

**IN THE UNITED STATES BANKRUPTCY COURT  
FOR THE DISTRICT OF DELAWARE**

-----	X	
	:	Chapter 15
In re:	:	
	:	Case No. 12-10221 (PJW)
CATALYST PAPER CORP., <u>et al.</u> ,	:	
	:	Jointly Administered
Debtors.	:	
	:	Related Docket No.: 175, 176 <b>188</b>
-----	X	

**ORDER (I) AUTHORIZING THE DEBTORS TO REJECT CERTAIN EXECUTORY  
CONTRACTS AND UNEXPIRED LEASES FOR NONRESIDENTIAL REAL  
PROPERTY AND (II) GRANTING RELATED RELIEF PURSUANT TO 11 U.S.C. §§  
105(a), 363, 365(a), 1507, AND 1521 AND BANKRUPTCY RULES 2002 AND 6006**

Upon consideration of the motion (the "Motion")<sup>1</sup> of Catalyst Paper Corporation ("CPC"), as the authorized foreign representative for itself and its above-captioned affiliates (collectively, the "Debtors" and, together with their non-debtor affiliates, the "Company") in a proceeding (the "CCAA Proceeding") under Canada's Companies' Creditors Arrangement Act, R.S.C. 1985, c. C-36, as amended (the "CCAA"), pending before the Supreme Court of British Columbia (the "Canadian Court"), for the entry of an order, pursuant to sections 105(a), 365(a), 1507, and 1521 of title 11 of the United States Code (the "Bankruptcy Code") and Rules 2002 and 6006 of the Federal Rules of Bankruptcy Procedure (the "Bankruptcy Rules") (i) authorizing the Debtors to reject certain executory contracts and unexpired leases for nonresidential real property and (ii) granting related relief as this Court deems just and proper; and upon consideration of the Eleventh Declaration of Brian Baarda [Docket No. 176]; and upon further consideration of the record of the hearing on the Motion having been held before this Court on August 14, 2012; and

---

<sup>1</sup> Capitalized terms used but not otherwise defined herein shall have the meanings ascribed to such terms in the Motion.

upon further consideration of the record of the hearing on the Motion having been held before this Court on August 24, 2012; and due, sufficient, and proper notice of the Motion and the relief requested therein having been provided; and it appearing that no other or further notice need be provided; and it appearing that the relief requested in the Motion is in the best interests of the Debtors and other parties in interest in these chapter 15 cases (the "Chapter 15 Cases"); and after due deliberation and sufficient cause appearing therefore,

**IT IS HEREBY FOUND** that:<sup>2</sup>

A. The Court has jurisdiction over this matter pursuant to 28 U.S.C. §§ 157 and 1334 and section 1501 of the Bankruptcy Code.

B. This is a core proceeding pursuant to 28 U.S.C. § 157(b)(2).

C. Venue is proper in this District pursuant to 28 U.S.C. § 1410.

D. The relief granted herein is necessary and appropriate and in the interests of the public and international comity, consistent with the public policy of the United States, warranted pursuant to sections 1507 and 1521(a)(7) of the Bankruptcy Code, and will not cause hardship of any party in interest that is not outweighed by the benefits of the relief granted herein.

E. CPC has demonstrated that without the application of section 365(a) of the Bankruptcy Code, the Debtors will incur significant unnecessary postpetition charges related to the Snowflake Contracts following the shutdown of the Snowflake Mill facility. As a result, the Debtors' estates will suffer a decrease in value and the Debtors' creditors and other parties in interest will be harmed thereby.

F. CPC has demonstrated that the proposed rejection of the Snowflake Contracts is a valid exercise of the Debtors' business judgment.

---

<sup>2</sup> Findings of fact shall be construed as conclusions of law, and conclusions of law shall be construed as findings of fact, pursuant to Bankruptcy Rule 7052.

G. As of the date of the Motion, Catalyst Paper (Snowflake) Inc. ("Snowflake") and Snowflake Power, LLC ("Power" and, together with Snowflake, the "Parties") were parties to an unexpired lease of nonresidential real property effective as of September 14, 2005 (collectively with all schedules, addenda and amendments thereto, the "Lease"), with respect to the lease of certain property for the purposes of operating a power plant in conjunction with the Snowflake Mill, which was also the subject of related agreements between the Parties. The relief requested in the Motion with respect to the Lease was vigorously disputed by Power, and such dispute could have had a disproportionate impact on the Debtors' overall restructuring efforts. In addition, any litigated outcome on the Motion would have resulted in an imperfect solution for the Parties. Specifically, the grant of the Motion would have remained subject to Power's rights to continue to occupy the leased premises, albeit without effective ability to operate a power plant, and the denial of the Motion would have avoided rejection but still left Power without effective ability to operate a power plant in the long term.

H. The Parties have successfully resolved their disputes in the context of a new agreement (the "New Agreement") attached to this order as Exhibit B. Among other things, and as set forth in greater detail therein, the New Agreement provides for the provision of certain transition services to Power that relieve the Debtors of certain costs, result in certainty for the Parties, and permit Power to continue to operate during a transition period. In addition, the New Agreement, along with the proposed bidding procedures (the "Bidding Procedures") attached to this order as Exhibit C provide for the disposition of the assets of Catalyst Paper (Snowflake) Inc. and the Apache Railway Company in a transparent manner consistent with section 363 of the Bankruptcy Code. The Parties believe that the New Agreement and the Bidding Procedures will maximize the value of the Debtors' U.S. assets, and result in the fair treatment of the Debtors and

of Power, particularly with respect to those assets which are important to the operation of the power plant.

I. With respect to those certain specific Assets<sup>2</sup> to be conveyed pursuant to the New Agreement, the Court hereby makes the following additional findings:

- (i) Arm's Length Sale. The New Agreement and other documents and instruments related to and connected with the sale of Assets and the consummation thereof were negotiated, proposed and entered into by the Parties without collusion, in good faith and from arm's-length bargaining positions.
- (ii) Good Faith Purchaser. Power and its Affiliates and their respective representatives have proceeded in good faith and without collusion in all respects in connection with this proceeding. Such persons are therefore entitled to all of the benefits and protections provided to a good faith purchaser under section 363(m) of the Bankruptcy Code.
- (iii) Sale in the Best Interests. Good and sufficient reasons for approval of the New Agreement and the sale of the Assets have been articulated to the Court, and the relief requested and set forth herein is in the best interests of the Debtors and their respective estates, creditors and other parties in interest in these Chapter 15 Cases.

---

<sup>2</sup> Capitalized terms not otherwise defined in this paragraph I and ordered paragraph 10 shall have the meanings ascribed to them in the New Agreement.

- (iv) Consideration. The consideration provided by the Power to Snowflake pursuant to the New Agreement constitutes reasonably equivalent value and fair consideration under the U.S. Bankruptcy Code, the Uniform Fraudulent Transfer Act, the Uniform Fraudulent Conveyance Act and the laws of the United States or any other applicable law. The New Agreement represents a fair and reasonable offer to purchase the Assets under the circumstances of these Chapter 15 Cases, which circumstances have been articulated to the Court.
- (v) Sale Free and Clear. The transfer of the Assets to Power under the New Agreement will be a legal, valid, and effective transfer, and vests or will vest, at Closing, Power with all right, title and interest of the Debtors to the Assets free and clear of all Liens, Claims and encumbrances (other than Permitted Encumbrances) of any kind or nature whatsoever.

J. The notice given by the Debtors of the Motion, the relief requested therein, and of the hearing in respect of the Motion was timely, proper and, under the circumstances, was adequate and sufficient. No further notice of the request for the relief granted at such hearing is required.

K. The hearing held on the Motion was fair and open to all parties potentially affected by the relief requested in the Motion.

L. Cause has been shown as to why this Order should not be subject to the stay provided by the Bankruptcy Rule 6006; and therefore

**NOW THEREFORE, IT IS HEREBY ORDERED, ADJUDGED, AND DECREED** that:

1. The Motion is granted.

**REJECTION OF CONTRACTS**

2. The Debtors are entitled to relief under section 365(a) to the extent expressly provided in this Order, as authorized under the provisions of section 1521(a)(7) of the Bankruptcy Code.

3. Pursuant to section 365(a) of the Bankruptcy Code, the Debtors' rejection of the Snowflake Contracts is hereby approved. The Snowflake Contracts listed on Exhibit A attached hereto are hereby deemed rejected as of the corresponding date (the "Rejection Date") indicated on Exhibit A. Rejection of the Snowflake Contracts shall constitute a breach of such Snowflake Contracts immediately before January 31, 2012. The Debtors shall continue, in the ordinary course of business, to satisfy obligations arising under the Snowflake Contracts up to but excluding the Rejection Date.

4. Any claims (the "Rejection Claims") arising from the rejection of the Snowflake Contracts shall be filed on or before September 13, 2012, consistent with the procedures set forth in this Order. Rejection Claims shall be delivered by 5:00 p.m., Pacific time, on September 13, 2012, to either: (i) Pricewaterhouse Coopers Inc., Court-appointed Monitor of Catalyst Paper Corporation et al., 250 Howe Street, Suite 700, Vancouver, British Columbia, V6C S37, Canada, Attention: Patricia Marshall or (ii) Kurtzman Carson Consultants LLC, 2335 Alaska Avenue, El Segundo, California 90245.

5. Rejection Claims timely filed shall be deemed "Restructuring Claims" as defined in the Second Amended Plan and the Claims Procedure Order and, furthermore, such "Restructuring Claims" shall be bound by the terms of the Second Amended Plan. Any Rejection Claims not timely filed shall be deemed waived by the claimant and forever barred pursuant to the terms of the Claims Procedure Order, the Second Amended Plan and the Sanction Order.

6. To the extent that any Snowflake Contract is an unexpired lease of real property under which a Debtor is the lessor:

- (b) If the rejection by the Debtor(s) amounts to such a breach as would entitle the lessee to treat such lease as terminated by virtue of its terms, applicable nonbankruptcy law, or any agreement made by the lessee, then the lessee under such lease may treat such lease as terminated by the rejection; or
- (c) If the term of such lease has commenced, the lessee may retain its rights under such lease (including rights such as those relating to the amount and timing of payment of rent and other amounts payable by the lessee and any right of use, possession, quiet enjoyment, subletting, assignment, or hypothecation) that are in or appurtenant to the real property for the balance of the term of such lease and for any renewal or extension of such rights to the extent that such rights are enforceable under applicable nonbankruptcy law.

7. If a lessee retains its rights under subparagraph (b) of paragraph 6 of this Order, the lessee may offset against the rent reserved under such lease for the balance of the term after the date of the rejection of such lease and for the term of any renewal or extension of such lease, the value of any damage caused by the nonperformance after the Rejection Date, of any obligation of the Debtors under such lease, but the lessee shall not have any other right against the Debtors or their estates on account of any damage occurring after such date caused by such nonperformance.

8. If any lease of personal property is rejected pursuant to the procedures and provisions set forth in this Order, the leased property is no longer property of the Debtors' estates and the automatic stay under section 362 of the Bankruptcy Code is terminated with respect to such property.

9. Nothing herein, nor any action taken in connection with this Order shall be, nor shall it be construed as, a waiver of any of the Debtors' rights with respect to the Snowflake Contracts, including the right to contest any asserted claim amount or the characterization of the Snowflake Contracts and/or to assert any claim, counter-claim or defense without limitation against any Counterparty to a Snowflake Contract, whether or not such claims are related to the Snowflake Contracts.

#### APPROVAL OF SETTLEMENT

10. The terms of the settlement between Snowflake and Power embodied in the New Agreement attached hereto as Exhibit B are approved. Pursuant to sections 105(a) and 363(f) of the Bankruptcy Code, the Debtors are hereby authorized to enter into and perform the New Agreement and to transfer the Assets to Power, and Power shall take title to and possession of the Assets, upon Closing, free and clear of all Liens, Claims and encumbrances (other than Permitted Encumbrances) of any kind or nature whatsoever. The terms of the New Agreement will be binding on any successor, assignee or purchaser of Snowflake and/or any of its assets.

11. The Bidding Procedures attached hereto as Exhibit C are approved. The Debtors are hereby authorized to negotiate a breakup fee of up to 3% of the total purchase price offered by a designated stalking horse bidder.



ADDITIONAL RELIEF

12. The Debtors are authorized and empowered to take such steps and perform such actions as may be necessary to implement and effectuate the terms of this Order.

13. Notwithstanding any provision in the Bankruptcy Rules to the contrary, including the provisions of Bankruptcy Rule 6006(d) staying the effectiveness of this Order for fourteen (14) days which are hereby waived, this Order shall be effective, and the Debtors are not subject to any stay in the implementation, enforcement, or realization of the relief granted in this Order.

14. Within two (2) business days of entry of this Order, the Debtors shall serve this Order upon the Notice Parties in accordance with this Court's *Order (I) Specifying Form and Manner of Service of Notice of Filing of Petitions and Other Pleadings Pursuant to Chapter 15 of the Bankruptcy Code and (II) Scheduling a Hearing on Chapter 15 Petitions for Recognition* [Docket No. 23]. Furthermore, the Debtors shall serve this Order via overnight mail upon the Counterparties.

15. This Court shall retain jurisdiction with respect to any matters, claims, rights, or disputes arising from or related to the Motion or the implementation of this Order.

Dated: August 24 2012  
Wilmington, Delaware

  
\_\_\_\_\_  
HONORABLE PETER J. WALSH  
UNITED STATES BANKRUPTCY JUDGE

**EXHIBIT A**  
**Rejected Contracts**

<b>Debtor Party</b>	<b>Non-Debtor Counterparty</b>	<b>Title of Agreement<sup>1</sup></b>	<b>Mailing Address</b>	<b>Fax Number</b>	<b>Effective Date</b>
The Apache Railway Company	C.I.T. Leasing Corporation and The CIT Group/Equipment Financing, Inc.	Master Net Railcar Lease, dated 6/1/06	David Singer Chief Counsel CIT Rail 30 S. Wacker Drive Suite 2900 Chicago, IL 60606	(312) 906-5833	09/14/2012
Catalyst Paper (Snowflake) Inc.	Coal Sales LLC	Coal Supply Agreement	James C. Campbell, Jr Senior Vice President/Sales & Marketing Peabody Energy Company CoalSales, LLC 701 Market Street St. Louis, MO 63101-1826	(314) 342-7529	08/31/2012
The Apache Railway Company	Flex Leasing I, LLC	Letter Agreement, dated 12/20/2006 and Master Net Railcar Lease, dated 11/30/10	David Singer Chief Counsel CIT Rail 30 S. Wacker Drive Suite 2900 Chicago, IL 60606	(312) 906-5833	09/14/2012
Catalyst Paper Recycling Inc.	Friedman	Recovered Paper Supply Agreement	Friedman Recycling Companies 3640 West Lincoln Street Phoenix, AZ 85009 Attention: Mr. Morris Friedman, President	(602) 269-7521	08/31/2012
Catalyst Paper Recycling Inc.	National Fibre	Recyclable Materials Purchase & Sales Agreement	National Fiber Supply Company 55 Monroe Street Chicago, IL 60693 Attention: Kevin Henderson	(316) 636-4001	09/14/2012

<sup>1</sup> All listed agreements include all schedules, amendments, and extensions thereto and any and all related agreements, without limitation.

Debtor Party	Non-Debtor Counterparty	Title of Agreement <sup>1</sup>	Mailing Address	Fax Number	Effective Date
			Kevin Henderson 4117 N. Ironwood Court Wichita, KS 67226	(316) 636-4001	
			Thomas L. Wood 55 East Monroe Street Chicago, IL 60603-5890		
Catalyst Paper (Snowflake) Inc.	Phoenix Newsprint	Recyclable Materials Purchase & Sales Agreement	Phoenix Newspaper Inc. 200 E. Van Buren Street Phoenix, AZ 85004 Attention: Director of Finance	(602) 444-8970	09/14/2012
Catalyst Paper Recycling Inc.	Vista	Recovered Paper Supply Agreement	Vista Paper, LLC 1105 North Sickles Dr. North Tempe, AZ 85281	(602) 444-8970	09/14/2012
Catalyst Paper (Snowflake) Inc.	UNS Gas, Inc.	Gas Transportation Agreement and Interruptible Natural Gas Sales and Agency Agreement	Theresa Mead Lead Analyst – Gas Transportation Services P.O. Box 711, SC115 3950 E. Irvington Road Tucson, AZ 85702 Gary A. Smith Vice President & General Manager 2901 West Shamrell Blvd., Suite 110 Flagstaff, AZ 86001	(520) 571-4065	09/14/2012
Catalyst Paper (Snowflake) Inc.	Snowflake Power LLC	Ground Lease Agreement	Peter Woog President & CEO - Snowflake Power, LLC The Esplanade 2525 E. Camelback Rd. Suite 850 Phoenix, AZ 85016 J. Jahm Najafi Chief Executive Officer - Najafi Companies The Esplanade 2525 E. Camelback Rd. Suite 850 Phoenix, AZ 85016	(602) 476-0625	09/30/2012

**EXHIBIT B**  
**New Agreement**

---

ASSET SALE AND SETTLEMENT AGREEMENT

BY AND AMONG

CATALYST PAPER (SNOWFLAKE) INC.

AND

SNOWFLAKE POWER, LLC

DATED AS OF AUGUST 23, 2012

---

## TABLE OF CONTENTS

	Page
<b>ARTICLE I DEFINITIONS AND INTERPRETATION</b> .....	2
1.1    Certain Definitions.....	2
1.2    Interpretation .....	7
<b>ARTICLE II PURCHASE AND SALE OF ASSETS</b> .....	8
2.1    Purchase and Sale of Assets .....	8
2.2    Purchase Price.....	8
2.3    Closing .....	9
2.4    Appointment; Duties of Escrow Agent .....	10
2.5    Title and Survey Review Contingency .....	12
2.6    Title Insurance Policy .....	13
2.7    Right of Entry .....	14
<b>ARTICLE III REPRESENTATIONS AND WARRANTIES OF THE PURCHASER</b> .....	14
3.1    Organization and Corporate Power.....	14
3.2    Authorization; Binding Effect; No Breach.....	14
3.3    No Other Representations or Warranties .....	15
3.4    As Is, Where Is, and With All Faults Transaction .....	15
3.5    Brokers .....	15
<b>ARTICLE IV REPRESENTATIONS AND WARRANTIES OF THE SELLER</b> .....	16
4.1    Organization and Corporate Power.....	16
4.2    Authorization; Binding Effect; No Breach.....	16
4.3    Title to Assets; Condition of Equipment.....	16
4.4    Environmental Matters.....	16
4.5    Real Property .....	17
4.6    Brokers .....	17
<b>ARTICLE V COVENANTS AND OTHER AGREEMENTS</b> .....	17
5.1    Bankruptcy Court Approval .....	17
5.2    Cooperation .....	18
5.3    Further Actions .....	18
5.4    Prorations and Charges .....	18
5.5    Transaction Expenses.....	19
5.6    Rejection of Lease.....	19
5.7    Mutual Releases.....	19
5.8    Use of and Option to Purchase Certain Items; Continuing Rights of the Purchaser 20	20
5.9    Potential Sale of the Seller's Other Assets .....	24
5.10    Use of Assets Pre-Closing .....	25
5.11    Use of Landfill .....	25
5.12    Purchaser Equipment .....	26
5.13    Railway Track Access.....	26

<b>ARTICLE VI TAX MATTERS AND RECORDS .....</b>	<b>26</b>
6.1 Transfer Taxes .....	26
6.2 Tax Characterization of Payments Under This Agreement.....	26
6.3 Records.....	26
<b>ARTICLE VII CONDITIONS TO THE CLOSING.....</b>	<b>27</b>
7.1 Conditions to Each Party's Obligation.....	27
7.2 Conditions to Seller's Obligation .....	27
7.3 Conditions to Purchaser's Obligation .....	28
<b>ARTICLE VIII MISCELLANEOUS.....</b>	<b>30</b>
8.1 No Survival of Representations and Warranties or Covenants .....	30
8.2 Remedies .....	30
8.3 No Third-Party Beneficiaries.....	30
8.4 Consent to Amendments; Waivers.....	30
8.5 Successors and Assigns.....	30
8.6 Governing Law; Submission to Jurisdiction; Waiver of Jury Trial.....	31
8.7 Notices.....	31
8.8 Schedules.....	32
8.9 Counterparts.....	32
8.10 No Presumption .....	32
8.11 Severability.....	33
8.12 Specific Performance .....	33
8.13 Entire Agreement .....	33
8.14 Damages .....	34
8.15 Bulk Sales Laws.....	34



**SCHEDULES**

Schedule A: Equipment

Schedule B: Real Property

Schedule C: Spare Parts

Schedule D: Transition Equipment

Schedule 5.8(g): Substation Maintenance

Schedule 5.12: Purchaser Equipment

**EXHIBITS**

Exhibit 1: Bill of Sale for Equipment

Exhibit 2: Bill of Sale for Substation Interest

Exhibit 3: Special Warranty Deed for Real Property

## ASSET SALE AND SETTLEMENT AGREEMENT

This Asset Sale and Settlement Agreement (the "**Agreement**") is dated as of August [24], 2012, by and between Catalyst Paper (Snowflake) Inc., a Delaware corporation (the "**Seller**"), and Snowflake Power, LLC, a Delaware limited liability company (the "**Purchaser**").

