

April 18, 2008

City of Weippe
Mayor and City Council Members
P.O. Box 146
Weippe, ID 83553

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Dear Mayor Steadman and Council Members:

This letter shall serve as a Memorandum of Understanding between the City of Weippe (City) and Empire Lumber Company (Empire) for the purpose of a water use agreement.

Empire has applied for a Permit to appropriate the Public Waters of the State of Idaho (#84-12242). When the Idaho Department of Water Resources published a notice for comment in the Clearwater Tribune on January 3, 2008 the City of Weippe responded with a letter in opposition to Empire's permit application. The City is concerned with the volume of water that Empire has applied for rights to appropriate. Through letters and informal meetings between representatives of the City and Empire it was discussed and agreed to that the following understanding is satisfactory to the benefit of both parties.

Empire will drill a test well on a site approximately 250 feet East from Maxine Johnston's residence. Should Empire find water at this site, Empire, will at their expense, perform a water monitoring test to determine the actual volume of water present. Correspondingly, the City's two wells will be monitored to determine if there is any effect of the Empire well on the City's wells' static level. If a sufficient volume of water is available from this well, which for these purposes is identified as well No. 1, to supply Empire's fire suppression system, a second well, identified for these purposes as well No. 2, will be drilled in approximately the same location for fire suppression purposes. Well No. 1 will be drilled deeper, encased, and will be used primarily for the irrigation of Empire's log decks, and dust abatement which is anticipated to occur in the months of June through September. If Empire's well does not effect the static level of the City's well, Empire will have unrestricted use of said well. The only time water will be pumped from the second well is if Empire's fire suppression system is activated because of fire or to periodically test the system to make sure that it is operating correctly. Regardless of whether or not a sufficient volume of water is available to supply Empire's fire suppression system, the test well will then be drilled deeper into the ground with the hope that another source of water will be discovered. If a sufficient supply of water is attained in the lowest layer (approximately 2 cubic feet per second - 897.6 gpm), Empire will use this source of water to irrigate log decks during the summer months and to provide dust abatement for the log yard. If a sufficient volume of water is not attained after drilling down to 750 feet, Empire may elect to discontinue drilling and utilize the water source available in well No. 1. During the summer months when Empire decides it is necessary to begin irrigating log decks the water level of the two City wells will be monitored by City and Empire employees. If it is determined that the static level of the wells has been adversely affected by 30 feet, Empire will either reduce consumption to maintain that level or stop using water entirely until the static level has stabilized at no less than 30 feet below the level it was at before watering began.

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If the static level drops below 30 feet, the City and Empire agree to meet immediately in order to reach a mutual agreement. If no mutual agreement is reached, then the City and Empire agree to seek review by the State of Idaho Department of Water Resources to assist the City and Empire to reach a mutually and beneficial agreement in order to permit Empire's continued water usage.

In no case will the City water supply be allowed to run out because of Empire's usage. It is understood that maintaining a satisfactory supply of water to the City's water system is the top priority. The City has water rights to 455 gallons per minute from the two wells located south of town. Empire's intention is to use water that is excess to the volume that the City has already procured water rights to.

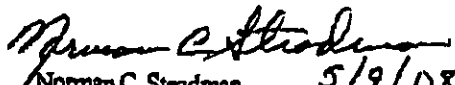
Parties agree this memorandum will be submitted to the Department of Water Resources and the City will withdraw its objection to Empire's water permit application.

Agreed:



David A. Klaus
President
Empire Lumber Company

Agreed:


5/9/08
Norman C. Steadman
Mayor
City of Weippe