which has been cured or work order which has been complied with.

All real estate Taxes and assessments, both general and special which are due have been paid without subrogation unless contested pursuant to procedures under the relevant statutes. All mutation Taxes have been paid. Avenor has not received notice, to the effect that movable or personal property situated in or on an Immoveable is the property of a Person other than Avenor.

(m) **Sufficiency of Assets; Inventory**. All of the tangible Transferred Assets were, at the Effective Time, adequate and sufficient for the continuing conduct of the Business as then conducted.

The Inventory and the raw materials, work-in-progress and finished goods (whether or not reflected in the Financial Statements for the three (3) month period ended March 31, 1994) were, at the Effective Time, of a quality and quantity usable and saleable in the ordinary course of business (except for obsolete items and items of below standard quality, all of which had been written off or written down to net realizable value in the accounting records of the Business as of the Effective Time on a basis consistent with past practices).

The Transferred Assets constituted at the Effective Time all of the property, assets and rights required to enable St. Laurent to carry on the Business in the ordinary course, as then conducted and as described in the Prospectus.

(n) Leases. Schedule 4.1(n) and Schedule 1.1(ba) annexed hereto are a true and complete list of all leases of tangible property used in connection with the Business involving individually annual rent in excess of fifty thousand dollars ($50,000) to which Avenor is Party or any of the Transferred Assets are subject. All such leases are in good standing and in full force and effect without amendment thereto, Avenor is not in default thereunder and, to the Knowledge of Avenor, the other Parties under each such lease are not in default thereunder. Avenor is entitled to all benefits under such leases.

(o) **Intellectual Property Rights**. Schedule 1.1(ae) annexed hereto is a true and complete list of (i) all registered Intellectual Property Rights currently owned by Avenor and used in the Business, (ii) all pending applications for Intellectual Property Rights currently owned by Avenor and used in the Business, and (iii) processes for which Avenor intends to make a patent application currently owned by Avenor and used in connection with the Business, none of which has been opposed or held unenforceable. Each of the aforesaid Intellectual Property Rights is duly recorded in the name of Avenor if required, and Avenor is the absolute owner and, to the Knowledge of Avenor, has the sole and exclusive right to hold and use the said Intellectual Property Right without making any payment to others or granting rights to others in exchange.

Except as set out in Schedule 1.1(ak) annexed hereto, the operations of the Business do not infringe in any respect upon the Intellectual Property Rights of any Person and no Person has claimed or threatened to claim the right to use any Intellectual Property Rights set forth in Schedule 1.1(ae) annexed hereto or to deny the right of Avenor to use the same. There are no Intellectual Property Rights other than those set forth in Schedule 1.1(ae) annexed hereto which are owned or used by Avenor in connection with the Business, and which are material to the Business as now conducted, and the only Persons who have any right to use any of the aforesaid Intellectual Property Rights are set forth in Schedule 1.1(ae) annexed hereto.

Avenor (in connection with the Business) does not use Intellectual Property Rights of any Person without such Person's permission.

None of the products or services manufactured, marketed or sold by Avenor (in connection with the Business) requires or uses Intellectual Property Rights not owned or duly licensed by Avenor.

Except as set out in Schedule 1.1(ak) annexed hereto, no proceeding for infringement of the Intellectual Property Rights of any Person is pending, or to the Knowledge of Avenor, threatened against Avenor.

(p) **Accounts Receivable**. All Accounts Receivable are *bona fide*, result from the ordinary course of business, have been properly recorded in the ordinary course of business and, subject to the reserves for uncollected accounts reflected on the Financial Statements and on the books and records of the Business for the period since March 31, 1994 to the date hereof, which reserves are adequate and were determined in accordance with Generally Accepted Accounting Principles applied on a basis consistent with prior periods and throughout the periods involved and in accordance with management policies, practices and calculations which are consistent with those in prior periods and throughout the periods involved, are good and collectible in full according to the terms thereof when due without any discount, set off or counterclaim, in amounts equal to not less than the aggregate face amounts thereof.

(q) **Location of Properties**. Other than (i) Inventory in transit and Rolling Stock used in the transportation thereof, and (ii) Accounts Receivable, Avenor does not hold, directly or indirectly, any of the Transferred Assets, anywhere other than in the Provinces of Quebec and Ontario.

(r) **Insurance**. Avenor in connection with the Business maintained prior to the Time of Closing insurance with responsible and reputable insurers in such amounts and covering such risks as are generally maintained by like businesses.

St. Laurent has been named as an additional insured or was, prior to the Time of Closing, covered by virtue of being a wholly-owned subsidiary of Avenor, and is entitled to all the benefits under, all insurance policies currently maintained by Avenor in connection with the Business.

(s) **Litigation**. There are no:

(i) actions, suits, claims, trials, demands, investigations, arbitrations and other proceedings (whether or not instituted by Avenor) pending, or to the knowledge of Avenor, threatened against, with respect to, or affecting in any manner, any Transferred Assets or the Business as conducted by Avenor at the Effective Time other than as set out in Schedule 1.1(ak) annexed hereto and the Suits (as defined in Section 5.3 hereof); or

(ii) outstanding judgments, orders, decrees, writs or injunctions, decisions, rulings or awards involving liability in excess of fifty thousand dollars ($50,000) against, with respect to, or in any manner affecting any Transferred Assets or the Business as conducted by Avenor at the Effective Time,

it being understood and agreed by the Parties that any such actions, suits, claims, trials, demands, investigations, arbitrations and other proceedings arising in respect of any fact, condition or circumstance on or after the Effective Time in connection with the Transferred Assets or the Business, shall be the responsibility of St. Laurent.

Notwithstanding the foregoing, the Parties agree that any actions, suits, claims, trials, demands, investigations, arbitrations and other proceedings with respect to, or affecting in any manner, the Transferred Assets or the Business arising in respect of any fact, condition or circumstance between: **(a)** April 28, 1993 and the Effective Time (inclusive); and **(b)** prior to April 28, 1993, up to a maximum of one hundred thousand dollars ($100,000); shall be the responsibility of St. Laurent, and St. Laurent covenants and agrees to indemnify and hold harmless Avenor for any such actions, suits, claims, trials, demands, investigations, arbitrations and other proceedings arising during the periods listed in (a) and (b), and, in the case of (b) only, up to a maximum of one hundred thousand dollars ($100,000). For greater certainty, the following cases shall be the responsibility of Avenor: the Suits, *N.C. Hutton* v. *Canadian Pacific Forest Products Ltd.* (Sup. Ct - Mtl.), *Commission des Normes du travail* v. *CIP Inc.* (200-09-000021-896) (200-09-800022-894) and *Avenor Inc.* v. *Syndicat Canadien des travailleurs du papier/Eric Dingle* (Que. C.A. 200-09-00062-933).

Avenor is not in default in connection with the Business with respect to any judgment, order, writ, injunction, decision, ruling, decree or award of any Governmental Body.

(t) <u>No Default Under Agreements</u>. Avenor has performed all obligations required to be performed under all Contracts, Real Property Leases or Permits. Avenor, **(i)** is in good standing and entitled to all benefits under all Contracts, Real Property Leases or Permits, and **(ii)** is not in default under, or in breach of, any Contracts, Real Property Leases and Permits, and there currently exists no fact, condition or circumstance which, after notice or lapse of time or both, would constitute such a default or breach of any Contract, Real Property Lease or Permit which would materially affect the Business.

Except as identified on <u>Schedule 1.1(bq)</u> hereto, none of the Contracts, Real Property Leases or Permits contain covenants or obligations of Avenor with respect to any business other than the Business.

To the knowledge of Avenor, no other Party to a Contract, Real Property Lease or Permit is in default under, or in breach of, any such Contract, Real Property Lease or Permit, and there currently exists no fact, condition or circumstance which, after notice or lapse of time or both, would result in a default or breach by such other Party under such Contract, Real Property Lease or Permit which would materially affect the Business.

(u) <u>G.S.T. and Q.S.T. Registration</u>. Avenor is a registrant within the meaning of Part IX of the *Excise Tax Act* (Canada) and Chapter VIII of *An Act Respecting the Quebec Sales Tax* and its registration numbers are as follows:

Federal - 100 769 678
Quebec - 100 370 009

(v) <u>Employee Matters</u>. Avenor, in connection with the Business, is not a Party to any collective agreement or other labour contract other than those listed in <u>Schedule 4.1(v)</u>

annexed hereto. There is not presently pending or existing any strike, slowdown, picketing, work stoppage, any unfair labour practice complaints or any penal complaints against or affecting Avenor in connection with the Business, or to the knowledge of Avenor threatened against Avenor in connection with the Business. No application for certification of a collective bargaining unit is outstanding or, to the Knowledge of Avenor, has been contemplated by any union. To the Knowledge of Avenor no fact, condition or circumstance currently exists which could provide the basis for any work stoppage or other labour dispute, any unfair labour practice complaints or any penal complaints. There is no lock-out by Avenor of any Employee, nor is any such action contemplated by Avenor.

Avenor has complied with all Laws, the default of which would have a material impact on the Business, relating to the employment of Employees, including, without limitation, any provisions thereof relating to wages, hours and collective bargaining.

Other than as set out in Schedule 4.1(v) annexed hereto and as set forth in Subsection 4.1(ag), no Employees are covered by any written contract, agreement, indenture, instrument or commitment to which Avenor is a Party providing for a specified notice of termination or fixed term of employment.

Schedule 4.1(v) annexed hereto is a true and complete list of all of the collective bargaining agreements, written employment, consulting and termination contracts and agreements entered into by Avenor in connection with the Business with or for any or all of its directors, officers, employees and agents.

Other than as set out in Schedule 4.1(v) annexed hereto, since March 31, 1994 Avenor has not changed the rate of compensation or remuneration payable to any of its present or past directors, officers, employees and agents in connection with the Business other than in the ordinary course and consistent with past practices.

All reasonably anticipated obligations of Avenor, whether arising by Law, by contract, by past action or practice for salaries, vacations and holiday pay, bonuses and other forms of compensation which were payable to its directors, officers, employees or agents as at March 31, 1994 or properly accruable as at such date have been paid as of such date or adequate accruals therefor have been made in the Financial Statements for the three (3) month period ended March 31, 1994.

(w) **Benefit Plans**. All of the Avenor Benefit Plans and Avenor Pension Plans are duly registered where required by Law (including registration with the relevant Tax authorities where such registration is required to qualify for Tax-exemption or other beneficial Tax status) and are in good standing under all applicable Laws.

The Avenor Pension Plans meet the requirements of the *Income Tax Act* (Canada) and regulations thereunder, and all applicable pension benefits legislation and regulations, and have been operated in compliance with the provisions of the Avenor Pension Plans, the *Income Tax Act* (Canada) and regulations thereunder, Revenue Canada Information

Circular IC 72-13R8 and its predecessors and all applicable pension benefits legislation and regulations. Every obligation of Avenor in regard to the St. Laurent Pension Plans which was required, pursuant to Section 7.4, to be performed prior to the date hereof has been so performed.

All material obligations required to be performed by Avenor, or any of its predecessors, in connection with all Avenor Benefit Plans and Avenor Pension Plans in respect of the Employees and Retirees have been performed in a punctual manner in accordance with such Plans and all Laws.

There are no actions, suits, claims, penal complaints, trials, demands, investigations, arbitrations or other proceedings pending or, to the Knowledge of Avenor, threatened with respect to the Avenor Benefit Plans, Avenor Pension Plans or St. Laurent Pension Plans in respect of the Employees and Retirees (other than routine claims for benefits) against Avenor, the funding agents or the funds of such Plans. All required employer contributions and source-deducted employee contributions under the Avenor Benefit Plans have been made and remitted in a timely manner to the funding agents.

