
Market Pulp

General Terms and Conditions of Sale

March 2004



Canfor Pulp and Paper Marketing
A Division of Canadian Forest Products Ltd.

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A Subsidiary of Canadian Forest Products Ltd.

GENERAL TERMS AND CONDITIONS OF SALE FOR MARKET PULP

INTRODUCTION

In the belief that it is of the utmost importance to our customers that they be fairly and consistently treated, we have developed the following Terms and Conditions of Sale which govern our sales of market pulp.

In presenting these to you, our valued customer, we urge that you carefully review them and contact us for any clarification that you might require. In case you find any term or condition which does not apply to your area, please bring it to our attention.

We are convinced that the mutual understanding of a clear set of Terms and Conditions of Sale is to the benefit of both parties and is a vital part of our relationship.

1. GENERAL

The following terms and conditions shall apply to sales contracts (including supply agreements) unless otherwise specified in the current contract and agreed upon in writing.

2. SHIPMENT

Each shipment under a contract shall be considered as a separate contract and default on one or more shipments shall not invalidate the balance of the contract except as herein otherwise provided.

The seller shall have the right to ship from the mill before the time specified, but the buyer shall not be required to accept or pay for the goods earlier than if shipments were made from the mill as stipulated in the contract. The seller may route shipments and shall have the option to ship via any port (dock) or routing not named in the contract. If any such shipment is made in the case of offshore shipments, except in cases where the routing named in the contract is unavailable to the seller, a sum equal to the increase in inland transportation charges, if any, to the buyer's mill for which the goods were intended at the time of the making of the contract shall be allowed by the seller.

3. TARIFF

Contracts are based upon the tariff and/or tax laws existing at the time of signing and if by reason of any governmental action (federal, state or municipal) in the country of the buyer the cost to the seller or expense of delivery shall be increased, the purchase price specified in the contract shall be increased by an amount equal to the change in cost or expense of delivery occasioned thereby.

4. FORCE MAJEURE

For all purposes of contracts, the expression "Force Majeure" includes any Act of God, or any act of governmental agencies, war, mobilization, strike, lockout or other labour disturbance, drought, flood, total or partial fire, obstruction of navigation, strike at port of loading or discharge, or loss, damage or detention at sea, reduction, suspension or shutdown of operations, or any other contingency or cause beyond the control of the seller which prevents the manufacture and/or shipment and/or sea-transport of goods, or beyond the control of the buyer which prevents the manufacture or shipment of paper. The buyer or the seller, as the case may be, may suspend performance under the contract citing Force Majeure, neither party being responsible to the other party for any damage resulting from such suspension. The seller may at its option and without liability hereunder cancel such portion of the annual tonnage which as a direct consequence of a Force Majeure situation could not be manufactured by the seller at the seller's mills, and/or shipped to destination.

The buyer or the seller, as the case may be, shall give prompt notice to the other party of any Force Majeure situation which may, according to the previous section of this clause, affect the performance under the contract, and also when such Force Majeure situation ceases, and as soon as practicable, notify to what extent it will necessitate a suspension or cancellation of tonnage. Shipments in transit from the seller's mill must be accepted by the buyer. When such suspension is concluded, subsequent shipments will be resumed according to the contract.

In case the seller's stock of pulp is totally or partially destroyed, the seller is entitled to cancel such quantity which, as a consequence, cannot be delivered.

5. CREDIT

If at any time the buyer's creditworthiness shall become impaired or unsatisfactory, proof satisfactory to the seller of the buyer's creditworthiness shall be furnished forthwith or satisfactory security shall be given by the buyer on demand by the seller. Failing this, payment shall be made in cash; otherwise the seller shall have the right to decline to make further shipments or deliveries. Nothing in this clause 5 contained shall affect the obligation of the buyer to accept and pay for the contracted merchandise.

If the buyer fails to make payments in accordance with "Terms of Payment" contained in the contract, the seller may forthwith cancel all further orders and terminate the contract. If the seller, at its option, continues to ship goods hereunder after a default in payment has occurred, the buyer shall forthwith upon request in writing by the seller, post adequate security to cover the value of all unshipped pulp manufactured under the contract.

6. DOMICILE

The contract is executed in duplicate original and shall be governed in all respects by the laws of the place of the legal domicile of the seller.

7. ALTERATION OF CONTRACT

Any change or alteration in contracts, other than changes in price, delivery terms, or terms of payment, must be mutually agreed upon in writing.

8. CONDITIONS

(a) Weight or mass is expressed in metric tonnes (abbreviated MT) which means 1000 kilograms.

(b) Moisture content is expressed in "air dry" content (abbreviated AD). A one hundred percent (100%) air dry (AD) pulp means ninety percent (90%) dry pulp and ten percent (10%) moisture.

(c) Pulp quality, as measured at the time of manufacture, will be similar but not identical to that which is published in the current typical properties sheet for the ordered grade.

(d) Quality measurements at the time of manufacture are carried out using sampling, testing, and conditioning procedures based on Pulp and Paper Technical Association of Canada (PAPTAC), INTERNATIONAL STANDARDS ORGANIZATION (ISO), and internally developed procedures as outlined in our Quality Assurance Procedure Manual (registered to ISO9001).

9. QUANTITY TOLERANCES

A margin of ten percent (10%), more or less, on the contract quantity is to be allowed for logistical convenience.

