

THIS MEMORANDUM OF UNDERSTANDING made this 1st day of
December, 1995

BETWEEN:

**HER MAJESTY THE QUEEN IN RIGHT OF THE
PROVINCE OF NOVA SCOTIA**, as represented by the Minister
of Supply and Services (hereinafter referred to as "Nova Scotia")

- and -

SCOTT MARITIMES LIMITED, a body corporate under the
laws of Nova Scotia (hereinafter referred to as "Scott")

RECITES/WHEREAS:

1. As an inducement to encourage the development of the pulp industry in Pictou County, Nova Scotia and to encourage the introduction and expansion of other industries therein, Nova Scotia agreed to develop and operate an effluent treatment facility at Boat Harbour, Pictou County, Nova Scotia;
2. Scott Paper Company, through a subsidiary, Scott Maritimes Pulp Limited (now Scott), constructed a kraft pulp mill at Abercrombie Point, Nova Scotia, (the "Mill") which went into production on or about the 1st day of September, 1967;
3. Nova Scotia and Scott entered into an Agreement dated the 30th day of September, 1970 (the "1970 Agreement") which sets out the terms and conditions and respective obligations of the parties with respect to the operation and use of the Boat Harbour Effluent Treatment Facility and the supply of water to the Mill;
4. Pursuant to the 1970 Agreement, Nova Scotia is obliged to operate the Boat Harbour Effluent Treatment facility and supply water to the Mill for which Scott pays a set fee;

5. The 1970 Agreement is for a term of twenty-five (25) years commencing October 1, 1970, and is renewable at the instance of either party, subject to negotiation or arbitration of certain terms;
6. Scott gave notice of renewal of the 1970 Agreement to Nova Scotia on the 24th day of February, 1995 and such renewal was acknowledged by Nova Scotia by letter dated March 30, 1995;
7. Pursuant to Section 37(2) of the *Fisheries Act* (Canada) the Minister of Fisheries and Oceans has required Nova Scotia to submit a plan for the future operation of the Boat Harbour Effluent Treatment Facility and Nova Scotia desires to submit a plan which will result in the immediate closure of part of the Facility and a definitive termination date for the remainder of the Reconfigured Facility;
8. Given existing and planned improvements to the Facility, that part of the Facility known as the Stabilization Basin is no longer required for the operation of the Facility after the upgrades are satisfactorily completed; it will at a designated date following the leasing of the Reconfigured Facility no longer form part of the effluent treatment system and it will remain in the possession and control of Nova Scotia who shall have responsibility for its Remediation;
9. Nova Scotia and Scott have agreed to restate and restructure their contractual relationship as it regards the Facility so that, after the Reconfigured Facility is no longer required for effluent treatment Nova Scotia will be in a position to close the entire Facility and the parties have further agreed that Nova Scotia shall have no operational responsibility for the Reconfigured Facility (except those incidental to its position as Landlord of the Reconfigured Facility) after December 31, 1995, and Scott shall have no obligation or liability for the Remediation of all or any part of the Facility which obligation and liability shall be assumed by Nova Scotia;
10. Nova Scotia has agreed to indemnify and hold the Indemnified Parties, as defined in Schedule 4 hereof, harmless for claims which may be made against them as a result the existence of or past operation of the Facility and all other claims which may be made against

the Indemnified Parties following Scott leasing the Reconfigured Facility, except for claims arising directly out of Scott's operation of the Reconfigured Facility after the date of transfer (as more particularly set out herein);

11. The parties have agreed to the renewal of the Water Supply portion of the 1970 Agreement on the terms set out herein.

NOW THEREFORE THIS MEMORANDUM OF UNDERSTANDING WITNESSES:

ARTICLE 1 - DEFINITIONS

1.01 In this Memorandum of Understanding, including the Recitals, the following terms have the following meanings unless the context otherwise requires:

- a. "ASB" means the aerated stabilization basin forming part of the Facility as shown on the Plan attached hereto as Schedule "1";
- b. "1970 Agreement" means an Agreement dated the 30th day of September, 1970, between Nova Scotia and the Company pursuant to which Nova Scotia constructed and is presently operating the Facility;
- c. "Environmental Laws" means all applicable laws, statutes, ordinances, rules, by-laws, guidelines, treaties, and Regulations, and all applicable directives, rules, standards, requirements, policies, orders, judgments, injunctions, or decrees which have the force of law or which are capable of having the force of law, with respect to environmental or health matters including, without limitation, the following: the *Fisheries Act* (Canada), the *Canadian Environmental Protection Act*, the *Canadian Environmental Assessment Act*, the *Transportation of Dangerous Goods Act* (Canada), the *Navigable Waters Protection Act* (Canada), the *Environmental Act* (Nova Scotia), the *Occupational Health and Safety Act* (Nova Scotia), the *Indian Act* (Canada), and any Regulations or guidelines made pursuant to the foregoing;