Avenor has delivered to St. Laurent true, complete and up-to-date copies of all documents embodying and summarizing the Avenor Benefit Plans and Avenor Pension Plans including, without limitation, with respect to each such Plan, all amendments thereto, any trust agreement, insurance contract or other funding arrangement and any summaries of such Plans provided to Employees or Retirees, as well as the most recent actuarial valuation prepared for each St. Laurent Pension Plan.

To the Knowledge of Avenor, no event has occurred and there has been no failure to act on the part of Avenor, any funding agent or any administrator with respect to any Avenor Benefit Plan or Avenor Pension Plan that could subject Avenor, a funding agent, an administrator or the fund of any such Plan to the imposition of any Canadian Tax or penalty.

The consummation of the transactions contemplated by this Agreement shall not (either alone or upon the occurrence of any additional or subsequent event) constitute an event under any Avenor Benefit Plan that shall or may result in any payment (whether of severance or otherwise) or acceleration, vesting or increase in benefits with respect to any Employee, Retiree, or beneficiary thereunder.

(x) **Compliance with Laws**. Avenor, in connection with the Business, has, in all material respects, complied with and continues to comply with all Laws.

(y) **Licenses, Permits, *Etc***. Except as set out in Schedule 1.1(ak) annexed hereto, Avenor (in connection with the Business) was, and is, in all material respects, in full compliance with, and entitled to all of the benefits under, all franchises, permits, licenses, certificates of compliance, consents, approvals and authorization of, or registrations with, any Governmental Body (including, without limitation, the Permits) necessary or required to conduct the Business as currently conducted and as disclosed in the Prospectus and each of them is in full force and effect.

No fact, condition or circumstance has occurred to create, and the execution and delivery of this Agreement and its performance shall not create, any right to terminate, cancel, modify, amend, revoke or expire any such license, certificate of compliance, consent, approval, authorization or registration, excluding, however, the timber supply and forest management agreement *(contrat d'approvisionnement et d'aménagement forestier)*, wood processing plant operating permits and the forest management agreements which Avenor held immediately prior to the transactions contemplated herein.

Schedule 4.1(y) annexed hereto is a true and complete list of all of the jurisdictions in which Avenor is qualified or licensed to conduct the Business.

(z) **Environment**. Except as disclosed in Schedule 4.1(z):

(i) during the period of three (3) years immediately prior to the Effective Time, any operations pertaining to the Business or conducted on the Immoveables by Avenor or any past or present affiliate of Avenor, and the Immoveables themselves, were, and are currently, in substantial compliance with all Environmental Laws and Environmental Permits;

(ii) all Environmental Permits required to conduct the Business and the operations pertaining to the Business or conducted on Immoveables by Avenor have been obtained, are valid and in full force and effect and are now being, and have been during the period of three (3) years immediately prior to the Effective Time substantially complied with;

(iii) as regards the facilities in the Province of Ontario, all required notices have been given and no consent or approval is required in connection with the transactions contemplated hereby in order to maintain the Environmental Permits required to conduct the Business in full force and effect for the benefit of St. Laurent;

(iv) during the period of three (3) years immediately prior to the Effective Time, Avenor has substantially complied with all reporting, notification and inspection requirements in respect of the Immoveables and the Business imposed by Environmental Laws, and all operating, monitoring and reporting records in respect of the Immoveables and the Business have been maintained substantially in accordance with all Environmental Laws and Environmental Permits and have been made available to St. Laurent for review;

(v) the Business and Immoveables are not now the subject of any Remedial Order, nor, to the Knowledge of Avenor, has any investigation or evaluation been commenced as to whether any Remedial Order is needed in connection with: **(a)** the Business; **(b)** the Immoveables; or **(c)** any adjacent or proximate property resulting from the actions or omissions of Avenor; nor, to the Knowledge of Avenor, is there any valid basis for the issuance of such Remedial order;

(vi) Avenor has not, during the period of three (3) years immediately prior to the Effective Time, been convicted of any offence, or been found liable in any proceeding to pay any fine or judgment to any Person or Governmental Body in connection with the Business or been required to conduct any clean-up or remediation of the Immoveables or any adjacent or proximate property in each case as a result of a Discharge by Avenor of any Contaminant from the Immoveables into the Environment or the creation of a nuisance on the Immoveables, nor has any Person or Governmental Body advised Avenor of its intention, nor does Avenor have Knowledge of any such intention to commence any civil or criminal action against Avenor for such reason;

(vii) all pollution control equipment used in connection with the Business or used at or forming part of the Immoveables is effective in substantially meeting current applicable emissions limits and effluent pretreatment standards, and with respect to the Immoveables located in Ontario, Avenor has substantially complied with all applicable Municipal/Industrial Strategy for Abatement monitoring and sampling requirements;

(viii) Avenor has never used the Immoveables, and to the knowledge of Avenor, the Immoveables have never been used, as a waste disposal site;

(ix) any polychlorinated biphenyls in use, in storage or existing on the Immoveables are being used, have been stored or exist at such levels as, in each case substantially comply with all Environmental Laws and Environmental Permits;

(x) all wastes generated in connection with the Business or on or from the Immoveables have been, and are currently being, handled and disposed of in accordance with Environmental Laws;

(xi) all material engineering and environmental data and studies (including, without limitation, the results of any environmental audit) with respect to the Business or the Immoveables which have been prepared within the last three years and which are in the possession or under the control of Avenor have been delivered or made available to St. Laurent;

(xii) (1) to the Knowledge of Avenor, there has been no Discharge of any Contaminant originating from the Immoveables into the Environment, or which has migrated to any neighbouring or adjoining properties or which has been transported to or deposited at, any unlicensed waste facility, in each case during the period of Avenor's ownership or at any previous time, except in compliance with Environmental Laws;

(2) to the Knowledge of Avenor, there is no urea formaldehyde foam insulation or radioactive substances on the Immoveables; and

(3) to the Knowledge of Avenor, there has been no Discharge of any Contaminant originating from any neighbouring or adjoining properties which has migrated onto or contaminated the Immoveables, and there has been no deposit or disposal by Avenor of any Contaminant onto any neighbouring or adjoining property.

(aa) Resident. Avenor is not a non-resident of Canada for the purposes of the *Income Tax Act* (Canada).

(ab) No Unusual Transactions. Except as set forth in Schedule 4.1(ab) annexed hereto or for purposes of carrying out the transactions contemplated hereby or in the Prospectus, since March 31, 1994 up to and including the date hereof, Avenor has conducted the Business in all material respects in the ordinary course and in a manner consistent with past practices and, without limiting the generality of the foregoing, Avenor in connection with the Business has not in any material respect:

(i) taken any action outside the ordinary course or in a manner inconsistent with past practices;

(ii) incurred or discharged any secured or unsecured obligation or liability (whether accrued, absolute or contingent) other than obligations and liabilities disclosed in the Financial Statements and obligations and liabilities incurred since March 31, 1994 in the ordinary course and in a manner consistent with past practices and obligations and liabilities incurred as part of the transactions contemplated hereby and disclosed in the Prospectus;

(iii) waived or cancelled, or accelerated the collection of, any claim, account receivable, trade account or material right or made any gift other than in the ordinary course and in a manner consistent with past practices;

(iv) postponed or delayed the payment of any account payable, debts, obligations or liabilities which are Assumed Liabilities other than in the ordinary course and in a manner consistent with past practices;

(v) used any of its properties other than for proper corporate purposes and in the ordinary course of business and in a manner consistent with past practices;

(vi) entered into any transaction, contract, agreement, indenture, instrument or commitment other than in the ordinary course of business and in a manner consistent with past practices;

(vii) suffered any material shortage or any cessation or interruption of raw material shipments, supplies or utilities;

(viii) entered into any employment agreement or made, promised or agreed to make **(1)** any change in the form or terms of compensation or remuneration payable to or to become payable to any of its shareholders, directors, officers, employees, licensors, licensees, distributors, agents, and suppliers, or **(2)** any bonus or other incentive payments or arrangements with any of its shareholders, directors, officers, licensors, licensees, distributors, agents, suppliers, or customers; the whole other than in the ordinary course and in a manner consistent with past practices;

(ix) removed any director or auditor or terminated any officer without cause;

(x) made any change in its accounting policies, principles and practices as utilized in the preparation of the Financial Statements;

(xi) changed the Business or the manner in which it conducts the Business other than in the ordinary course and consistent with past practices;

(xii) **(1)** made any loan or advance, or **(2)** assumed, guaranteed, endorsed or otherwise become liable with respect to the liabilities or obligations of any Person;

(xiii) **(1)** granted to any customer any special allowance or discount, or **(2)** changed its pricing, credit or payment policies; other than in the ordinary course and consistent with past practices;

(xiv) incurred any indebtedness other than to trade creditors in the ordinary course of business and in a manner consistent with past practices;

(xv) purchased, sold, leased or otherwise disposed of any of its properties or of any right, title or interest other than in the ordinary course and consistent with past practices;

(xvi) modified or changed its business relationship with its suppliers, customers and others having business relations with it other than in the ordinary course and consistent with past practices; or

(xvii) authorized, agreed or otherwise committed to any of the foregoing.

(ac) Material Contracts. Schedule 4.1(ac) annexed hereto describes all Material Contracts which relate to the Business or the Transferred Assets to which Avenor is a Party or by which it is bound, other than those Material Contracts described in other schedules annexed hereto or entered into for purposes of carrying out the transactions contemplated hereby or in the Prospectus. For the purposes of this Agreement, the phrase "**Material Contracts**" shall mean all written or oral Contracts which are:

(i) contracts, agreements, indentures, instruments and commitments **(1)** arising in the ordinary course of business and providing for the payment or receipt in any twelve (12) month period of five hundred thousand dollars ($500,000) or more in one instance or in the aggregate, or **(2)** not arising in the ordinary course of business;

(ii) loan and credit agreements, revolving credit agreements, security agreements, guarantees, notes, agreements evidencing any Lien, conditional sales, leasing agreements, sale-lease back agreements or title retention agreements;

(iii) purchase orders and other contracts and commitments for the future purchase of materials, supplies or equipment in excess of the requirements for normal operating inventories or for business now booked;

(iv) agreements relating to Intellectual Property Rights;

(v) contracts, agreements, indentures, instruments or commitments with Persons with whom Avenor (in connection with the Business) does not deal at arm's length within the meaning of the *Income Tax Act* (Canada);

(vi) government contracts, tenders or bids;

(vii) agreements of non-competition and/or confidentiality; and

(viii) franchise, distribution, license or consignment contracts or agreements.

For the purposes of this Agreement, the phrase "**Material Contracts**" shall exclude timber supply and forest management agreements, wood processing plant operating permits and the forest management agreements to which Avenor is entitled.

(ad) **Customers**. Avenor has no Knowledge of any termination, cancellation, or material limitation, modification or change in the business relationship of Avenor with any customer or group of customers whose purchases individually or in the aggregate represent more than five percent (5%) of the sales of the Business during the twelve (12) month period ending on the date hereof.

(ae) **Statement of Debts**. The Statement of Debts correctly sets forth **(i)** not less than ninety-six percent (96%) of the aggregate amount of all indebtedness of Avenor on the date hereof (other than those liabilities which are included in paragraph (ii) of this Subsection); and **(ii)** not less than ninety percent (90%) of the liabilities of Avenor relating to the Business as of the Effective Time.