### WITNESSETH:

WHEREAS, on January 31, 2012 (the "**Petition Date**"), the Seller, Catalyst Paper Corporation ("**Catalyst**"), Catalyst Paper General Partnership and certain of the Seller's affiliates filed with the Supreme Court of British Columbia, Vancouver Registry (the "**Canadian Court**") an application for protection under the Companies' Creditors Arrangement Act (the "**CCAA**") (the proceedings commenced by such application, the "**CCAA Cases**") and were granted certain initial creditor protection pursuant to an order issued by the Canadian Court on the same date, as amended and restated on February 6, 2012, as the same may be amended and restated from time to time;

WHEREAS, on February 1, 2012, Catalyst, as the foreign representative of the Seller and its Subsidiaries, commenced a proceeding to recognize the CCAA Cases pursuant to chapter 15 of title 11 of the United States Code, 11 U.S.C. § 101 et seq. (the "**U.S. Bankruptcy Code**") in the United States Bankruptcy Court for the District of Delaware (the "**U.S. Bankruptcy Court**");

WHEREAS, on March 5, 2012, the U.S. Bankruptcy Court granted recognition of the CCAA Cases as foreign main proceedings under Chapter 15 of the U.S. Bankruptcy Code (the "**Chapter 15 Cases**");

WHEREAS, on July 31, 2012, Catalyst filed a motion in the U.S. Bankruptcy Court [Docket No. 175] (the "**Rejection Motion**") seeking to reject, among others, that certain Lease Agreement dated September 14, 2005, by and between the Seller and the Purchaser (as amended, and collectively with all amendments, schedules and other related documents, including but not limited to the Operations Provisions contained therein, the "**Lease**");

WHEREAS, on August 17, 2012, the Seller and the Purchaser entered into a settlement term sheet (the "**Settlement**"), which, among other things, resolves the parties' disputes with respect to the Rejection Motion and contemplates the transactions described in this Agreement;

WHEREAS, in connection with the Settlement, the Seller has agreed to sell and transfer to the Purchaser, and the Purchaser has agreed to purchase from the Seller, the Assets (defined below), the Seller has agreed to permit the use of certain other equipment by the Purchaser, and the Seller has agreed to provide certain services to the Purchaser, in each case upon the terms and subject to the conditions set forth hereinafter.

NOW, THEREFORE, in consideration of the respective covenants, representations and warranties made herein, and of the mutual benefits to be derived hereby (the sufficiency of which are acknowledged), the Parties agree as follows:

**ARTICLE I**  
**DEFINITIONS AND INTERPRETATION**

1.1 Certain Definitions.

Capitalized terms used but not otherwise defined in this Agreement shall have the meanings set forth below:

**"363 Sale"** has the meaning set forth in Section 5.9.

**"Action"** means any litigation, action, suit, charge, binding arbitration or other legal, administrative or judicial proceeding.

**"Affiliate"** means, as to any Person, any other Person that directly or indirectly through one or more intermediaries Controls, or is under common Control with, or is Controlled by, such Person.

**"Agreement"** means this Asset Sale and Settlement Agreement and the Exhibits and Schedules attached hereto and all amendments hereto and thereto made in accordance with Section 8.4.

**"Ancillary Agreements"** means, in each case in a form reasonably acceptable to the Seller and the Purchaser: (i) a Bill of Sale for the assignment and conveyance of the Equipment from the Seller to the Purchaser; (ii) a Bill of Sale for the assignment and conveyance from the Seller to the Purchaser of an undivided 20% interest in the Substation and the 69 KV transmission line emanating from the Substation to the point interconnection with the Arizona Public Service Company; and (iii) a Special Warranty Deed transferring title to the Real Property from the Seller to the Purchaser.

**"Approval Order"** has the meaning set forth in Section 5.1.

**"Assets"** has the meaning set forth in Section 0.

**"Bankruptcy Court"** means any or all of, as the context may require, the Canadian Court, the U.S. Bankruptcy Court and any other court before which Bankruptcy Proceedings are held.

**"Bankruptcy Laws"** means the CCAA, the Bankruptcy and Insolvency Act (Canada), the U.S. Bankruptcy Code and the other applicable insolvency Laws of any jurisdiction where Bankruptcy Proceedings are held.

**"Bankruptcy Proceedings"** means the CCAA Cases and the Chapter 15 Cases, in each case, any proceedings therein, as well as any other voluntary or involuntary bankruptcy, insolvency, administration or similar judicial proceedings concerning the Seller that are held from time to time.

**"Business Day"** means a day on which the banks are opened for business (Saturdays, Sundays, statutory and civic holidays excluded) in New York, New York.

**"Canadian Approval Order"** has the meaning set forth in Section 5.1.

**"Canadian Court"** has the meaning set forth in the recitals to this Agreement.

**"Catalyst"** has the meaning set forth in the recitals to this Agreement.

**"CCAA"** has the meaning set forth in the recitals to this Agreement.

**"CCAA Cases"** has the meaning set forth in the recitals to this Agreement.

**"Chapter 15 Cases"** has the meaning set forth in the recitals to this Agreement.

**"Claim"** has the meaning set forth in section 101(5) of the U.S. Bankruptcy Code.

**"Consent"** means any approval, authorization, consent, order, license, permission, permit, including any Environmental Permit, qualification, exemption or waiver by any Government Entity (including any order by the Bankruptcy Court authorizing any sale or transfer pursuant to sections 363 or 365 of the U.S. Bankruptcy Code) or other Third Party.

**"Contract"** means any legally binding contract, agreement, obligation, license, undertaking, instrument, lease, ground lease, commitment or other arrangement, whether written or oral.

**"Control"**, including, with its correlative meanings, "Controlled by" and "under common Control with", means, in connection with a given Person, the possession, directly or indirectly, of the power to either (i) elect more than fifty percent (50%) of the directors or managers, as the case may be, of such Person or (ii) direct or cause the direction of the management and policies of such Person, whether through the ownership of securities, Contract or otherwise.

**"Courts"** has the meaning set forth in Section 8.6(b).

**"Deed"** means the Special Warranty Deed transferring title to the Real Property from the Seller to the Purchaser.

**"Due Date"** has the meaning set forth in Section 5.8(f).

**"Environmental Claims"** means any claim, Action, cause of action, investigation or notice by any Person alleging potential liability (including potential liability for investigatory costs, cleanup costs, Government Entity response costs, natural resources damages, property damages, personal injuries, or penalties) arising out of, based on or resulting from (a) the presence, Release or threatened Release of any Hazardous Materials at any location owned or operated by the Seller, or (b) circumstances forming the basis of any violation, or alleged violation, of any Environmental Law.

**"Environmental Laws"** means any applicable Law relating to pollution or protection of the environment, natural resources or human health and safety, including Laws relating to the exposure to, or Releases or threatened Releases of, Hazardous Materials or otherwise relating to the manufacture, presence, processing, distribution, use, treatment, storage, Release, transport, disposal, transfer, discharge, control, recycling, production, generation or handling of Hazardous

Materials and all Laws with regard to recordkeeping, notification, disclosure and reporting requirements respecting Hazardous Materials, each as amended and as now in effect.

***"Equipment"*** has the meaning set forth in Section 2.1(a).

***"Equipment Purchase Price"*** has the meaning set forth in Section 2.2.

***"Escrow Agent"*** has the meaning set forth in Section 2.4.

***"Feasibility Termination Date"*** has the meaning set forth in Section 2.7.

***"First Transition Equipment Use Fee"*** has the meaning set forth in Section 5.8(c).

***"Government Entity"*** means any U.S., Canadian, foreign, domestic, federal, territorial, provincial, state, municipal or local governmental authority, quasi-governmental authority, instrumentality, court, government or self-regulatory organization, bureau, commission, tribunal or organization or any regulatory, administrative or other agency, or any political or other subdivision, department or branch of any of the foregoing having jurisdiction.

***"Hazardous Materials"*** means (a) petroleum, petroleum products, asbestos in any form, mold, urea formaldehyde foam insulation, lead based paints, polychlorinated biphenyls or any other material or substance regulated pursuant to Environmental Laws, and (b) any chemical, material or other substance which is regulated, defined or listed, alone or in any combination as "hazardous", "hazardous waste", "radioactive", "deleterious", "toxic", "caustic", "dangerous", a "contaminant", a "pollutant", a "waste", a "special waste", a "source of contamination" or "source of pollution", under any Environmental Law.

***"Landfill"*** has the meaning set forth in Section 5.11(a).

***"Landfill Term"*** has the meaning set forth in Section 5.11(a).

***"Landfill Use Provisions"*** has the meaning set forth in Section 5.11(b).

***"Law"*** means any U.S., Canadian, foreign, domestic, federal, territorial, state, provincial, local or municipal statute, law, common law, ordinance, rule, regulation, order, writ, injunction, directive, judgment, decree or policy or guideline having the force of law.

***"Lease"*** has the meaning set forth in the recitals to this Agreement.

***"Liabilities"*** means debts, liabilities and obligations, whether accrued or fixed, absolute or contingent, matured or unmatured or determined or undeterminable, including those arising under any Law or Action and those arising under any Contract or otherwise, including any Tax liability.

***"Lien"*** means any lien, mortgage, pledge or security interest, hypothec (including legal hypothecs), encumbrance, servitude, easement, encroachment, right-of-way, restrictive covenant on real or immovable property, real property license, other real rights in favor of Third Parties, charge, prior claim, lease, occupancy agreement, leasing agreement, statutory or deemed trust or conditional sale arrangement.

***“Material Adverse Effect”*** means any fact, condition, change, violation, inaccuracy, circumstance or event, individually or in the aggregate, that (a) materially and adversely impairs the Assets, taken as a whole, or (b) materially and adversely delays or impedes the consummation of the transactions contemplated by this Agreement, in each case except that any such fact, condition, change, violation, inaccuracy, circumstance or event results from or arises out of (i) changes in general economic conditions or changes affecting the industries and markets in which the Seller operates, (ii) macroeconomic factors, interest rates, currency exchange rates, general financial market conditions, acts of God, war, terrorism or hostilities, (iii) the transactions contemplated hereby or any announcement hereof or the identity of the Purchaser, or (iv) the pendency of the Bankruptcy Proceedings.

***“Material Title Matter”*** has the meaning set forth in Section 2.5(c).

***“Mill Assets”*** has the meaning set forth in Section 5.9.

***“Non-Leased Real Property”*** has the meaning set forth in Section 4.4.

***“Notification”*** has the meaning set forth in Section 5.8(h).

***“Objection Notice”*** has the meaning set forth in Section 2.5(c).

***“Order”*** means any order, injunction, judgment, decree, ruling, writ, assessment or arbitration award of a Government Entity.

***“Party”*** or ***“Parties”*** means individually or collectively, as the case may be, the Seller and the Purchaser.

***“Permitted Encumbrances”*** means those exceptions to title to the Real Property disclosed by the Title Report and/or Survey and approved or deemed approved by the Purchaser pursuant to Section 2.5.

***“Person”*** means an individual, a partnership, a corporation, an association, a limited or unlimited liability company, a joint stock company, a trust, a joint venture, an unincorporated organization or other legal entity or Government Entity.

***“Petition Date”*** has the meaning set forth in the recitals to this Agreement.

***“Purchaser”*** has the meaning set forth in the recitals to this Agreement.

***“Real Property”*** has the meaning set forth in Section 2.1(b).

***“Real Property Closing”*** has the meaning set forth in Section 2.3(a).

***“Real Property Closing Date”*** has the meaning set forth in Section 2.3(a).

***“Real Property Purchase Price”*** has the meaning set forth in Section 2.2.

***“Rejection Motion”*** has the meaning set forth in the recitals to this Agreement.

**"Release"** means any release, spill, emission, discharge, leaking, pouring, emptying, escaping, dumping, injection, deposit, disposal, dispersal, leaching or migration into the indoor or outdoor environment (including ambient air, surface water, groundwater and surface or subsurface strata) or into or out of any property.

**"Released Claims"** has the meaning specified in Section 5.7(a).

**"Scrap Items"** has the meaning set forth in Section 5.8(h).

**"Seller"** has the meaning set forth in the recitals to this Agreement.

**"Service Costs"** has the meaning set forth in Section 5.8(f).

**"Service Deposit"** has the meaning set forth in Section 5.8(f).

**"Settlement"** has the meaning set forth in the recitals to this Agreement.

**"Settlement Closing"** has the meaning set forth in Section 2.3(a).

**"Settlement Closing Date"** has the meaning set forth in Section 2.3(a).

**"Spare Parts"** has the meaning set forth in Section 5.8(b).

**"Spare Parts Purchase Price"** has the meaning set forth in Section 5.8(b).

**"Substation"** has the meaning set forth in Section 5.8(g).

**"Survey"** has the meaning set forth in Section 2.5(a).

**"Tax"** means any domestic or foreign federal, state, local, provincial, territorial or municipal taxes or other impositions by any Government Entity, including Transfer Taxes and the following taxes and impositions: net income, gross income, capital, value added, goods and services, harmonized sales, capital gains, alternative, net worth, gross receipts, sales, use, ad valorem, business rates, transfer, franchise, profits, business, environmental, real or immovable property, municipal, school, withholding, workers' compensation levies, payroll, employment, unemployment, employer health, occupation, social security, excise, stamp, customs, and all other taxes, fees, duties, assessments, deductions, contributions, withholdings or charges of the same or of a similar nature, however denominated, together with any interest and penalties, additions to tax or additional amounts imposed or assessed with respect thereto.

**"Tax Authority"** means any local, municipal, governmental, state, provincial, territorial, federal, including any U.S., Canadian or other fiscal, customs or excise authority, body or officials anywhere in the world with responsibility for, and competent to impose, collect or administer, any form of Tax.

**"Tax Returns"** means all returns, reports (including elections, declarations, disclosures, statements, schedules, estimates and information returns) and other information filed or required to be filed with any Tax Authority relating to Taxes.

**"Third Party"** means any Person that is neither a Party nor an Affiliate of a Party.

***“Transaction Documents”*** means this Agreement, the Ancillary Agreements and all other ancillary agreements to be entered into, or documentation delivered by, any Party pursuant to this Agreement.

***“Transition Equipment”*** has the meaning set forth in Section 5.8(a).

***“Transition Equipment Term”*** has the meaning set forth in Section 5.8(a).

***“Transition Equipment Use Fee”*** has the meaning set forth in Section 5.8(c).

***“Transition Services”*** has the meaning set forth in Section 5.8(d).

***“Transfer Taxes”*** means all goods and services, sales, excise, use, transfer, gross receipts, documentary, filing, recordation, value-added, stamp, stamp duty reserve, and all other similar taxes, duties or other like charges, however denominated, in each case including interest, penalties or additions attributable thereto whether or not disputed, arising out of or in connection with the transaction, regardless of whether the Governmental Entity seeks to collect the Transfer Tax from the Seller or the Purchaser; provided, however, that such are assessed or charged by the State of Arizona or one or more of its political subdivisions.

***“U.S.”*** means the United States of America.

***“U.S. Bankruptcy Code”*** has the meaning set forth in the recitals to this Agreement.

***“U.S. Bankruptcy Court”*** has the meaning set forth in the recitals to this Agreement.

## 1.2 Interpretation.

(a) Gender and Number. Any reference in this Agreement to gender includes all genders and words importing the singular include the plural and vice versa.

(b) Certain Phrases and Calculation of Time. In this Agreement (i) the words “including” and “includes” mean “including (or includes) without limitation” and shall not be construed to limit any general statement that it follows to the specific or similar items or matters immediately following it, (ii) the terms “hereof”, “herein”, “hereunder” and “herewith” and words of similar import shall, unless otherwise stated, be construed to refer to this Agreement and not to any particular provision of this Agreement, and Article, Section, paragraph, and Schedule references are to the Articles, Sections, paragraphs, and Schedules to this Agreement unless otherwise specified, and (iii) in the computation of periods of time from a specified date to a later specified date, unless otherwise expressly stated, the word “from” means “from and including” and the words “to” and “until” each mean “to but excluding”. If the last day of any such period is not a Business Day, such period will end on the next Business Day. When calculating the period of time “within” which, “prior to” or “following” which any act or event is required or permitted to be done, notice given or steps taken, the date which is the reference date in calculating such period is excluded from the calculation. If the last day of any such period is not a Business Day, such period will end on the next Business Day.

(c) Headings, etc. The inclusion of a table of contents, the division of this Agreement into Articles and Sections and the insertion of headings are for convenient reference



only and are not to affect or be used in the construction or interpretation of this Agreement. All references in this Agreement to any "Section" are to the corresponding Section of this Agreement unless otherwise specified.

(d) Currency. All monetary amounts in this Agreement, unless otherwise specifically indicated, are stated in U.S. currency. All calculations and estimates to be performed or undertaken, unless otherwise specifically indicated, are to be expressed in U.S. currency. All payments required under this Agreement shall be paid in U.S. currency in immediately available funds, unless otherwise specifically indicated herein. Where another currency is to be converted into U.S. currency it shall be converted on the basis of the exchange rate published in the Wall Street Journal for the day in question.

(e) Statutory References. Unless otherwise specifically indicated, any reference to a statute in this Agreement refers to that statute and to the regulations made under that statute as in force from time to time.

(f) Schedules. All Schedules annexed hereto or referred to herein are hereby incorporated in and made a part of this Agreement as if set in full herein. Any capitalized terms used in any Schedule but not otherwise defined therein shall be defined as set forth in this Agreement.

## **ARTICLE II**

### **PURCHASE AND SALE OF ASSETS**

2.1 Purchase and Sale of Assets. Subject to the terms and conditions of this Agreement, at either the Settlement Closing or the Real Property Closing, as appropriate, the Purchaser shall purchase from the Seller, and the Seller shall sell, transfer, assign, convey and deliver to the Purchaser all of its right, title and interest in and to the following properties and assets of the Seller (collectively, the "***Assets***"), free and clear of all Liens and Claims (other than Permitted Encumbrances) pursuant to the Approval Order, when granted:

(a) the two pieces of equipment set forth on Schedule A hereto (the "***Equipment***"); and

(b) the real property set forth on Schedule B hereto (the "***Real Property***"), in each case subject to any and all easements described on Schedule B hereto and any and all rights and privileges of the Seller and/or others to continue to use and/or access all existing railway tracks located on such parcel following the Real Property Closing consistent with the manner accessed and/or used before the Real Property Closing.

2.2 Purchase Price. Pursuant to the terms and subject to the conditions set forth in this Agreement, in consideration of the sale of the Assets pursuant to the terms hereof, the Purchaser shall pay to the Seller: (a) \$85,000 in cash for the Equipment (the "***Equipment Purchase Price***") at the Settlement Closing, (b) \$250,000 in cash for the Real Property (the "***Real Property Purchase Price***") at the Real Property Closing, and (c) any and all other amounts due and owing to Seller and its Affiliates, including The Apache Railway Company.

## 2.3 Closing.

(a) The completion of the purchase and sale of the Assets shall take place on multiples closings, if necessary, on the dates specified below at, (i) in the case of the Settlement Closing, the offices of the Seller's counsel, Skadden, Arps, Slate, Meagher & Flom LLP at 300 South Grand Avenue, Suite 3400, Los Angeles, California 90071 and (ii) in the case of the Real Property Closing, the offices of the Escrow Agent. With respect to certain aspects of the Settlement (the "***Settlement Closing***" and such day, the "***Settlement Closing Date***"), closing will occur on October 1, 2012 and with respect to the Real Property, in order to accommodate the issuance of the Title Report and title insurance policy with respect to the Real Property as provided in Sections 2.5 and 2.6 (the "***Real Property Closing***" and such day, the "***Real Property Closing Date***") closing will occur on, or as soon as practicable after, October 1, 2012, at a time agreed by the Parties. September 30, 2012 is the date that the Seller anticipates ceasing operations at the mill.

### (b) At the Settlement Closing:

- (i) the Purchaser shall pay the Equipment Purchase Price, the Service Deposit, the First Transition Equipment Use Fee, any and all other amounts due and owing by the Purchaser to the Seller and its Affiliates, and any other payments due at the Settlement Closing under the terms of this Agreement to the Seller by wire transfer of immediately available funds to an account designated by the Seller;
- (ii) the Purchaser and the Seller shall each pay to the applicable Person(s) the personal property Taxes for the Equipment owed by them as provided in, and subject to the prorations described in, Section 5.4;
- (iii) the Purchaser shall pay to the appropriate Tax Authority all applicable Transfer Taxes in connection with this Agreement and the transactions contemplated herein and the other Transaction Documents and the transactions contemplated therein, excluding those Transfer Taxes relating to the transfer of Real Property;
- (iv) the Seller and the Purchaser shall deliver duly executed copies of and enter into the Ancillary Agreements with respect to the transfer of the Equipment, to which Ancillary Agreements it is contemplated that they will be parties, respectively;
- (v) the Seller and the Purchaser shall deliver the officer's certificates required to be delivered pursuant to Section 7.2(a), and Section 7.3(a), as applicable; and
- (vi) each Party shall deliver, or cause to be delivered, to the other any other documents reasonably requested by such other Party

in order to effect, or evidence the consummation of, the transactions contemplated herein or otherwise provided for under this Agreement, excluding the various real estate documents described in Sections 2.5 and 2.6.