- d. "Facility" means the effluent treatment system which consists of a pipeline for the transmission of effluent from the Mill commencing at a standpipe located on Scott's property at Abercrombie Point, Pictou County, Nova Scotia, and leading under the East River and discharging into settling ponds at Boat Harbour, the Settling Ponds, ASB and the Stabilization Basin and all other appurtenances affixed or appended thereto, more particularly depicted on the Plan attached hereto as Schedule 1 and all related lands and facilities necessary to permit the receipt and lawful disposal of effluent from the Mill commencing at the said stand pipe;
- e. "Mill" means Scott's mill as that term is defined in subsection (c) of Section 2 of Chapter 15 of the Statutes of Nova Scotia, 1965.
- f. "Point C" means the effluent outfall of the Reconfigured Facility as shown on the Plan attached as Schedule 1;
- g. "Reconfigured Facility" means the Effluent Treatment System which consists of a pipeline for the transmission of effluent from the Mill commencing at a standpipe located on Scott's property at Abercrombie Point, Pictou County, Nova Scotia, and leading under the East River and discharging into Settling Ponds at Boat Harbour, the Settling Ponds, and ASB and discharging into Boat Harbour at Point C (which Point C shall become the "Effluent Outfall" of the Reconfigured Facility after the upgrades contemplated herein are satisfactorily completed and the Reconfigured Facility can be operated in compliance with Environmental Laws at Point C) and all other appurtenances affixed or appended thereto, more particularly depicted on the Plan attached hereto as Schedule 2 and all lands and facilities necessary to permit the receipt and lawful disposal of effluent from the Mill, commencing at the said standpipe;
- h. "Remediation" means all studies and work required or recommended to fully rectify and remedy any adverse environmental condition at the Facility or any part thereof;

- i. "This Memorandum" means this Memorandum of Understanding including the Recitals and the following Schedules:

Schedule 1 - Plan of Facility

Schedule 2 - Plan of Reconfigured Facility

Schedule 3 - Work Plan

Schedule 4 - Draft Water Supply Agreement

Schedule 5 - Indemnity Wording

- j. "Settling Ponds" means that area depicted as "Settling Ponds" consisting of the settling pond and the emergency spill pond on the Plan of Facility attached as Schedule 1;
- k. "Stabilization Basin" means that area depicted as "Stabilization Basin" on the Plan of Facility attached as Schedule 1;
- l. "Work Plan" means the list of work to be done at the Facility by Nova Scotia annexed hereto as Schedule 3.

1.02 Headings

The headings of the Sections and Articles to this Agreement are inserted for convenience of reference only and shall not affect the construction or interpretation of any provision of this Agreement.

1.03 Number and Gender

Words importing the singular shall include the plural and vice versa and words importing the masculine gender shall include the feminine and neuter and vice versa.

ARTICLE 2 - PURPOSE

2.01 Nova Scotia and Scott have negotiated in good faith and have agreed on the significant, major and substantive components of their contractual relationship which are to be translated into a series of documents including the following:

- (1) Water Supply Agreement;
- (2) Lease Agreement between Nova Scotia and Scott (the "Lease");
- (3) Indemnity Agreement;
- (4) Such other agreements, deeds or assurances as may be required to ensure the lawful operation of the Facility or Reconfigured Facility, as the case may be;

all of which documents are collectively referred to in this Memorandum of Understanding as the "Legal Documentation".

2.02 Nova Scotia and Scott acknowledge that the Legal Documentation will require finalization between the lawyers of the respective parties as to form and content but that the significant, major and substantive components have been agreed to between Scott and Nova Scotia.

2.03 This Memorandum of Understanding is entered into by the parties to confirm their respective positions, undertakings and agreements which have been reached as of the date hereof.

2.04 The parties agree that the Legal Documentation shall be so drafted to reflect and contain the significant, major and substantive components as have been agreed to by the parties.

2.05 The parties agree to instruct their respective counsel and to give such direction as is necessary to proceed as diligently and expeditiously as possible and in good faith to complete the Legal Documentation.

ARTICLE 3 - WATER SUPPLY AGREEMENT

3.01 The following constitutes the significant, major and substantive components of the agreement between the parties with respect to water supply:

(a) The water supply portions of the 1970 Agreement shall be renewed on a cost recovery basis for a term of 25 years;

(b) The rate for water shall be \$18.53 per million imperial gallons for the period from October 1, 1995 until April 1, 1996;

(c) Subject to the water fee credit program (set out herein), the fee for water supplied to the Mill for a five-year term commencing on April 1, 1996 shall consist of an annual base charge of \$157,124 payable in equal quarterly instalments and a commodity charge of \$64.84 per million imperial gallons;

(d) The annual base charge and commodity charge will be subject to renegotiation at the end of the four-year period commencing April 1, 1996 and every five years thereafter for the duration of the 25-year term and the charges shall reflect the reasonable cost of supplying the water taking into consideration the following components:

1. wages and salaries;
2. power;
3. general supplies;
4. fuel;
5. equipment repairs;
6. building maintenance;
7. rentals;
8. short term borrowings;
9. debt servicing costs.

all in relation to the operation of the Middle River Facility.