(af) Solvency. At the Effective Time and as of the date hereof Avenor was and is Solvent (both before and after giving effect to the transactions contemplated hereby); as used herein, the term "**Solvent**" means that at the Effective Time and as of the date hereof **(i)** Avenor was and is able to meet its obligations as they generally become due, **(ii)** Avenor had not and has not ceased to pay its obligations in the ordinary course of business as they generally become due, and **(iii)** the aggregate of Avenor's property was and is, at a fair valuation, sufficient, or if disposed of at a fairly conducted sale under legal process, would have been and would be sufficient, to enable payment of all of its obligations, due and accruing due.

(ag) Labour Cost Reduction Program. Avenor announced a capital expenditure program of approximately one hundred and fifty million dollars ($150,000,000) at its La Tuque mill on or about April 25, 1994; the Communications, Energy and Paperworks Union of Canada locals 530 and 27 ("**CEP**") and Syndicat Unik, local 34 ("**Unik**") have acknowledged that such announcement constitutes the announcement by Avenor of the capital expenditure program at the La Tuque mill contemplated in the recent amendments to the CEP Agreements (as described in the Prospectus) and in the recent amendments to the Unik Agreement (as described in the Prospectus); Avenor's labour cost reduction program at the La Tuque mill, providing for, among others, wage rates reductions of approximately seven percent (7%) for unionized employees and approximately six percent (6%) for non-unionized employees and reductions in the number of employees to six hundred and forty-five (645) by December 31, 1994 and six hundred and thirteen (613) by December 31, 1995, has been implemented, effective May 1, 1994, subject to the completion of the offering contemplated in the Prospectus.

(ah) Full Disclosure. Avenor has made or caused to be made due inquiry with respect to **(i)** each covenant, agreement, obligation, representation and warranty contained in this Agreement, **(ii)** the schedules annexed hereto, and **(iii)** any certificates or other documents referred to herein or furnished to St. Laurent pursuant hereto, and none of the aforesaid covenants, agreements, obligations, representations, warranties, schedules, certificates or documents contains any untrue statement of a material fact or omits to state a material fact necessary to make such representation, warranty, schedule, certificate or other document not misleading.

4.2 Representations and Warranties of St. Laurent. St. Laurent represents and warrants to Avenor as follows and acknowledges that Avenor is relying upon such representations and warranties in connection with the sale, assignment and transfer by Avenor to St. Laurent of the Transferred Assets and that Avenor would not have entered into this Agreement without such representations and warranties:

(a) Due Incorporation. St. Laurent is duly incorporated and organized, validly existing and in good standing under the Laws of its jurisdiction of incorporation.

(b) Due Authorization. St. Laurent has the necessary corporate power and authority to enter into and deliver this Agreement and to perform its obligations hereunder. The execution and delivery of this Agreement by St. Laurent and the performance by

St. Laurent of its obligations hereunder have been duly authorized by all necessary corporate action on its part. Such execution, delivery and performance by St. Laurent do not require any action or consent of, or any registration with or notification to, any Person or any action or consent under any Laws to which St. Laurent or its property are subject.

(c) <u>Enforceability of Obligations</u>. This Agreement constitutes a legal, valid and binding obligation of St. Laurent enforceable against it in accordance with its terms subject, however, to:

(i) limitations with respect to enforcement imposed by bankruptcy Laws, insolvency Laws and other Laws affecting creditors' rights generally; and

(ii) general principles of equity including the availability of equitable remedies, such as specific performance and injunction, which are remedies granted at the discretion of a court of competent jurisdiction from which they are sought.

(d) <u>No Conflict</u>. The execution and delivery of this Agreement, the consummation of the transactions contemplated herein, the performance by St. Laurent of its obligations hereunder and the compliance with the provisions hereof by St. Laurent do not:

(i) violate, contravene or breach, or constitute a default under, the constating instruments or by-laws of St. Laurent;

(ii) violate, contravene or breach, or constitute a default under any contract, agreement, indenture, instrument or commitment to which St. Laurent is a Party or subject or by which it is bound or affected; or

(iii) result in the violation of any Laws.

(e) <u>Registration for G.S.T. and Q.S.T.</u> St. Laurent is a registrant within the meaning of Part IX of the *Excise Tax Act* (Canada) and Chapter VIII of *An Act Respecting the Quebec Sales Tax* and its registration numbers are as follows:

Federal - 138 137 427
Quebec - 101 562 8282

(f) <u>Insurance</u>. St. Laurent maintains insurance with responsible and reputable insurers in such amounts and covering such risks as are generally maintained by like business.

The coverage under each such policy is in full force and effect and St. Laurent is in good standing under such policies. St. Laurent has not received from any insurer any notice relating to any defect in any of the Transferred Assets or any breach of contract, policy or policy application in connection with any Transferred Assets.

St. Laurent has not received notice of, and St. Laurent has no Knowledge of, any fact, condition or circumstance which might reasonably form the basis of any claims against any Transferred Assets which (i) is not fully covered by insurance (subject to deductibles) maintained in connection with the Business, or (ii) would likely result in any material increase in insurance premiums payable by St. Laurent.

(g) **St. Laurent's Knowledge**. In recognition of the fact that certain senior officers and employees of Avenor have managed the Business prior to the date hereof and that such officers and employees of Avenor have become employees of St. Laurent, St. Laurent acknowledges that certain of such individuals acting as officers of St. Laurent have delivered to Avenor contemporaneously with the execution of this Agreement a certificate as to the accuracy, based on their actual Knowledge, of the representations and warranties of Avenor given at Subsections 4.1(d)(ii) (as to Material Contracts only) and 4.1(d)(iv), 4.1(g), 4.1(h), 4.1(i), 4.1(k), 4.1(l) (the second and third paragraphs only), 4.1(m), 4.1(n), 4.1(o), 4.1(p), 4.1(q), 4.1(s), 4.1(t), 4.1(v), 4.1(x), 4.1(y), 4.1(z), 4.1(ab), 4.1(ac), 4.1(ad) and 4.1(ag) hereof. Furthermore, after having made due enquiry, St. Laurent represents and warrants that it is not aware that any of Messrs. J. Gurandiano, Marion Allaire, Dennis Bibeau, Denis Charlebois or Jean-René Martel have intentionally withheld from Avenor any fact or circumstance which is not disclosed by Avenor in its representations and warranties contained herein or in any other agreement or instrument delivered pursuant hereto or in any of the schedules annexed hereto and the disclosure of which fact or circumstance would make any such representation or warranty not misleading to St. Laurent.

Notwithstanding the foregoing, if a claim is successfully asserted against St. Laurent or Avenor under applicable laws by a security holder of St. Laurent (other than insiders of St. Laurent) who (i) purchased such securities directly from the underwriters listed in the Prospectus during primary distribution, or (ii) received La Tuque Employee Shares (as defined in the Prospectus) as part of the modified labour arrangements at the La Tuque mill (as described in the Prospectus), St. Laurent shall be entitled to seek indemnification from Avenor which it would otherwise be entitled to receive without regard to, and Avenor shall not raise as a defence (or, in the event the claim is successfully made against Avenor, shall not raise as an argument or fact in any claim against St. Laurent for indemnification), any Knowledge or deemed Knowledge of St. Laurent, its officers, directors or employees of any fact or circumstance which renders the representations and warranties contained herein or in any other agreement or instrument delivered pursuant hereto or in any of the schedules annexed hereto misleading or inaccurate.

ARTICLE V
COVENANTS

5.1 **Right of First Refusal on Freehold Immoveables**. If, at any time on or after the Effective Time until the ninety-ninth (99th) anniversary thereafter, St. Laurent desires to sell, transfer or otherwise alienate, directly or indirectly, including by way of dismemberments, two hundred and fifty (250) acres or more of the Freehold Immoveables (the "**Optioned Land**") in any one transaction or series of related transactions to a Person acting at arm's length from St. Laurent (whether St. Laurent received an offer from the Person, made an offer to the Person or proposes to make an offer to any Person -- in each case, the "**Original Offer**"), then St. Laurent shall first offer to sell outright (the "**Offer**") such Optioned Land to Avenor in accordance with the procedure set forth in this Section 5.1. Notwithstanding the foregoing, a series of two or more sales, transfers or alienations with the same Person, or an Affiliate thereof, within a period of one (1) year shall be deemed to be "one transaction or series of related transactions" for the purposes of this Section 5.1.

The Offer shall be sent to Avenor and shall be open for acceptance by Avenor for sixty (60) days (the "**Offer Period**") from the receipt of the Offer by Avenor. The Offer shall specify all of the essential terms of the Original Offer, including, without limitation, a description of the Optioned Land, the approximate area of the Optioned Land, the price per acre under the Original Offer of the Optioned Land, the method of payment of the price for the Optioned Land and the proposed date of closing for the purchase of the Optioned Land.

Avenor shall be obliged by delivering notice to St. Laurent within, but not after the expiration of, the Offer Period at its sole option to either:

(a) accept the Offer, or

(b) reject the Offer.

If Avenor does not accept the Offer within the Offer Period, then it shall be deemed to have rejected the Offer.

If Avenor has accepted the Offer, then St. Laurent shall sell outright to Avenor, and Avenor shall purchase from St. Laurent, the Optioned Land in accordance with the all of the non-price terms of the Original Offer (or on such other reasonable terms as the Parties may mutually agree) at a price per acre equal to the lesser of **(i)** twenty five dollars ($25) per acre, and **(ii)** the price specified in the Original Offer.

If Avenor has or is deemed to have rejected the Offer, then St. Laurent shall be free for a period of ninety (90) days from the end of the Offer Period to sell all (but not less than all) of the Optioned Land to any Person on terms (including, without limitation, the aggregate price) not more favourable than as provided in the Offer. If St. Laurent elects to sell, transfer or otherwise alienate (including by way of dismemberment) the Optioned Land to a third Person in accordance with this Section 5.1 after Avenor has or is deemed to have rejected the Offer, then Avenor shall be entitled to receive an amount equal to the excess (if any) of **(i)** the price per acre such third Person paid for the Optioned Land, over the sum of **(ii)** twenty five dollars ($25) per acre and **(iii)** all expenses (including, without limitation, commissions, professional fees and mutation taxes) incurred by St. Laurent in connection with the sale. St. Laurent shall pay Avenor such amount, without the necessity of a prior demand, immediately upon the receipt of the consideration by St. Laurent from such third Person; if the third Person pays for the Optioned Land by instalment, St. Laurent shall pay Avenor upon the receipt of each instalment a proportion of the above-referenced excess equal to the proportion the instalment is to the aggregate purchase price.

If no sale takes place within the said ninety (90) day period, then St. Laurent shall not transfer the Optioned Land without again following and being subject to this Section 5.1.

If the consideration St. Laurent received under the Original Offer was for other than money, in whole or in part, Avenor shall be entitled to receive its proportionate share of such non-cash consideration for the purpose of calculating and paying the above-referenced excess. In the event Avenor elects to exercise the option granted hereunder, the Parties shall negotiate in good faith with a view to determining the fair market value of the non-cash consideration that would have been paid under the Original Offer for the purposes of this Section 5.1. If the Parties are unable to agree on such determination, the matter shall be referred to arbitration under Section 9.13. The arbitrators shall resolve the matter with a view to the spirit and intent of this Section 5.1.