(c) At the Real Property Closing:

- (i) the Purchaser shall pay the Real Property Purchase Price and any other payments due by the Purchaser to the Seller at the Real Property Closing under the terms of this Agreement to Escrow Agent;
- (ii) the Purchaser and the Seller shall each pay to Escrow Agent the real property Taxes for the Real Property owed by them as provided in, and subject to the prorations described in, Section 5.4;
- (iii) the Purchaser shall pay to Escrow Agent (a) 50% of the fees owed with respect to the escrow for the transfer of the Real Property and (b) the costs of the title insurance policy as apportioned in Section 5.4;
- (iv) the Purchaser shall pay to Escrow Agent all applicable Transfer Taxes relating to the transfer of Real Property in connection with this Agreement;
- (v) the Seller and the Purchaser shall deliver to Escrow Agent the officer's certificates required to be delivered pursuant to Section 7.2(b), and Section 7.3(b), as applicable;
- (vi) the Seller shall deliver easement agreements in a form reasonably acceptable to the Parties, relating to those easements listed on Schedule B hereto; and
- (vii) each Party shall deliver, or cause to be delivered, to the other Party and Escrow Agent the various real estate documents described in Sections 2.5 and 2.6.

2.4 Appointment; Duties of Escrow Agent. The Purchaser and Seller hereby appoint First American Title Insurance Company, 2425 East Camelback Road, Suite 300, Phoenix, Arizona 85016 (Attention: Carol Peterson), to serve as escrow agent ("***Escrow Agent***") to perform the duties delegated to it in this Agreement, subject to the following terms and conditions:

(a) Obligations and Liabilities of Escrow Agent. The acceptance by the Escrow Agent of its duties as such under this Agreement is subject to the following terms and conditions, which all parties to this Agreement hereby agree shall govern and control with respect to the obligations, liabilities, rights, duties, and immunities of the Escrow Agent:

- (i) The Escrow Agent acts hereunder as a depositary only, and is not responsible or liable in any manner for the sufficiency of any amounts deposited with it.
- (ii) The Escrow Agent shall not be liable for acting upon any notice, request, waiver, consent, receipt or other instrument or document which the Escrow Agent in good faith believes to be genuine and what it purports to be.
- (iii) The Escrow Agent shall not be liable for any error in judgment, or for any act done or step taken or omitted by it in good faith, or for any mistake of fact or Law, or for anything which it may do or refrain from doing in connection herewith, except its own bad faith, negligence or misconduct.
- (iv) The Escrow Agent may consult with, and obtain advice from, legal counsel in the event of any dispute or question as to the construction of any of the provisions hereof or its duties hereunder, and it shall incur no liability and shall be fully protected in acting in good faith in accordance with the opinion and advice of such counsel.
- (v) In the performance of its duties hereunder, the Escrow Agent shall be entitled to rely upon any document, instrument or signature believed by it to be genuine and signed by either of the other parties hereto or their successors.
- (vi) The Escrow Agent may assume that any person purporting to give any notice of instructions in accordance with the provisions hereof has been duly authorized to do so.
- (vii) The Seller and the Purchaser each hereby release the Escrow Agent from any act done or omitted to be done by the Escrow Agent in good faith in the performance of its duties hereunder.

(b) Removal of Escrow Agent. The Purchaser and the Seller may jointly remove the Escrow Agent at any time upon not less than five (5) Business Days' prior notice to the Escrow Agent; in such case, the Purchaser, by notice to the Seller, shall appoint a successor Escrow Agent reasonably satisfactory to the Seller who shall accept such appointment and agree in writing to be bound by the terms and conditions of this Agreement.

(c) Compensation; Reimbursement. The Escrow Agent shall be entitled to its reasonable and customary escrow fees for serving as the Escrow Agent under this Agreement, as well as reimbursement for all reasonable expenses of the Escrow Agent incurred in the performance of its duties hereunder. Such amounts shall be paid equally by the Seller and the Purchaser. The Purchaser shall pay its portion of such fees and expenses pursuant to Section 2.3(c)(iii). The Escrow Agent is hereby authorized, directed and required to deduct the Seller's

portion of such fees and expenses from the amounts payable to the Seller on the Real Property Closing Date.

(d) The Escrow Agent is hereby authorized, directed and required to forward the Real Property Purchase Price to the Seller on the Real Property Closing Date, less any amounts owed by Seller in connection with the escrow pursuant to Sections 2.4(c) and 5.5.

## 2.5 Title and Survey Review Contingency.

(a) Within three (3) Business Days after the opening of escrow, the Seller, at the Seller's expense, shall deliver to the Purchaser and Escrow Agent copies of any existing plats or surveys of the Real Property in the Seller's possession (the "**Survey**"). The Purchaser may, if it so elects, at its sole cost and expense, cause the Survey to be updated and a copy of any such update(s) shall be promptly delivered to the Seller and Escrow Agent.

(b) As soon as possible following opening of escrow, but in no event later than five (5) Business Days after opening of escrow, Escrow Agent shall prepare and deliver to the Purchaser, the Seller and their respective counsel a preliminary title report or commitment for title insurance pertaining to the Real Property leading to the issuance of an ALTA extended coverage owner's policy of title insurance (ALTA 2006), together with legible copies of all Schedule B items and all other recorded items referred to in such report (the "**Title Report**").

(c) The Purchaser shall be entitled to object to any matters disclosed by the Title Report or Survey that would reasonably be expected to have a Material Adverse Effect on the value of the Real Property (each, a "**Material Title Matter**") by delivering written notice of such objection to the Seller and Escrow Agent within seven (7) days after receipt of the Title Report and the Survey, such notice to specify in reasonable detail any matter to which the Purchaser objects (an "**Objection Notice**"). If Escrow Agent subsequently issues any supplement or update to the Title Report and a Material Title Matter first appears in such supplement or update, or if the Survey is supplemented or updated and a Material Title Matter first appears in such supplement or update, the Purchaser shall be entitled to object to any such matter by delivering an Objection Notice to the Seller and Escrow Agent on or before three (3) Business Days after Escrow Agent has delivered to the Purchaser such supplement or update to the Title Report, or the Purchaser has received any such supplement or update to the Survey. If required, the Real Property Closing shall be delayed so that (x) the Purchaser shall have the time provided herein to notify the Seller and Escrow Agent of any objection to such Material Title Matter and (y) the Seller shall have the time described herein to resolve such new Material Title Matter pursuant to Section 2.5(d).

(d) If the Purchaser delivers an Objection Notice, the Seller, at the Seller's option, may cause any such Material Title Matter to be removed on or before the Real Property Closing Date, or may notify the Purchaser in writing of the Seller's unwillingness to remove all or some of the Material Title Matters to which the Purchaser objects. If the Seller provides the Purchaser with notice that it elects not to attempt to cause Escrow Agent to so remove any Material Title Matter, then the Purchaser must elect by delivering written notice of such election to the Seller and Escrow Agent on or before the fifth (5<sup>th</sup>) Business Day following the Purchaser's receipt of such notice from the Seller, to either (i) terminate the portion of this Agreement related to that portion of the Real Property to which the Objection Notice relates (but

the Settlement Closing shall continue), or (ii) proceed to the Real Property Closing and waive the Purchaser's objections, whereupon such Material Title Matters shall be deemed to be Permitted Encumbrances. If at or before the Real Property Closing any Material Title Matter has not been removed by the Seller or waived by the Purchaser, the Purchaser may notify the Seller and Escrow Agent in writing of the Purchaser's election to either (i) terminate the portion of this Agreement related to that portion of the Real Property to which the Objection Notice relates (but the Settlement Closing shall continue), or (ii) proceed to the Real Property Closing and waive the Purchaser's objections, whereupon such Material Title Matters shall be deemed to be Permitted Encumbrances.

(e) Notwithstanding anything contained to the contrary herein, if the Purchaser fails to timely notify the Seller and Escrow Agent of any objections to the Title Report and Survey or any amendment or modification thereto, or if the Purchaser fails to timely notify the Seller and Escrow Agent of its election to either terminate or proceed with all or part of the transaction contemplated under this Agreement after delivery by the Seller to the Purchaser of notice of its unwillingness to remove any matter objected to by the Purchaser, then the Purchaser shall be deemed to have approved the Title Report and Survey, and any modification thereto, and to have elected to proceed to the Real Property Closing under this Agreement.

(f) On or before the Real Property Closing Date, the Seller shall cause to be released of record any consensual monetary encumbrances, improvement district Liens and special taxing district Liens encumbering the Real Property (other than Permitted Encumbrances).

(g) Promptly following the opening of escrow, Escrow Agent shall provide to the Purchaser a UCC search in accordance with the Purchaser's instructions, which UCC search shall be provided by Escrow Agent to the Purchaser at the Purchaser's sole cost and expense.

(h) For purposes of this Agreement, escrow shall be deemed opened upon the later of: (i) full execution and delivery of this Agreement by the Purchaser and the Seller, and (ii) delivery of the legal descriptions of the Non-Leased Real Property by the Seller to the Purchaser pursuant to Section 5.2(d).

2.6 Title Insurance Policy. At the Real Property Closing and as a condition to the Purchaser's obligation to purchase the Real Property, Escrow Agent shall furnish to the Purchaser an ALTA extended owner's title insurance policy (ALTA 2006), issued by Escrow Agent or the unconditional commitment of Escrow Agent to issue such policy (which commitment shall be deemed made upon the recordation by Escrow Agent of the special warranty deed) with a limit of liability in an amount not less than the Purchase Price for the Real Property, insuring that title to the Real Property is held by the Purchaser in fee simple subject only to the Permitted Encumbrances, the printed exceptions normally contained in such policy, the exceptions contained in the Title Report and/or the Survey and any amendments, supplements or updates to the Title Report and/or the Survey which have been waived, not objected to, approved (or deemed approved) by the Purchaser pursuant to Section 2.5. The Seller shall have sole responsibility to fulfill any and all customary and reasonable requirements of Escrow Agent pertaining to the Seller for the issuance of the title policy including the execution of customary owner's, mechanics' liens and parties in possession affidavits. The cost of and requirements for such policy shall be shared and allocated as set forth in Section 5.4.

2.7 Right of Entry. The Purchaser and its engineers and agents shall have access to the Real Property at reasonable times after opening of escrow for the purpose of conducting geological, soil, drainage, engineering, building inspection, environmental tests (including Phase 1 and Phase 2 Environmental Site Assessments) and other studies which the Purchaser, in its reasonable discretion, deems necessary. The Purchaser, at its sole cost, shall thereafter restore the Real Property to substantially the condition which existed prior to performing such tests and studies and indemnify the Seller for, from and against any liability deriving therefrom, including liability from and against any mechanics', materialmen's and professional service liens against the Real Property, which indemnification shall survive the Real Property Closing or the termination of this Agreement. Notwithstanding anything to the contrary contained in this Agreement, at any time on or before September 21, 2012 (the "***Feasibility Termination Date***"), the Purchaser shall have the right, in its sole discretion, to determine whether it will proceed with the purchase of all or any part of the Real Property or terminate this Agreement with respect to some or all of the Real Property as a result of its dissatisfaction with such inspections and studies. If, on or before the Feasibility Termination Date, the Purchaser delivers written notice to the Seller and Escrow Agent that it has determined not to proceed with purchasing some or all of the Real Property, then this Agreement shall automatically terminate with respect to the Real Property at issue on the date of the Purchaser's delivery of written notice of its election not to proceed. If the Purchaser does not deliver written notice waiving this contingency by the Feasibility Termination Date, the Purchaser shall be deemed to have elected to proceed with the purchase of the Real Property. Notwithstanding the provisions of this Section 2.7 to the contrary, in the event the environmental consultant engaged by the Purchaser to conduct a Phase 1 Environmental Site Assessment of the Real Property recommends in such Phase 1 Environmental Site Assessment that further investigations or environmental audits of the Real Property be performed (e.g., a Phase 2 Environmental Site Assessment), then the Feasibility Termination Date shall automatically be extended to the date that is five Business Days following receipt by the Purchaser of such Phase 2 Environmental Site Assessment, but in no event shall such extension be longer than 45 days. For the avoidance of doubt, nothing in the preceding Sections 2.4, 2.5, 2.6, or in this Section 2.7 shall affect the Settlement Closing Date in any way.

### **ARTICLE III**

#### **REPRESENTATIONS AND WARRANTIES OF THE PURCHASER**

The Purchaser hereby represents and warrants to the Seller as follows:

3.1 Organization and Corporate Power. The Purchaser is duly organized and validly existing under the Laws of the State of Delaware. The Purchaser has the requisite limited liability company power and authority to enter into, deliver and perform its obligations pursuant to each of the Transaction Documents to which it is or will become a party.

3.2 Authorization; Binding Effect; No Breach.

(a) The execution, delivery and performance of each Transaction Document to which the Purchaser is a party, or is to be a party to, have been duly authorized by the Purchaser at the time of its execution and delivery. Assuming due authorization, execution and delivery by the Seller, each Transaction Document to which the Purchaser is a party constitutes, or upon execution thereof will constitute, a valid and binding obligation of the Purchaser,

enforceable against the Purchaser in accordance with its respective terms, except as such enforceability is limited by bankruptcy, insolvency, reorganization, moratorium or similar Laws now or hereafter in effect relating to creditors' rights generally or general principles of public policy.

(b) The execution, delivery and performance by the Purchaser of the Transaction Documents to which the Purchaser is, or on the relevant Settlement Closing Date or Real Property Closing Date will be, a party do not and will not conflict with or result in a breach of the terms, conditions or provisions of, constitute a default under, result in a violation of, or require any Consent pursuant to (i) the certificate of formation or limited liability company agreement of the Purchaser, (ii) any Contract or other document to which the Purchaser is a party or to which any of its assets is subject or (iii) any Laws to which the Purchaser or any of its assets is subject.

3.3 No Other Representations or Warranties. Notwithstanding anything contained in this Agreement to the contrary, the Purchaser acknowledges and agrees that none of the Seller, its Affiliates or any other Person is making any representations or warranties whatsoever, express or implied, beyond those expressly given by the Seller in ARTICLE IV. The Purchaser further represents that none of the Seller, its Affiliates or any other Person has made any representation or warranty, express or implied, as to the accuracy or completeness of any information regarding the Seller or the transactions contemplated by this Agreement not expressly set forth in this Agreement, and none of the Seller, its Affiliates or any other Person will have or be subject to liability to the Purchaser or any other Person resulting from the distribution to the Purchaser or its representatives, or the Purchaser's use of, any such information provided to the Purchaser or its representatives in connection with the sale of the Assets. The Purchaser acknowledges that it has conducted to its satisfaction its own independent investigation of the Assets and, in making the determination to proceed with the transactions contemplated by this Agreement, the Purchaser has relied on the results of its own independent investigation.

3.4 As Is, Where Is, and With All Faults Transaction. THE PURCHASER HEREBY ACKNOWLEDGES AND AGREES THAT, EXCEPT AS OTHERWISE EXPRESSLY PROVIDED IN ARTICLE IV OF THIS AGREEMENT, THE SELLER MAKES NO REPRESENTATIONS OR WARRANTIES WHATSOEVER, EXPRESS OR IMPLIED, WITH RESPECT TO ANY MATTER RELATING TO THE ASSETS. WITHOUT IN ANY WAY LIMITING THE FOREGOING, THE PURCHASER ACKNOWLEDGES THAT THE SELLER HAS NOT GIVEN, WILL NOT BE DEEMED TO HAVE GIVEN AND HEREBY DISCLAIMS ANY WARRANTY, EXPRESS OR IMPLIED, OF MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE AS TO ANY PORTION OF THE ASSETS. ACCORDINGLY, SUBJECT TO THE TERMS OF THIS AGREEMENT, THE PURCHASER SHALL ACCEPT THE ASSETS AT THE CLOSING "AS IS," "WHERE IS," AND "WITH ALL FAULTS."

3.5 Brokers. No broker, finder or investment banker is entitled to any brokerage, finder's or similar fee or commission in connection with the transactions contemplated by this Agreement and the other Transaction Documents based upon arrangements made by or on behalf of the Purchaser or any of its Affiliates.



**ARTICLE IV**  
**REPRESENTATIONS AND WARRANTIES OF THE SELLER**

The Seller represents and warrants to the Purchaser as follows:

4.1 Organization and Corporate Power. The Seller is duly organized and validly existing under the Laws of the State of Delaware. Subject to the entry of the Approval Order from the U.S. Bankruptcy Court in connection with the transactions contemplated hereby and in the other Transaction Documents, the Seller has the requisite corporate power and authority to enter into, deliver and perform its obligations pursuant to each of the Transaction Documents to which it is or will become a party. The Seller is not a "foreign person" as that term is defined in Section 1445 of the Code or any applicable regulation promulgated thereunder.

4.2 Authorization; Binding Effect; No Breach.

(a) Subject to entry of the Approval Order, the execution, delivery and performance of this Agreement has been duly authorized by all necessary corporate action on the part of the Seller. Subject to entry of the Approval Order, and assuming due authorization, execution and delivery by the Purchaser, this Agreement will constitute a legal, valid and binding obligation of the Seller, enforceable against it in accordance with its terms.

(b) The execution, delivery and performance by the Seller of the Transaction Documents to which the Seller is, or on the relevant Settlement Closing Date or Real Property Closing Date will be, a party do not and will not conflict with or result in a breach of the terms, conditions or provisions of, constitute a default under, result in a violation of, or require any Consent (other than entry of the Approval Order) pursuant to (i) the certificate of incorporation and by-laws of the Seller, (ii) any Order to which the Seller or any of the Assets are subject, or (iii) any Laws to which the Seller or any of the Assets are subject.

4.3 Title to Assets; Condition of Equipment.

(a) The Seller has good and marketable title to the Equipment. By virtue of the grant, conveyance, sale, transfer, assignment and delivery of the Equipment, the Purchaser shall receive good and marketable title to the Equipment, free and clear of all Liens.

(b) The Equipment is and at the Settlement Closing will be in good and serviceable operating condition, ordinary wear and tear excepted. The Equipment has been maintained in accordance with the Seller's usual and customary practices, and the Seller has not deferred any reasonable maintenance or repairs of the Equipment otherwise required in accordance with the Seller's usual and customary practices.

4.4 Environmental Matters. With respect to those parcels of Real Property which are not the subject of the Lease as of the date hereof (the "***Non-Leased Real Property***"), the Seller has not received any written communication, whether from a Government Entity, employee or otherwise, alleging that it is not in compliance with Environmental Laws, except where failure to comply would not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect. With respect to the Non-Leased Real Property, there are no Environmental Claims relating to such Real Property pending or, to the Seller's knowledge, threatened against the Seller or any Person whose liability for any Environmental Claim the Seller has or may have

assumed contractually or by operation of law, in each case except those Environmental Claims that would not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect. To the knowledge of the Seller, there has been no Release of Hazardous Materials on, beneath or adjacent to any Non-Leased Real Property.

4.5 Real Property. To the best of Seller's knowledge, (a) there are no contracts granting to any party or parties (other than the Purchaser pursuant to the Lease) the right of use or occupancy of any portion of the Real Property (b) there are no outstanding options or rights of first refusal to purchase the Real Property, or any portion thereof or interest therein (other than in favour of the Purchaser) and (c) the Seller has not received notice of (i) any condemnation proceeding with respect to any portion of the Real Property or any access thereto, or (ii) any special assessment which may affect the Real Property.

4.6 Brokers. No broker, finder or investment banker is entitled to any brokerage, finder's or similar fee or commission in connection with the transactions contemplated by this Agreement and the other Transaction Documents based upon arrangements made by or on behalf of the Seller or any of its Affiliates.

## **ARTICLE V**

### **COVENANTS AND OTHER AGREEMENTS**

5.1 Bankruptcy Court Approval. The Seller and the Purchaser acknowledge that this Agreement and the transactions contemplated hereby are subject to entry of a U.S. Bankruptcy Court order approving this Agreement and such transactions (the "**Approval Order**"), which Approval Order may be entered as part of or in connection with any order approving the relief sought in the Rejection Motion. Pursuant to this Agreement, the Seller covenants to use its best efforts to ensure that the Approval Order provides the following:

(a) Approval, pursuant to Bankruptcy Code Sections 363(b) and (f), of this Agreement and the sale of the Assets to the Purchaser free and clear of all Liens and Claims (other than Permitted Encumbrances);

(b) That the Purchaser acted in good faith and is a good faith buyer of the Assets within the meaning of the Section 363(m) of the Bankruptcy Code and that the sale of the Assets to the Purchaser is in the best interests of the Debtors' estates and its creditors;

(c) That the Purchase Price paid by the Purchaser represents the fair value of the Assets and that the sale does not constitute a preferential transfer or fraudulent conveyance under the Bankruptcy Code or applicable state Law; and

(d) That the terms of this Agreement will be binding on any successor, assignee or purchaser of the Seller and/or any of its assets.

To the extent that the Seller cannot obtain an Approval Order that includes the foregoing provisions in connection with the approval of the Rejection Motion, the Seller covenants to use its best efforts to cause to be filed one or more sale motions pursuant to Bankruptcy Code Section 363 seeking proposed sale orders approving this Agreement and the sale of the Assets on terms consistent with the terms of this Agreement and this Section 5.1, with such sale motions and orders to be filed in a form acceptable to the Purchaser. The Seller shall also obtain an order

from the Canadian Court (the "*Canadian Approval Order*") providing that the terms of this Agreement will be binding on any successor, assignee or purchaser of the Seller and/or any of its assets.

## 5.2 Cooperation.

(a) Within five (5) business days after signing the Agreement, each of the Parties shall use its commercially reasonable efforts to agree to the form of the Ancillary Agreements.

(b) Prior to the relevant Settlement Closing Date or Real Property Closing Date, upon the terms and subject to the conditions of this Agreement, each of the Parties shall use its commercially reasonable efforts to take, or cause to be taken, all actions and to do, or cause to be done, and cooperate with each other in order to do, all things necessary, proper or advisable under applicable Law to consummate the transactions contemplated by this Agreement as soon as practicable.

