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August 1, 2002



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VIA HAND DELIVERY

The Honorable Vernon A. Williams
Secretary
Surface Transportation Board
1925 K Street, N.W.
Washington, D.C. 20423-0001

ENTERED
Office of Proceedings

AUG 08 2002

Part of
Public Record

Re: Finance Docket No. 34239, St. Lawrence & Atlantic Railroad Company – Lease and Operation Exemption – Rail Lines of Fraser N.H. LLC

Dear Secretary Williams:

Enclosed for filing in the above-captioned proceeding are an original and ten copies of the above-referenced **Petition for Exemption** dated August 1, 2002. The filing fee of \$4,900 also is enclosed. Please note that **Expedited Consideration** has been requested for this matter.

Should any questions arise regarding this filing, please feel free to contact me. Thank you for your assistance on this matter.

Respectfully submitted,

Edward J. Fishman
Counsel for St. Lawrence & Atlantic Railroad
Company

Enclosures

FEE RECEIVED

AUG 01 2002

FILED

AUG 01 2002

**SURFACE
TRANSPORTATION BOARD**

**SURFACE
TRANSPORTATION BOARD**

BEFORE THE
SURFACE TRANSPORTATION BOARD

FINANCE DOCKET NO. 34239

ST. LAWRENCE & ATLANTIC RAILROAD COMPANY
--LEASE AND OPERATION EXEMPTION --
RAIL LINES OF FRASER N.H. LLC



PETITION FOR EXEMPTION

EXPEDITED CONSIDERATION REQUESTED

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**ATTORNEYS FOR ST. LAWRENCE &
ATLANTIC RAILROAD COMPANY**

Dated: August 1, 2002

BEFORE THE
SURFACE TRANSPORTATION BOARD

FINANCE DOCKET NO. 34239

ST. LAWRENCE & ATLANTIC RAILROAD COMPANY
--LEASE AND OPERATION EXEMPTION--
RAIL LINES OF FRASER N.H. LLC

PETITION FOR EXEMPTION

Pursuant to 49 U.S.C. § 10502 and the regulations of the Surface Transportation Board ("STB" or "Board") at 49 C.F.R. § 1121, St. Lawrence & Atlantic Railroad Company ("SLR" or "Petitioner")¹ hereby petitions the Board for an exemption from the prior approval requirements of 49 U.S.C. § 11323, et seq., to allow SLR to continue to operate under a new Lease Agreement approximately 6.0 miles of rail line in Coos County, New Hampshire that was formerly owned by Berlin Mills Railway, Inc. ("BMS") and is now owned by Fraser N.H. LLC. Petitioner seeks expedited handling of this exemption request for the reasons set forth herein.

Background

In November 1997, SLR entered into an agreement with BMS to lease and operate (i) approximately 5.5 route miles of rail line between approximately milepost 154.6 in the vicinity of Berlin, New Hampshire and approximately milepost 149.1 in the vicinity of Gorham, New

¹ SLR is a subsidiary of Emons Railroad Group, Inc., which is controlled by Emons Transportation Group, Inc. ("Emons Transportation"). Emons Transportation was acquired recently by Genesee & Wyoming Inc. See Finance Docket No. 34148, Genesee & Wyoming Inc. – Control Exemption – ETR Acquisition Corporation and Emons Transportation Group, Inc. (STB served Feb. 28, 2002).

Hampshire; and (2) approximately 0.5 route miles of rail line in the vicinity of Berlin, New Hampshire (collectively, the "Subject Lines"). See Finance Docket No. 33485, St. Lawrence & Atlantic Railroad Company – Lease and Operation Exemption – Berlin Mills Railway, Inc. (STB served Oct. 24, 1997). The Subject Lines provide rail access to the pulp and paper mills in Berlin and Gorham that were formerly owned and operated by BMS's parent corporation (Crown Paper Co. d/b/a Crown Vantage and later Pulp & Paper of America LLC, a subsidiary of American Tissue, Inc.).