Notwithstanding the foregoing:

(i) the Parties agree that the amount of approximately seven hundred and twenty-five thousand dollars ($725,000) payable in respect of the Immoveables referred to in the letter dated March 14, 1994 from the *Ministère des ressources naturelles* as being acquired by the said Ministère, shall be entirely for the account of St. Laurent and the immoveables received in exchange by St. Laurent as partial consideration shall form part of the Freehold Immoveables;

(ii) if any of the Freehold Immoveables are expropriated by a Governmental Body (including, without limitation, Hydro-Quebec), Avenor shall be entitled only to the excess funds received from such Governmental Body (as calculated in this Section 5.1), and not to its right of first refusal on the Freehold Immoveables; and

(iii) if St. Laurent exchanges any Freehold Immoveables with another Person for any woodlands, Avenor shall not be entitled to exercise its right of first refusal over such exchanged Freehold Immoveables or to receive any excess in value the immoveables received in exchange by St. Laurent represents over twenty five dollars ($25) per acre subject, however, to the immoveables received in exchange by St. Laurent henceforth being subject to the terms of this Section 5.1 as if they were Freehold Immoveables on the date hereof.

If the Parties do not agree as to whether and in what manner the provisions of this Section 5.1 apply to any transaction, they shall negotiate in good faith to resolve the disagreement. If the Parties are unable to resolve the disagreement within thirty (30) days after such negotiations commenced, the matter shall be referred to arbitration under Section 9.13. The arbitrators, in arriving at their decision, shall take into account the spirit and intent of this Section 5.1.

5.2 **Cadastration**. Upon any sale, transfer or other alienation (including expropriation) of Optioned Land to a third Person pursuant to an Original Offer (but excluding any exchange of Freehold Immoveables pursuant to the last paragraph of Section 5.1), Avenor shall reimburse St. Laurent for fifty percent (50%) of the principal amount of any costs of cadastration of such Optioned Land (only) borne by St. Laurent by deduction made from the amount payable to Avenor, if any, pursuant to Section 5.1. If the aggregate amount payable to Avenor pursuant to Section 5.1 is less than fifty (50%) of the principal amount of any costs of cadastration of such Optioned Land, then Avenor shall only be responsible for such costs of cadastration up to the amount payable to Avenor pursuant to Section 5.1, and no more. Avenor shall not be obliged to reimburse St. Laurent with respect to any costs of cadastration of land acquired by St. Laurent in exchange for Freehold Immoveables which have been cadastered pursuant to paragraph 5.1(iii).

In the event the costs of cadastration for such Optioned Land are not specifically determinable, then St. Laurent and Avenor shall reasonably allocate a proportion of the total costs of cadastration of all Freehold Immoveables which have been cadastered which is equal to the proportion **(a)** the area of the Optioned Land which has been cadastered is to **(b)** the area of all Freehold Immoveables which have been cadastered.

Upon any sale of Freehold Immoveables from St. Laurent to Avenor, Avenor shall reimburse St. Laurent for one hundred percent (100%) of the principal amount of any costs of cadastration of such Freehold Immoveables. Avenor shall pay St. Laurent such costs of cadastration in cash, without the necessity of a prior demand, immediately upon the closing of the sale of the Freehold Immoveables.

In the event the costs of cadastration for such Freehold Immoveables sold to Avenor are not specifically determinable, then St. Laurent and Avenor shall reasonably allocate a proportion of the total costs of cadastration of all Freehold Immoveables which have been cadastered which is equal to the proportion **(c)** the area of the Freehold Immoveables sold to Avenor and which have been cadastered is to **(d)** the area of all Freehold Immoveables which have been cadastered.

In the event Avenor is obliged to reimburse St. Laurent for any costs of cadastration hereunder, St. Laurent shall provide Avenor with reasonable details of all such costs of cadastration. Avenor shall only be responsible for its share of costs which are substantiated.

5.3 **Suits**. Notwithstanding anything to the contrary in this Agreement, Avenor shall remain a Party to (or, in the case of the Tax reassessments referred to hereafter, assist the applicable employees in the prosecution and reimburse them for any additional taxes with respect to) the series of legal suits known as The Gibson Group Inc. and Clinch River Corporation and the Tax reassessments issued or to be issued for periods prior to the Effective Time against certain employees in La Tuque, Quebec with respect to housing provided to such employees (the "**Suits**") and shall be entitled to all of the benefits, and assume any damages, costs or expenses, associated with, the Suits whether final judgments are rendered with respect thereto or settlements thereof are agreed to. In consideration of Avenor agreeing to continue to be responsible under The Gibson Group Inc. and Clinch River Corporation Suits, St. Laurent agrees that, upon the request of Avenor, St. Laurent shall make reasonably available the services of

Mr. Marion Allaire, Vice-President, Administration and Secretary of St. Laurent, to assist Avenor in the prosecution, defence and administration of such Suits. In addition, St. Laurent shall provide Avenor, upon request, all such information, books and records as are reasonably necessary in order to assist in the administration and prosecution of Tax reassessment Suits referred to above. Only direct, out-of-pocket expenses incurred by St. Laurent or Mr. Allaire associated with the provision of his services in connection with the Suits shall be reimbursed by Avenor to St. Laurent. For greater certainty, Avenor shall not be responsible for any part of Mr. Allaire's salary.

5.4 **Reimbursement of Expenditures**. St. Laurent shall, within thirty (30) days of the presentation of invoice(s) therefor, reimburse Avenor in full for all expenditures listed on Schedule 5.4.

Avenor shall make available to St. Laurent the financial records of the Business in order to allow St. Laurent to obtain reasonable details of all such expenses, costs and other information necessary to substantiate the amounts reimbursable to Avenor under this Section 5.4. The books and records of Avenor containing such information shall be available for inspection by personnel and/or accountants of St. Laurent for a period of ninety (90) days after presentation of the applicable invoices, upon reasonable prior notice, to enable St. Laurent to review the accuracy of such information. Such Persons shall not create any unreasonable interference in the business of Avenor during the course of such examinations. Information obtained during the course of such examinations shall be deemed confidential and St. Laurent shall cause its personnel and/or accountants not to disclose such information other than as provided in this Section 5.4.

5.5 **St. Maurice River Roundwood**. Avenor shall be responsible for all of its expenses and costs associated with the disposal of remaining roundwood in the St. Maurice River and any remediation or clean-up associated with the presence or removal thereof without regard to any of the provisions of Sections 9.3 and 9.4, which shall not apply thereto.

In consideration of Avenor agreeing to be responsible for all of its expenses and costs associated with the disposal of remaining roundwood in the St. Maurice River and any remediation or clean-up associated with the presence of such roundwood, Avenor shall have the option, but not the obligation, at any time up to and including November 30, 1997, to require St. Laurent to purchase from Avenor, and St. Laurent hereby agrees when so required to purchase from Avenor, a quantity based on bone-dry tonnes of softwood chips equivalent to the lesser of (i) the quantity of roundwood removed by or on behalf of Avenor from the St. Maurice River on or after the Time of Closing, and (ii) twenty-five thousand cubic meters (25,000 m^3). No more than fifteen percent (15%) of such softwood chips shall be from sunken roundwood. Avenor shall be responsible for the costs of delivery of such softwood chips to the La Tuque mill. The purchase price of the softwood chips purchased by St. Laurent hereunder shall be equal to (i) in the case of softwood chips from non-sunken roundwood, the average delivery price of softwood chips purchased by St. Laurent for use at its La Tuque mill during the most recently preceding month that St. Laurent purchased softwood chips for use at its La Tuque mill, and (ii) in the case of softwood chips from sunken roundwood, eighty-five percent (85%) of the average delivery price of softwood chips purchased by St. Laurent for use at its La Tuque mill during the most recently preceding month that St. Laurent purchased softwood chips for use at its La Tuque mill. Any quantities of softwood chips produced from sunken wood shall be of a quality acceptable for use by St. Laurent in its operations. Such option shall be exercised by written notice to St. Laurent. Payment of the purchase price shall be made by St. Laurent in cash within thirty (30) days of delivery of the softwood chips purchased by St. Laurent hereunder.

Each Party shall provide the other with reasonable details of the applicable quantities of roundwood removed from the St. Maurice River and the relevant market price of softwood, as the case may be, and such other information as is necessary for the operation of this Section 5.5.

5.6 **Covenant to Prepare Updated Statement of Debts**. Avenor covenants and agrees that it shall prepare and deliver to St. Laurent as soon as practicable after the date hereof, but in no event later than August 1, 1994, an updated Statement of Debts listing **(i)** not less than ninety-six percent (96%) of the aggregate amount of indebtedness of Avenor on the date hereof (other than those liabilities which are indicated in paragraph (ii) of this Section); and **(ii)** not less than ninety percent (90%) of the liabilities of Avenor relating to the Business as of the Effective Time.

5.7 **Payment of Certain Environmental Costs**. Avenor covenants and agrees to pay directly when due, or to reimburse St. Laurent within thirty (30) days of a demand therefor the costs of the remedial work set forth in Schedule 5.7 annexed hereto up to the maximum amounts specified for each item of remedial work set out in Schedule 5.7, the whole only as required by the *Ministère de l'Environnement et de la Faune du Québec* in respect of the La Tuque mill, in order to effect the transfer to, or reissuance in the name of, St. Laurent of all Environmental Permits currently held by Avenor, or in the process of being obtained by Avenor, in connection with the La Tuque mill and which are necessary for the ownership and operation of the La Tuque mill in the course of the Business by St. Laurent.

Avenor shall retain the right of prior approval (which may not be unreasonably withheld or delayed) with respect to the conduct of the above-mentioned remedial work and expenses incurred in the course thereof and shall be entitled to inspect the work while in progress and at the termination thereof. St. Laurent shall cooperate with Avenor in such respect and shall provide Avenor with reasonable details of all expenses, costs, requirements and other information requested by Avenor in respect of such work. St. Laurent shall cooperate with Avenor in the prosecution or settlement of any claims against third Parties as a result of the non-performance by such third Parties of any of the remedial work.

5.8 **Option on Donohue Wood Chips**. Subject to obtaining any required consent of Donohue Inc., Avenor shall have the option, but not the obligation, at any time on or after the Time of Closing up to September 23, 1998, to require St. Laurent to sell to Avenor, and St. Laurent hereby agrees when so required to offer to Avenor, the residual wood chips not purchased by St. Laurent for its own needs under the letter agreement dated September 24, 1993 between Avenor and Donohue Inc., the whole at the price and upon the terms and conditions set out in such letter agreement. The Parties shall use their best efforts to obtain the consent of Donohue Inc. to any exercises of the above option. Avenor shall indicate to St. Laurent annually between December 1 and January 31 the annual quantity of residual wood chips it would be prepared to purchase hereunder in order that St. Laurent may perform its obligation to Donohue Inc. under the letter agreement to indicate during the same period the quantities of residual wood chips St. Laurent will require for such year. Upon exercise of such option by Avenor, Avenor shall be required to purchase the residual wood chips not purchased by St. Laurent for its own needs and shall indemnify and hold St. Laurent harmless for any non-performance of such obligation.

5.9 **Non-Solicitation of Employees**. For a period of three (3) years from and after the date hereof, neither Party shall, and shall not knowingly permit any of its respective Affiliates to, on its behalf or on behalf of any other Person, directly or indirectly:

(a) employ, offer employment to or solicit the employment or engagement of or otherwise entice away from the employment of the other Party any individual who is employed by such other Party as an officer or employee with managerial, supervisory or professional functions, whether or not such individual would commit any breach of his contract or terms of employment by his reasons of leaving the employ of such other Party, or

(b) procure or assist any Person to employ, offer employment or solicit the employment or engagement of or otherwise entice away from the employment of the other Party any individual who is employed by such other Party as an officer or employee with managerial functions.