(c) Each of the Seller and the Purchaser shall promptly notify the other of the occurrence, to such Party's knowledge, of any event or condition, or the existence, to such Party's knowledge, of any fact, that would reasonably be expected to result in (i) any of the conditions set forth in ARTICLE VII not being satisfied or (ii) any of the representations and warranties in ARTICLE IV not being true and correct.

(d) The Seller shall draft and deliver a legal description for the Non-Leased Real Property to the Purchaser, and shall use its commercially reasonable efforts to deliver such legal description as soon as practicable following signing of this Agreement.

(e) The Seller shall cooperate with and consent to discussions between the Purchaser and APS in connection with any future agreements or arrangements between Purchaser and APS. The Seller shall not be obligated to take any action that would result in the accrual of any costs to the Seller in connection with such cooperation and consent.

(f) Each of the Seller and the Purchaser agrees to engage in good-faith negotiations, at the request of the Purchaser, regarding the potential sale and purchase of a water pipeline easement, including any price, terms and conditions to which the Parties may ultimately agree.

5.3 Further Actions. From and after the relevant Settlement Closing Date or Real Property Closing Date, each of the Parties shall execute and deliver such documents and other papers and take such further actions as may reasonably be required to carry out the provisions of this Agreement and give effect to the transactions contemplated herein, including the execution and delivery of such assignments, deeds and other documents as may be necessary to transfer any Assets as provided in this Agreement.

5.4 Prorations and Charges. At the Real Property Closing, the Seller shall pay 50% of the premium for a standard owner's policy of title insurance (including the costs of any endorsements issued by Escrow Agent in order to satisfy objections set forth in an Objection Notice which has not been waived and for which the Seller has elected to satisfy a Material Title Matter through an endorsement issued by Escrow Agent) with a limit of liability in the amount of

the Real Property Purchase Price then being paid and the Purchaser shall pay any additional premium for any extended or other coverages obtained by the Purchaser and for any title endorsements required by the Purchaser or the Purchaser's lenders. Any other costs incurred in the transfer of the Real Property from the Seller to the Purchaser shall be paid in accordance with the customs of real estate transactions presently in effect in Navajo County, Arizona, as reasonably determined by Escrow Agent. Real property taxes and assessments based upon the latest available tax bill from the Navajo County Assessor, as adjusted for any increase or decrease in the assessed valuation, if any of the Real Property for the current tax fiscal year, shall be prorated as of the Real Property Closing and shall be assumed and paid thereafter by the Purchaser. Unless the Real Property has been separately assessed as of the Real Property Closing, Escrow Agent shall use as a basis for the tax proration a pro rata portion of the amount shown for real property taxes in the most recent tax bill issued for the assessor's parcel of which the Real Property is a part. The allocation of taxes between the Real Property and the balance of the property covered by such tax bill shall be determined by multiplying the amount shown in such tax bill by a fraction, the numerator of which shall be the square footage contained in the Real Property and the denominator of which shall be the square footage contained in such assessor's parcel; provided, however, in no event shall the Purchaser be assessed for any portion of such tax which relates to improvements upon the balance of the property covered by the tax bill. At the relevant Settlement Closing or Real Property Closing, the Seller shall be charged for the portion of the taxes for the year in which such the relevant Settlement Closing or Real Property Closing occurs, if unpaid, as allocable pursuant to this Agreement, and prior years' taxes, if unpaid, and the Purchaser shall be responsible for paying taxes for the year in which the relevant Settlement Closing or Real Property Closing occurs as allocable pursuant to this Agreement. Personal property taxes on the Equipment shall also be prorated and apportioned, on a calendar year basis and based on days elapsed, as of the Settlement Closing Date.

5.5 Transaction Expenses. Except as otherwise provided in this Agreement or the Ancillary Agreements, each Party shall bear its own costs and expenses (including legal fees and expenses) incurred in connection with this Agreement, the other Transaction Documents and the transactions contemplated hereby and thereby. Each of the Purchaser and the Seller shall pay 50% of the fees of the title company with respect to the escrow for the transfer of the Real Property.

5.6 Rejection of Lease. The Purchaser consents to rejection of the Lease pursuant to U.S. Bankruptcy Code Section 365 effective as of date specified in the Approval Order. However, for the avoidance of doubt, such rejection shall not impact the Purchaser's rights to continued use of the Assets and the Transition Equipment as provided in Section 5.10.

5.7 Mutual Releases.

(a) Effective as of the Settlement Closing, and except as to the obligations contained in this Agreement, each Party hereby absolutely, unconditionally, and irrevocably releases and forever discharges the other Party and the other Party's past or present affiliates, subsidiaries, parents, successors and predecessors, officers, directors, managers, members, agents, employees, attorneys, advisors, insurers, investment advisors, auditors, accountants, representatives, and any person, firm, trust, corporation, officer, director, or other Person in which any of them has a Controlling interest or which is Affiliated with such other Party, and the legal representatives, heirs, successors in interest, or assigns of each of foregoing Persons, of and

from any and all demands, defaults, actions, causes of action, suits, covenants, contracts, controversies, agreements, promises, sums of money, accounts, bills, reckonings, damages, and any and all claims, defenses, rights of setoff or recoupment, Liabilities, Liens, security interests, interests, or rights of any nature whatsoever (including claims for losses, damages, unjust enrichment, breach of fiduciary duty, breach of contract, attorneys' fees, disgorgement of fees, litigation costs, injunction, declaration, contribution, indemnification or any other type or nature of legal or equitable relief), whether accrued or not, whether already acquired or acquired in the future, whether known or unknown, whether suspected or unsuspected, and whether existing in law or equity, whether brought by way of demand, complaint, answer, defense, cross-claim, claim, third-party claim, or otherwise, arising from or under, related to, or concerning the Lease (the "**Released Claims**") that such Party directly, indirectly, or in any other capacity, ever had, now has, or hereafter may have.

(b) Each of the Parties understands and agrees that the foregoing releases shall include any Released Claims that are not known or suspected to exist as of the dates of this Agreement and that no fact or circumstance, evidence, or transaction which now could be asserted or which may hereafter be discovered shall affect in any way the final, irrevocable, and unconditional nature of the releases set forth above. Without limiting the generality of the preceding sentence, the parties explicitly waive the protections and benefits of section 1542 of the California Civil Code, which provides as follows, and any other applicable law of similar import:

A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS OR HER FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM OR HER MUST HAVE MATERIALLY AFFECTED HIS OR HER SETTLEMENT WITH THE DEBTOR.

(c) This Agreement may be pleaded by either Party as a full and complete defense to any proceeding instituted with respect to any Released Claims and may be used as a basis for an injunction against any action, suit, or any proceeding instituted, prosecuted, or attempted with respect to any Released Claims in breach of the provisions of this Agreement.

#### 5.8 Use of and Option to Purchase Certain Items; Continuing Rights of the Purchaser.

(a) On and after October 1, 2012, the Seller will provide the Purchaser with the ability to operate and maintain the equipment listed on Schedule D hereto (the "**Transition Equipment**") until December 31, 2013 if the Seller (expressly excluding any assignee or purchaser of the Assets) continues to own the Transition Equipment through such date, or until June 30, 2013 if the Transition Equipment is transferred or sold prior to such date (such period, the "**Transition Equipment Term**"). Notwithstanding anything contained in this Agreement, if the Seller enters into an agreement (oral or written) between June 1, 2013 and December 1, 2013 to sell the Transition Equipment and if such transaction is scheduled to close prior to December 31, 2013, then the Seller shall give the Purchaser at least thirty (30) days' advance written notice prior to consummating such transaction.

(i) The Purchaser shall have such access to the Seller's property as is reasonably necessary for the Purchaser to use the

Transition Equipment during the Transition Equipment Term, and shall be liable for any and all damages to the Seller's property, including to the Transition Equipment, caused by the Purchaser.

- (ii) The Purchaser shall operate and maintain the Transition Equipment in accordance with prudent operating and maintenance standards, applicable Law, and all standards, regulations and other requirements imposed by any Governmental Entity, including operational standards, environmental standards, and relevant permits.
- (iii) The Purchaser shall return to the Seller the Transition Equipment and any other property of the Seller used by the Purchaser at the end of the Transition Equipment Term or, at the Purchaser's election, at any time prior to the end of the Transition Equipment Term upon notice to the Seller, in their current condition, excepting ordinary wear and tear to such Transition Equipment and any other property.
- (iv) For the avoidance of doubt, other than as provided in Section 5.8(a)(i), the right of the Purchaser to use the Transition Equipment does not include any other right with respect to the real property on which such Transition Equipment is located. The Purchaser shall comply with any applicable Laws governing the condition of such real property during the Transition Equipment Term.
- (v) Certain of the Transition Equipment will be jointly used by both the Seller and the Purchaser during the Transition Equipment Term. For the avoidance of doubt, the Purchaser shall not be liable for any damages sustained to the Transition Equipment which is caused by the Seller's use of such Transition Equipment during the Transition Equipment Term. If any Transition Equipment that is jointly used by the Seller and the Purchaser breaks, then the Seller and the Purchaser shall share the costs of repair unless such breakage can be attributed to the use by the Seller or the Purchaser, in which case that Party will be solely responsible for the costs of repair.

(b) The Purchaser shall have the right to purchase those spare parts listed on Schedule C hereto (the "***Spare Parts***") as of October 1, 2012 by paying the applicable purchase price to the Seller at the Settlement Closing (the "***Spare Parts Purchase Price***"). The Spare Parts Purchase Price shall be determined by the Parties in good faith based on a fair liquidation value for the applicable Spare Parts. In connection with the maintenance of the Transition Equipment, the Purchaser shall have access to and may use the Spare Parts.

(c) The Purchaser shall pay the Seller \$5,000 per month for use of the Transition Equipment (the "**Transition Equipment Use Fee**"). The Transition Equipment Use Fee for a particular month shall be paid in advance on or before the last day of the immediately preceding month, with the payment for October 2012 due at the Settlement Closing (the "**First Transition Equipment Use Fee**"). The Purchaser shall bear all expenses in connection with the operation and maintenance of the Transition Equipment and the Spare Parts, including electricity and natural gas. For the avoidance of doubt, to the extent Seller uses any electricity or natural gas for its own purposes unrelated to the provision of Transition Services as described below, Seller shall bear the related usage costs.

(d) The Seller or the Purchaser, as the case may be, as provided below, will continue to provide those services listed below (the "**Transition Services**") during the Transition Equipment Term. The Seller may, in its sole and absolute discretion, terminate provision of such services that it is otherwise obligated to provide after the expiration of the Transition Equipment Term. The Transition Services shall consist of the following:

- (i) Provision of electricity. The Seller shall provide this power on a cost pass-through basis as available to the Seller at 2300 volts and 480 volts based on the needs and requirements of the machinery and equipment used by the Purchaser.
- (ii) Provision of natural gas on a cost pass-through basis as available to the Seller.
- (iii) At the request of the Purchaser, the Seller shall provide services, including provision of water, boiler feedwater, compressed air, sewage and waste water treatment, and removal and disposal of all byproducts, trash and other solid waste (excluding sludge and fly ash generated by the Purchaser's operations), in respect of the Transition Equipment at the Purchaser's cost, pursuant to Section 5.8(f).
- (iv) The Seller shall provide, at the Seller's expense, security for its facilities consistent with its usual and customary practices for a shuttered facility.
- (v) Maintenance of the aquifer protection permit and other necessary permits through the Transition Equipment Term.

(e) The Seller shall allow the fire suppression system and related water tanks to provide service to the Purchaser during the Transition Equipment Term and for so long thereafter as the Seller maintains them in operational condition. The Seller may, in its sole and absolute discretion but subject to applicable Laws, dismantle or terminate operation of the fire suppression system and related water tanks after the expiration of the Transition Equipment Term. If the Seller elects to dismantle the fire suppression system and related water tanks, such equipment shall be deemed "**Scrap Items**" and offered to the Purchaser pursuant to Section 5.8(h).

(f) The Purchaser shall reimburse the Seller for any and all costs (the "**Service Costs**") of providing the services provided under Sections 5.8(d) and 5.8(e), including cost of utilities, cost of supplies and materials, any and all Taxes, including sales or use Taxes, and labor costs associated with all personnel necessary to provide such services. On the Settlement Closing Date, the Purchaser shall provide the Seller with a deposit in the amount of \$25,000 (the "**Service Deposit**"), which shall secure the Seller's payment of Service Costs incurred through the Transition Equipment Term. Upon expiration of the Transition Equipment Term, the Seller shall apply the Service Deposit towards outstanding accrued Service Costs, if any, and following such application shall remit the remaining balance of the Service Deposit to the Purchaser. On or before the fifth (5th) Business Day of each month, the Seller shall submit one invoice to the Purchaser reflecting the Service Costs accrued during the previous month. The Purchaser shall pay all such invoices not later than the 24<sup>th</sup> day of such month (the "**Due Date**"). Invoices unpaid as of the Due Date shall accrue interest at 10% per annum. All payments shall be made in immediately available funds to the account designated by the Seller in the invoice. The Purchaser shall have the right from time to time upon notice to the Seller to review the Seller's books and records relating to the calculation of all Service Costs invoiced by the Seller to the Purchaser under this Section 5.8(f). The Purchaser shall bear the costs of each review. Underpayments or overpayments determined from any review will be paid by the Seller to the Purchaser or by the Purchaser to the Seller, as the case may be, within 30 days of completion of the review.

(g) The Purchaser shall maintain its ownership interest in the existing electric substation located on the site of the Mill jointly-owned with the Seller (the "**Substation**"). Purchaser and Seller shall execute a Bill of Sale whereby Seller confirms the transfer of such ownership to Purchaser at the Settlement Closing. The Purchaser may continue to use such Substation consistent with its prior usage of the Substation. Purchaser and Seller shall be jointly responsible for all costs and expenses of any maintenance obligations in connection with the Substation operations (other than the cost of engaging a third party to perform any such maintenance obligations), with such costs and expenses to be allocated according to each Party's usage of the Substation. Purchaser shall maintain the Substation pursuant to Schedule 5.8(g) hereto.

(h) Notwithstanding anything to the contrary in this Agreement, in its sole and absolute discretion, the Seller may determine to scrap any Transition Equipment or Spare Parts. If the Seller determines to scrap any items of Transition Equipment or Spare Parts (that the Purchaser does not acquire pursuant to Section 5.8(b)) during the Transition Equipment Term, the Seller shall notify the Purchaser in writing (the "**Notification**") of any such items it intends to scrap (the "**Scrap Items**"). The Purchaser may purchase the Scrap Items by paying the Seller in cash the agreed-upon scrap value of such Scrap Items within twenty (20) calendar days of the Purchaser's receipt of the Notification. For the avoidance of doubt, the option of the Purchaser to purchase the Scrap Items does not include any option to purchase or any other right with respect to the real property on which such Scrap Items are located. If the Purchaser does not so purchase the Scrap Items within such timeframe, the Seller may dispose of the Scrap Items. The Purchaser shall be responsible for promptly dismantling, removing from the Seller's property, transporting and re-assembling any purchased Scrap Items on the Purchaser's property, and for any and all applicable costs and expenses relating to the foregoing. The Purchaser shall comply with any applicable Laws governing the condition of the real property during the removal of such purchased Scrap Items.



(i) The Seller and the Purchaser acknowledge and agree that the Purchaser shall have the right to access and use its equipment and other property located on the Real Property and on the Seller's real property consistent with this Section 5.8(i), and otherwise access and use the Seller's real property for the purposes of operating and maintaining the power facility consistent with this Section 5.8(i). Such rights include use, access and similar rights relating, but not limited, to the following:

(i) equipment and property (including the sludge press building, conveyors and loading bins) owned by the Purchaser and used by the Purchaser with respect to paper sludge;

(ii) pumps, pipes and other equipment, whether on the Purchaser's or the Seller's real property, relating to utilities necessary to operate the power facility (as identified and agreed to by the Seller and the Purchaser as the result of good faith discussions), including such equipment relating to the provision of electricity, natural gas, water, boiler feedwater, compressed air, sewage and waste water treatment, and facility waste removal and disposal;

(iii) the walkway or "catwalk" owned by the Purchaser connecting the Purchaser's turbine deck at the power facility to the Seller's turbine deck at the power house;

(iv) the transport of materials in connection with the operation and maintenance of the power facility, including the transport of fly ash to the Landfill or to an offsite location and the delivery of materials to and from the power facility (e.g., fuel, parts and other materials); and

(v) the interconnection facilities and any interconnection equipment, transmission lines and other facilities related to the Purchaser's Interconnection Agreement with APS (including as may be amended to provide for the APS-Zeniff substation), or any other interconnection or similar agreement related to the Zeniff substation consistent with its prior usage.

5.9 Potential Sale of the Seller's Other Assets. The Purchaser acknowledges that the Seller intends to conduct an orderly liquidation of its assets, excluding the Assets and any other assets purchased by the Purchaser pursuant to the terms herein, pursuant to a Sale and Investor Solicitation Process approved by the Bankruptcy Court under section 363 of the U.S. Bankruptcy Code (the "**363 Sale**"). The Purchaser shall have the right to bid on and purchase any of the Seller's assets to be sold in the 363 Sale, including the Transition Equipment, in conjunction with the 363 Sale on the same terms as other bidders. Provided that the Purchaser posts any required deposit and satisfies the requirements applicable to other bidders with respect to any asset to be sold in the 363 Sale, the Purchaser shall be deemed a qualified bidder with respect to any and all assets in the 363 Sale. If the Seller enters into a definitive agreement to sell its mill and related assets (including the Transition Equipment, the "**Mill Assets**") as a going concern, and the buyer of the Mill Assets agrees to provide services to the Purchaser on a basis consistent with the terms of the Lease, the Seller may terminate the Purchaser's use of the Transition Equipment concurrently with the scheduled closing of any such sale of the Mill Assets, provided such buyer assumes the obligation to provide such services to the Purchaser as of the closing date

of the Mill Assets purchase and provided that the Seller provides notice to the Purchaser of such sale prior to or concurrently with the scheduled closing, along with a copy of the documents under which such buyer assumes the obligations to provide such services to the Purchaser.

5.10 Use of Assets Pre-Closing. The Purchaser may use the Real Property and the Transition Equipment until the relevant Settlement Closing Date or Real Property Closing Date consistent with past practice before the relevant Settlement Closing Date or Real Property Closing Date. Without limiting the generality of the foregoing, from the date of this Agreement until the Settlement Closing Date, notwithstanding the rejection of the Lease, the Parties shall operate in all respects as if the Lease were still in effect.

5.11 Use of Landfill.

(a) The Seller agrees that the Purchaser may continue to access the Seller's landfill (the "**Landfill**") until December 31, 2013 if the Seller (expressly excluding any assignee or purchaser of the Assets) continues to own the landfill through such date, or until June 30, 2013 if the Landfill is transferred or sold prior to such date (such period, the "**Landfill Term**"), to remove sludge and deposit ash without cost to the Purchaser and without interruption. Notwithstanding anything contained in this Agreement, if the Seller enters into an agreement (oral or written) between June 1, 2013 and December 1, 2013 to sell the Landfill and if such transaction is scheduled to close prior to December 31, 2013, then the Seller shall give the Purchaser at least thirty (30) days' advance written notice prior to consummating such transaction.

(b) The Purchaser's access to and use of the Landfill shall be subject to the following (the "**Landfill Use Provisions**"):

- (i) The Purchaser shall cover all actual costs for transportation and disposal or removal of all sludge and fly ash in the Landfill, including any daily operating costs and dust control measures or any other regulatory required items.
- (ii) The Purchaser shall have no financial responsibility for the fly ash except as provided in Section 5.11(b)(iv). Any fly ash deposited in the Landfill shall not have a moisture content of greater than 20%.
- (iii) Seller shall not be obligated to expand the Landfill to accommodate the disposal of sludge or fly ash.

(c) Following expiration of the Landfill Term, the Purchaser may continue to access the Landfill in order to remove sludge and deposit fly ash consistent with Section 5.11(b) above for so long as the Seller (expressly excluding any assignee or purchaser of the Landfill) owns the Landfill. The Purchaser shall pay the Seller for such use at a cost of \$7.50 per ton of fly ash, subject to a daily fee limitation of \$818. The foregoing cost per ton and daily fee limitation shall be adjusted effective January 1 of each year by the same percentage change as occurs in Landfill owner's actual Landfill costs during the prior calendar year. If the Seller enters into an agreement (oral or written) to sell the Landfill, then the Seller shall give the

Purchaser at least thirty (30) days' advance written notice prior to consummating such transaction.

5.12 Purchaser Equipment. The Seller acknowledges that the building where the sludge press is located was constructed by the Purchaser and all equipment in the building described on Schedule 5.12 and the other equipment described on Schedule 5.12 was purchased by the Purchaser at its expense. Notwithstanding the transactions contemplated by this Agreement, the Purchaser shall have the right from and after the date the mill ceases operations to access the sludge press building, remove and, if desired, sell for the Purchaser's benefit any of the equipment described on Schedule 5.12 and the other equipment described on Schedule 5.12.

5.13 Railway Track Access. For the avoidance of doubt, the Purchaser acknowledges that Seller reserves access, right-of-way, and any similar rights with respect to any railway track located on the Real Property, and such rights shall be reserved to the Seller in the Deed.