The BMS rail lines were recently acquired by Fraser N.H. LLC ("Fraser N.H."), a wholly-owned subsidiary of Fraser Papers Inc. ("Fraser Papers"). See Finance Docket No. 34222, Fraser N.H. LLC – Acquisition Exemption – Rail Lines of Berlin Mills Railway, Inc. (STB served July 26, 2002). Fraser N.H. acquired the BMS rail lines as part of its acquisition of the pulp and paper mills and certain other assets in Berlin and Gorham from Pulp & Paper of America LLC in the American Tissue, Inc. Chapter 11 bankruptcy proceeding. Fraser N.H. acquired the BMS rail lines subject to SLR's existing common carrier rights and obligations to provide rail service thereon. SLR, Fraser N.H. and Fraser Papers have entered into a Lease Agreement pursuant to which SLR will continue to operate the Subject Lines under the terms and conditions negotiated between SLR and the new owners of the Subject Lines. The Lease Agreement replaces the prior lease agreement between SLR and BMS.

In the instant petition, SLR seeks an exemption from prior Board approval under 49 U.S.C. § 11323(a)(2) in order to continue to operate the Subject Lines pursuant to the terms and conditions of the Lease Agreement entered into by and between SLR, Fraser N.H and Fraser Papers. In support hereof, Petitioner submits the following information:

I. DESCRIPTION OF THE PROPOSED TRANSACTION

SLR is a Class III rail carrier that provides freight railroad service in New Hampshire, Vermont and Maine. In November 1997, SLR entered into an agreement with BMS to lease and operate the following rail lines: (1) approximately 5.5 route miles of rail line between approximately milepost 154.6 in the vicinity of Berlin, New Hampshire and approximately milepost 149.1 in the vicinity of Gorham, New Hampshire; and (2) approximately 0.5 route miles of rail line in the vicinity of Berlin, New Hampshire.² The Subject Lines were recently acquired by Fraser N.H., which by virtue of the acquisition became a Class III rail carrier. See Finance Docket No. 34222, Fraser N.H. LLC – Acquisition Exemption – Rail Lines of Berlin Mills Railway, Inc. (STB served July 26, 2002).

SLR and Fraser N.H. (along with Fraser Papers) have entered into a Lease Agreement³ that provides for SLR's continued operation of the Subject Lines that provide rail access to the pulp and paper mills now owned by Fraser N.H. The Lease Agreement gives SLR the right to use the Subject Lines for the purpose of conducting freight rail operations, including the right to originate and/or terminate freight traffic on the Subject Lines and for purposes of switching, storage of cars and equipment, and the making or breaking up of trains. The Lease Agreement also provides that upon termination, SLR must surrender the Subject Lines to the lessor in substantially the same condition as the Subject Lines were in as of the effective date of the Lease Agreement. The Lease Agreement has an initial term of fifteen (15) years with an automatic renewal term of five (5) years unless terminated earlier by the parties.

The full name and address of the Petitioner is:

² A map of the Subject Lines is attached hereto as Exhibit A.

³ A copy of the Lease Agreement is attached hereto as Exhibit B in accordance with 49 CFR § 1180.6(a)(7)(ii).

St. Lawrence & Atlantic Railroad Company
415 Rodman Road
Auburn, ME 04210

Any questions concerning this Petition should be sent to Petitioner's representative at the following address:

Kevin M. Sheys
Kirkpatrick & Lockhart LLP
1800 Massachusetts Avenue N.W.
Suite 200
Washington, DC 20036

II. EXEMPTION CRITERIA

Under 49 U.S.C. § 11323(a)(2), prior Board approval is required for a rail carrier to lease and operate lines of another rail carrier. SLR already has the common carrier right and obligation to provide rail service on the Subject Lines under a Lease Agreement entered into in November of 1997 pursuant to the exemption in Finance Docket No. 33485. Fraser N.H. acquired the Subject Lines subject to SLR's existing common carrier rights and obligations. However, because both SLR and Fraser N.H. are Class III rail carriers subject to Board jurisdiction, and because SLR and Fraser N.H. have entered into a new Lease Agreement governing SLR's lease and operation of the Subject Lines, authorization under Section 11323 normally would be required for Petitioner to continue to lease and operate the rail lines owned by Fraser N.H. under the terms and conditions of the new Lease Agreement.⁴

⁴ The Board has created a class exemption under 49 C.F.R. § 1180.2(d)(4) for the renewal of leases and any other matters where the Board has previously authorized the transaction and only an extension of time is involved. However, the class exemption does not apply here because certain substantive provisions of the Lease Agreement, other than the term, have been amended by the parties. See Finance Docket No. 32820, Norfolk Southern Railway Company and Atlantic and East Carolina Railway Company – Lease and Operation Exemption – North Carolina Railroad Company (STB served Dec. 22, 1995). Therefore, SLR has filed this petition for exemption from Board approval under 49 U.S.C. § 11323 instead of a notice under the class exemption.