Notwithstanding the foregoing, either Party may (i) request any employee of the other Party, and with the consent of the President and Chief Executive Officer of such other Party, to allow his name to stand for election as a director of the first such Party, and (ii) employ any individual employed by the other Party if the first such Party *bona fide* did not solicit or entice directly or indirectly, such individual to leave the employment of the other Party.

5.10 **Right of First Refusal on Certain Freehold Immoveable Wood Harvests**. If, at any time on or after the Effective Time until the seventh (7th) anniversary thereafter, St. Laurent desires to offer to any Person acting at arm's length from St. Laurent (whether St. Laurent received an offer from the Person, made an offer to the Person or proposes to make an offer to any Person -- in each case, the "**Original Offer**") the right to harvest wood on all or any part consisting of more than one (1) acre of the approximately five hundred and thirty-two (532) acres of Freehold Immoveables located near Rivières-aux-Rats in the Province of Quebec, then St. Laurent shall first offer to Avenor (the "**Offer**") the right to harvest wood on such Freehold Immoveables in accordance with the procedure set forth in this Section 5.10.

The Offer shall be sent to Avenor and shall be open for acceptance by Avenor for thirty (30) days (the "**Offer Period**") from the receipt of the Offer by Avenor. The Offer shall specify all of the essential terms of the Original Offer, including, without limitation, a description of the Freehold Immoveables upon which the wood may be harvested, the price or royalties payable for such right, the method of payment of the price or royalties and the proposed duration of such agreement.

Avenor shall be obliged by delivering notice to St. Laurent within, but not after the expiration of, the Offer Period at its sole option to either:

(a) accept the Offer, or

(b) reject the Offer.

If Avenor does not accept the Offer within the Offer Period, then it shall be deemed to have rejected the Offer.

If Avenor has accepted the Offer, then St. Laurent and Avenor shall be obliged to enter into a binding agreement granting Avenor the right to harvest wood on the applicable Freehold Immoveables, the whole in accordance with the terms of the Original Offer (or on such other reasonable terms as the Parties may mutually agree).

If Avenor has or is deemed to have rejected the Offer, then St. Laurent shall be free for a period of sixty (60) Business Days from the end of the Offer Period to enter into a binding agreement with any Person to harvest wood on the applicable Freehold Immoveables on terms not more favourable than as provided in the Offer.

If no binding agreement between St. Laurent and a third Person to harvest wood on the applicable Freehold Immoveables is entered into within the said sixty (60) Business Day period, then St. Laurent shall not offer the right to harvest wood on the applicable Freehold Immoveables without again following and being subject to this Section 5.10.

5.11 **Banked Vacation Time**. Avenor covenants and agrees that it has paid on the date hereof, or will no later than December 31, 1994, pay all Employees who have accumulated banked vacation time under Avenor's policy for such, an amount of money representing the Employees' respective entitlements to receive money in lieu of salary or wages for vacation not taken on or before the Effective Time.

5.12 **Transmission Towers**. St. Laurent covenants and agrees to respect Avenor's undertakings to Telecommunications La Tuque Inc. with respect to the three (3) transmission towers referred to in Subsection 2.1(o) hereof, including the obligation to sell the towers to Telecommunications La Tuque Inc.

5.13 **Covenant to Enter into Servitude**. St. Laurent covenants and agrees, as soon as practicable after the date hereof, to enter into a personal servitude for right of access with Emballages Cascade P.A.T. Inc. substantially on the same terms as the servitude executed on May 11, 1994, between Avenor and Emballages Cascade P.A.T. Inc. before notary Robert Lussier under his minute number 11,213.

5.14 **Access to Books and Records**. St. Laurent covenants and agrees, (i) not to destroy for as long as required under applicable statutory periods any Books and Records relating to periods prior to the Effective Time and books and records relating to the Business as conducted during the Interim Period; and (ii) at no cost to Avenor, make available during such applicable statutory periods to Avenor upon reasonable request such Books and Records and books and records relating to the Business as conducted during the Interim Period in order that Avenor may prepare its Tax returns, prepare its financial statements, defend or prosecute any claims and for any other reasonable purpose that Avenor may require such documents. Information obtained during the course of any such examinations by Avenor shall be deemed confidential and Avenor, to the extent permitted by Law or as necessary for the particular purpose for which Avenor requires access to such documents, shall cause its personnel, accountants or agents not to disclose such documents or information contained therein other than as set out in this Section 5.14. At the end of the applicable statutory periods mentioned above, St. Laurent shall notify Avenor prior to destroying any such documents.

ARTICLE VI
OPTION FOR MARKET PULP

6.1 **Appointment**. If at any time between the Effective Time and June 30, 1999, St. Laurent produces for purposes of resale market pulp not for its own use or use of its Affiliates, Avenor shall have the exclusive one-time option, but not the obligation, to purchase all or part of such market pulp for sale anywhere in the world for a term commencing on the date of exercise of such option by Avenor and expiring on June 30, 1999. Avenor shall be obliged to notify St. Laurent whether it will elect to exercise its option granted hereunder within thirty (30) days following receipt of notice from St. Laurent that it has or will produce market pulp for resale to a non-Affiliate, failing which Avenor shall be deemed not to have exercised its option and such option shall immediately become null and void. Notwithstanding the foregoing, if Avenor at any time declines to exercise the option granted hereunder and St. Laurent subsequently ceases production of market pulp for a period of at least six (6) months, the option granted hereunder shall revive and Avenor shall be entitled to re-exercise its option pursuant to the terms of this Article VI on any future production of market pulp by St. Laurent. Avenor shall use its best efforts to promote the sale of, and to solicit and secure orders for, any market pulp so produced by St. Laurent, the whole at the prices and according to the terms and conditions approved by St. Laurent acting reasonably and consistent with industry standards unless otherwise specified hereafter. In the event the Parties are unable to agree upon the terms and conditions based on standards in the industry, the matter shall be referred to arbitration pursuant to Section 9.13 hereof.

6.2 **Conflicts of Interest**. St. Laurent hereby acknowledges that Avenor and its Affiliates are in the market pulp business and, that in certain markets, Avenor and its Affiliates may be in direct competition with St. Laurent for such products. Avenor shall in no manner be liable to account for profits with respect to such activities of Avenor and its Affiliates.

6.3 **Price**. Avenor shall solicit and take orders for the market pulp at a price consistent with the prevailing prices for market pulp at the time of the taking of the relevant orders. Decisions regarding a customer's credit, and all matters relating to billings and shipments to customers, shall be made exclusively by Avenor. All risk associated with extending credit to customers shall be borne by Avenor.

6.4 **Commissions**. As full compensation for all services to be rendered by Avenor to St. Laurent under this Article VI, Avenor shall be deemed to have earned and shall be entitled to deduct from amounts owing to St. Laurent by Avenor, unless specifically agreed otherwise in writing, a commission equal to three percent (3%) of the net selling price of the market pulp sold in North America and five percent (5%) of the net selling price of market pulp sold outside North America, denominated in each case in the same currency as the underlying sale. For the purposes of this Article VI, "**net selling price**" shall mean the gross amount of invoices rendered to customers, less deductions for any sales Tax, goods and services or other retail or service Tax, freight allowances, trade or cash discounts (in each case provided that such amounts are shown separately on the invoices rendered to customers). Notwithstanding the foregoing, no commission shall be payable for sales to Avenor, St. Laurent or any of their Affiliates unless Avenor, St. Laurent or any of their Affiliates subsequently sells the market pulp to a third Person who is not Avenor, St. Laurent or an Affiliate of Avenor or St. Laurent. St. Laurent shall pay and remit to Avenor or the applicable Governmental Body any sales Tax, goods and services or other retail or service Tax (excluding, for greater certainty, any income, capital or similar Tax) payable by St. Laurent on such commissions.

6.5 **Business Plan - Quantities**. If, during the term of the option granted pursuant to this Article VI, St. Laurent intends to produce market pulp, it shall, at least ninety (90) days prior thereto, inform Avenor in writing of its intention to do so and provide Avenor with a business plan with respect thereto which shall be for a period of not less than six (6) months and which shall indicate the quantity of market pulp to be produced by St. Laurent during such period. At least thirty (30) days prior to the commencement of such business plan period, Avenor shall inform St. Laurent in writing of whether it intends to exercise its option hereunder and, if it elects to exercise such option, of the quantity of market pulp (such quantity to be no greater than that specified by St. Laurent in its notice to Avenor for such business plan period) that it will purchase under the terms of the option granted to Avenor hereunder. If the quantity of market pulp that St. Laurent has specified in its notice to Avenor is greater than that specified by Avenor in its notice, then St. Laurent shall be allowed to solicit and take order for such difference (and no more) during such business plan period without application of the terms of this Article VI (including the payment of commissions).

Ninety (90) days prior to the expiration of said business plan period, the provisions of the preceding paragraph shall apply *mutatis mutandis*.

6.6 **Payment**. Avenor shall pay St. Laurent for the market pulp purchased by Avenor upon the exercise of any option granted hereunder within fifteen (15) days following the end of the payment term granted to the client of Avenor which purchased such market pulp, such payment term to be consistent with industry standards.

ARTICLE VII
EMPLOYEES

7.1 **Continued Employment of Unionized Employees**. All unionized Employees shall be deemed to have been offered employment by St. Laurent on the same terms and conditions of employment as enjoyed under the applicable collective agreements immediately prior to the Effective Time.

From the Effective Time, St. Laurent shall be bound, to the exclusion of Avenor, by the terms and conditions of the collective agreements applicable to the unionized Employees as described at Schedule 4.1(v) annexed hereto, as a successor employer, except those provisions which are clearly inoperable to St. Laurent as a successor employer, and St. Laurent shall indemnify and hold Avenor harmless against any claim resulting from, arising out of or related to the employer's obligations under any of the said collective agreements arising after the Effective Time.

7.2 **Continued Employment of the Salaried Employees**. All salaried and other non-unionized Employees shall be deemed to have been offered employment by St. Laurent on substantially the same terms and conditions of employment as were enjoyed immediately prior to the Effective Time (except Avenor's policy with respect to banked vacation) and from the Effective Time St. Laurent shall indemnify and hold Avenor harmless against any claim resulting from, arising out of or relating to said terms and conditions of employment.

7.3 **Severance**. Avenor shall not be directly responsible for any severance or termination costs incurred with respect to any unionized Employees and any salaried or other non-unionized Employees terminated for any reason after the Effective Time. St. Laurent shall recognize accumulated service with both Avenor and St. Laurent for purposes of determining any such severance and termination costs, including, without limitation, any damages arising out of, resulting from or in connection with any wrongful dismissal of such Employees or for the purpose of any pension, retirement or other benefit arrangements made by St. Laurent.

For greater certainty, St. Laurent shall not be liable for any severance, termination or other payments payable to any employees who are not Employees.

7.4 **Pension and Other Benefit Plans**.

(a) Pension Plans

(i) Effective as of June 1, 1994 (the "**Division Date**"), Avenor shall establish and, as soon as practicable following the Division Date, apply for registration with the relevant regulatory authorities of the St. Laurent Pension Plans, which shall cover the Employees and Retirees for both past and future service and shall assume, as of the Division Date, the Avenor Pension Plans' liabilities in respect of the Employees and the Retirees (the "**Pension Liabilities**"). For greater certainty, the Pension Liabilities shall equal the actuarial liabilities of the Avenor Pension Plans as of the Division Date in respect of the Employees and Retirees on an ongoing basis.

