

TERM SHEET – NJDEP & NEWCO

After a series of meetings and telephone discussions between and among various entities involved in attempting to resolve NJDEP’s positions concerning Marcal Paper Mills, Inc. (“Marcal”), NJDEP and the purchaser under that certain Asset Purchaser Agreement (the “Asset Purchase Agreement”) entered into as of November 5, 2007, between Marcal and the Proposed Purchaser (hereinafter, “Newco”) agree to the following terms:

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| 1. KAOFIN™ | Using the Beneficial Use Determination (“BUD”) process specified in NJDEP regulations applicable at the time of the determination, NJDEP will allow KAOFIN™ to be moved out of state for the uses approved by out of state authorities. NJDEP will grant BUD approval for in-state use in land applications, including soil blending for resale, using the determination process specified in NJDEP regulations applicable at the time of the determination, if testing shows that the contaminants are below unrestricted use criteria before blending. Such testing shall be performed on a quarterly basis and shall consist of testing samples for PP+40, testing for PCBs using analytical methods EPA 1668A and 8082, and testing for dioxins using analytical method EPA1613B. Newco shall establish procedures to monitor the inventory levels of in-state KAOFIN™ customers for land applications and shall provide quarterly reports to NJDEP’s Compliance and Enforcement Program that indicate estimated inventory levels, both processed and unprocessed, of such in-state KAOFIN™ customers and list any problems such in-state KAOFIN™ customers have reported to Newco regarding KAOFIN™ blending. |
| 2. Permitted Discharges | NJDEP will approve transfers of all environmental, e.g., air, storm water discharge, wastewater discharge, etc., permits to Newco without amending any existing terms (unless appropriate modifications are submitted and approved), but Newco understands that any permit that expires must be renewed according to the terms applicable to such permits at the time of the renewal. |
| 3. Classification Exception Area (“CEA”) | Newco shall perform all on-site remediation at 1 Market Street, Elmwood Park, New Jersey, (“the “Marcal Property”), including the Preliminary Assessment and Site Investigation (“PA/SI”), in accordance with the Technical Requirements for Site Remediation (“Technical Requirements”), unless NJDEP approves otherwise |

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| | <p>pursuant to the variance procedures set forth in the Technical Requirements. If groundwater contamination is confirmed in a remedial investigation, NJDEP will consider a remedy that includes natural attenuation with a CEA.</p> |
| 4. Use of TEQs | <p>NJDEP approves the use of TEQ calculated using 2005 WHO Toxic Equivalency Factors.</p> |
| 5. Site Investigation | <p>Newco will perform all on-site remediation at the Marcal Property, including the PA/SI, in accordance with the Technical Requirements, unless NJDEP approves otherwise pursuant to the variance procedures set forth in the Technical Requirements. The work to be performed is subject to the Annual Cap on expenses, as defined below.</p> |
| 6. Alternate Schedule | <p>NJDEP approves of the concept of an alternate schedule for the work described in paragraph 7 below, and will not unreasonably withhold approval of requested extensions to the extent that work is being consistently performed.</p> |
| 7. Annual Cap on Expenses/Transfer to Subsequent Owners/ Operators | <p>NJDEP will approve an annual cap of \$350,000 on the required expenditures to address all historical on-site environmental conditions at the Marcal Property (the “Annual Cap”) for a term expiring at the earlier of: (i) the issuance by NJDEP of a No Further Action letter and Covenant Not to Sue with respect to the remediation of all historical on-site environmental conditions at the Marcal Property; (ii) 12 years from the effective date of the agreement between NJDEP and Newco (the “NJDEP/Newco Effective Date”); (iii) Newco conducting business at the Marcal Property that is not substantially the same as the business currently being conducted there; or (iv) a transfer of the Marcal Property if the business conducted at the Marcal Property following such transfer does not remain substantially the same as the business currently being conducted there. The Annual Cap shall be transferable to subsequent owners and/or operators in connection with no more than 2 transfers of the Marcal Property during such</p> |