Under 49 U.S.C. § 10502, the Board must exempt a transaction from regulation under Part A of Subtitle IV of Title 49 of the U.S. Code (including Section 11323) if the Board finds that: (1) regulation is not necessary to carry out the rail transportation policy of 49 U.S.C. § 10101; and (2) either (a) the transaction is of limited scope or (b) regulation is not necessary to protect shippers from the abuse of market power. In enacting the Staggers Rail Act of 1980, Congress made clear its intent that the Interstate Commerce Commission would use its expanded exemption authority under former Section 10505 to free certain transactions and service from the administrative and financial costs associated with continued regulation:

The policy underlying this provision is that while Congress has been able to identify broad areas of commerce where reduced regulation is clearly warranted, the Commission is more capable through the administrative process of examining specific regulatory provisions and practices not yet addressed by Congress to determine where they can be deregulated consistent with the policies of Congress. The conferees expect that, consistent with the policies of this Act, the Commission will pursue partial and complete exemption from remaining regulation.

H.R. Conf. Rep. No. 1430, 96th Cong. 2d Sess. 105 (1980). Congress reaffirmed this policy in the conference report accompanying the ICC Termination Act of 1995, which reenacted the existing exemption provisions as Section 10502. H.R. Conf. Rep. No. 422, 104th Cong. 1st Sess. 168-169 (1995).

As explained below, an exemption from the prior approval requirements of Section 11323 for the Lease Agreement between SLR, Fraser N.H. and Fraser Papers would be consistent with the standards set forth in Section 10502.

A. Regulation is Not Necessary to Carry out the Rail Transportation Policy of 49 U.S.C. § 10101

In determining whether the regulation of a transaction proposed for exemption under 49 U.S.C. § 10502 is necessary to carry out the rail transportation policy, the Board considers only those policy elements related to making a determination under the provisions of the statute from which exemption is sought. Indiana R. Co. – Acq. & Oper. Illinois Central R. Co., 6 I.C.C.2d 1004 (1990), aff’d sub nom. Village of Palestine v. I.C.C., 936 F.2d 1335 (D.C. Cir. 1991); Blackstone Capital Partners, L.P. – Control Exemption – CNW Corporation and Chicago and North Western Transportation Company, Finance Docket No. 31493 (ICC served July 5, 1989). In other words, the Board need not extend its analysis beyond what it would otherwise address in an application proceeding.

Absent exemption, an 11323(a)(2) transaction such as SLR’s acquisition of the right to continue to operate the Subject Lines under the terms and conditions of the Lease Agreement between SLR and Fraser N.H. would be subject to Board approval under 49 U.S.C. § 11324(c), which states in relevant part that “The Board shall approve and authorize a transaction under this section when it finds the transaction is consistent with the public interest.” Thus, under Section 11324(c), the Board’s analysis is limited to the consideration of whether the transaction would be consistent with the public interest. If the Board finds that SLR’s acquisition of the right to continue to operate the Subject Lines under the terms and conditions of the Lease Agreement would be consistent with the public interest, it must approve the transaction.

The proposed transaction is consistent with the public interest. It would enable Petitioner to continue to operate the Subject Lines pursuant to the terms and conditions that have been negotiated by Petitioner, Fraser N.H. and Fraser Papers. The Subject Lines do not serve any

other shippers. Accordingly, regulation is not necessary to carry out the rail transportation policy.

Although the Board's analysis need not go beyond this policy objective, exemption of this transaction in fact will promote other objectives of the rail transportation policy. By minimizing the administrative expense and delay of the Board's review of the Lease Agreement, an exemption will expedite regulatory decisions (49 U.S.C. § 10101(2)) and encourage efficient management (Section 10101(10)). Other aspects of the rail transportation policy are not adversely affected.