(ii) Effective as of the Division Date, the Employees shall cease to participate actively in, or accrue benefits under, the Avenor Pension Plans and shall commence participation in the St. Laurent Pension Plans. On the date hereof, the St. Laurent Pension Plans shall recognize the period of service recognized under the Avenor Pension Plans for all purposes and shall contain provisions essentially identical to and no less favourable to the Employees and the Retirees than those of the Avenor Pension Plans.

(iii) Avenor's actuary shall have completed prior to the date hereof the calculations of the Pension Liabilities, in accordance with the actuarial methods and assumptions set out in Schedule 7.4(a), which methods and assumptions shall be consistent with the methods and assumptions utilized in the most recent valuations of the Avenor Pension Plans. Notwithstanding the foregoing, Avenor's actuary may revise such calculations following the date hereof so as to reflect any relevant information not available at the time the initial calculations were performed or the requirements of the regulatory authorities. The calculations of Avenor's actuary shall be made available to St. Laurent and its actuary for their review. Any increase or decrease to the Pension Liabilities resulting from revisions in the Avenor actuary's calculations following the date hereof shall be compensated by means of payment from the funding medium of the relevant Avenor Pension Plan to the funding medium of the relevant St. Laurent Pension Plan or vice versa, as the case may be, in an amount equal to such increase or decrease.

(iv) Avenor shall, effective as of the Division Date, cause the funding agent of the Avenor Pension Plans to establish for the purposes of the St. Laurent Pension Plans two segregated accounts (the "**Segregated Accounts**") within the funding media of the Avenor Pension Plans. Avenor shall have caused to be transferred to each of the Segregated Accounts as of the Effective Time units of the master trust in which the Avenor Pension Plans invest (the "**Master Trust**") having a market value equal to the Pension Liabilities in respect of the relevant St. Laurent Pension Plan, less $10,971,000 which Avenor shall have contributed prior to the date hereof to the St. Laurent Pension Plans. Such market values less $10,971,000 shall be referred to as the "**Transfer Amounts**". The Transfer Amounts shall be held in the Segregated Accounts (adjusted as described below) until the date the balances in the Segregated Accounts are transferred from the funding media of the Avenor Pension Plans to the funding media of the St. Laurent Pension Plans pursuant to Section 7.4(a)(vi) (the "**Transfer Date**") and, except as provided in Section 7.4(a)(x), Section 7.4(d)(ii) or Section 7.4(d)(ii), shall be invested until the Transfer Date in the Master Trust. For greater certainty, Avenor shall not be required to guarantee any particular rate of return on the assets in the Segregated Accounts.

(v) All pension benefit payments payable between the Division Date and the Transfer Date to Employees or Retirees or their beneficiaries shall be paid out of the relevant Segregated Account.

(vi) Subject to Sections 7.4(a)(vii), 7.4(a)(x), 7.4(d)(ii) and 7.4(d)(ii), following receipt of the required regulatory approvals, Avenor shall cause the balances of the Segregated Accounts to be transferred from the funding media of the Avenor Pension Plans to the funding media of the St. Laurent Pension Plans. Effective upon the completion of such transfer, and subject to Section 7.4(d)(ii), Avenor and the Avenor Pension Plans shall be completely discharged of their obligations with respect to the pension benefits accrued by the Employees and Retirees.

(vii) If any regulatory authority refuses to permit a transfer of assets from the funding medium of the relevant Avenor Pension Plan to the funding medium of the relevant St. Laurent Pension Plan equal to the balance in the relevant Segregated Account and directs that a different amount be paid instead, as a result of any previous divisions or partial terminations of the Avenor Pension Plans or otherwise, the transfer shall be made in accordance with such regulatory authority's direction, subject to the following:

(A) the Parties shall make all reasonable efforts to have the regulatory authority agree to change its direction and permit a transfer of assets equal to the balance in the relevant Segregated Account;

(B) if the Parties are unable to succeed under (A) above after a reasonable period of time, the Parties shall make all reasonable efforts to have the regulatory authority revise its requirements and agree to an arrangement which is the most tax effective for the Party which would be required to make a compensatory payment under Sections 7.4(a)(vii)(C) or 7.4(a)(vii)(D);

(C) subject to (B) above, if the amount required to be transferred exceeds the balance in the relevant Segregated Account, St. Laurent shall pay to Avenor an amount equal to the excess;

(D) subject to (B) above, if the balance in the relevant Segregated Account exceeds the amount required to be transferred, Avenor shall pay to St. Laurent an amount equal to the excess and the St. Laurent Pension Plans shall transfer to the Avenor Pension Plans the excess of the balance in the relevant Segregated Account over the amount required to be transferred, failing which no amount shall be paid by Avenor to St. Laurent and St. Laurent shall pay to Avenor an amount equal to the excess of the balance in the relevant Segregated Account over the amount required to be transferred to Avenor.

(viii) As soon as practicable after the Effective Time, the Parties shall take such actions and file such applications with the appropriate regulatory authorities as are required to substitute St. Laurent for Avenor as participating employer in the St. Laurent Pension Plans effective as of the Effective Time. St. Laurent shall assume all rights, obligations, and responsibilities of Avenor under or pursuant to the St. Laurent Pension Plans as of the Effective Time and shall maintain the St. Laurent Pension Plans for at least five (5) years following the Effective Time.

(ix) During the period between the Division Date and the Transfer Date, and subject to the terms of the instruments of delegation from the St. Laurent Pension Plan committees to Avenor and the provisions elsewhere in this Section 7.4(a) governing the investment of the Transfer Amounts, Avenor shall cause the St. Laurent Pension Plans to be administered in the same manner as the Avenor Pension Plans are being administered in respect of the Employees and Retirees, except for the accrual of additional benefits beyond the Division Date, unless otherwise agreed in writing by the

Parties. Avenor shall cause to have separately recorded and accounted for all benefit distributions and other payments (return of contributions or other periodic or lump sum benefit payments) relating to the Employees and Retirees occurring during such period. During the period between the Effective Time and the Transfer Date, St. Laurent shall reimburse to Avenor following each calendar quarter a percentage of the charges for pension investment and other external services (other than actuarial valuation services) incurred by Avenor in that quarter and related to the St. Laurent Pension Plans, such percentage to be equal to the proportion that the combined balances in the Segregated Accounts represent of the total Master Trust assets in that quarter. For the purposes of the preceding sentence, Avenor shall act reasonably in determining which such services or portions thereof are related to the St. Laurent Pension Plans. Compensation for pension administration services shall be governed by the Management Services Agreement between the Parties of even date. During the period between the Division Date and the date hereof, Avenor shall cause the St. Laurent Pension Plan pension committees to be covered by Chubb Insurance Company of Canada fiduciary liability policy 8125-89-47A or a policy providing coverage identical thereto, as well as the indemnification described in the Avenor indemnity dated April 16, 1991. During the period between the date hereof and the Transfer Date, St. Laurent shall cause the St. Laurent Pension Plan pension committees to be covered by a fiduciary liability insurance policy and a corporate indemnity identical essentially to those described in the immediately preceding sentence.

(x) Subject to Section 7.4(d)(ii), the Master Trust units in the Segregated Accounts shall be redeemed as of December 31, 1994 or such earlier month end agreed to in writing by the Parties. Except as otherwise agreed in writing by the Parties or as required to adjust for rounding purposes, the said redemption value shall be credited to the Segregated Accounts in the form of assets in kind equal to the Segregated Accounts' pro rata Share as of the redemption date of each of the Master Trust's assets. There will be no redemption cost incurred by St. Laurent. Following completion of such redemption, the investment of the assets in the Segregated Accounts shall be the sole responsibility of St. Laurent, the St. Laurent Pension Plans' pension committees, and/or their delegates, and Avenor and its delegates shall have no responsibility or liability therefor.

(xi) Notwithstanding Section 7.4(a)(x), Avenor shall not be required to effect the redemption of the Segregated Accounts' Master Trust units prior to the Transfer Date unless it has determined that St. Laurent has taken the necessary steps to manage professionally the investment of the Segregated Account assets. Such determination shall be made by Avenor in its sole discretion, acting reasonably.

(b) Benefit Plans

(i) Effective as of the date hereof, St. Laurent shall establish benefit plans (the "**St. Laurent Benefit Plans**") the terms of which shall be no less favourable in the aggregate in respect of the Employees than those of the Avenor Benefit Plans and identical in respect of the Retirees to those of the Avenor Benefit Plans.

(ii) Effective as of the Effective Time, but subject to Subsections 7.4(b)(iii) and 7.4(b)(iv), the Employees shall cease to participate in, and accrue benefits under, the Avenor Benefit Plans and shall commence participation in the St. Laurent Benefit Plans. Employees who are not participating in the Avenor Benefit Plans at the Effective Time may become participants in the St. Laurent Benefit Plans in accordance with the terms thereof.

(iii) Avenor and/or the Avenor Benefit Plans shall retain responsibility for all amounts payable by reason of or in connection with any and all claims incurred by the Employees and Retirees prior to the Effective Time. All such amounts shall be paid when due in accordance with the provisions of the Avenor Benefit Plans. Subject to Subsections 7.4(b)(iv) and 7.4(b)(v) below, St. Laurent and/or the St. Laurent Benefit Plans shall be responsible for all amounts payable by reason of or in connection with any and all claims incurred by the Employees and Retirees on or after the Effective Time. For the purposes of this Section, a claim shall be deemed to have been incurred:

(A) with respect to all death or dismemberment claims, on the actual date of death or of dismemberment;

(B) with respect to weekly indemnity or short term disability claims, on each day for which income benefits are payable to the claimant; and

(C) with respect to all hospital, medical, drug or dental claims, on the date the service or supply was purchased or received by the Employee or Retiree or their eligible dependent.

Where a claim includes more than one service or supply, each of which occurs at a single point in time (for example, a series of dental appointments related to a treatment plan), each such service or supply shall result in a separate claim incurred as of the date on which the service or supply was purchased or received. If sufficient information is not available to identify charges associated with each claim (but is sufficient for payment of the claims in the ordinary course of claims adjudication), the total charges shall be prorated over the number of claims. With respect to all disability claims, other than short term disability or weekly indemnity benefits, St. Laurent and/or the St. Laurent Benefit Plans shall be responsible for all amounts payable in respect of the Employees at or after the Effective Time. Avenor will cause the applicable Disabled Life Reserves and the Insured But Not Reported (IBNR) Reserves maintained by Avenor's Benefit Plan insurer and applicable to the Employees and Retirees as of the Effective Time to be transferred to the relevant St. Laurent Benefit Plan.

(iv) Where a hospital, medical or drug claim is incurred at or after the Effective Time, but the date of occurrence of an injury, diagnosis of an illness, or any other event which gives rise to such a claim or a series of related claims, is prior to the Effective Time, St. Laurent shall be responsible for such claims to a cumulative maximum of $10,000 per individual and Avenor shall be responsible for all such claims of an individual in excess thereof. For greater certainty, it is understood and hereby acknowledged that liability for dental claims in respect of any Employee or Retiree under the St. Laurent Benefit Plans will not exceed $2,000 in any calendar year, except where optional orthodontics benefits apply, in which case the individual may also claim up to $1,500 in any calendar year in respect of orthodontics.

(v) Notwithstanding the foregoing, Avenor shall reimburse St. Laurent for all amounts payable by St. Laurent or the St. Laurent Benefit Plans (excluding all taxes or similar duties payable by St. Laurent) by reason of or in connection with any and all claims incurred on the basis set out in sub-paragraphs (A) to (C) of Section 7.4(b)(iii) or Section 7.4(b)(iv) above by Retirees under the St. Laurent Benefit Plans between the Effective Time and December 31, 1995 inclusive to a maximum of, (A) on an aggregate basis, two million dollars ($2,000,000), and (B) on an individual claims basis, the amount Avenor or the Avenor Benefit Plans would be responsible for under the terms of the Avenor Benefit Plans had such Retiree made a claim just prior to the Effective Time. Such reimbursement shall be made by Avenor in cash on a quarterly basis within ten (10) days of a demand therefor by St. Laurent.