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| | <p>12 year term, provided that the business conducted at the Marcal Property following such transfer remains substantially the same as the business currently being conducted there. Any post-acquisition on-site discharges are not subject to the Annual Cap. The Annual Cap will accrue to the extent it is not used in the year in which it arises.</p> |
| <p>8. Top Soil Depot</p> | <p>In addition to the foregoing Annual Cap, and notwithstanding that the Bankruptcy Court approved the 11 U.S.C. §363 asset sale, Newco and any transferee of Newco shall commit to continue to pay the tipping fees as they are incurred in connection with KAOFIN™ removal from the Top Soil Depot site, provided that Newco and any transferee of Newco’s cumulative total annual expenditures shall not exceed \$300,000 (“Annual KAOFIN™ Cap”) and cumulative total aggregate expenditures shall not exceed \$1.2 million (“Aggregate KAOFIN™ Cap”). As of the Closing Date, Newco shall have established a bank account from which its expenditures pursuant to this paragraph 8 shall be made (hereinafter, the “TSD Account”), with that account not used for any other purpose thereafter until the earlier of the Aggregate KAOFIN™ Cap having been reached or the removal of all KAOFIN from the Top Soil Depot site having occurred (the “TSD Account Termination Date”), at which point all remaining deposits in the TSD Account may be withdrawn from such account and such account may be closed. On the Closing Date and each yearly anniversary thereof until the TSD Account Termination Date has occurred, Newco or any transferee of Newco shall deposit into the TSD Account whatever additional sum is necessary such that the balance in the account as of that date equals the lesser of: (i) \$300,000; or (ii) the difference resulting when the aggregate expenditures Newco and any transferee of Newco have previously made pursuant to this paragraph 8 are subtracted from \$1.2 million. Newco or any transferee of Newco will assume responsibility for additional costs in the event Top Soil Depot becomes unable to perform, subject to the Annual KAOFIN™ Cap and the Aggregate KAOFIN™ Cap. In consideration of the foregoing, NJDEP shall</p> |

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| | <p>waive any potential administrative claim concerning the Top Soil Depot matter in Marcal’s bankruptcy case subject to the Bankruptcy Court approving the separate agreement reached between Marcal and NJDEP regarding the pending Top Soil Depot proceedings to which Newco or any transferee of Newco shall not object.</p> |
| <p>9. Natural Resource Damages</p> | <p>NJDEP agrees that Newco is statutorily immune from NRD liability pursuant to N.J.S.A. 58:10-23.11f22(a).</p> |
| <p>10. Liability for Off-Site Migration/Spill Act (assuming Annual Cap is Transferable to Subsequent Owners/ Operators)</p> | <p>NJDEP will issue a covenant not to sue to Newco and subsequent owners/operators (unless those subsequent owners/operators have liability apart from the fact that they are a subsequent purchaser/operator) from all liability and obligation for investigation and/or remediation of possible discharges and/or migration of contamination from the Marcal property to off-site locations, including without limitation to the Passaic River, under the Spill Act and all other applicable statutes, provided Newco pays as consideration \$2.2 million against which Newco will receive a credit for up to the \$1.2 million Newco agrees to pay as described in paragraph 8 above. In addition, NJDEP will provide statutory contribution protection to Newco and subsequent owner/operators. The covenant not to sue to be issued pursuant to this paragraph does not change Newco and any successor’s obligation to perform on-site investigation and/or on-site remediation of the Marcal property.</p> |
| <p>11. RPL ISRA Case</p> | <p>RPL is currently performing remedial activities on a portion of the Marcal property pursuant to a Remediation Agreement; NJDEP will look to RPL as the primary responsible party for what RPL is responsible for under the Remediation Agreement (“RPL’s Obligations”). Newco and any transferee of Newco will cooperate with RPL to the extent required by law. In the event RPL becomes unable to fulfill RPL’s Obligations, NJDEP reserves the right to assert that Newco or any transferee of Newco is secondarily liable for RPL’s Obligations, and Newco and any transferee of Newco reserve the right to contest any such assertion by NJDEP. All</p> |