(e) All other provisions of the 1970 Agreement relating to the Supply of Fresh Water to the Mill shall apply including, without limitation, paragraphs 1(a), 1(d), 2(c), 3 and 7;

(f) For a ten year term, Scott shall be entitled to an annual environmental improvement credit of up to 25% of the commodity charge payable under the Water Supply Agreement to an annual maximum of \$100,000 provided the credited amounts are used for:

- (i) in-plant improvements wholly or partly designed to improve emissions, including effluent or air quality, decrease water consumption on a per ton basis or otherwise be directed at non-regulatory environmental enhancement to approach progressive systems closure;
- (ii) the planning, approval and construction of new secondary treatment to replace the Boat Harbour System; or
- (iii) emission-related research.

The following criteria shall apply to the credits available under paragraph (f)(i):

- a maximum of 10% of the credit may be used for project administration;
- a maximum of 25% of the credit may be applied to project design;
- actual project undertaking measures must be at least 65% of the credit;
- all projects are subject to the prior approval of the Nova Scotia Department of Environment, which approval shall not be unreasonably withheld. Unless otherwise notified by the Department of Environment, approval shall be deemed to be given sixty (60) days after the request is made.

(g) The Water Supply Agreement shall be substantially in the form annexed hereto as Schedule 4 subject to such reasonable amendments or additions as may be agreed upon between the parties acting in good faith.

ARTICLE 4 - EFFLUENT TREATMENT AGREEMENT

4.01 The following constitutes the significant, major and substantive components of the agreement between the parties with respect to effluent treatment.

(a) The parties agree to the renewal of the 1970 Agreement as it relates to effluent treatment, on current terms for the period from September 30, 1995 until December 31, 1995.

(b) Nova Scotia agrees to lease the Reconfigured Facility to Scott as it exists on December 31, 1995 (subject to upgrades contemplated herein) for a term of ten years commencing on January 1, 1996 for a rent of One Dollar (\$1.00).

(c) (i) Scott shall have no liability, responsibility or obligation whatsoever arising out of, or in any way related to the operation of the Facility up to December 31, 1995 and Nova Scotia expressly agrees to assume all liabilities, responsibilities and obligations whether known or unknown relating to or in any way arising out of the use of the Facility up to December 31, 1995, and for greater certainty, Nova Scotia agrees to provide an indemnity substantially in the form annexed hereto as Schedule 5 in favour of Scott and the Indemnified Parties (as defined therein).

(ii) Scott shall assume responsibility for the Operation of the Facility after December 31, 1995, and subject to the obligation to undertake the clean up program referred to in Article 4.01(f) Scott shall have no liability, responsibility or obligation whatsoever for Remediation of the Facility.

(d) Nova Scotia agrees to undertake a clean-up program with respect to the Facility prior to the commencement of the Lease with Scott, which clean-up program shall include the work listed on the Work Plan. If a pipeline and diffuser is required by any level of government during the term of the Lease it shall be installed at the sole expense of Nova Scotia.

(e) Nova Scotia agrees to pay the cost of installation of the necessary equipment to establish Point C as the lawful effluent outfall and the cost of upgrading the aeration capacity of the Facility up to a maximum cost of One Million Seven Hundred and Fifty Thousand Dollars (\$1,750,000.00) so that the facility has reliable, installed aeration capacity of up to 1,600 hp. It is agreed that Scott or its agents will engineer, manage and complete the conversion of the effluent outfall and upgrading of the aeration capacity of the Facility. It is further agreed that Scott shall be entitled to payment from Nova Scotia of costs incurred by it in converting the outfall and upgrading the aeration capacity of the Facility upon presentation of invoices for work or material to Nova Scotia, within thirty (30) days of presentation of invoices. For the purposes of this subarticle, "upgrading the aeration capacity of the Facility" includes, without limitation, engineering studies, opinions on compliance, the purchase and installation of new aerators, the upgrading of electrical equipment, and the purchase of such other equipment or the performance of such other work as may be required, in Scott's discretion.

(f) Scott shall be required to undertake a clean-up program with respect to the Facility at the termination of the Lease, which clean-up program shall consist of the removal of sludge from the Settling Ponds and the ASB and restoration of the Reconfigured Facility to the state it was in at the commencement of the Lease, reasonable wear and tear excepted. For greater certainty, it is agreed that Scott shall have no obligation or responsibility to restore the Stabilization Basin, which restoration will be undertaken by Nova Scotia in its sole discretion;

(g) It is mutually agreed that Nova Scotia shall have no ongoing responsibility for the operation of the Reconfigured Facility following December 31, 1995 (except for those responsibilities that arise as landlord) but Nova Scotia shall remain responsible for Remediation of the Reconfigured Facility at the expiration of the term of the Lease and Nova Scotia shall remain in possession of and responsible for the Stabilization Basin and Nova Scotia agrees not

to render the Stabilization Basin a tidal estuary and waters frequented by fish until the Stabilization Basin has been remediated by it in accordance with applicable Environmental Laws;

(h) As soon as is practical, Nova Scotia agrees to reduce the water level in the Stabilization Basin to eliminate any alleged trespass of the waters therein beyond the ordinary high water mark of the former Boat Harbour. Such reduction shall be done in accordance with applicable Environmental Laws;

(i) Nova Scotia agrees that the Lease shall include all fixtures and equipment currently at the Facility and Nova Scotia agrees to grant to Scott an irrevocable option to purchase fixtures and equipment used at the Facility for its depreciated value at the end of the term of the Lease.