## **ARTICLE VI**

### **TAX MATTERS AND RECORDS**

#### **6.1 Transfer Taxes.**

(a) Notwithstanding anything in this Agreement to the contrary, the Purchaser shall promptly pay directly to the appropriate Tax Authority, or promptly reimburse the Seller upon demand and delivery of proof of payment of, all applicable Transfer Taxes in connection with this Agreement and the transactions contemplated herein and the other Transaction Documents and the transactions contemplated therein.

(b) If the Purchaser wishes to claim any exemption relating to, or a reduced rate of, Transfer Taxes, in connection with this Agreement or the transactions contemplated herein or the other Transaction Documents and the transactions contemplated therein, the Purchaser shall be solely responsible for ensuring that such exemption or election applies and, in that regard, shall provide the Seller prior to the Settlement Closing with any appropriate certificate of exemption, election and/or other document or evidence to support the claimed entitlement to such exemption or reduced rate by the Purchaser.

6.2 Tax Characterization of Payments Under This Agreement. The Seller and the Purchaser agree to treat all payments made either to or for the benefit of the other Party under this Agreement as adjustments to the Purchase Price for Tax purposes and that such treatment shall govern for purposes hereof to the extent permitted under applicable Tax Law.

6.3 Records. After the Settlement Closing Date, the Purchaser on the one hand, and the Seller, on the other hand, will each make available to the other, as reasonably requested, and to any Tax Authority, all information, records or documents relating to liability for Taxes with respect to the Assets for all periods prior to or including the Settlement Closing Date, and will preserve such information, records or documents until the expiration of any applicable statute of limitations or extensions thereof, provided, however, that if the Purchaser provides such information, records and documents (or provides the opportunity to obtain such information, records and documents) to the Seller or its Affiliate, or if the Seller or its Affiliate provide such information, records and documents (or provide the opportunity to obtain such information,

records and documents) to the Purchaser, then such information, records and documents are no longer required to be preserved. In the event that one Party needs access to records in the possession of a second Party relating to any of the Assets for purposes of preparing Tax Returns or complying with any Tax audit request, subpoena or other investigative demand by any Tax Authority, or for any other legitimate Tax-related purpose not injurious to the second Party, the second Party will allow representatives of the other Party access to such records during regular business hours at the second Party's place of business for the sole purpose of obtaining information for use as aforesaid and will permit such other Party to make extracts and copies thereof as may be necessary or convenient. Subject to the provisions in the first sentence of this Section 6.3, the obligation to cooperate pursuant to this paragraph shall terminate at the time the relevant applicable statute of limitations expires (giving effect to any extension thereof).

## **ARTICLE VII**

### **CONDITIONS TO THE CLOSING**

7.1 Conditions to Each Party's Obligation. The Parties' obligation to effect the relevant Settlement Closing or Real Property Closing is subject to the satisfaction or the express written waiver of the Parties, at or prior to the relevant Settlement Closing or Real Property Closing, of the condition that there shall be in effect no Law or Order in the U.S. or Canada prohibiting the consummation of the transactions contemplated hereby that has not been withdrawn or terminated.

7.2 Conditions to Seller's Obligation.

(a) The Seller's obligation to effect the Settlement Closing shall be subject to the fulfillment (or express written waiver by the Seller), at or prior to the Settlement Closing, of each of the following additional conditions:

- (i) Except for any inaccuracy that has not had a material adverse effect on the ability of the Purchaser to consummate the transactions contemplated by this Agreement, each representation and warranty contained in ARTICLE III (disregarding all materiality and material adverse effect qualifications contained therein) shall be true and correct (i) as if restated on and as of the Settlement Closing Date or (ii) if made as of a date specified therein, as of such date, except in each case for any failure to be true and correct that has not had a material adverse effect. The Seller shall have received a certificate of the Purchaser to such effect signed by a duly authorized officer thereof.
- (ii) The covenants contained in this Agreement to be complied with by the Purchaser on or before the Settlement Closing shall have been complied with and not been breached in any material respect. The Seller shall have received a certificate of the Purchaser to such effect signed by a duly authorized officer thereof.

(iii) Each of the deliveries required to be made to the Seller pursuant to Section 2.3(b) shall have been so delivered.

(iv) The Approval Order shall have been entered and shall not have been stayed as of the Settlement Closing.

(b) The Seller's obligation to effect the Real Property Closing shall be subject to the fulfillment (or express written waiver by the Seller), at or prior to the Real Property Closing, of each of the following additional conditions:

(i) Except for any inaccuracy that has not had a material adverse effect on the ability of the Purchaser to consummate the transactions contemplated by this Agreement, each representation and warranty contained in ARTICLE III (disregarding all materiality and material adverse effect qualifications contained therein) shall be true and correct (i) as if restated on and as of the Real Property Closing Date or (ii) if made as of a date specified therein, as of such date, except in each case for any failure to be true and correct that has not had a material adverse effect. The Seller shall have received a certificate of the Purchaser to such effect signed by a duly authorized officer thereof.

(ii) The covenants contained in this Agreement to be complied with by the Purchaser on or before the Real Property Closing shall have been complied with and not been breached in any material respect. The Seller shall have received a certificate of the Purchaser to such effect signed by a duly authorized officer thereof.

(iii) Each of the deliveries required to be made to the Seller pursuant to Section 2.3(c) shall have been so delivered.

(iv) The Approval Order shall have been entered and shall not have been stayed as of the Real Property Closing.

### 7.3 Conditions to Purchaser's Obligation.

(a) The Purchaser's obligation to effect the Settlement Closing shall be subject to the fulfillment (or express written waiver by the Purchaser), at or prior to the Settlement Closing, of each of the following additional conditions:

(i) Except for any inaccuracy that has not had a material adverse effect on the ability of the Seller to consummate the transactions contemplated by this Agreement, each representation and warranty contained in ARTICLE IV (disregarding all materiality and material adverse effect qualifications contained therein) shall be true and correct (i) as if restated on and as of the Settlement Closing Date or (ii) if

made as of a date specified therein, as of such date, except in each case for any failure to be true and correct that has not had a material adverse effect. The Purchaser shall have received a certificate of the Seller to such effect signed by a duly authorized officer thereof.

- (ii) The covenants, obligations and agreements contained in this Agreement to be complied with by the Seller on or before the Settlement Closing shall not have been breached in any material respect. The Purchaser shall have received a certificate of each of the Seller to such effect signed by a duly authorized officer thereof.
- (iii) Each of the deliveries required to be made to the Purchaser pursuant to Section 2.3(b) shall have been so delivered.
- (iv) The Approval Order shall have been entered and shall not have been stayed as of the Settlement Closing.

(b) The Purchaser's obligation to effect the Real Property Closing shall be subject to the fulfillment (or express written waiver by the Purchaser), at or prior to the Real Property Closing, of each of the following additional conditions:

- (i) Except for any inaccuracy that has not had a material adverse effect on the ability of the Seller to consummate the transactions contemplated by this Agreement, each representation and warranty contained in ARTICLE IV (disregarding all materiality and material adverse effect qualifications contained therein) shall be true and correct (i) as if restated on and as of the Real Property Closing Date or (ii) if made as of a date specified therein, as of such date, except in each case for any failure to be true and correct that has not had a material adverse effect. The Purchaser shall have received a certificate of the Seller to such effect signed by a duly authorized officer thereof.
- (ii) The covenants, obligations and agreements contained in this Agreement to be complied with by the Seller on or before the Real Property Closing shall not have been breached in any material respect. The Purchaser shall have received a certificate of each of the Seller to such effect signed by a duly authorized officer thereof.
- (iii) Each of the deliveries required to be made to the Purchaser pursuant to Section 2.3(c) shall have been so delivered.
- (iv) The Approval Order shall have been entered and shall not have been stayed as of the Real Property Closing.

- (v) Escrow Agent shall have issued (or shall be irrevocable committed to issue) to Purchaser the title insurance policy described in Section 2.6.
- (vi) The environmental reports obtained by the Purchaser pursuant to Section 2.7 recommend no further investigation and conclude that there are no recognized environmental conditions on, under or about the Real Property.

## **ARTICLE VIII**

### **MISCELLANEOUS**

8.1 No Survival of Representations and Warranties or Covenants. No representations or warranties, covenants or agreements in this Agreement or in any instrument delivered pursuant to this Agreement shall survive beyond the relevant Settlement Closing Date or Real Property Closing Date. Accordingly, no claim of any nature whatsoever for breach of such representations, warranties, covenants or agreements may be made, or Action instituted, after the relevant Settlement Closing Date or Real Property Closing Date. Notwithstanding the foregoing, the covenants and agreements that by their terms are to be satisfied after the relevant Settlement Closing Date or Real Property Closing Date shall survive until satisfied in accordance with their terms.

8.2 Remedies. No failure to exercise, and no delay in exercising, any right, remedy, power or privilege under this Agreement by any Party will operate as a waiver of such right, remedy, power or privilege, nor will any single or partial exercise of any right, remedy, power or privilege under this Agreement preclude any other or further exercise of such right, remedy, power or privilege or the exercise of any other right, remedy, power or privilege.

8.3 No Third-Party Beneficiaries. This Agreement is for the sole benefit of the Parties and their permitted assigns and nothing herein, express or implied, is intended to or shall confer upon any other Person any legal or equitable right, benefit or remedy of any nature whatsoever under or by reason of this Agreement.

8.4 Consent to Amendments; Waivers. No Party shall be deemed to have waived any provision of this Agreement or any of the other Transaction Documents unless such waiver is in writing, and then such waiver shall be limited to the circumstances set forth in such written waiver. This Agreement and the Ancillary Documents shall not be amended, altered or qualified except by an instrument in writing signed by all the Parties hereto or thereto, as the case may be.

8.5 Successors and Assigns. Except as otherwise expressly provided in this Agreement, all representations, warranties, covenants and agreements set forth in this Agreement or any of the Ancillary Agreements by or on behalf of the Parties thereto will be binding upon and inure to the benefit of such Parties and their respective successors and permitted assigns. Neither this Agreement nor any of the rights, interests or obligations hereunder may be assigned by any Party without the prior written consent of the other Party, which consent may be withheld in such Party's sole discretion, except for assignment to an Affiliate of a Party (provided that such Party remains liable jointly and severally with its assignee Affiliate for the assigned obligations to the other Party).

8.6 Governing Law; Submission to Jurisdiction; Waiver of Jury Trial.

(a) Any questions, claims, disputes, remedies or Actions arising from or related to this Agreement, and any relief or remedies sought by any Parties, shall be governed exclusively by the Laws of the State of Arizona without regard to the rules of conflict of laws applied therein or any other jurisdiction.

(b) To the fullest extent permitted by applicable Law, except as contemplated by Section 8.12, each Party (i) agrees that any claim, action or proceeding by such Party seeking any relief whatsoever arising out of, or in connection with, this Agreement or the transactions contemplated hereby shall be brought only in (A) the U.S. Bankruptcy Court, if brought prior to the entry of a final decree closing the Chapter 15 Case, with respect to the Seller and its Subsidiaries, or (B) in the federal courts in the District of Arizona (collectively, the "**Courts**"), if brought after entry of such final decree closing the Chapter 15 Case, and shall not be brought, in any court in the United States of America, Canada, or any court in any other country, (ii) agrees to submit to the exclusive jurisdiction of the Courts, as applicable pursuant to the preceding clauses (i)(A) and (B), for purposes of all legal proceedings arising out of, or in connection with, this Agreement or the transactions contemplated hereby, (iii) waives and agrees not to assert any objection that it may now or hereafter have to the laying of the venue of any such Action brought in such a court or any claim that any such Action brought in such a court has been brought in an inconvenient forum, (iv) agrees that mailing of process or other papers in connection with any such action or proceeding in the manner provided in Section 8.7 or any other manner as may be permitted by Law shall be valid and sufficient service thereof, and (v) agrees that a final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by applicable Law.

(c) EACH PARTY HEREBY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY LITIGATION DIRECTLY OR INDIRECTLY ARISING OUT OF, UNDER OR IN CONNECTION WITH THIS AGREEMENT, ANY ANCILLARY AGREEMENT OR ANY TRANSACTION CONTEMPLATED HEREBY OR THEREBY. EACH PARTY (I) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER AND (II) ACKNOWLEDGES THAT IT AND THE OTHER PARTIES HERETO HAVE BEEN INDUCED TO ENTER INTO THIS AGREEMENT AND THE ANCILLARY AGREEMENTS, AS APPLICABLE, BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION 8.6.

8.7 Notices. All demands, notices, communications and reports provided for in this Agreement shall be deemed given if in writing and delivered, if sent by telecopy, electronic mail, courier or sent by reputable overnight courier service (delivery charges prepaid) to any Party at the address specified below, or at such address, to the attention of such other Person, and with such other copy, as the recipient Party has specified by prior written notice to the sending Party pursuant to the provisions of this Section 8.7.

If to the Purchaser to:



Snowflake Power, LLC  
2525 East Camelback Road  
Suite 850  
Phoenix AZ 85016  
Attention: Peter Woog  
E-mail address: peter@najafi.com

With copies (that shall not constitute notice) to:

Ballard Spahr LLP  
1 East Washington Street  
Suite 2300  
Phoenix, AZ 85004-2555  
Attention: Karen C. McConnell, Esq.  
E-mail address: mcconnellk@ballardspahr.com

If to the Seller to:

Catalyst Paper (Snowflake) Inc.  
c/o Catalyst Paper Corporation  
2<sup>nd</sup> Floor, 3600 Lysander Lane  
Richmond, BC V7B 1C3  
Attention: David Adderley, General Counsel  
E-mail address: david.adderley@catalystpaper.com

With copies (that shall not constitute notice) to:

Skadden, Arps, Slate, Meagher & Flom LLP  
300 South Grand Avenue  
Suite 3400  
Los Angeles, VA 90071  
Attention: Van C. Durrer II, Esq.  
E-mail address: van.durrer@skadden.com

Any such demand, notice, communication or report shall be deemed to have been given pursuant to this Agreement when delivered personally, when confirmed if by facsimile transmission or electronic mail, or on the Business Day after deposit with a reputable overnight courier service, as applicable.

8.8 Schedules. The Schedules attached hereto constitute a part of this Agreement and are incorporated into this Agreement for all purposes as if fully set forth herein.

8.9 Counterparts. The Parties may execute this Agreement in two or more original or electronic counterparts (no one of which need contain the signatures of all Parties), each of which will be an original and all of which together will constitute one and the same instrument.

8.10 No Presumption. The Parties agree that this Agreement was negotiated fairly between them at arm's length and that the final terms of this Agreement are the product of the

Parties' negotiations. Each Party represents and warrants that it has sought and received experienced legal counsel of its own choosing with regard to the contents of this Agreement and the rights and obligations affected hereby. The Parties agree that this Agreement shall be deemed to have been jointly and equally drafted by them, and that the provisions of this Agreement therefore should not be construed against a Party on the grounds that such Party drafted or was more responsible for drafting the provisions.

8.11 Severability. If any provision, clause, or part of this Agreement, or the application thereof under certain circumstances, is held invalid, illegal or incapable of being enforced in any jurisdiction, (a) as to such jurisdiction, the remainder of this Agreement or the application of such provision, clause or part under other circumstances, and (b) as for any other jurisdiction, any provision of this Agreement, shall not be affected and shall remain in full force and effect, unless, in each case, such invalidity, illegality or unenforceability in such jurisdiction materially impairs the ability of the Parties to consummate the transactions contemplated by this Agreement. Upon such determination that any clause or other provision is invalid, illegal or incapable of being enforced in such jurisdiction, the Parties shall negotiate in good faith to modify this Agreement so as to effect the original intent of the Parties as closely as possible in a mutually acceptable manner in order that the transactions contemplated hereby be consummated as originally contemplated to the greatest extent possible even in such jurisdiction.

8.12 Specific Performance.

(a) The Parties acknowledge and agree that any breach of the terms of this Agreement would give rise to irreparable harm for which money damages would not be an adequate remedy, and, accordingly agree that, in addition to any other remedies, each Party shall be entitled to enforce the terms of this Agreement by seeking a decree of specific performance without the necessity of proving the inadequacy of money damages as a remedy and without the necessity of posting a bond.

(b) Each Party agrees that it will not oppose the granting of an injunction, specific performance and other equitable relief when expressly available pursuant to the terms of this Agreement on the basis that (i) there is adequate remedy at law or (ii) an award of specific performance is not an appropriate remedy for any reason at law or equity. In the event that a Party seeks an injunction or injunctions to prevent breaches of this Agreement when expressly available pursuant to the terms of this Agreement and to enforce specifically the terms and provisions of this Agreement when expressly available pursuant to the terms of this Agreement, such Party shall not be required to provide any bond or other security in connection with any such order or injunction.

(c) Nothing in this Section 8.12 shall limit the rights of the Purchaser to seek or obtain enforcement of the Approval Order after the entry of such order or of this Agreement.

8.13 Entire Agreement. This Agreement and the Ancillary Agreements set forth the entire understanding of the Parties relating to the subject matter hereof and thereof, and all prior or contemporaneous understandings, agreements, representations and warranties, whether written or oral, are superseded by this Agreement and the Ancillary Agreements, and all such prior or contemporaneous understandings, agreements, representations and warranties are hereby terminated. In the event of any irreconcilable conflict between this Agreement and any of the

Ancillary Agreements, the provisions of this Agreement shall prevail, regardless of the fact that certain Ancillary Agreements may be subject to different governing Laws (unless the Ancillary Agreements expressly provide otherwise).

8.14 Damages. Under no circumstances shall any Party be liable for punitive damages or indirect, special, incidental, or consequential damages arising out of or in connection with this Agreement or the transactions contemplated hereby or any breach or alleged breach of any of the terms hereof, including damages alleged as a result of tortious conduct.

8.15 Bulk Sales Laws. Each Party waives compliance by the other Party with any applicable bulk sales Law.

IN WITNESS WHEREOF, the Parties have duly executed this Agreement as of the date first written above.

CATALYST PAPER (SNOWFLAKE) INC.

By: 

Name:

Title:

David L. Adderley

Corporate Secretary and Legal Counsel

SNOWFLAKE POWER, LLC

By: \_\_\_\_\_

Name:

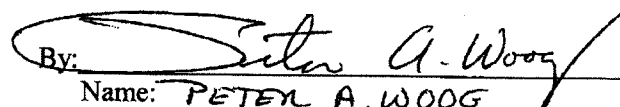
Title:

IN WITNESS WHEREOF, the Parties have duly executed this Agreement as of the date first written above.

CATALYST PAPER (SNOWFLAKE) INC.

By: \_\_\_\_\_  
Name:  
Title:

SNOWFLAKE POWER, LLC

By:  \_\_\_\_\_  
Name: PETER A. WOOD  
Title: PRESIDENT & CEO

**Schedule A - Equipment**

KOBELCO MILL AIR COMPRESSOR

WAGNER CHIP LOADER

## Schedule B – Real Property

### **Parcel 1**

A portion of Section 21, Township 13 North, Range 19 East, of the Gila and Salt River Base and Meridian, Navajo County, Arizona and more particularly described as follows:

Commencing at the Southeast Corner of said Section 21; thence North 55 degrees 18 minutes 07 seconds West, a distance of 3292.40 feet, to the **True Point of Beginning**; thence South 40 degrees 18 minutes 01 seconds West, a distance of 149.40 feet; thence North 65 degrees 30 minutes 02 seconds West, a distance of 141.56 feet; thence North 19 degrees 15 minutes 36 seconds East, a distance of 172.70 feet; thence North 23 degrees 08 minutes 54 seconds West, a distance of 24.96 feet; thence North 05 degrees 51 minutes 43 seconds West, a distance of 64.62 feet; thence North 27 degrees 34 minutes 33 seconds East, a distance of 72.77 feet; thence North 64 degrees 46 minutes 45 seconds East, a distance of 63.63 feet; thence North 36 degrees 35 minutes 29 seconds East, a distance of 132.76 feet; thence North 64 degrees, 43 minutes 30 seconds West, a distance of 191.15 feet; thence North 63 degrees 27 minutes 15 seconds West, a distance of 68.18 feet; thence North 21 degrees 35 minutes 37 seconds East, a distance of 22.09 feet; thence North 64 degrees 30 minutes 37 seconds West, a distance of 14.85 feet; thence North 19 degrees 56 minutes 40 seconds West, a distance of 4.24 feet; thence North 61 degrees 10 minutes 56 seconds West, a distance of 37.26 feet; thence North 62 degrees 35 minutes 54 seconds West, a distance of 19.34 feet; thence North 26 degrees 56 minutes 55 seconds East, a distance of 33.32 feet; thence North 62 degrees 59 minutes 12 seconds West, a distance of 16.54 feet; thence North 26 degrees 59 minutes 48 seconds East, a distance of 176.95 feet; thence North 43 degrees 42 minutes 15 seconds East, a distance of 9.90 feet; thence South 62 degrees 36 minutes 40 seconds East, a distance of 1032.10 feet; thence South 11 degrees 32 minutes 52 seconds West, a distance of 72.28 feet to the beginning of a curve to the left, having a chord bearing of South 72 degrees 12 minutes 11 seconds West and a radius of 937.12 feet through a central angle of 45 degrees 10 minutes 28 seconds for a length of 738.87 feet, to the **True Point of Beginning**; **Excepting Therefrom**, all oil, gas and minerals whatsoever (other than water flowing or lying on, or under said lands, which shall not be recorded as mineral), in, on, underlying or appurtenant to said land, and all the rights of ownership therein, as reserved to Aztec Land and Cattle Company, Limited, a corporation, in Deed recorded in Book 134 of Official Records, pages 218, 219 and 220 and amended by instrument recorded in Book 134 of Official Records, pages 221, 222 and 223.