The Board's rail transportation policy also provides that the Board should minimize the need for federal regulatory control over the rail transportation system and reduce regulatory barriers to entry into and exit from the rail transportation industry. See 49 U.S.C. §§ 10101(2), (7). The statutory exemption procedure of Section 10502 obviates the expensive and time-consuming processes attendant to a proceeding under Section 11323. By relying upon the wholly adequate and more expeditious exemption procedure, the Board would minimize unnecessary regulation of this transaction.

B. The Transaction is of Limited Scope

The proposed transaction for which exemption is sought is of limited scope. SLR will continue to provide freight service on the Subject Lines pursuant to the terms and conditions of the Lease Agreement. SLR will continue to provide freight rail service to one shipper, Fraser N.H., using approximately six miles of rail line owned by that shipper. The Subject Lines do not serve any other shippers. Therefore, the proposed transaction is clearly of limited scope.

C. Regulation is Not Necessary to Protect Shippers from the Abuse of Market Power

Even though information showing the limited scope of the transaction is dispositive under the alternative test of 49 U.S.C. § 10502(a)(2), this transaction also satisfies the alternative “abuse of market power” test because the contemplated transaction would not and could not subject shippers to the abuse of market power. SLR will continue to provide rail service to Fraser N.H., the owner and operator of the pulp mill in Berlin and the paper mill in Gorham, but now will provide such service under the terms of the Lease Agreement. There will be no reduction in competition and this transaction will not have any measurable impact on the national or local rail industry.

III. LABOR PROTECTIVE CONDITIONS

Pursuant to 49 U.S.C. § 11326(c), the Board may not impose employee protective conditions on this transaction.

IV. ENVIRONMENTAL AND HISTORIC PRESERVATION MATTERS

Under 49 C.F.R. § 1105.6(c)(2)(i) and (ii), the proposed transaction is exempt from environmental reporting requirements. The proposed transaction will not result in significant changes in carrier operations, i.e. changes which exceed the threshold established in 49 C.F.R. § 1105.7(e)(4) or (5). In addition, under 49 C.F.R. § 1105.8(b)(2), no historic preservation report is required.

V. EXPEDITED CONSIDERATION REQUESTED

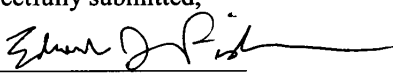
Petitioner respectfully requests expedited consideration of this petition. Fraser N.H. recently began operations at the paper mill in Gorham and is taking steps to resume operations at the pulp mill in Berlin. SLR is providing rail service to the paper mill pursuant to its common carrier rights and obligations (as authorized in Finance Docket No. 33485). Following the

completion of certain improvements and upon request of Fraser N.H., SLR will provide rail service to the pulp mill in Berlin.

SLR and Fraser N.H. would prefer to have SLR provide such rail service under the terms and conditions of the Lease Agreement. However, this Lease Agreement cannot (and by its terms will not) become effective until it has been approved by the Board. Therefore, SLR seeks expedited consideration of this exemption request so that the parties can conduct their commercial relationship under the terms and conditions of the Lease Agreement. SLR respectfully requests that any decision by the Board exempting the Lease Agreement from prior approval requirements be made effective on its service date.

WHEREFORE, for the foregoing reasons, Petitioner respectfully requests that the Board exempt from prior approval its acquisition of the right to continue to lease and operate the Subject Lines under the terms and conditions of the Lease Agreement that has been negotiated by and between SLR, Fraser N.H. and Fraser Papers.