(j) Nova Scotia agrees to grant to Scott an option to purchase the pipeline commencing at a standpipe located on Scott's property at Abercrombie Point, Pictou County, Nova Scotia and leading under the East River to the point where the shores of Pictou Landing meet the East River or such other portion of the pipeline and appurtenant lands as may be agreed, for a purchase price of One Dollar (\$1.00), which option may be exercised at any time prior to December 31, 2006.

(k) Nova Scotia agrees to obtain all required permits, consents, approvals and letters of authorization for the continued operation of the Reconfigured Facility as of the date of transfer, and Nova Scotia will assign all such permits, consents, approvals and letters of authorization and obtain such consents to assignments as may be required. Nova Scotia agrees to impose operating limits on the Facility which reflect and do not exceed or apply more stringently than the standards set out in the Pulp and Paper Effluent Regulations (Canada) and further agrees to obtain all required federal government approvals, if any, to permit the continued operation of the Reconfigured Facility as contemplated in this Agreement

(l) Nova Scotia agrees to use its best efforts to assist Scott obtain all necessary permits, consents and approvals to permit the construction and operation of a replacement effluent treatment facility to replace the Facility at the expiration of the term of the Lease.

(m) In the event that easements are required for the operation of a replacement effluent treatment facility, Nova Scotia agrees:

- (i) to grant such easements as may be reasonably required over lands of Her Majesty, the Queen in right of the Province of Nova Scotia at fair market value as determined by an accredited appraiser;
- (ii) to use its best efforts to assist Scott to obtain any such easements required over private lands;

(n) Nova Scotia agrees that Scott shall be entitled to use the Landfill owned by Nova Scotia adjacent to the Reconfigured Facility during the term of the Lease for ordinary maintenance of the Facility and that the Landfill has sufficient capacity for such use by Scott;

(o) Nova Scotia agrees that the Lease shall not include the Landfill (notwithstanding Scott's right of use set out above) nor shall it include any former landfill or dump sites, which sites shall remain in the possession and control of Nova Scotia;

(p) This Memorandum of Understanding and the indemnities contemplated herein shall enure to the benefit of and be binding upon the parties hereto and their respective successors and assigns.

(q) Neither party shall be held responsible for any losses resulting if the fulfillment of any terms hereunder shall be delayed or prevented by civil disorders, wars, acts of enemies, acts of God, or by any other cause which could not be reasonably foreseen and prevented and which are not within control of the party whose performance is interfered with, and which by the exercise of reasonable diligence, said party is unable to prevent or eliminate.

(r) The parties hereto shall do such further acts, execute and deliver such further documents and give such further assurances as may be necessary or desirable to give full effect to this Memorandum and the indemnities contemplated herein and to ensure the continued lawful operation of the Facility or Reconfigured Facility as the case may be. Furthermore,

should the federal Pulp and Paper Effluent Regulations change during the term of the Lease either through enactment of revisions or by judicial interpretation, Nova Scotia agrees to execute and deliver such further documents, including without limitation, deeds with repurchase options, as may be reasonably required for the lawful operation of the Reconfigured Facility during the term of the Lease or should Scott become lawfully permitted to operate the Reconfigured Facility without being a tenant thereof Nova Scotia agrees to accept a surrender of lease, at Scott's option.

IN WITNESS WHEREOF the parties hereto have set their hands and affixed their seals the day and year first above written.

SIGNED, SEALED AND DELIVERED
in the presence of:

Sharon P. Burrows

[Signature]