Said parcel contains 8.154 acres, more or less.

### **Parcel 2**

A portion of Section 27, Township 13 North, Range 19 East, of the Gila and Salt River Meridian, Navajo County, Arizona and more particularly described as follows:

Commencing at the Southeast Corner of said Section 27, thence North 00 degrees 33 minutes 12 seconds, along the East line of said Section 27, a distance of 580 feet to the **True Point of Beginning**; thence South 89 degrees 23 minutes 31 seconds West, a distance of 1573.92 feet; thence North 20 degrees 24 minutes 36 seconds East, a distance of 815.09 feet; thence South 73 degrees 46 minutes 09 seconds East, a distance of 58.51 feet; thence North 19 degrees 59

minutes 26 seconds East, a distance of 370.88 feet; thence North 06 degrees 37 minutes 58 seconds West, a distance of 807.00 feet; thence North 41 degrees, 02 minutes 37 seconds East, a distance of 519.58 (M) feet; thence North 06 degrees 57 minutes 47 seconds West, a distance of 902.00 feet; thence North 34 degrees 44 minutes 32 seconds East, a distance of 1798.00 feet to a point on the East line of said Section 27; thence Southerly along the East line of said Section 27, South 00 degrees 41 minutes 55 seconds West, a distance of 4646.00 feet to the **True Point of Beginning; Excepting Therefrom**, all oil, gas and minerals whatsoever (other than water flowing or lying on, or under said lands, which shall not be recorded as mineral), in, on, underlying or appurtenant to said land, and all the rights of ownership therein, as reserved to Aztec Land and Cattle Company, Limited, a corporation, in Deed recorded in Book 134 of Official Records, pages 218, 219 and 220 and amended by instrument recorded in Book 134 of Official Records, page 221, 222, and 223.

Said parcel contains 100.8 acres, more or less.

### **Parcel 3**

A portion of Section 21, Township 13 North, Range 19 East, Gila and Salt Base and River Meridian, Navajo County, Arizona and more particularly described as follows:

Commencing at the Southeast Corner of said Section 21; thence North 34 degrees 18 minutes 36 seconds West, a distance of 2433.98 feet, to the **True Point of Beginning**; thence South 26 degrees 27 minutes 27 seconds West, a distance of 413.15 feet to the beginning of a curve to the right having a radius of 200 feet through a central angle of 74 degrees 23 minutes 31 seconds, for a distance of 259.67 feet; thence North 82 degrees 28 minutes 13 seconds West, a distance of 290.89 feet; thence North 64 degrees 35 minutes 52 seconds West, a distance of 717.77 feet; to a point on a non-tangent curve to the right having a chord bearing of North 72 degrees 12 minutes 11 seconds East and a radius of 937.12 feet, through a central angle of 45 degrees 10 minutes 28 seconds, for a distance of 738.87 feet; thence South 82 degrees 39 minutes 05 seconds East, a distance of 654.88 feet, more or less, to the **True Point of Beginning; Excepting Therefrom**, all oil, gas and minerals whatsoever (other than water flowing or lying on, or under said lands, which shall not be recorded as mineral), in, on, underlying or appurtenant to said land, and all the rights of ownership therein, as reserved to Aztec Land and Cattle Company, Limited, a corporation, in Deed recorded in Book 134 of Official Records, pages 218, 219 and 220 and amended by instrument recorded in Book 134 of Official Records, page 221, 222 and 223.

Said parcel contains 11.43 acres, more or less.

### **Parcel 4**

A portion of Section 21, Township 13 North, Range 19 East of the Gila and Salt River Base and Meridian, Navajo County, Arizona and more particularly described as follows:

Commencing at the Northeast Corner of said Section 21; thence South 00 degrees 00 minutes 00 seconds a distance of 2659.03 feet; thence North 87 degrees 13 minutes 32 seconds West a distance of 2117.12 feet, to the **True Point of Beginning**; thence North 64 degrees 39 minutes 45 seconds West a distance of 270.00 feet; thence South 25 degrees 20 minutes 15 seconds West a distance of 40.00 feet; thence South 64 degrees 39 minutes 45 seconds East a distance of



270.00 feet; thence North 25 degrees 20 minutes 15 seconds East a distance of 40.00 feet to the **True Point of Beginning; Excepting Therefrom**, all oil, gas and minerals whatsoever (other than water flowing or lying on, or under said lands, which shall not be recorded as mineral), in, on, underlying or appurtenant to said land, and all the rights of ownership therein, as reserved to Aztec Land and Cattle Company, Limited, a corporation, in Deed recorded in Book 134 of Official Records, pages 218, 219 and 220 and amended by instrument recorded in Book 134 of Official Records, pages 221, 222 and 223.

Said parcel contains 0.25 acre, more or less.

#### **Other Parcels:**

The Parties intend this Schedule B to include any parcels marked (Parcel 1 through Parcel 5) as shown on the map attached to this Schedule B. In the event any legal descriptions for Parcels 1 through 5 are not included in this Schedule B, Seller shall deliver such legal descriptions to Purchaser pursuant to Section 5.2(d) of the Agreement.

#### **Easements**

##### **Easement 1:**

An Easement for ingress and egress as evidenced by that certain Memorandum of Ground Lease and Notice of Easement Rights, recorded September 08, 2006, in Document No. 2006-27364 Navajo County Records.

##### **Easement 2:**

Easements on, over, across or under the portion of Seller's property described below (other than the Real Property) to the extent such are reasonably necessary for the construction, installation, testing, ownership, operation and use of the power facility and other improvements on the Real Property, including, without limitation, easements or rights of way necessary for Purchaser to interconnect to Seller's natural gas supply facilities and the Substation or to other supply facilities and the Substation or to other sources of natural gas or electrical substations as well as access easements for ingress and egress to the power facility, the storage facility and the sawmill facility.

##### **Parcel 1:**

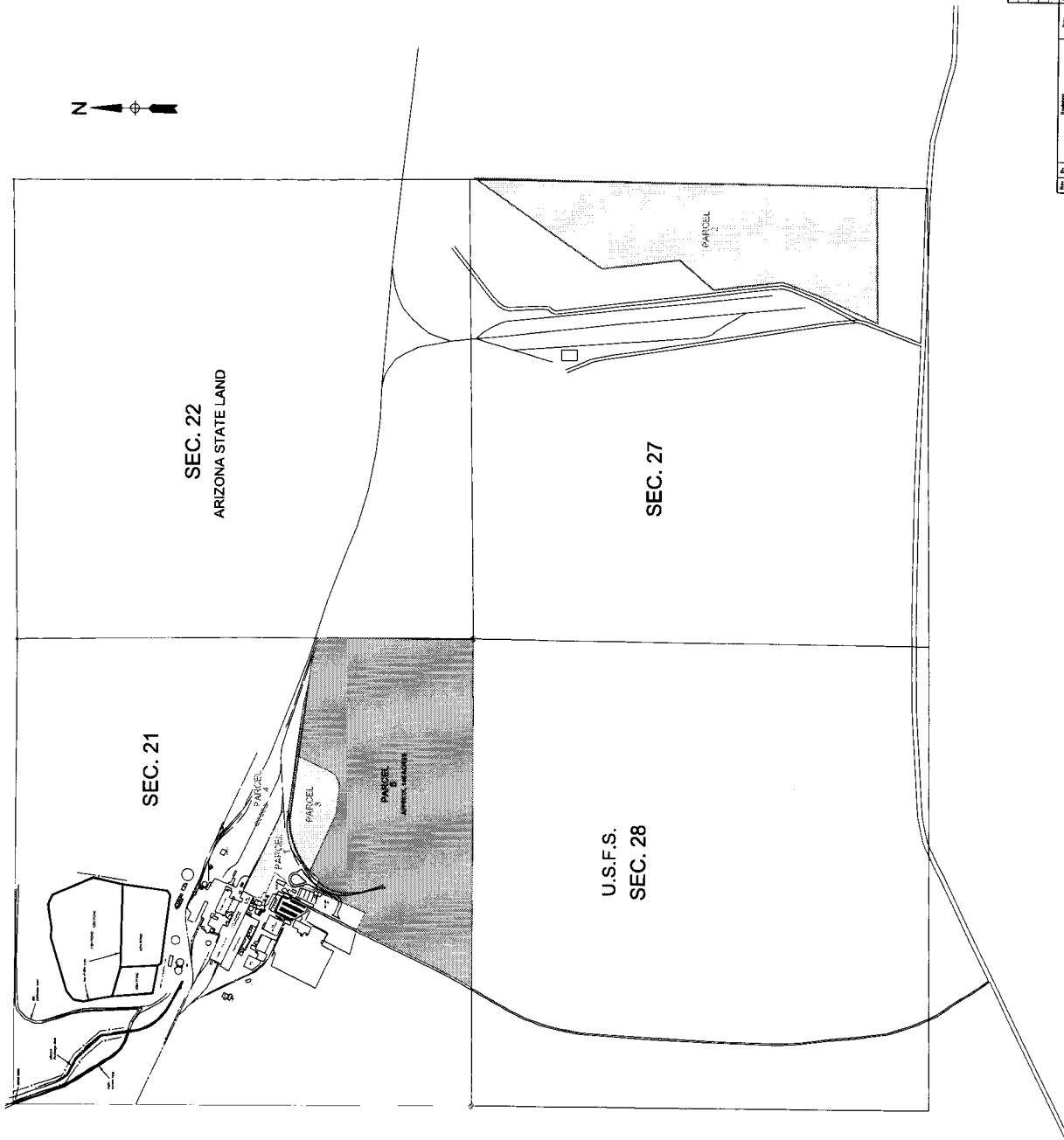
The Northwest quarter; the West half of the Southwest quarter; the East half of the Northeast quarter of the Southwest quarter; the West half of the West half of the Northeast quarter of the Southwest quarter of Section 27, Township 13 North, Range 19 East, Gila and Salt River Base and Meridian, except that part deed of State of Arizona for highway as described in Docket 371, page 369.

##### **Parcel 2:**

The East Half of Section 27, Township 13 North, Range 19 East, Gila and Salt River Base and Meridian.

Parcel 3:

Section 21, Township 13 North, Range 19 East, Gila and Salt River Base and Meridian, Navajo County, Arizona.



Catalyst		Snowflake Mill	
Project No.	760-1000.DWG	Sheet No.	1
Project Name	Biomass Boiler Project/TASH	Scale	AS SHOWN
Client	760-ENGINEERING	Drawn By	DM
Project Manager	GENERAL SURVEY LAYOUT MAP	Checked By	DM
Project Engineer	AND LEASED PROPERTY	Approved By	DM
Project Date	5/10/17	Project Status	COMPLETE
Project Location	CUMMINGS	Project Type	ENGINEERING
Project Description	NONE		

**Schedule C – Spare Parts**

HP	RPM/PPR	FRAME	MOTOR NUMBER	LOCATION
0.1666	1725	56CZ	SM-01/6-6191	5B-D6C
	1725	56CZ	SM-01/6-6190	5B-D6C
	1800	56CZ	SM-01/6-2863	5B-D6L
2	1735	145T	SM-0002-6210	5B-E5C
	1735	145T	SM-0002-6211	5B-E5C
	1745	145TC	SM-0002-6204	5A-C2L
	1800	143TC WITH FEET	SM-0002-6115	5B-B2L
	1800	145T	SM-0002-5821	5A-E2R
	1800	145T	SM-0002-5820	5A-E2R
3	1800	182T	SM-0003-6153	5B-F5R
	1800	182T	SM-0003-4333	5B-H5R
	1800	182T	SM-0003-6152	5B-F5R
5	1690	184T	SM-0005-5423	5B-I5C
	1800	184T	SM-0005-6020	5A-E2R
	1800	184T	SM-0005-6208	5B-I5L
7.5	1800	213T	SM-07.5-6063	5A-G1C
	1800	213T	SM-07.5-6064	5A-G1C
	1800	213TC	SM-07.5-6214	5A-C4C
10	900	284T	SM-0010-3697	5A-F3C
30	1800	286T	SM-0030-6185	5A-E3R
	1800	286TC	SM-0030-6051	5A-E3L
	1800	286TC	SM-0030-5817	5A-D4R
	1800	286TC	SM-0030-5780	5B-L2L
40	1200	364T	SM-0040-6146	5A-G1R
	1200	364T	SM-0040-6095	5B-N2L
	1800	324T	SM-0040-5547	5A-F1C
50	1800	325T	SM-0050-5915	5B-D3L
75	1800	365T	SM-0075-3885	5A-D3C
	1800	365TC	SM-0075-5890	5A-I3R
100	1800	405T	SM-0100-1622	5A-J1C
	1800	405T	SM-0100-4284	5B-M2L
1000	1186	8311S	ID FAN	BASEMENT

## **Schedule D - Transition Equipment**

### **WATER SYSTEM AND ASSOCIATED PIPING**

- Raw Water Well
  - Wells #7 & #8 Each 350 HP, 2300 V
  - 2- Booster pumps
  - Piping from wells to storage tanks at mill
  - Potable Water System Complete
- Raw Water Tank
  - 2 Raw water tanks. #1 & #2-5,000,000 Gal.
  - 2- Mill water pumps 200 HP, 480 V, 230 Amp (#3 & #4)
- Fire Suppression System and piping associated with Bio-Mass
  - 2- Fire Pumps 250 HP 1- Electric 480 V, 1- Diesel
  - 1- Jockey Pump 12 HP
  - Fire Tower
- Water Treatment
  - 2- RO units 300 GPM each
  - 2- Demineralized water pump, 100 HP, 460 V, 116 Amp
  - 1 Lot of piping revisions to accommodate using RO system
  - 1 Lot of piping & control system for the anti-scaling & oxygen Scavenging Systems
- Deaerator
  - Complete system including piping, valves and controls.
- Natural Gas Pipeline
  - Pipeline System

### **WASTE WATER TREATMENT SYSTEM AND ASSOCIATED PIPING**

- Waste treatment
- Extend APP & IWPP permits for waste water

Landfill Tipping

Access to mine Paper Sludge landfilled from 1998- 2008

### **ELECTRICAL ITEMS**

UPS Power System (and MCCs associated with listed equipment)  
DC Battery Inverter

### **COMPRESSED AIR SYSTEM INCLUDING ASSOC. PIPING**

- Air Compressors
  - 2- Sullair Units – 300 HP 1400 CFM, 2300 V, 62.4 AMP
- Air Receivers/Dryers
  - 2- Airtech Dryer/Receiver Units
- Treated Water Tank
  - 1 - #1 Tank - 49,000 Gallon

- Feedwater Pumps
  - 2 - BFW Pumps #1 & #2- 700 HP ea, 2300V, 156 Amp

#2 COOLING TOWER

#### **Schedule 5.8(g) – Substation Maintenance**

Purchaser shall keep and maintain the Substation, including without limitation, the exterior and interior of the Substation, all partitions and other interior improvements, all walls, telephone and other communication systems, and machinery, fixtures and equipment located in or related to the Substation (a) in good and safe order and condition, (b) in accordance with prudent operating and maintenance standards, and requirements and standards provided in the interconnection agreement with APS, and (c) in accordance with applicable Law, and all standards, regulations and other requirements imposed by any Governmental Entity, including operational standards, environmental standards, and relevant permit. Purchaser shall make all necessary repairs to the Substation, structural and nonstructural, ordinary and extraordinary, capital and otherwise, in each case, whether foreseen or unforeseen. Purchaser may, at its own cost, engage a third party to perform such maintenance and repairs as required hereunder. As used herein, the term "repairs" includes all necessary replacements, renewals, alterations, additions and betterments. All repairs shall be performed promptly in a good and workmanlike manner in compliance with all applicable permits, authorizations, building and zoning laws and all other applicable Laws.

#### **Schedule 5.12 – Purchaser Equipment**

- 1 sludge press building next to the Seller's wastewater treatment building
- 1 Hopper in the sludge press building
- 2 transfer screws in the sludge press building
- Infeed #1 conveyor in the sludge press building
- 1 transfer screw into 2 Andritz screw presses in the sludge press building
- 2 Andritz screw presses in the sludge press building
- Outfeed conveyor #1 in the sludge press building
- Outfeed conveyor #2 in the sludge press building
- 1 tower with the clam shell (also known as the aggregation clam shell) in the sludge press building
- Associated wastewater pumps in the sludge press building
- 1 MCC for the sludge press facility in the sludge press building
  
- 1 walkway or "catwalk" connecting the Purchaser's turbine deck at the power facility to the Seller's turbine deck at the power house, as well as associated infrastructure affixed hereto
- 1 feedwater pressure control valve located in the basement of the Seller's power house
- 1 natural gas pipeline running from the Seller's control valve to the Purchaser's boiler burner.



**EXHIBIT C**  
**Bidding Procedures**

**Catalyst Paper Corporation et al.**  
**Procedures for the Sale and Investor Solicitation Process**

On January 31, 2012, Catalyst Paper Corporation (“CPC”), together with certain of its subsidiaries and affiliates as listed in Schedule “A” hereto (collectively, the “Debtors”), obtained an initial order (as amended and restated by order dated February 3, 2012 and as it has been and may be further amended, restated or supplemented from time to time, collectively, the “Initial Order”) under the *Companies’ Creditors Arrangement Act*, R.S.C. (as amended, the “CCAA”) from the Supreme Court of British Columbia, Vancouver Registry (the “Canadian Court”). The Initial Order also applies to Catalyst Paper General Partnership (which, together with the Petitioners, make up the “Catalyst Entities”). On February 1, 2012, CPC, as the foreign representative of the Catalyst Entities, commenced a recognition proceeding pursuant to Chapter 15 of the Bankruptcy Code in the United States Bankruptcy Court for the District of Delaware (the “U.S. Bankruptcy Court”, and together with the Canadian Court, the “Courts”). On March 5, 2012, the U.S. Bankruptcy Court entered an order granting recognition of the Petitioners’ CCAA proceeding. On ●, 2012, the U.S. Bankruptcy Court entered an order (the “SISP Approval Order”) approving the sale and investor solicitation process with respect to the U.S. Catalyst Assets of the Debtors located within the territory of the U.S. (the “Snowflake SISP”) and the SISP procedures set forth herein (these “SISP Procedures”).

The SISP Approval Order, the Snowflake SISP and these SISP Procedures shall exclusively govern the process for soliciting and selecting bids for the sale of all, substantially all, or one or more Parcels, of the U.S. Catalyst Assets. The U.S. Catalyst Assets comprise a complex array of Parcels that are, in many ways, integrated as to infrastructure. Accordingly, although it is the intention of the Catalyst Entities to consider all proposals with respect to one or more Parcels, the Catalyst Entities will permit any Qualified Bidder to present proposals for all or substantially all of the U.S. Catalyst Assets at the Auction, even in situations where such Qualified Bidder has submitted only a Parcel Sale Proposal prior to the Auction.

All dollar amounts expressed herein, unless otherwise noted, are in United States currency.

**Defined Terms**

All capitalized terms used but not otherwise defined herein shall have the meanings given to them in the SISP Approval Order, as applicable. In addition, in these SISP Procedures:

“Approval Hearing” has the meaning ascribed thereto in section 35;

- “Auction”** has the meaning ascribed thereto in section 28;
- “Auction Bidders”** has the meaning ascribed thereto in section 28(a);
- “Backup Bid”** has the meaning ascribed thereto in section 31;
- “Backup Bidder”** has the meaning ascribed thereto in section 31;
- “Backup Bid Expiration Date”** has the meaning ascribed thereto in section 33;
- “Business Day”** means any day other than (i) a Saturday or Sunday or (ii) a day which is a statutory holiday in either Vancouver, British Columbia or New York City, New York;
- “Canadian Court”** has the meaning ascribed thereto in the recitals above;
- “Catalyst Entities”** has the meaning ascribed thereto in the recitals above;
- “CCAA”** has the meaning ascribed thereto in the recitals above;
- “CCAA Plan”** means the Second Amended and Restated Plan of Compromise and Arrangement dated June 14, 2012;
- “Collateral Trustee”** means the collateral trustee, under the Senior Secured Note Indentures, any new senior secured notes issued under the CCAA Plan and any successor trustees thereunder;
- “Confidentiality Agreement”** has the meaning ascribed thereto in section 8;
- “Constituencies”** means the Monitor, the Collateral Trustee, and the Steering Committee;
- “CPC”** has the meaning ascribed thereto in the recitals above;
- “Deposit”** has the meaning ascribed thereto in section 22(h);
- “Effective Date”** has the meaning set forth in the CCAA Plan;
- “Financial Advisor”** means a financial advisor to be selected by the board of directors of reorganized CPC, solely in its capacity as financial advisor to the Catalyst Entities;
- “Holders”** means the Holders (as that term is defined in the Senior Secured Note Indentures) from time to time under the Senior Secured Notes;
- “Initial Order”** has the meaning ascribed thereto in the recitals above;
- “Investment Proposal”** has the meaning ascribed thereto in section 18(a);
- “Leading Bid”** has the meaning ascribed thereto in section 28(i);
- “Minimum Incremental Overbid”** has the meaning ascribed thereto in section 28(i)

**"Monitor"** means PricewaterhouseCoopers Inc., in its capacity as Monitor of the Catalyst Entities pursuant to the Initial Order, except to the extent that the Monitor is discharged from its duties, in which case references to the Monitor in the SISP Procedures shall be deemed deleted;

**"New Senior Secured Notes"** means any new senior secured notes issued under the CCAA Plan;

**"Non-Binding Indications of Interest"** has the meaning ascribed thereto in section 16;

**"Notice Parties"** has the meaning ascribed thereto in section 40;

**"Parcels"** means one of more discrete assets or parcels of real estate that comprise the U.S. Catalyst Assets;

**"Parcels Sale Proposal"** means a Sale Proposal for one or more Parcels;

**"Phase 1 Bid Deadline"** has the meaning ascribed thereto in section 17;

**"Phase 2 Bid Deadline"** has the meaning ascribed thereto in section 21;

**"Potential Bidder"** has the meaning ascribed thereto in section 6;

**"Potential Bidder Deadline"** has the meaning ascribed thereto in section 9;

**"Purchase Agreement"** has the meaning ascribed thereto in section 22(b);

**"Purchase Price"** has the meaning ascribed thereto in section 22(b);

**"Qualified Bidder"** has the meaning ascribed thereto in section 24;

**"Qualified Bids"** has the meaning ascribed thereto in section 24;

**"Qualified Investment Bid"** has the meaning ascribed thereto in section 23;

**"Qualified Non-Binding Indication of Interest"** has the meaning ascribed thereto in section 19;

**"Qualified Phase 1 Bidder"** has the meaning ascribed thereto in section 10;

**"Qualified Phase 2 Bidder"** has the meaning ascribed thereto in section 20;

**"Qualified Purchase Bid"** has the meaning ascribed thereto in section 22;

**"Sale Proposal"** has the meaning ascribed thereto in section 18(a);

**"Senior Secured Notes"** means (i) the 11% Senior Secured Notes due December 15, 2016 issued by CPC pursuant to that certain Indenture, dated as of March 10, 2010, by and among CPC, as issuer, certain of its affiliates, as guarantors, Wilmington Trust FSB, as trustee (the **"Trustee"**), and Computershare Trust Company of Canada, as collateral trustee; and (ii) the Class B 11% Senior Secured Notes due December 15, 2016 issued by

CPC pursuant to that certain Indenture, dated as of May 19, 2010, by and among Catalyst Paper Corporation, as issuer, certain of its affiliates, as guarantors, the Trustee and the Collateral Trustee;

**"Senior Secured Note Indentures"** means the indentures governing the Senior Secured Notes;

**"SISP"** has the meaning ascribed thereto in the recitals above;

**"SISP Approval Order"** has the meaning ascribed thereto in the recitals above;

**"SISP Procedures"** has the meaning ascribed thereto the recitals above;

**"Solicitation Process"** has the meaning ascribed thereto in section 1;

**"Stalking Horse Bidder"** means the entity, if any, designated by CPC within three (3) business days of the Phase 1 Bid Deadline as having the initial highest and best bid for the U.S. Catalyst Assets and/or one or more Parcels.