(c) Employee Communications

The Parties shall use their best efforts to cooperate with each other in making any required or desirable communications with Employees and Retirees as they relate to any of the Avenor Benefit Plans or St. Laurent Benefit Plans.

(d) Indemnities.

(i) Subject to the other provisions of this Section 7.4, Avenor agrees to indemnify and hold harmless St. Laurent from and against any and all actions, claims, damages, demands, expenses, liabilities, liens, losses, suits or other obligations whatsoever, together with costs and expenses, including legal fees and disbursements and expenses of investigation that St. Laurent may incur in connection with or arising out of any action or alleged actions taken by Avenor at any time and attributable to the period prior to the Effective Date with respect to the Avenor Benefit Plans, the Avenor Pension Plans, or the St. Laurent Pension Plans, or with respect to the operation, investment and administration thereof, or arising out of any benefit claims and liabilities under such Plans in respect of Employees or Retirees or arising out of any benefit claims and liabilities under the St. Laurent Benefit Plans in respect of Employees or Retirees attributable to the period prior to the Effective Time. Subject to the other provisions of this Section 7.4, St. Laurent agrees to indemnify and hold harmless Avenor from and against any and all actions, claims, damages, demands, expenses, liabilities, liens, losses, suits or other obligations whatsoever, together with costs and expenses, including legal fees and disbursements and expenses of investigation, that Avenor may incur in connection with or arising out of any action or alleged actions taken by St. Laurent at any time and attributable to the period after the Effective Date with respect to the St. Laurent Benefit Plans or St. Laurent Pension Plans or with respect to the operation, investment and administration thereof, or arising out of any benefit claims and liabilities under such Plans in respect of Employees or Retirees or arising out of any benefit claims and liabilities under the Avenor Benefit Plans in respect of Employees and Retirees attributable to the period from and after the Effective Time.

(ii) Notwithstanding Section 7.4(a)(vi), should St. Laurent be required by the decision of any governmental authority, court or arbitrator, at any time, to make any contribution to any of the St. Laurent Pension Plans or otherwise compensate participants in such Plans as a result of a reduction or suspension of contributions by Avenor in respect of any of the Avenor Pension Plans at any time prior to the Division Date, Avenor shall, in the circumstances set out below, cause the funding medium of the relevant Avenor Pension Plan to transfer to the funding medium of the relevant St. Laurent Pension Plan the amount required to be paid by St. Laurent for such required contribution or other compensation. Such transfer need only be made: (a) to the extent the above-mentioned requirement does not arise as a result of or in relation to the termination of any of the St. Laurent Pension Plans; (b) subject to approval of the regulatory authorities; (c) if the decision of any governmental authority, court or arbitrator requiring such contribution or other compensation is made no later than five (5) years from and after the Division Date; (d) to the extent such amount is immediately credited to the Plan participants or their beneficiaries as part of the decision and not to St. Laurent or the St. Laurent Pension Plans in general; and (e) such decision is not made in response to a procedure launched by any Person or group of Persons at the suggestion of St. Laurent. St. Laurent shall notify Avenor of any claim in relation hereto and Avenor shall be entitled to defend such claim in the name and stead of St. Laurent. Failure of St. Laurent to give notice to Avenor shall preclude St. Laurent from claiming the benefit of this clause.

7.5 **Release from Restrictive Covenants**. Avenor hereby releases all Employees who accept employment with St. Laurent from any covenants in favour of Avenor which would limit each such Employee's services to St. Laurent or which would impose upon such Employee any monetary or other obligation to Avenor otherwise resulting from the termination of such Employee's employment with Avenor. For greater certainty, nothing herein shall be interpreted as releasing Employees from non-disclosure, confidentiality or secrecy covenants related to aspects of Avenor's business other than the Business.

7.6 **No Third Party Beneficiaries**. Each Party intends that this Agreement or any agreement entered into pursuant to this Agreement shall not benefit or create any right or cause of action in or on behalf of any Person (including, without limitation, any of the Employees) other than the Parties or the Parties to such other agreements, and no Person (including, without limitation, any of the Employees), other than the Parties or the Parties to such other agreements, shall be entitled to rely on the provisions hereof or any agreement entered into pursuant hereto in any action, proceeding, hearing or other forum.

ARTICLE VIII
SURVIVAL OF REPRESENTATIONS AND WARRANTIES

8.1 **Survival of Representations and Warranties of Avenor**. The representations and warranties of Avenor contained in this Agreement, in the schedules annexed hereto or in any certificate or other document delivered or given pursuant to this Agreement shall survive the consummation of the transactions contemplated by this Agreement, and notwithstanding such completion or any investigation made by or on behalf of St. Laurent or any knowledge by St. Laurent of any incorrectness in, or breach of, such representation or warranties, shall, notwithstanding any rule of Law to the contrary, continue in full force and effect for the benefit of St. Laurent for a period of four (4) years from the date hereof, except:

(a) any representation and warranty with respect to title to the Transferred Assets or in respect of which a claim based on fraud is made, which in each case shall be unlimited as to duration; and

(b) the representations and warranties made in Subsection 4.1(z), which shall survive for a period of five (5) years from the date hereof.

Notwithstanding anything to the contrary herein provided, St. Laurent shall, in the event of any incorrectness in, or breach of, a representation or warranty of Avenor, be permitted to make a claim or exercise any remedy against Avenor under this Agreement after the expiration of any period referred to in this Section 8.1; provided, however, that St. Laurent shall have given notice to Avenor of such incorrectness or breach prior to the expiration of the applicable period.

8.2 **Survival of Representations and Warranties of St. Laurent**. The representations and warranties of St. Laurent contained in this Agreement, in the schedules annexed hereto or in any certificate or other document delivered or given pursuant to this Agreement shall survive the completion of the transactions contemplated by this Agreement, and notwithstanding such completion or any investigation made by or on behalf of Avenor or any knowledge by Avenor of any incorrectness in, or breach of, such representations or warranties, shall, notwithstanding any rule of Law to the contrary, continue in full force for the benefit of Avenor for a period of four (4) years from the date hereof; except any representation and warranty in respect of which a claim based on fraud is made, which in each such case shall be unlimited as to duration.

Notwithstanding any other provision contained herein, Avenor shall, in the event of any incorrectness in, or breach of, a representation or warranty by St. Laurent, be permitted to make a claim or exercise any remedy against St. Laurent under this Agreement after the expiration of any period referred to in this Section 8.2; provided, however, that Avenor shall have given notice to St. Laurent of such incorrectness or breach prior to the expiration of the applicable period referred to above.

ARTICLE IX
INDEMNIFICATION

9.1 **Indemnification by Avenor**. Except with respect to environmental matters set out in Section 4.1(z) and Section 5.7 (which are provided for in Sections 9.3 and 9.4), Avenor shall indemnify and hold harmless St. Laurent from and against any claims, demands, actions, causes of action, judgments, damages (excluding indirect or consequential damages or loss of profits), losses (which shall include any diminution in value), liabilities, costs or expenses (including, without limitation, interest, penalties and reasonable attorneys' and experts' fees and disbursements) (collectively, the "**Losses**") which may be made against St. Laurent or which it may suffer or incur as a result of, arising out of or relating to:

(a) any breach, non-performance of or non-compliance with any covenant, agreement or obligation of Avenor under or pursuant to this Agreement;

(b) any incorrectness in, or breach of, any representation or warranty made by Avenor in Section 4.1, the schedules annexed hereto or in any certificate or other document delivered or given pursuant to this Agreement, whether or not St. Laurent relied thereon or had knowledge thereof;

(c) any actions, suit, claim, trial, demand, investigation, arbitration or other proceeding by any Person containing allegations which, if true, would constitute an event described in Subsection 9.1(a) or 9.1(b);

(d) any liabilities or obligations of Avenor other than Assumed Liabilities;

(e) the non-compliance by Avenor or St. Laurent with respect to any applicable bulk sales (sale of an enterprise) legislation in connection with the sale, transfer and assignment of the Transferred Assets by Avenor to St. Laurent hereunder, including any omission or inaccuracy on the Statement of Debts, whether or not non-intentional; or

(f) the Suits.

As collateral security for the performance by Avenor of its obligation in subsection 9.1(e), Avenor shall tender an amount equal to two hundred and forty-seven million five hundred and six thousand and two hundred dollars ($247,506,200) in escrow with the Montreal Trust Company, subject to the terms and conditions of an escrow agreement dated the date hereof, and Avenor shall secure its obligations to indemnify St. Laurent pursuant to Subsection 9.1(e) by way of a moveable hypothec in favour of St. Laurent.

9.2 **Indemnification by St. Laurent**. St. Laurent shall indemnify and hold harmless Avenor from and against any Losses which may be made against Avenor or which Avenor may suffer or incur as a result of, in respect of or arising out of:

(a) any breach, non-performance of or non-compliance with any covenant, agreement or obligation of St. Laurent under or pursuant to this Agreement including, without limitation, the due and timely discharge of the Assumed Liabilities in accordance with Section 2.5 and the Contracts, Real Property Leases and Benefit Plans in respect of Employees in accordance with Section 2.6;

(b) any incorrectness in, or breach of, any representation or warranty made by St. Laurent in Section 4.2, the schedules hereto annexed or in any certificate or other document delivered or given pursuant to this Agreement, whether or not Avenor relied thereon or had knowledge thereof; or

(c) any action, suit, claim, trial, demand, investigation, arbitration or other proceeding by any Person containing allegations which, if true, would constitute an event described in Subsection 9.2(a) or 9.2(b).

9.3 **Environmental Indemnity and Limitation of Liability**. Avenor shall indemnify and hold harmless St. Laurent from and against any Losses which may be made against St. Laurent or which St. Laurent may suffer or incur as a result of, in respect of, or arising out of:

(a) any incorrectness in or breach of Avenor's representations and warranties set forth in Section 4.1(z) provided that, and subject to subsection 9.3(b), Avenor shall have no liability to St. Laurent in respect of that portion of any Loss (i) the nature and extent of which was disclosed in the environmental audit reports identified in Schedule 9.3(a) or in Schedule 4.1(z) at or prior to the Effective Time or (ii) which relates to the Freehold Immoveables;

(b) the non-fulfilment of Avenor's covenants as set out in Section 5.7;

(c) the presence of any Contaminant on, upon or within the Immoveables prior to the Effective Time (including underlying soils and substrate, surface water, groundwater and vegetation) however caused, or on, upon or within adjoining or proximate properties (including underlying oils and substrate, surface water, groundwater and vegetation) if caused by Avenor or any past or present Affiliate thereof, provided that Avenor shall, subject to Subsection 9.3(b), have no liability to St. Laurent in respect of that portion of any Loss (i) the nature and extent of which was disclosed in the environmental audit reports identified in Schedule 9.3(a) or in Schedule 4.1(z) at or prior to the Effective Time or (ii) which relates to the Freehold Immoveables; or

(d) any Remedial Order imposed in connection with the Business or the Immoveables (including underlying soils and substrate, surface water, groundwater and vegetation) however the circumstances giving rise to the Remedial Order were caused, or in connection with adjoining or proximate properties (including underlying soils and substrate, surface water, groundwater and vegetation) if the circumstances giving rise to such Remedial Order were caused by Avenor or any past or present Affiliate thereof provided that Avenor shall, subject to Subsection 9.3(b), have no liability to St. Laurent in respect of that portion of any Loss (i) the nature and extent of which was disclosed in the environmental audit reports identified in Schedule 9.3(a) or in Schedule 4.1(z) at or prior to the Effective Time or (ii) which relates to the Freehold Immoveables.