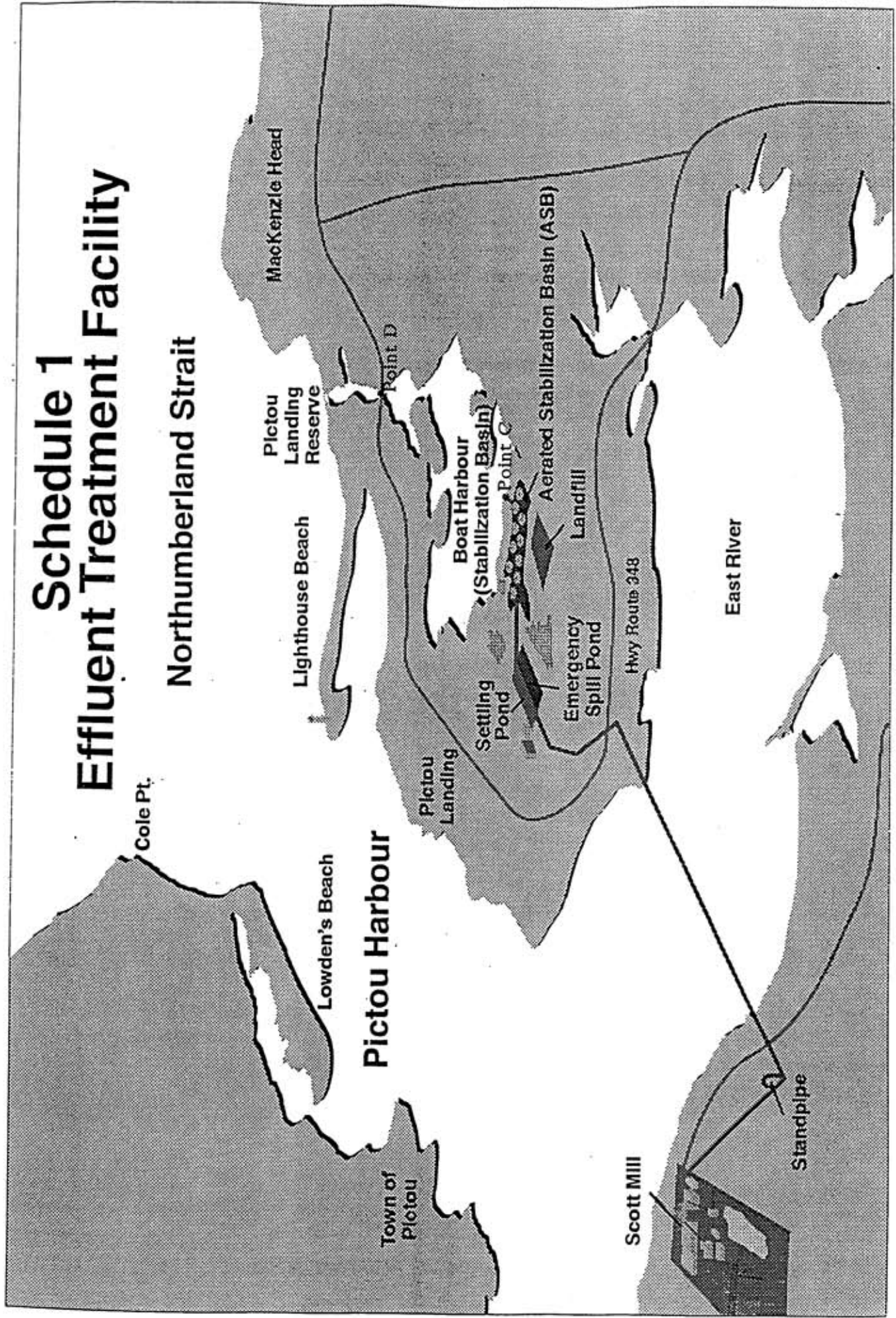
HER MAJESTY THE QUEEN IN RIGHT
OF THE PROVINCE OF NOVA SCOTIA,
AS REPRESENTED BY THE MINISTER
OF SUPPLY AND SERVICES

Gerald J. Malley (Seal)

SCOTT MARITIMES LIMITED

Per: L. A. Byrne (Seal)

Schedule 1 Effluent Treatment Facility



Schedule 2

The Leased Premises consist of the pipeline for the transmission of effluent commencing at a Standpipe located on Scott's property at Abercrombie Point, Pictou County, and leading under the East River and discharging into settling ponds at Boat Harbour together with the shaded area on the attached plan together with a right-of-way over the existing roadway to the Sludge Disposal Cell.