**"Starting Bid"** has the meaning ascribed thereto in section 28(b);

**"Steering Committee"** means a committee represented by Fraser Milner Casgrain LLP and Akin Gump Strauss Hauer & Feld LLP comprised of certain of the Holders of the Senior Secured Notes;

**"Subsequent Bid"** has the meaning ascribed thereto in section 28(i);

**"Successful Bid"** has the meaning ascribed thereto in section 31;

**"Successful Bidder"** has the meaning ascribed thereto in section 31;

**"Superior Offer"** means a credible, reasonably certain, and financially viable Qualified Bid that is determined by Catalyst, in consultation with its Financial Advisor and the Monitor, to be superior to all other Qualified Bids submitted pursuant to these SISP Procedures.

**"Teaser Letter"** has the meaning ascribed thereto in section 6;

**"Term Sheet"** has the meaning ascribed thereto in section 23(a);

**"U.S. Bankruptcy Court"** has the meaning ascribed thereto in the recitals above; and

**"U.S. Catalyst Assets"** means the property, assets and undertaking of Catalyst Paper (Snowflake) Inc. and The Apache Railway Company.

#### **Solicitation Process**

(1) These SISP Procedures describe, among other things, the U.S. Catalyst Assets available for sale, the opportunity for an investment in or joint venture with the Catalyst Entities with respect to the U.S. Catalyst Assets, the manner in which prospective bidders may gain access to or continue to have access to due diligence materials concerning the

U.S. Catalyst Assets, the manner in which bidders and bids become Qualified Bidders and Qualified Bids, respectively, the receipt and negotiation of bids received, the ultimate selection of a Successful Bid, the approval thereof by the U.S. Bankruptcy Court (collectively, the “**Solicitation Process**”).

(2) The Catalyst Entities, in consultation with the Financial Advisor and under the supervision of the Monitor, shall conduct these SISP Procedures and the Solicitation Process as outlined herein. As provided for herein, Catalyst and the Financial Advisor shall each regularly consult with the Constituencies and each of their legal and financial advisors during the Snowflake SISP process up to the Effective Date. To the extent that this Snowflake SISP requires the Debtors to consult with the Constituencies, including the Monitor, it is the intent of the Debtors that such requirements only prevail up to the Effective Date. In no event shall the Solicitation Process be inconsistent with the CCAA Plan, nor shall the Solicitation Process delay the occurrence of the Effective Date as defined in the CCAA Plan. Following the Effective Date as defined in the CCAA Plan, the Snowflake SISP process will be conducted in conformity with the provisions of any indentures governing any New Senior Secured Notes issued in connection with the Debtors’ emergence from the restructuring processes. In addition, the closing of any sale may involve additional intermediate steps or transactions to facilitate consummation of such sale, including additional Court filings. In the event that there is a disagreement or clarification required as to the interpretation or application of this Snowflake SISP or the responsibilities of the Catalyst Entities hereunder, the U.S. Bankruptcy Court will have the jurisdiction to hear such matter and provide advice and directions, upon application of the Catalyst Entities or any party in interest.

#### **Sale and Investment Opportunity**

(3) An investment in the Catalyst Entities with respect to the U.S. Catalyst Assets may, at the option of the Successful Bidder, include one or more of the following: a recapitalization, joint venture or other form of investment in or with one or more of the Catalyst Entities. One or more Qualified Non-Binding Indications of Interest (as defined below) for one or more Parcels or for less than substantially all of the U.S. Catalyst Assets will not be precluded from consideration as a Superior Offer.

#### **“As Is, Where Is”**

(4) The sale of the U.S. Catalyst Assets or investment in or joint venture with the Catalyst Entities with respect to the U.S. Catalyst Assets will be on an “as is, where is” basis and without surviving representations, warranties covenants or indemnities of any kind, nature, or description by the Monitor, the Catalyst Entities or any of their agents, estates, advisors, professionals or otherwise, except to the extent set forth in the relevant sale or investment agreement with the Successful Bidder.

**Free Of Any And All Claims And Interests**

(5) In the event of a sale, all of the rights, title and interests of the Catalyst Entities in and to the U.S. Catalyst Assets to be acquired will be sold free and clear of all pledges, liens, security interests, encumbrances, claims, charges, options, and interests thereon and there against pursuant to an order of the U.S. Bankruptcy Court pursuant to section 363 of the U.S. Bankruptcy Code. Any sale of the U.S. Catalyst Assets will be consistent with the terms and conditions set forth in any indentures governing any New Senior Secured Notes issued in connection with the Debtors' emergence from the restructuring processes.

**Solicitation of Interest**

(6) The Catalyst Entities, in conjunction with its advisors, including the Financial Advisor, and in consultation with the Monitor (if applicable), will prepare a list of potential bidders (the "**Potential Bidders**") for the U.S. Catalyst Assets or an investment in the Catalyst Entities with respect to such assets. Such list will include both strategic and financial parties who, in the Financial Advisor's reasonable business judgment, may be interested in acquiring the U.S. Catalyst Assets or in making such an investment in the Catalyst Entities. Concurrently, the Catalyst Entities and the Financial Advisor will prepare an initial offering summary (the "**Teaser Letter**") notifying Potential Bidders of the existence of the Solicitation Process and inviting the Potential Bidders identified to express their interest in making an offer to acquire all, substantially all, or one or more Parcels, of the U.S. Catalyst Assets or to invest in the Catalyst Entities.

(7) In addition to the Teaser Letter, the Catalyst Entities shall cause a notice of the Snowflake SISP contemplated by these SISP Procedures and such other relevant information which the Catalyst Entities, in consultation with the Financial Advisor and the Monitor (if applicable), considers appropriate to be published in *The Wall Street Journal (National Edition)*. At the same time, the Catalyst Entities, following consultation with the Financial Advisor and the Monitor (if applicable), shall issue a press release providing the above notice and such other relevant information, with Canada Newswire and a United States equivalent newswire designating dissemination in Canada and major financial centers in the United States, Europe and Asia Pacific.

(8) On September 17, 2012, the Financial Advisor shall distribute to Potential Bidders the Teaser Letter, as well as a draft form of confidentiality agreement (the "**Confidentiality Agreement**") that is satisfactory to the Catalyst Entities, its advisors and the Monitor (if applicable), and which shall inure to the benefit of any purchaser of the U.S. Catalyst Assets or investor in the Catalyst Entities pursuant to the Snowflake SISP.

### **Participation Requirements**

(9) Unless otherwise ordered by the U.S. Bankruptcy Court, in order to participate in the Solicitation Process, an interested party (a “**Potential Bidder**”) must deliver the following to the Notice Parties **so as to be received by the Notice Parties not later than 5:00 p.m. (Pacific time) on October 1, 2012**, or such other date or time as the Catalyst Entities (in consultation with the Financial Advisor and the Constituencies, if applicable) may determine appropriate (the “**Potential Bidder Deadline**”):

- (a) an executed Confidentiality Agreement, in form and substance satisfactory to the Catalyst Entities and the Monitor (if applicable), which shall inure to the benefit of any purchaser of the U.S. Catalyst Assets, or any investor in the Catalyst Entities;
- (b) specific indication of the anticipated sources of capital for such Potential Bidder and preliminary evidence of the availability of such capital, or such other form of financial disclosure and credit support or enhancement that will allow the Catalyst Entities, Monitor (if applicable) and the Financial Advisor and each of their respective legal and financial advisors, to make, in their reasonable business or professional judgment, a reasonable determination as to the Potential Bidder’s financial and other capabilities to consummate an acquisition of the U.S. Catalyst Assets or an investment in the Catalyst Entities;
- (c) a letter setting forth the identity of the Potential Bidder, the contact information for such Potential Bidder and full disclosure of the direct and indirect principals of the Potential Bidder; and
- (d) an executed letter acknowledging receipt of a copy of the SISP Approval Order (including these SISP Procedures) and agreeing to accept and be bound by the provisions contained therein.

(10) A Potential Bidder will be deemed a “**Qualified Phase 1 Bidder**” if: (i) such Potential Bidder has satisfied all of the requirements described in paragraph 9 above; and (ii) such Potential Bidder’s financial information and credit support or enhancement demonstrate to the satisfaction of the Catalyst Entities, in its reasonable business judgment and after consultation with the Financial Advisor and the Constituencies (if applicable), the financial capability of such Potential Bidder to consummate a transaction and that such Potential Bidder is likely to consummate (based on availability of financing, experience and other considerations) an acquisition of the U.S. Catalyst Assets, or an investment in the Catalyst Entities.

(11) The determination as to whether a Potential Bidder is a Qualified Phase 1 Bidder will be made as promptly as practicable but no later than **three (3) Business Days** after a Potential Bidder delivers all of the materials required above. If it is determined that a Potential Bidder is a Qualified Phase 1 Bidder, the Financial Advisor will promptly notify the Potential Bidder that it is a Qualified Phase 1 Bidder.



### **Due Diligence**

(12) The Financial Advisor will provide a confidential information memorandum describing the opportunity to acquire all or substantially all of the U.S. Catalyst Assets or to invest in the Catalyst Entities to all Qualified Phase 1 Bidders as soon as practicable after the determination that such party is a Qualified Phase 1 Bidder. A copy of the confidential information memorandum shall also be provided to the Constituencies (if applicable).

(13) Each Qualified Phase 1 Bidder shall have such due diligence access to materials and information relating to the U.S. Catalyst Assets as the Catalyst Entities and the Financial Advisor, in their collective reasonable business judgment, in consultation with Monitor (if applicable), deem appropriate.

(14) At the discretion of the Catalyst Entities, due diligence access may include management presentations (as may be scheduled by the Catalyst Entities), access to physical and online data rooms on-site inspections and such other matters as a Qualified Phase 1 Bidder or Qualified Phase 2 Bidder may reasonably request and as to which the Catalyst Entities, in their reasonable exercise of discretion, may agree. The Catalyst Entities shall not be obligated to furnish any due diligence information after the Phase 2 Bidding Deadline.

(15) The Catalyst Entities, the Financial Advisor and the Monitor are not responsible for, and will have no liability with respect to, any information obtained by a Potential Bidder or a Qualified Bidder in connection with the U.S. Catalyst Assets. The Catalyst Entities, the Financial Advisor and the Monitor do not make any representations or warranties whatsoever as to the information or the materials provided, except, in the case of the Catalyst Entities, to the extent provided under any definitive sale or investment agreement executed and delivered by a Successful Bidder (or Backup Bidder, as the case may be) and the applicable Catalyst Entities.

### **PHASE 1**

#### **Seeking Non-Binding Indications of Interest by Qualified Phase 1 Bidders**

(16) From the date of the SISP Approval Order until the Phase 1 Bid Deadline, the Catalyst Entities and the Financial Advisor (under the supervision of the Monitor, if applicable, and in accordance with the terms of the SISP Approval Order) will solicit non-binding indications of interest from Qualified Phase 1 Bidders to acquire the U.S. Catalyst Assets or to invest in the Catalyst Entities (each a “**Non-Binding Indication of Interest**”).

(17) In order to continue to participate in the Solicitation Process, a Qualified Phase 1 Bidder must deliver a Non-Binding Indication of Interest to the Notice Parties **so as to be received by the Notice Parties not later than 5:00 p.m. (Vancouver time) on November 1, 2012** (the “**Phase 1 Bid Deadline**”).

**Non-Binding Indications of Interest by Qualified Phase 1 Bidders**

(18) A Non-Binding Indication of Interest will be considered a “**Qualified Non-Binding Indication of Interest**” only if it is submitted by a Qualified Phase 1 Bidder, received on or before the Phase 1 Bid Deadline, and contains the following information:

- (a) An indication of whether the Qualified Phase 1 Bidder is offering to (i) acquire all, substantially all, or one or more Parcels of the U.S. Catalyst Assets, (a “**Sale Proposal**”); or (ii) make an investment in or engage in a joint venture with the Catalyst Entities (an “**Investment Proposal**”);
- (b) In the case of a Sale Proposal, it shall identify (i) the purchase price range (including liabilities to be assumed by the Qualified Phase 1 Bidder); (ii) any of the U.S. Catalyst Assets (including any Parcels) expected to be excluded or any additional assets desired to be included in the transaction; (iii) the structure and financing of the transaction (including, but not limited to, the sources of financing for the purchase price, preliminary evidence of the availability of such financing and the steps necessary and associated timing to obtain the financing and consummate the proposed transaction and any related contingencies, as applicable); (iv) any anticipated corporate, shareholder, internal or regulatory approvals required to close the transaction and the anticipated time frame and any anticipated impediments for obtaining such approvals; (v) additional due diligence required or desired to be conducted during Phase 2, if any; (vi) any conditions to closing that the Qualified Phase 1 Bidder may wish to impose; and (vii) any other terms or conditions of the Sale Proposal which the Qualified Phase 1 Bidder believes are material to the transaction;
- (c) In the case of an Investment Proposal, it shall identify by way of term sheet: (i) the aggregate amount of the equity and debt investment (including, the sources of such capital, preliminary evidence of the availability of such capital and the steps necessary and associated timing to obtain the capital and consummate the proposed transaction and any related contingencies, as applicable) to be made with respect to the U.S. Catalyst Assets; (ii) the underlying assumptions regarding the pro forma capital structure (including, the anticipated debt levels, debt service fees, interest and amortization); (iii) the consideration to be allocated to the Catalyst Entities; (iv) the structure and financing of the transaction including all requisite financial assurance; (v) any anticipated corporate, shareholder, internal or regulatory approvals required to close the transaction, the anticipated time frame and any anticipated impediments for obtaining such approvals; (vi) additional due diligence required or desired to be conducted during Phase 2, if any; (vii) any conditions to closing that the Qualified Phase 1 Bidder may wish to impose; and (viii) any other terms or conditions of the Investment Proposal which the Qualified Phase 1 Bidder believes are material to the transaction;
- (d) Such other information reasonably requested by the Catalyst Entities or the Financial Advisor, in consultation with the Monitor (if applicable).

(19) Notwithstanding paragraph 18 hereof, the Catalyst Entities, in consultation with the Financial Advisor and Monitor (if applicable), may waive compliance with any one or more of the requirements specified herein and deem any non-compliant Non-Binding Indication of Interest to be a Qualified Non-Binding Indication of Interest.

### **Assessment of Qualified Non-Binding Indications of Interest**

(20) The Catalyst Entities, in consultation with the Financial Advisor and the Monitor (if applicable), will assess any Qualified Non-Binding Indications of Interest received, and will determine whether to designate any Qualified Non-Binding Indication of Interest as a potential Stalking Horse Bidder. Such assessment will be made as promptly as practicable but no later than **three (3) Business Days** after the Phase 1 Bid Deadline. The Catalyst Entities shall be entitled to negotiate a break-up fee or other expense reimbursement arrangements with a Stalking Horse Bidder, subject to approval of the U.S. Bankruptcy Court. After such assessment, the Catalyst Entities shall identify which Qualified Phase 1 Bidders who have submitted Qualified Non-Binding Indications of Interest that the Catalyst Entities have determined are likely to be consummated, shall be deemed to be **"Qualified Phase 2 Bidders"**. The terms of any Purchase Agreement with a Stalking Horse Bidder shall be made available to all Qualified Phase 2 Bidders no later than simultaneously with notice of the Phase 2 Bid Deadline.

## **PHASE 2**

### **Seeking Qualified Bids by Qualified Phase 2 Bidders**

(21) In order to continue to participate in the Solicitation Process, a Qualified Phase 2 Bidder must deliver a Qualified Purchase Bid or Qualified Investment Bid to the Notice Parties **so as to be received by the Notice Parties not later than 5:00 p.m. (Pacific time) thirty (30) calendar days from notice of the requirement to submit a Qualified Purchase Bid or Qualified Investment Bid** (the "Phase 2 Bid Deadline").

#### **A. Qualified Purchase Bids**

(22) A Sale Proposal submitted by a Qualified Phase 2 Bidder will be considered a **"Qualified Purchase Bid"** only if the Sale Proposal complies with all of the following:

- (a) it includes a letter stating that the Sale Proposal is irrevocable until the earlier of (a) the approval by the U.S. Bankruptcy Court of a Successful Bid, and (b) **45** days following the Phase 2 Bid Deadline; provided, however, that if such Sale Proposal is selected as the Successful Bid or the Backup Bid, it shall remain irrevocable until the earlier of (i) the closing of the Successful Bid or the Backup Bid, as the case may be, and (ii) the outside date stipulated in the Successful Bid or the Backup Bid, as applicable;

- (b) it includes a duly authorized and executed purchase and sale agreement (the "**Purchase Agreement**"), substantially in the form made available by the Catalyst Entities in the online data rooms, specifying the purchase price, expressed in U.S. dollars (the "**Purchase Price**"), together with all exhibits and schedules thereto, and such ancillary agreements as may be required by the Qualified Phase 2 Bidder with all exhibits and schedules thereto (or term sheets that describe the material terms and provisions of such ancillary agreements), as well as copies of such materials marked to show the amendments and modifications to the Purchase Agreement and such ancillary agreements and the proposed order to approve the sale by the U.S. Bankruptcy Court;
- (c) it includes written evidence of a firm, irrevocable commitment for all required funding and/or financing from a creditworthy bank or financial institution to consummate the proposed transaction, or other evidence satisfactory to the Catalyst Entities, in consultation with the Financial Advisor and the Monitor (if applicable), to allow the Catalyst Entities to make a reasonable determination as to the bidder's financial and other capabilities to consummate the transaction contemplated by the Sale Proposal;
- (d) it is not conditioned on (i) the outcome of unperformed due diligence by the bidder and/or (ii) obtaining any financing capital and includes an acknowledgement and representation that the bidder has had an opportunity to conduct any and all required due diligence prior to making its Sale Proposal;
- (e) it does not include any request or entitlement to any break-up fee, expense reimbursement or similar type of payment, other than any break-up fee or other expense reimbursement arrangements. Further, by submitting a Sale Proposal, a Qualified Phase 2 Bidder shall be deemed to waive any rights to claim any entitlement to any such fees or expenses;
- (f) it fully discloses the identity of each entity that will be bidding or otherwise that will be sponsoring or participating in the Sale Proposal, including the identification of the bidder's principal advisors, and the complete terms of any such participation;
- (g) it includes an acknowledgement and representation that the bidder: (i) has relied solely upon its own independent review, investigation and/or inspection of any documents and/or the assets to be acquired and liabilities to be assumed in making its Sale Proposal; (ii) did not rely upon any written or oral statements, representations, promises, warranties or guaranties whatsoever, whether express or implied (by operation of law or otherwise), regarding the assets to be acquired or liabilities to be assumed or the completeness of any information provided in connection therewith, except as expressly stated in the purchase and sale agreement submitted by it; and (iii) is a sophisticated party capable of making its own assessments in respect of making its Sale Proposal;

- (h) it includes evidence, in form and substance reasonably satisfactory to the Catalyst Entities, of authorization and approval from the bidder's board of directors (or comparable governing body) with respect to the submission, execution, delivery and closing of the transaction contemplated by the Sale Proposal;
- (i) it is accompanied by a refundable deposit (the "**Deposit**") in the form of a wire transfer payable to the order of the Catalyst Entities, in trust, in an amount equal to U.S. \$500,000 to be held and dealt with in accordance with these SISP Procedures;
- (j) if the Qualified Phase 2 Bidder is an entity newly formed for the purpose of the transaction, the bid shall contain an equity or debt commitment letter from the parent entity or sponsor, which is satisfactory to the Catalyst Entities, that names the Catalyst Entities as third party beneficiaries of any such commitment letter with recourse against such parent entity or sponsor;
- (k) it includes evidence, in form and substance reasonably satisfactory to the Catalyst Entities, of compliance or anticipated compliance with any and all applicable U.S. regulatory approvals (including, if applicable, antitrust regulatory approval), the anticipated time frame for such compliance and any anticipated impediments for obtaining such approvals;
- (l) it contains other information reasonably requested by the Catalyst Entities or the Financial Advisor, in consultation with the Monitor (if applicable);
- (m) it is received by no later than the Phase 2 Bid Deadline; and
- (n) is determined by the Catalyst Entities, in consultation with the Financial Advisor and the Monitor (if applicable), to be a Superior Offer.

