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FORESTRY AND LOGGING GROUP

March 27, 1986

Fleet Developments Limited
701 - 744 W. Hastings Street
Vancouver, B.C.
V6C 1A5

Attention: Mr. Murray McClaren

Dear Sir:

RE: Surf Inlet Development

Further to our meeting March 17, 1986, Whonnock Industries Limited (Whonnock) is interested in cooperating with your company in the development of the Surf Inlet Area. The four projects that lend themselves to a cooperative approach are:

1. Restoration of the Surf Inlet Hydro Dam
2. Road access to Paradise Creek
- or
3. Lake tow and requisite dewatering facilities
4. Ship load facility

With reference to #1, Whonnock's power requirements for a logging camp would be 150 to 200 kilowatts. Since this involves a significant cost in terms of fuel and oil for a diesel power plant, hydro power is certainly an attractive alternative.

With reference to #2, the cost to build road between the head of Surf Inlet and Paradise Creek (including a bridge) would be approximately \$1 million. There is a section in the Forest Act - Section 88 - whereby, if a project is acceptable, road and bridge construction costs incurred by a logging company are deducted from that company's stumpage bill. The stumpage to be offset can be for log production from an entirely different operation. Assuming Whonnock is successful in getting this project under Section 88 we suggest that your company cover the costs initially and Whonnock will reimburse as stumpage offsets become available. We will submit a Section 88 proposal within a month.

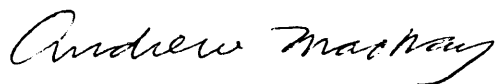
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An alternative to accessing Paradise Creek by road would be to tow on Bear and Cougar Lakes (#3). This option would require watering and dewatering facilities and dredging through the narrows. The costs involved with the lake tow option are more difficult to establish than for the road option but based on the experience of other logging operations that must use a lake tow, it is likely Whonnock would favour the road option with or without Section 88.

Based on today's situation it is highly probable that Whonnock will export logs from Surf Inlet and will need a ship loading facility (item #4). Since your company will require such a facility a cooperative approach could benefit both companies.

I look forward to discussing these and other areas of interest concerning the Surf Inlet area at a mutually convenient time.

Yours truly
WHONNOCK INDUSTRIES LIMITED



Andrew MacKay
Area Engineer

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