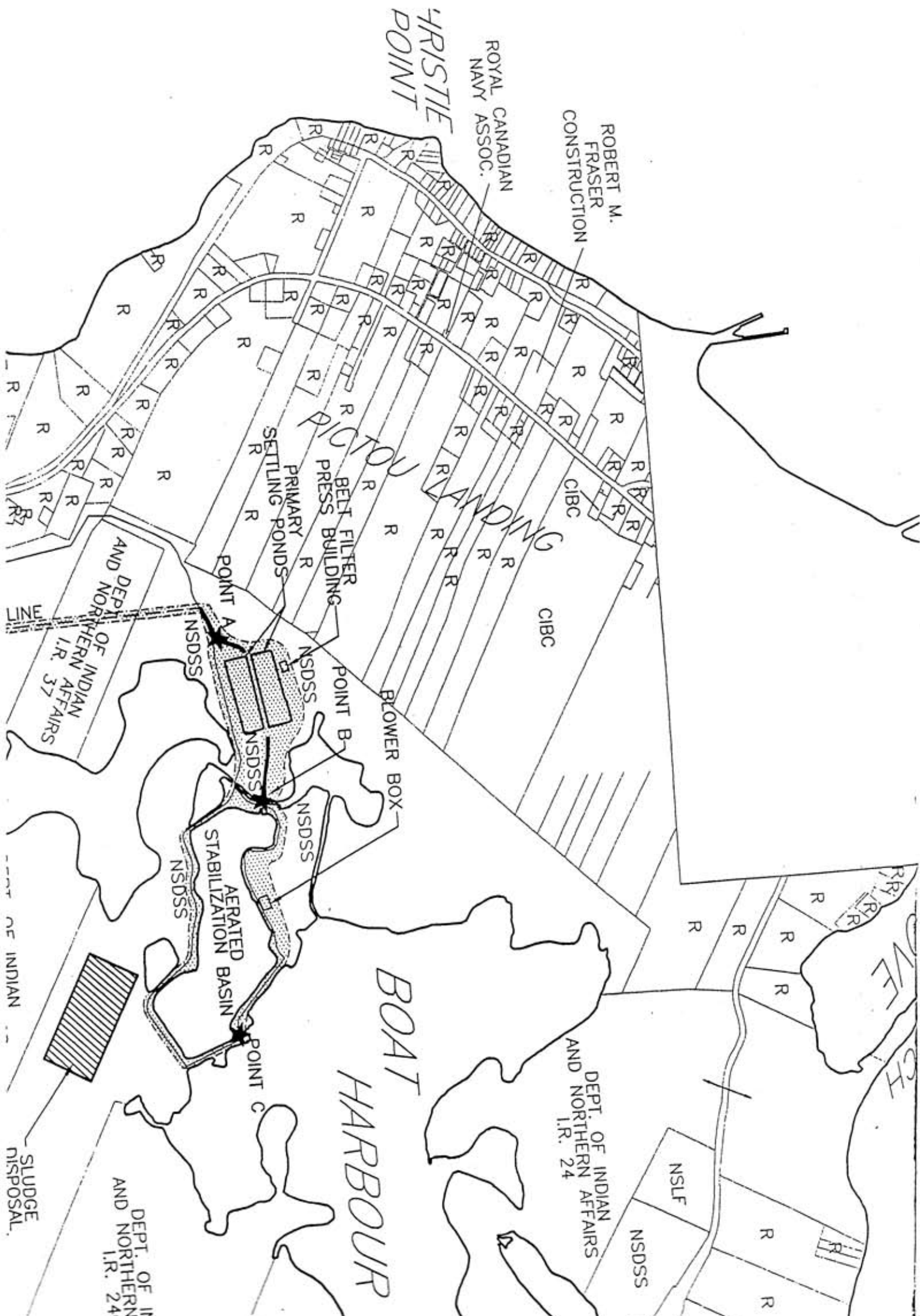
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SCHEDULE 3 - WORK PLAN

Below are the required improvements to the Boat Harbour Effluent Treatment Facility to be undertaken by Nova Scotia:

- Removal of sludge from the Settling Ponds by December 31, 1995;
- Installation of proper inlet and outlet devices for Settling Ponds by December 31, 1995;
- Removal of sludge from ASB by September 1, 1996; *
- Completion of Cycle I of the environmental effects monitoring program required under the Pulp and Paper Effluent Regulations (Canada) in accordance with the Regulations. Scott will be responsible for the continuing environmental effects monitoring program.

* As the removal of sludge from the ASB will occur while the Reconfigured Facility is subject to the Lease to Scott it is agreed:

1. Nova Scotia will take all measures necessary to complete the removal of sludge in a manner which does not interfere with the lawful operation of the Reconfigured Facility by Scott and shall fully consult with Scott before undertaking any such work;
2. Nova Scotia will indemnify and hold harmless the Indemnified Parties against all claims, demands, charges, penalties or fines which may be made against the Indemnified Parties arising directly or indirectly out of the removal of sludge from the ASB by Nova Scotia.

Schedule 4

THIS WATER SUPPLY AGREEMENT made in duplicate this 30th day of June, 1995,

BETWEEN:

HER MAJESTY THE QUEEN IN RIGHT OF THE PROVINCE OF NOVA SCOTIA, as represented by the Minister of Environment as approved by Order in Council 95- dated the ____ day of _____, 1995.

(hereinafter referred to as "Nova Scotia")

- and -

SCOTT MARITIMES LIMITED, a body corporate

(hereinafter referred to as "Scott")

WITNESSES:

WHEREAS Scott operates a Mill at Abercrombie, in the County of Pictou, Province of Nova Scotia, for the purpose of manufacturing bleach kraft pulp.

AND WHEREAS by an Agreement dated the 30th day of September, 1970, (the "1970 Agreement") the parties contracted, inter alia, for the supply of water to the Mill;

AND WHEREAS pursuant to the 1970 Agreement the Province covenanted and agreed to supply water to the Mill as follows:

"On March 31, 1967, and on each day thereafter a minimum of 25 million Imperial Gallons per day."

AND WHEREAS the 1970 Agreement may be renewed at the instance of either party upon giving notice;

AND WHEREAS on the 24th day of February, 1995, Scott gave notice to the Province of its intent to renew the Agreement;

AND WHEREAS the parties hereto have agreed to the following terms to replace the 1970 Agreement:

NOW THEREFORE IN CONSIDERATION of One Dollar (\$1.00) and other good and valuable consideration the parties agree as follows:

ARTICLE I - DEFINITIONS

1.01 Definitions

In this Agreement, including the Recitals, the following terms have the following meanings unless the context otherwise requires:

- (a) "Agreement" means this Agreement including the recitals and the following Schedules:
 - (i)
- (b) "Fresh Water" means water suitable for the manufacture of bleach kraft pulp;
- (c) "Water Supply System" means a reservoir for the storage of water at the mouth of the Middle River and including a dam, dam gates, fish ladders, a pump house and a water pumping system, and a pipeline for the transmission of water, and such additional or alternative facilities, including West River Reservoir, as are necessary to enable the Province to supply fresh water to the Mill as herein provided.