**B. Qualified Investment Bids**

(23) An Investment Proposal submitted by a Qualified Phase 2 Bidder will be considered a "**Qualified Investment Bid**" only if the Investment Proposal complies with all of the following:

- (a) it includes a duly authorized and executed binding term sheet describing the terms and conditions of the proposed transaction, including details regarding the proposed equity and debt structure of the entities to own the U.S. Catalyst Assets following completion of the proposed transaction (a "**Term Sheet**");
- (b) it includes a letter stating that the Investment Proposal is irrevocable until the earlier of (a) approval by the Courts of a Successful Bid, and (b) **45** days following the Phase 2 Bid Deadline; provided, however, that if such Investment Proposal is selected as the Successful Bid or Backup Bid, it

shall remain irrevocable until the earlier of (i) the closing of the Successful Bid or the Backup Bid, as the case may be, and (ii) the outside date stipulated in the Successful Bid or the Backup Bid, as applicable;

- (c) it includes written evidence of a firm, irrevocable commitment for all required funding and/or financing from a creditworthy bank or financial institution to consummate the proposed transaction, or other evidence satisfactory to the Catalyst Entities, in consultation with the Financial Advisor and Monitor (if applicable), to allow the Catalyst Entities to make a reasonable determination as to the bidder's financial and other capabilities to consummate the transaction contemplated by the Investment Proposal;
- (d) it does not include any request or entitlement to any break-up fee, expense reimbursement or similar type of payment, other than any break-up fee or other expense reimbursement arrangements. Further, by submitting a Sale Proposal, a Qualified Phase 2 Bidder shall be deemed to waive any rights to claim any entitlement to any such fees or expenses;
- (e) it is not conditioned on (i) the outcome of unperformed due diligence by the bidder and/or (ii) obtaining any financing capital and includes an acknowledgement and representation that the bidder has had an opportunity to conduct any and all required due diligence prior to making its bid;
- (f) it fully discloses the identity of each entity that will be bidding or otherwise that will be sponsoring or participating in the Investment Proposal, including the identification of the bidder's principal advisors, and the complete terms of any such participation;
- (g) it includes an acknowledgement and representation that the bidder: (i) has relied solely upon its own independent review, investigation and/or inspection of any documents in making its Investment Proposal; (ii) did not rely upon any written or oral statements, representations, promises, warranties or guaranties whatsoever, whether express or implied (by operation of law or otherwise), regarding the business of the Catalyst Entities or the completeness of any information provided in connection therewith except as expressly stated in the Term Sheet; and (iii) is a sophisticated party capable of making its own assessments in respect of making its Investment Proposal;
- (h) it includes evidence, in form and substance reasonably satisfactory to the Catalyst Entities, of authorization and approval from the bidder's board of directors (or comparable governing body) with respect to the submission, execution, delivery and closing of the transaction contemplated by the Investment Proposal;
- (i) it is accompanied by a Deposit in the form of a wire transfer payable to the order of the Catalyst Entities, in trust, in an amount equal to U.S. \$500,000

million to be held and dealt with in accordance with these SISP Procedures;

- (j) if the Qualified Phase 2 Bidder is an entity newly formed for the purpose of the transaction, the Investment Proposal shall contain an equity or debt commitment letter from the parent entity or sponsor, and satisfactory to the Catalyst Entities, that names the Catalyst Entities as third party beneficiaries of any such commitment letter with recourse against such parent entity or sponsor;
- (k) it includes evidence, in form and substance reasonably satisfactory to the Catalyst Entities, of compliance or anticipated compliance with any and all applicable U.S. regulatory approvals (including, if applicable, antitrust regulatory approval), the anticipated time frame for such compliance and any anticipated impediments for obtaining such approvals;
- (l) it contains other information reasonably requested by the Catalyst Entities or the Financial Advisor, in consultation with the Monitor (if applicable);
- (m) it is received by no later than the Phase 2 Bid Deadline; and
- (n) is determined by the Catalyst Entities, in consultation with the Financial Advisor and the Monitor (if applicable), to be a Superior Offer.

(24) Qualified Purchase Bids and Qualified Investment Bids shall hereinafter be referred to as “**Qualified Bids**” and each a “**Qualified Bid**” and each bidder who has submitted a Qualified Bid shall hereinafter be referred to as a “**Qualified Bidder**”. A Parcel Sale Proposal may be considered a Qualified Bid, if, in the opinion of the Catalyst Entities, in consultation with the Financial Advisor and the Monitor (if applicable), it may generate more value for the subject Parcel even if there are no Qualified Bids in respect of any of the other Parcels.

(25) Notwithstanding paragraphs 22 and 23 hereof, the Catalyst Entities, in consultation with the Financial Advisor and the Monitor (if applicable), may waive compliance with any one or more of the Qualified Bid requirements specified herein, except paragraph 23(d) hereof, and deem such non-compliant bids to be Qualified Purchase Bids or Qualified Investment Bids, as the case may be.

#### **No Qualified Bids**

(26) The Catalyst Entities, in consultation with the Financial Advisor and the Monitor (if applicable), will assess the Qualified Bids received, if any, and will determine whether it is likely that the transactions contemplated by such Qualified Bids are likely to be consummated and whether proceeding with these SISP Procedures is in the best interests of the Catalyst Entities and their stakeholders. Such assessments will be made as promptly as practicable but no later than **three (3) Business Days** after the Phase 2 Bid Deadline.

(27) If the Catalyst Entities, in accordance with paragraph 36 above, determine that (a) one or more Qualified Bids were received, (b) it is likely that the transactions contemplated by one or more of such Qualified Bids are likely to be consummated, and (c) proceeding with these SISP Procedures is in the best interests of the Catalyst Entities and their stakeholders, these SISP Procedures will not be terminated, the Auction will be held, and the Financial Advisor will promptly notify all Qualified Bidders that they are entitled to participate in the Auction.

### **Auction**

(28) If, in accordance with paragraph 27 above, the Auction is to be held, the Catalyst Entities will conduct an auction (the "**Auction**"), at 9:30 a.m. (**New York time**) on [●, **2012**] at the offices of Skadden, Arps, Slate, Meagher & Flom LLP located at 4 Times Square, New York, New York 10036, U.S.A., or such other location as shall be timely communicated to all entities entitled to attend at the Auction, which Auction may be adjourned by the Catalyst Entities, after consultation with the Financial Advisor and Monitor (if applicable). The Auction shall run in accordance with the following procedures:

- (a) at least three (3) Business Days prior to the Auction, each Qualified Bidder must inform the Financial Advisor whether it intends to participate in the Auction (the parties who so inform the Catalyst Entities, the "**Auction Bidders**");
- (b) at least two (2) Business Days prior to the Auction, the Financial Advisor will provide copies of the Qualified Bid which the Catalyst Entities (after consultation with the Financial Advisor and Monitor, if applicable), believe is the highest or otherwise best Qualified Bid (the "**Starting Bid**") to all Auction Bidders;
- (c) only representatives of the Auction Bidders, the Catalyst Entities, the Financial Advisor, the Constituencies (if applicable), and such other persons as permitted by the Catalyst Entities (and the advisors to each of the foregoing entities) are entitled to attend the Auction in person;
- (d) at the commencement of the Auction each Auction Bidder shall be required to confirm that it has not engaged in any collusion with any other Auction Bidder with respect to the bidding or any sale or investment;
- (e) only the Auction Bidders will be entitled to make any subsequent bids at the Auction; provided, however, that in the event that any Qualified Bidder elects not to attend and/or participate in the Auction, such Auction Bidder's Qualified Bid, as applicable, shall nevertheless remain fully enforceable against such Auction Bidder if it is selected as the Successful Bid or the Backup Bid at the conclusion of the Auction;



- (f) all Subsequent Bids presented during the Auction shall be made and received in one room on an open basis. All Auction Bidders will be entitled to be present for all Subsequent Bids at the Auction with the understanding that the true identity of each Auction Bidder at the Auction will be fully disclosed to all other Auction Bidders at the Auction and that all material terms of each Subsequent Bid will be fully disclosed to all other Auction Bidders throughout the entire Auction;
- (g) All Auction Bidders must have at least one individual representative with authority to bind such Auction Bidder present in person at the Auction;
- (h) The Catalyst Entities, after consultation with the Financial Advisor and the Constituencies (if applicable), may employ and announce at the Auction additional procedural rules that are reasonable under the circumstances (e.g., the amount of time allotted to make Subsequent Bids, requirements to bid in each round, and the ability of multiple Auction Bidders to combine to present a single bid) for conducting the Auction, provided that such rules are (i) not inconsistent with these SISP Procedures, the U.S. Bankruptcy Code, or any order of the U.S. Bankruptcy Court and (ii) disclosed to each Auction Bidder at or prior to the commencement of the Auction;
- (i) bidding at the Auction will begin with the Starting Bid and continue, in one or more rounds of bidding, so long as during each round at least one subsequent bid is submitted by an Auction Bidder (a "**Subsequent Bid**") that (i) improves upon such Auction Bidder's immediately prior bid (which shall be a Qualified Bid) by at least the Minimum Incremental Overbid; and (ii) the Catalyst Entities determine, after consultation with the Financial Advisor and the Monitor (if applicable), that such Subsequent Bid is (A) for the first round, a higher or otherwise better offer than the Starting Bid, and (B) for subsequent rounds, a higher or otherwise better offer than the Leading Bid (as defined below). Each incremental bid (the "**Minimum Incremental Overbid**") at the Auction shall provide net value to the Catalyst Entities' estate of at least U.S. \$150,000 over the Starting Bid or the Leading Bid, as the case may be; provided, however, that the Catalyst Entities, after consultation with the Financial Advisor and the Monitor (if applicable), shall retain the right to modify the increment requirements at the Auction, and provided, further that the Catalyst Entities, in determining the net value of any incremental bid to the Catalyst Entities' estate shall not be limited to evaluating the incremental dollar value of such bid and may consider other factors as identified in the "Selection Criteria" section of these SISP Procedures. After the first round of bidding and between each subsequent round of bidding, the Catalyst Entities shall, after consultation with the Financial Advisor and the Monitor (if applicable), announce the bid (including the value and material terms thereof) that it believes to be the highest or otherwise best offer (the "**Leading Bid**"). A round of bidding will conclude after each Auction Bidder has had the opportunity to submit a Subsequent Bid with full knowledge of the Leading Bid;

- (j) to the extent not previously provided (which shall be determined by the Catalyst Entities, in consultation with the Financial Advisor and the Monitor, if applicable), an Auction Bidder submitting a Subsequent Offer must submit, as part of its Subsequent Offer, written evidence (in the form of financial disclosure or credit-quality support information or enhancement reasonably acceptable to the Catalyst Entities, in consultation with the Financial Advisor and the Monitor, if applicable), demonstrating such Auction Bidder's ability to close the transaction proposed by the Subsequent Bid;
- (k) the Catalyst Entities reserve the right, in their reasonable business judgment after consultation with the Financial Advisor and the Monitor (if applicable), to make one or more adjournments in the Auction, to among other things (i) facilitate discussions between the Catalyst Entities and the Auction Bidders; (ii) allow the individual Auction Bidders to consider how they wish to proceed; (iii) consider and determine the current highest and best offer at any given time in the Auction; and (iv) give Auction Bidders the opportunity to provide the Catalyst Entities with such additional evidence as the Catalyst Entities, in their reasonable business judgment, may require that the Auction Bidder has sufficient internal resources, or has received sufficient non-contingent debt and/or equity funding commitments, to consummate the proposed transaction at the prevailing overbid amount.
- (l) if, in any round of bidding, no new Subsequent Bid is made, the Auction shall be closed; and
- (m) no bids (from Qualified Bidders or otherwise) shall be considered after the conclusion of the Auction.

### **Selection Criteria**

(29) Evaluation criteria with respect to a Sale Proposal may include, but are not limited to items such as: (a) the purchase price and the net value (including assumed liabilities and other obligations to be performed or assumed by the bidder) provided by such bid; (b) the claims likely to be created by such bid in relation to other bids; (c) the counterparties to the transaction; (d) the proposed revisions to the Purchase Agreement and the terms of the transaction documents; (e) other factors affecting the speed, certainty and value of the transaction (including any regulatory approvals required to close the transaction); (f) the assets included or excluded from the bid; (g) the transition services required from the Catalyst Entities post-closing and any related restructuring costs; (h) the likelihood and timing of consummating the transaction; and (h) risks and transaction costs associated with consummating multiple transactions as opposed to a single transaction.

(30) Evaluation criteria with respect to an Investment Proposal may include, but are not limited to items such as: (a) the amount of equity and debt investment and the

proposed sources and uses of such capital; (b) the debt to equity structure post-closing; (c) the counterparties to the transaction; (d) the terms of the transaction documents; (e) other factors affecting the speed, certainty and value of the transaction; and (f) the likelihood and timing of consummating the transaction.

(31) Upon the conclusion of the bidding the Auction shall be closed, and the Catalyst Entities, after consultation with the Financial Advisor and Monitor (if applicable), will identify the highest or otherwise best Qualified Bid received (such offer, the “**Successful Bid**”) and the next highest or otherwise best Qualified Bid received (such offer, the “**Backup Bid**”). The Qualified Bidders(s) who made the Successful Bid is the “**Successful Bidder**” and the Qualified Bidder(s) who made the Backup Bid is the “**Backup Bidder**”). The Catalyst Entities will notify the Qualified Bidders of the identities of the Successful Bidder and the Backup Bidder. If the Stalking Horse Bidder’s final Qualified Bid is deemed to be the highest and best at the conclusion of the Auction or the next highest and best offer at the conclusion of the Auction, the Stalking Horse Bidder’s final Qualified Bid will be the Successful Bid or the Backup Bid, as the case may be.

(32) The Catalyst Entities shall finalize a definitive agreement in respect of the Successful Bid and the Backup Bid, if any, conditional upon approval by the U.S. Bankruptcy Court.

(33) The Backup Bid shall remain open until the earlier of (a) • ; and (b) the consummation of the transaction contemplated by the Successful Bid (the “**Backup Bid Expiration Date**”).

(34) All Qualified Bids (other than the Successful Bid and the Backup Bid) shall be deemed rejected by the Catalyst Entities on and as of the later of the date of approval of the Successful Bid and Backup Bid by the U.S. Bankruptcy Court.

### **Approval Hearing**

(35) The Catalyst Entities shall seek a hearing to be held on a date to be scheduled by the U.S. Bankruptcy Court as soon as practicable following the Auction (the “**Approval Hearing**”) to authorize the Catalyst Entities to enter into an agreement with respect to the Successful Bid, and in the event that the Successful Bid does not close for any reason, to enter into an agreement with respect to the Backup Bid. The Approval Hearing may be adjourned or rescheduled by Catalyst, after consultation with the Constituencies (if applicable), without further notice by an announcement of the adjourned date at the Approval Hearing.

(36) If following approval of the Successful Bid transaction by the U.S. Bankruptcy Court, the Successful Bidder fails to consummate the transaction for any reason, then the Backup Bid, if there is one, will be deemed to be the Successful Bid hereunder and the Catalyst Entities shall effectuate a transaction with the Backup Bidder subject to the terms of the Backup Bid, without further order of the U.S. Bankruptcy Court.

### **Deposits**

(37) All Deposits shall be retained by the Catalyst Entities. If there is a Successful Bid, the Deposit paid by the Successful Bidder whose bid is approved pursuant to the Approval Hearings shall be non-refundable and be released to the Catalyst Entities and applied to the purchase price to be paid or investment amount to be made by the Successful Bidder upon closing of the Successful Bid. The Deposit paid by the Backup Bidder shall be retained until the Backup Bid Expiration Date or, if the Backup Bid becomes the Successful Bid, shall be non-refundable and be released to the Catalyst Entities and applied to the purchase price to be paid or investment amount to be made by the Backup Bidder upon closing of the Backup Bid. The Deposits (plus applicable interest) of all Phase 2 Bidders not selected as the Successful Bidder or Backup Bidder shall be returned to such bidders within five (5) Business Days of the later of the date upon which the Successful Bid and any Backup Bid is approved by the Canadian Court and the U.S. Bankruptcy Court. If the Auction does not take place or these SISP Procedures are terminated in accordance with the provisions hereof, all Deposits shall be returned to the bidders within five (5) Business Days of the date upon which it is determined that the Auction will not take place or these SISP Procedures are terminated, as applicable.

(38) If an entity selected as the Successful Bidder or Backup Bidder breaches its obligations to close subsequent to the Auction, it shall forfeit its Deposit to the Catalyst Entities; provided, however, that the forfeit of such Deposit shall be in addition to, and not in lieu of, any other rights in law or equity that the Catalyst Entities has against such breaching entity.

### **Approvals**

(39) For greater certainty, the approvals required pursuant to the terms hereof are in addition to, and not in substitution for, any other approvals required by any statute or are otherwise required at law in order to implement a Successful Bid or Backup Bid, as the case may be.

### **Notice Parties**

(40) As used herein, the "Notice Parties" are, collectively (a) the Catalyst Entities, (b) the Financial Advisor, (c) the Monitor, (d) the Steering Committee, (e) the Holders, and (f) the Collateral Trustee, except that the Monitor, the Steering Committee, the Holders and the Collateral Trustee will cease to be Notice Parties after the Effective Date has occurred. The addresses to be used for delivering documents to the Notice Parties are set out in Schedule "B" hereto. A bid shall be delivered to all Notice Parties at the same time by electronic mail, personal delivery or courier. Interested bidders requesting information about the qualification process, including a form of asset purchase

agreement, and information in connection with their due diligence, should contact the Financial Advisor.

### **Reservation of Rights**

(41) The Catalyst Entities, after consultation with their advisors: (a) may reject, at any time any bid that is (i) inadequate or insufficient, (ii) not in conformity with the requirements of the U.S. Bankruptcy Code, these SISP Procedures or any orders of the Court applicable to one or more the Catalyst Entities, or (iii) contrary to the best interests of the Catalyst Entities, their estates, and stakeholders as determined by the Catalyst Entities; (b) may impose additional terms and conditions and otherwise seek to modify the SISP Procedures at any time in order to maximize the results obtained; (c) may accept bids not in conformity with these SISP Procedures to the extent that the Catalyst Entities determine, in their reasonable business judgment, that doing so would benefit the Catalyst Entities, their estates, and stakeholders; and (d) with the prior consent of the Constituencies (if applicable), extend the Phase 1 Deadline, Phase 2 Deadline and the date of the Auction; provided, however, that if the Stalking Horse Bidder submits the only Qualified Bid, the terms provided in clause (a) shall not be operative.

(42) At or before the Approval Hearing, the Catalyst Entities may impose such other terms and conditions as the Catalyst Entities may determine to be in the best interests of their estates and their stakeholders that are not inconsistent with any of the procedures in these SISP Procedures.

(43) These SISP Procedures do not, and shall not be interpreted to, create any contractual or other legal relationship between any Catalyst Entity and any Potential Bidder, Qualified Potential Bidder, Qualified Phase 1 Bidder, Qualified Phase 2 Bidder, Qualified Bidder, Auction Bidder, Successful Bidder or Backup Bidder, other than as specifically set forth in definitive agreements that may be executed by the Catalyst Entities.

### **No Amendment**

(44) There shall be no amendments to this Snowflake SISP prior to the Effective Date, including, for greater certainty the process and procedures set out herein, without the prior consent of the Constituencies unless otherwise ordered by U.S. Bankruptcy Court.

### **Further Orders**

(45) At any time during these SISP Procedures, the Catalyst Entities may, following consultation with the Monitor (if applicable), apply to the Canadian Court for advice and directions with respect to the discharge of its powers and duties hereunder.

**Schedule "A"**

**LIST OF ADDITIONAL PETITIONERS**

Catalyst Pulp Operations Limited  
Catalyst Pulp Sales Inc.  
Pacifica Poplars Ltd.  
Catalyst Pulp and Paper Sales Inc.  
Elk Falls Pulp and Paper Limited  
Catalyst Paper Energy Holdings Inc.  
0606890 B.C. Ltd.  
Catalyst Paper Recycling Inc.  
Catalyst Paper (Snowflake) Inc.  
Catalyst Paper Holdings Inc.  
Pacifica Papers U.S. Inc.  
Pacifica Poplars Inc.  
Pacifica Papers Sales Inc.  
Catalyst Paper (USA) Inc.  
The Apache Railway Company