9.4 **Limitation on Environmental Indemnity**. Avenor's obligation to indemnify St. Laurent in respect of Losses relating to environmental matters described in Subsections 9.3(a), (c) and (d) shall be subject to the limitations that:

(a) the aggregate maximum liability of Avenor for all such Losses shall be limited to fifty million dollars ($50,000,000);

(b) such obligation to indemnify shall be subject to the limitation mentioned in Section 8.1 respecting the survival of the representations and warranties of Avenor regarding environmental matters; and

(c) such obligation to indemnify shall not be applicable to the portion, if any, of a Loss incurred by St. Laurent, to the extent such Loss is based upon damages resulting from a change after the Effective Time in the nature of or the decommissioning of, any part of the Business conducted on the Immoveables as of the Effective Time or is based upon any provision of Environmental Laws which came into effect or became applicable only after the Effective Time.

For greater certainty, it is agreed that the provisions of this Section 9.4 shall not apply to Losses which may result from, in respect of or may arise out of the non-fulfilment of the covenants of Avenor set out in Sections 5.5 and 5.7.

9.5 **Obligation to Reimburse**. The Party providing indemnification hereunder (the "**Indemnifying Party**") shall reimburse, on demand, to the Party being indemnified hereunder (the "**Indemnified Party**") the amount of any Losses suffered or incurred by the Indemnified Party, the whole as of the date that the Indemnified Party incurs any such Losses, together with interest thereon from the aforesaid date until payment in full at the rate per annum equal to **(a)** Prime Rate plus **(b)** one percent (1%).

9.6 **Notification**. Promptly upon obtaining knowledge thereof, the Indemnified Party shall notify the Indemnifying Party of any cause which the Indemnified Party has determined has given or could give rise to indemnification under this Article IX. The omission so to notify the Indemnifying Party shall not relieve the Indemnifying Party from any duty to indemnify and hold harmless which otherwise might exist with respect to such cause unless (and only to that extent) the omission to notify materially prejudices the ability of the Indemnifying Party to exercise its right to defend provided in this Article IX.

9.7 **Defense of Third Party Claims**. If any legal proceeding shall be instituted or any claim or demand shall be asserted by a third Party against the Indemnified Party (each a "**Third Party Claim**"), then the Indemnifying Party shall have the right, after receipt of the Indemnified Party's notice under Section 9.6 and upon giving written notice to the Indemnified Party within seven (7) days of such receipt, to defend the Third Party Claim at its own cost and expense with counsel of its own selection, provided that:

(a) the Indemnified Party shall at all times have the right to fully participate in the defense at its own expense;

(b) the Third Party Claim seeks only monetary damages and does not seek any injunctive or other relief against the Indemnified Party;

(c) the Indemnifying Party unconditionally acknowledges in writing its obligation to indemnify and hold the Indemnified Party harmless with respect to the Third Party Claim; and

(d) legal counsel chosen by the Indemnifying Party is satisfactory to the Indemnified Party, acting reasonably.

9.8 **No Compromise**. The Indemnifying Party shall not be permitted to compromise and settle or to cause a compromise and settlement of any Third Party Claim, without the prior written consent of the Indemnified Party, unless:

(a) the terms of the compromise and settlement require only the payment of money and do not require the Indemnified Party to admit any wrongdoing or take or refrain from taking any action;

(b) the Indemnifying Party shall have delivered to the Indemnified Party a letter of credit, surety bond or similar security in form and substance satisfactory to the Indemnified Party, acting reasonably, in the amount of the compromise and settlement (including, interest and costs, if any, payable pursuant thereto) as security for the payment thereof;

(c) the Indemnified Party receives, as part of the compromise and settlement, a legally binding and enforceable unconditional satisfaction or release, which is in form and substance satisfactory to the Indemnified Party, acting reasonably; and

(d) the Third Party Claim and any claim or liability of the Indemnified Party with respect to the claim is being fully satisfied because of the compromise and settlement and the Indemnified Party is being released from any and all obligations or liabilities it may have with respect to the Third Party Claim.

9.9 **Failure to Defend**. If the Indemnifying Party fails:

(a) within seven (7) days from receipt of the notice of a Third Party Claim to give notice of its intention to defend the Third Party Claim in accordance with Section 9.7, or

(b) to comply at any time with any of Subsections 9.7(a) through 9.7(d) (both inclusive),

then the Indemnifying Party shall be deemed to have waived its right to defend the Third Party Claim and the Indemnified Party shall have the right (but not the obligation) to undertake the defense of the Third Party Claim and compromise and settle the Third Party Claim on behalf, for the account and at the risk and expense of the Indemnifying Party.

9.10 **Limitation on Indemnification**. The obligation of indemnification set out in Sections 9.1, 9.2 and 9.3 shall (a) survive the Closing without limit as to time, except in the case of indemnification arising from the incorrectness in, or breach of, any representation and warranty where the obligation of indemnification shall be subject to the limitations regarding survival of representations and warranties set forth in Sections 8.1 and 8.2, and **(b)** be applicable only to the extent that the Losses (other than Losses which arise as a result of the non-fulfilment by the Indemnifying Party of its covenants under this Agreement or as a result of the non-payment by Avenor of liabilities other than Assumed Liabilities or as a result of the Suits), in the aggregate, exceed five hundred thousand dollars ($500,000) in which event the liability of the Indemnifying Party shall be limited to the amount by which such Losses exceeds five hundred thousand dollars ($500,000).

9.11 **Cumulative**. The rights, recourses and remedies provided to an Indemnified Party under this Article IX are cumulative with any other right such Indemnified Party may have or may hereafter acquire under any Law, any provision of this Agreement or otherwise, and any rights, recourses or remedies such Indemnified Party shall have may be asserted completely against the Indemnifying Party, without regard to the rights the Indemnified Party may have against another Person.

9.12 **Non-Waiver**. The rights, remedies and recourses of St. Laurent or Avenor, as the case may be, hereunder shall not be affected by the Closing having occurred, by any investigation made by or on behalf of St. Laurent or Avenor, as the case may be, or by any other event or matter whatsoever except a specific and duly authorized written waiver or release executed by St. Laurent or Avenor, as the case may be.

9.13 **Arbitration**. Any dispute or controversy between Avenor and St. Laurent in which the matter in dispute is a monetary obligation under this Article IX or the alleged unreasonable withholding by a Party of an approval under this Agreement not settled amicably by representatives of the Parties shall be submitted to arbitration in accordance with Articles 940 *et seq.* of the *Code of Civil Procedure* (Quebec). The seat of any such arbitration shall be at Montreal, Quebec, or such other place as the Parties may agree to at such time. The decision of the arbitrators shall be final and binding.

ARTICLE X
MISCELLANEOUS

10.1 **Further Assurances**. Each of the Parties, upon the request of the other Party, whether on or after the date hereof, shall do, execute, acknowledge and deliver or cause to be done, executed, acknowledged or delivered all such further acts, deeds, documents, assignments, transfers, conveyances, powers of attorney and assurances as may be reasonably necessary or desirable to effect complete consummation of the transactions contemplated by this Agreement.

10.2 **Successors in Interest**. This Agreement and the provisions hereof shall enure to the benefit of and be binding upon the Parties and their respective successors and assigns. Neither Party may assign this Agreement or any of its rights and obligations hereunder without the prior written consent of the other Party. No assignment shall relieve the assignor of its obligations hereunder.

10.3 Notices. Any notice, consent, authorization, direction or other communication required or permitted to be given hereunder shall be in writing and shall be delivered either by personal delivery or by telex, telecopier or similar telecommunications device, and addressed as follows:

(a) in the case of Avenor, to it at:

AVENOR INC.
1250 René-Lévesque Blvd. West
Suite 2000
Montreal, Quebec
H3B 4Y3

Attention: Corporate Secretary

Telecopier: (514) 846-5181

(b) in the case of St. Laurent, to it at:

ST. LAURENT PAPERBOARD INC.
1250 René-Lévesque Blvd. West
Suite 2000
Montreal, Quebec
H3B 4Y3

Attention: Corporate Secretary

Telecopier: (514) 846-5066

Any notice, consent, authorization, direction or other communication as aforesaid shall be deemed to have been effectively delivered and received, if sent by telex, telecopier or similar telecommunications device on the Business Day next following receipt of such transmission, confirmation of receipt by confirmed facsimile transmission being deemed receipt of communication sent by telex, telecopy or other telecommunications device or, if delivered, to have been delivered and received on the date of such delivery; provided, however, that if such date is not a Business Day, then it shall be deemed to have been delivered and received on the Business Day next following such delivery. Any Party may change its address for service by written notice given as aforesaid.

10.4 **Expenses of Issue**. Avenor shall bear and pay 71.2235% of all costs, expenses, fees and commissions for the matters identified as "Shared" in Schedule 10.4 annexed hereto incurred by Avenor and St. Laurent in connection with the preparation, execution and consummation of this Agreement, the Prospectus and the transactions contemplated hereunder. St. Laurent shall bear and pay the balance (being 28.7765%) of all costs, expenses, fees and commissions for the matters identified as "Shared" in Schedule 10.4 incurred by Avenor and St. Laurent in connection with the preparation, execution and consummation of this Agreement and the transactions contemplated hereunder. St. Laurent shall bear and pay one hundred percent

(100%) of all costs, expenses, fees and commissions incurred by it or Avenor and listed under the column entitled "St. Laurent" in Schedule 10.4. Avenor shall bear and pay one hundred percent (100%) of all costs, expenses, fees and commissions incurred by it or St. Laurent and listed under the column entitled "Avenor" in Schedule 10.4 annexed hereto. For greater certainty, costs and fees associated with the incorporation and establishment of St. Laurent as a going concern shall be assumed entirely by St. Laurent. In the event a Party hereto has paid all or part of the expenses of issue which are the responsibility of the other Party, such other Party shall reimburse the first such Party for such expenses of issue within thirty (30) days of a demand therefor.

10.5 **Reciprocal Licenses for Intellectual Property**. Notwithstanding anything to the contrary herein, Intellectual Property Rights which relate partly to the Business and mainly to the business of Avenor other than the Business shall not be transferred to St. Laurent hereby; Avenor hereby grants to St. Laurent a non-exclusive, royalty-free license to use such Intellectual Property Rights in perpetuity. Intellectual Property Rights which relate mainly to the Business and partly to the business of Avenor other than the Business shall be transferred to St. Laurent pursuant to Section 2.1; St. Laurent hereby grants to Avenor a non-exclusive, royalty-free license to use such Intellectual Property Rights in perpetuity.

10.6 **Time**. Time shall be of the essence of this Agreement.

10.7 **Non-Merger**. All the terms and conditions of this Agreement shall, unless otherwise provided herein, survive the Closing and shall remain in full force and effect indefinitely subject only to statutory limitations to action.

IN WITNESS WHEREOF, the Parties have executed this Agreement on the date and at the place first above mentioned.

AVENOR INC.

Per: ____________________
Name: ____________________
Title: ____________________

ST. LAURENT PAPERBOARD INC. /
CARTONS ST-LAURENT INC.

Per: ____________________
Name: ____________________
Title: ____________________