ARTICLE II - COVENANTS OF THE PROVINCE

2.01 The Province covenants and agrees that:

- (a) It will at its cost, own, operate and maintain the Water Supply System and continue to supply up to 25 million Imperial Gallons of Fresh Water per day to the Mill, provided however that the Province shall not be responsible for the removal of sodium chloride, colour or turbidity to the extent that such or due to conditions existing in or about the Middle River as of the date hereof;
- (b) It will be liable for any interruption or cessation of services to be provided by it hereunder caused by any negligent act or omission of the Province, its servants, agents, contractors or employees, but the Province will not be liable for any interruption or for the cessation of the services due to a cause beyond the control of the Province which the Province shall have exercised due diligence to prevent, eliminate or terminate to the extent that it could reasonably do so;

ARTICLE III - COVENANTS OF THE COMPANY

3.01 The Company covenants and agrees that:

- (a) Until April 1, 1996, it will pay to the Province for Fresh Water Eighteen Dollars and Fifty-Three Cents (\$18.53) per million Imperial Gallon or One Hundred Thousand Dollars (\$100,000) per year, whichever is greater;
- (b) For the term commencing April 1, 1996, and running for four (4) years, it will pay to the Province for Fresh Water a commodity charge of \$65.84 per million Imperial Gallons plus an annual base rate of \$157,124 and
- (c) It will measure the quantities of Fresh Water consumed and will pay the Province at the aforesaid rate for the quantities of Fresh Water consumed. The Province reserves the right to verify such measurements using its own equipment.

3.02 Payments under clauses (a) and (b) of Section 3.01 shall be made quarterly not in advance from the effective date of this Agreement and any necessary adjusting payment will be made once yearly commencing one (1) year after the effective date of this Agreement.

3.03 For the purposes of this Article, years shall be deemed to commence on the 1st day of April of every year.

ARTICLE IV - WATER FEE CREDIT PROGRAM

4.01 For a ten year term, Scott shall be entitled to an annual environmental improvement credit of up to 25% of the commodity charge payable hereunder to an annual maximum of \$100,000 provided the credited amounts are used for:

- (a) in-plant improvements wholly or partly designed to improve emissions including effluent or air quality, decrease water consumption on a per ton basis or otherwise be directed at non-regulatory environmental enhancement to approach progressive systems closure;
- (b) the planning, approval and construction of new secondary treatment to replace the Boat Harbour System; or
- (c) emission-related research.

The following criteria shall apply to the credits availed under paragraph 4.0(a):

- a maximum of 10% of the credit may be used for project administration;
- a maximum of 25% of the credit may be applied to project design;
- actual project undertaking measures must be at least 65% of the credit;

- the annual maximum of \$100,000 per year shall be non-cumulative.

ARTICLE V - TERM OF AGREEMENT

5.01 This Agreement shall be in force for a term commencing on the date hereof and expiring on the 31st day of March, 2021, except that the amount paid for Fresh Water shall be subject to adjustment and the parties shall negotiate the price to be paid on a cost recovery basis for Fresh Water for every five (5) year term and if they are unable to reach agreement, the dispute or difference shall be referred to a Board of Arbitration constituted and appointed in accordance with Agreement.

5.02 If the parties are unable to agree on the price to be paid for Fresh Water hereunder, either party may notify the other in writing of its desire to refer such dispute or difference to a Board of Arbitration and it shall in such notice name its representative to the Board within ten (10) days of the receipt of such notice, the other party shall notify the first party in writing of the name of its representative to the Board. The two representatives shall appoint a third arbitrator and he shall be appointed chairman of the Board. The Arbitrator shall proceed expeditiously to adjudicate the dispute. The *Arbitration Act* shall apply to this arbitration clause and in particular to the appointment of a second member and third member of the Board of Arbitration if the party required to appoint a representative of the Board fails to do so as herein provided; and if the two representatives of the parties named to the Board fail to meet and appoint a third member to be chairman as herein provided.

ARTICLE VI - MISCELLANEOUS

6.01 Notices

All notices given pursuant to this Agreement shall be in writing and given by mail, fax or personal delivery to the parties as follows:

Name of Party	Scott Maritimes Limited
Address	P.O. Box 549D New Glasgow, NS B2H 5E8
Fax No.	902-752-5404
Attention:	Mr. Gerry Byrne, President

with a copy to:

	McInnes Cooper & Robertson 1601 Lower Water Street P.O. Box 730 Halifax, NS B3J 2V1
Fax No.:	902-425-6350
Attention:	Bernard F. Miller

Name of Party: Minister of Environment
Address: 5th Floor, 5151 Terminal Road
P.O. Box 2107
Halifax, NS B3J 3B7
Fax No.: 902-424-0644
Attention: Deputy Minister, Wayne J. Grady

or to such other address, fax number or officer of a party as that party may notify the other party from time to time.