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| | <p>expenditures by Newco or any transferee of Newco for RPL's Obligations shall be subject to the Annual Cap.</p> |
| <p>12. 41 Slater Drive</p> | <p>NJDEP will issue a Letter of Non-Applicability pursuant to ISRA. Any new owner of this property, including Newco, remains potentially liable for remediation pursuant to the Spill Act, subject to any available defenses thereto.</p> |
| <p>13. Leased Properties</p> | <p>NJDEP will issue Letters of Non-Applicability pursuant to ISRA.</p> |
| <p>14. Existing Violations and Compliance.</p> | <p>The parties to this Agreement recognize that there may be ongoing violations of statutes and regulations at the Marcal property, 41 Slater Drive, and the Leased Properties. Newco understands that if it purchases or leases those properties, or operates at those properties, it must come into compliance with all applicable statutes and regulations as soon as practicable, except as otherwise provided for under this Term Sheet. In order to do that, Newco shall, no later than 90 days following the date of the closing on the Asset Purchase Agreement between Newco and Marcal ("Closing Date"), complete an environmental compliance audit with respect to the Marcal Property, 41 Slater Drive and the Leased Properties, and NJDEP shall conduct a review of its files regarding any outstanding compliance issues. Based on the results of that audit and the NJDEP file review, Newco shall enter into an administrative consent order with NJDEP containing a realistic compliance schedule with respect to any existing violations; as long as Newco or any transferee of Newco complies with the compliance schedule set forth in the administrative consent order, NJDEP shall not impose any fines or penalties relating to any of the ongoing violations at the Marcal Property, 41 Slater Drive, and the Leased Properties that are the subject of the administrative consent order. If additional violations exist as of the Closing Date but are not discovered by either party during the performance of the environmental compliance audit, file review or otherwise, the terms</p> |

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| | <p>of this paragraph 14 shall apply with respect to the correction of such newly discovered violations. To the extent such violations consist of exceedances of applicable permit conditions, during the time provided by the compliance schedule set forth in the administrative consent order, Newco shall not knowingly cause such exceedances to become materially greater than the level of such exceedances at the time of the entry of the administrative consent order. Nothing in this paragraph 14 shall prohibit NJDEP from imposing new fines and penalties regarding any violations: (i) with respect to which NJDEP had not imposed a fine or penalty as of the Closing Date; or (ii) with respect to conditions or circumstances that did not exist as of the Closing Date.</p> <p>Notwithstanding anything in this Term Sheet to the contrary, Newco shall have the right, but not the obligation, to move to intervene in any of the pending administrative appeal proceedings involving Marcal permitting issues excluding any pending proceedings regarding KAOFIN™ issues (the “OAL Appeal Proceedings”) within 60 days of the Closing Date (the “60 Day Review Period”), with the NJDEP agreeing to consent to all such interventions sought by Newco and with Newco agreeing not to contest any motion by NJDEP to have any of the OAL Appeal Proceedings in which Newco has not sought to intervene within the 60 Day Review Period dismissed after the 60 Day Review Period has expired. From the NJDEP/ Newco Effective Date through the expiration of the 60 Day Review Period, NJDEP shall consent to a stay of proceedings in the OAL Appeal Proceedings.</p> |
| <p>15. Access</p> | <p>Newco and any transferee of Newco agree to provide NJDEP and its contractors reasonable access to the properties Newco will own or control as of the Closing Date in connection with any remediation NJDEP seeks to perform.</p> |
| <p>16. Entire Agreement</p> | <p>Except as otherwise provided in this Term Sheet, the agreement to be entered into pursuant to this Term Sheet shall constitute a complete resolution of all identified or disclosed environmental issues subject to NJDEP jurisdiction as of the date of the closing of the Asset Purchase Agreement between Newco and Marcal with</p> |

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| | respect to the properties that are subject to this Term Sheet. |
| 17. Provisions of Agreement Transferable to Subsequent Owners/ Operators | Only paragraphs 1, 4, 6, 7, 8, 9, 10, 14, and 15 of this Agreement shall be transferable/assignable to subsequent owners/ operators. |