10. RISK OF LOSS TRANSFER

For shipments by land within North America, the risk of loss of the goods passes to the buyer when the Bill of Lading is received and deemed to be accepted by the carrier. For shipments by sea, the risk of loss of the goods passes to the buyer, or remains with the seller, according to the terms of sale as set out in Incoterms 2000. The quantity identified in transferring risk of loss to the buyer is the basis for payment by the buyer and for determining whether or not the contracted quantity has been delivered to the carrier. After the risk of loss has passed to the buyer, the buyer must recover any losses from the responsible party or the insurer.

11. MOISTURE CONTENT VERIFICATION

(a) Basis of Dispute

If the buyer shall dispute the air dry content of the pulp invoiced, its claim must be based on a test made in accordance with International Standard ISO 801-1: Pulps – Determination of saleable mass in lots – Part 1: Pulp baled in sheet-form, or ISO 801-3: Pulps – Determination of saleable mass in lots – Part 3: Unitized Bales.

(b) Basis of claim

If the test made by the buyer shall show a difference of more than one percent (1%) in content of the air dry pulp, the buyer shall submit its claim and furnish the seller with the details of its (the buyer's) analysis. No claim shall be made if the test made by the buyer shows a difference of one percent (1%) or less. If any claim is made, the shipment involved shall be held and the seller, directly or through its agent, shall be immediately notified by electronic communication or by mail of the test made and the net weight found by the buyer. Claims shall be made within the period specified in clause II (c) hereof.

(c) Arbitration

Within fifteen (15) days a retest shall be made by an analyst agreed upon by the buyer and the seller chosen from the list of analysts approved by the official association of the pulp and paper industry in the country of the buyer or other mutually agreed upon organization. Any dispute in the selection of the arbitrator shall be settled in accordance with the rules of the above associations.

(d) Cost of Retesting

Retests shall be made in accordance with the official rules for testing adopted by the associations mentioned above. Not less than one-half (1/2) of the parcel in dispute shall be available for retest. If the difference in net weight does not exceed one percent (1%) as compared with the original invoice, the invoice shall stand as originally rendered. All expenses incidental to retesting shall be paid by the party in error. The buyer shall, however, in any case, pay the invoice when due, less the shortage claimed, subject to final adjustment according to the result of the retest. The result of the retest shall be binding on both the buyer and the seller.

12. TIME LIMIT FOR DISPUTES AND CLAIMS

The buyer shall promptly unload and properly store and cover by insurance any shipments which are the subject of a dispute. All claims concerning the quality of any goods delivered under the contract must be made in writing or by electronic communication within thirty (30) days from date of arrival of the shipment at the buyer's mill, railroad station, wharf or dock, or, if ordered held by the buyer, then forty-five (45) days from date of arrival at the point at which it is ordered to be held, in which latter case, however, the buyer shall make payment when due under the terms of the contract. All claims, of any other nature than quality, shall be made within fifteen (15) days from the date of arrival at the buyer's mill, railroad station, wharf, or dock, or point where ordered to be held.

No claim made after the periods mentioned shall be recognized and good delivery shall be conclusively deemed to have been made by the seller if no claim is made within the time limits stated. In the event of a claim, fifty percent (50%) of the shipment must be available for inspection and/or retests.

13. LIMITATION OF DAMAGES

If the buyer makes claims for damages as outlined in clauses 13(a) and 13(b) hereof the buyer is to make payments equal to ninety percent (90%) of the payments for the shipment in accordance with the "Terms of Payment" contained in the contract.

(a) Defective Quality

If the buyer rejects the goods delivered for proven defective manufactured quality, or rejection is awarded by arbitrators, the seller shall without delay replace the defective goods. The seller shall reimburse the buyer for additional expense incurred for handling, storing, and insuring the defective goods. If the defective quality does not result in rejection of the goods, the buyer shall

pay the reduced value of the faulty goods and shall not be entitled to other compensation or damages.

(b) Short delivery

If the quantity delivered is proven to be less than the contracted amount, other than as provided for in clause 9, the seller shall without delay make good the shortage unless the shortage is acceptable to the buyer. Payment shall be made only for the exact quantity delivered.

(c) Liability Limits

The seller shall not be liable to the buyer for compensation or damages of any kind whatsoever because of the defect or shortage of product except as noted in clauses 13(a) and 13(b). The liability of either party shall not exceed the loss which could reasonably have been foreseen at the time of entering into the contract, nor shall it include any direct or indirect consequential or economic damages. In no case shall the damages exceed the invoiced value of the defective goods.

The seller's liability for personal injury and/or property damage (excluding any direct or indirect consequential or economic damages, as indicated in the preceding paragraph) arising from the purchase, processing or use of products manufactured by the seller shall be limited to such damages that are proven to have resulted from the sole negligence of the seller or its directors, officers, or employees. The seller shall not be liable for claims arising out of:

- i) any physical or chemical change in the form of the product made intentionally by the buyer or any other party, or
- ii) repacking, unless unpacked solely for the purpose of inspection, demonstration, testing or the substitution of parts under instruction from the seller and then repacked in the original container, or
- iii) demonstration, installation, servicing or repair operations except such operations performed at the seller's premises in connection with the sale of the product, or
- iv) products which after sale by the seller have been labelled or relabelled or used as a container, part or ingredient of any other thing or substance.