6.02 Effective Time of Notice

Notices shall be deemed given upon the earlier of the following:

- (1) If mailed, on the fifth Business Day following deposit in the mails;
- (2) If given by fax, on transmission;
- (3) On receipt.

6.03 Governing Law

This Agreement shall be governed by and construed in accordance with the laws of Nova Scotia and the laws of Canada applicable therein.

6.04 Assigns

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

6.05 Amendments

This Agreement represents the entire agreement between the parties and may be amended only in writing signed by all parties affected thereby.

SCHEDULE 5

Indemnity by Nova Scotia in Favour of Indemnified Parties

Notwithstanding any other provision in any Agreement between the parties, Nova Scotia shall indemnify and hold Scott Maritimes Limited and Scott Paper Company and their respective officers, directors, shareholders, employees, agents, consultants, advisors and their respective heirs, successors (including successors in title), assigns and legal representatives, shareholders, and their respective officers, directors, shareholders, employees, agents, consultants and advisors (hereinafter referred to as the "Indemnified Parties") harmless from and against any and all:

- (a) liabilities, losses, claims, demands, actions, causes of action, damages, (including, without limitation, lost profits, consequential damages, interest, penalties, fines and monetary sanctions) including amounts paid to settle actions, whether before or after litigation or other proceedings or activities of any nature, or to satisfy judgments, orders or directives including, without limitation, any judgment, order or directive imposing joint and several liability on the Indemnified Parties and any costs (including the cost of diverting or altering components of the Facility in response to Claims), liability or damages:
 - (i) arising out of the designation of the Facility or Reconfigured Facility as a contaminated site within the meaning of any Environmental Laws;
 - (ii) arising out of or in any way related to the existence or operation of the Facility by Nova Scotia up to the effective date of this Agreement;
 - (iii) arising out of any claim based in nuisance, including any claim for a permanent or temporary injunction; or
 - (iv) any claim arising out of the construction or location of the Facility or Reconfigured Facility, including claims based in trespass whether such claims relate to activities occurring before or after the effective date of this Agreement (hereinafter collectively referred to as "Claims").
- (b) legal fees on a solicitor and client basis, consultants fees and all other out-of-pocket expenses arising because of Claims (hereinafter referred to as "Expenses")

incurred or suffered by the Indemnified Parties, whether such Claims and/or Expenses arise under statute or not, which may at any time or from time to time be paid, incurred, claimed or asserted against any of the Indemnified Parties for, with respect to, or as a direct or indirect result of the construction, location or existence of the Facility or Reconfigured Facility or the past operation of the Facility by Nova Scotia including, **without limitation:**

- A. Claims made and/or Expenses arising due to the presence on or under, or the discharge, escape, seepage, leakage, spillage, emission, exhaust, or release

from the Facility into the environment or into or upon land, the atmosphere, or any water course, body of water or wetlands, of any substance, pollutant, waste, contaminant, harmful or hazardous material, fumes, steam, or odour due to or in any way related to the Facility and, without limiting the generality of the foregoing, Nova Scotia undertakes that this Indemnity shall apply to the costs of defending and/or counter-claiming or claiming over and against third parties in such manner as the Indemnified Parties in their sole discretion may determine in respect of any action, proceeding or matter raised in connection with the Facility.

- B. The breach of any Environmental Laws by Nova Scotia;
- C. The trespass of the Facility or any part thereof on adjacent lands or any tort or other common law claim relating to or arising out of the past, present or future use of the Facility, or arising out of the design, construction, location or configuration of the Facility, including any claim for injunction raised in any such claim;
- D. Subrogation claims made by Her Majesty the Queen in Right of Canada (Canada) pursuant to a Settlement Agreement dated July 20, 1993, between Canada and The Pictou Landing Indian Band.

The Indemnified Parties shall be held harmless as contemplated herein notwithstanding the provisions of any Ministerial Order or other directive issued or made pursuant to present or future Environmental Laws.

Without restricting the generality of the foregoing, this undertaking and indemnity shall extend to all Claims made by any person or government made on their own behalf, on the public's behalf (for example in public nuisance) or on behalf of any other party (including, without limitation, claims arising by statute or by subrogation). The undertaking and indemnification set out herein shall remain in full force and effect perpetually following the transfer of responsibility for operation of the Facility from Nova Scotia to Scott Maritimes Limited.

The foregoing indemnity is intended to provide the broadest possible indemnity to the Indemnified Parties and it is hereby mutually agreed that it is not to be interpreted *contra proferentum* or restrictively but is to be given a broad and liberal interpretation in favour of the Indemnified Parties.

DATED: November , 1995

BETWEEN:

HER MAJESTY THE QUEEN IN RIGHT OF THE PROVINCE OF NOVA SCOTIA, as represented by the Minister of Supply and Services (hereinafter referred to as "Nova Scotia")

- and -

SCOTT MARITIMES LIMITED, a body corporate under the laws of Nova Scotia (hereinafter referred to as "Scott")

MEMORANDUM OF UNDERSTANDING

Bernard F. Miller
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