Respectfully submitted,

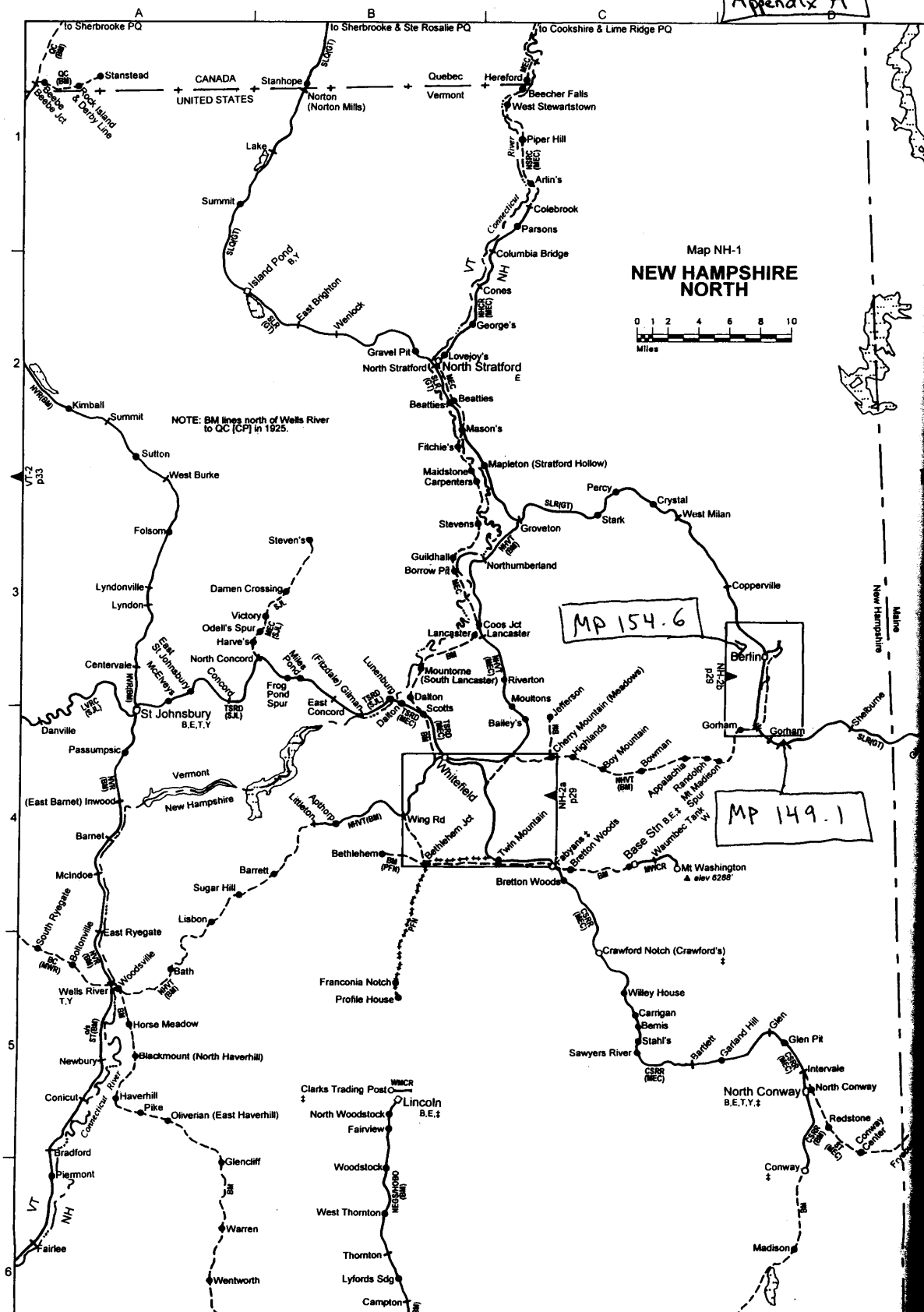
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**ATTORNEYS FOR ST. LAWRENCE &
ATLANTIC RAILROAD COMPANY**

Dated: August 1, 2002

Appendix A



LEASE AGREEMENT

THIS LEASE AGREEMENT ("Lease Agreement"), is made as of this 12th day of July, 2002 (the "Execution Date"), by and between FRASER PAPERS INC., a Delaware corporation and its wholly-owned subsidiary Fraser N.H. LLC, a Delaware limited liability corporation (collectively "Lessor"), on the one hand, and ST. LAWRENCE & ATLANTIC RAILROAD COMPANY, a Delaware corporation ("Lessee"), on the other hand.

RECITALS

A. Fraser N.H. LLC has filed for an exemption from STB authority to acquire the rail lines generally shown on the maps attached hereto as Exhibit 1 (and collectively referred to herein as the "Lease Lines") from Berlin Mills Railway, Inc. ("BMS") in Finance Docket No. 34222, Fraser N.H. LLC – Acquisition Exemption – Rail Lines of Berlin Mills Railway, Inc. (STB filed July 3, 2002);

B. Lessee obtained an exemption from Surface Transportation Board ("STB") authority to lease and operate the Lease Lines in Finance Docket No. 33485, St. Lawrence & Atlantic Railroad Company – Lease and Operation Exemption – Berlin Mills Railway, Inc. (STB served Oct. 24, 1997);

C. Lessor and Lessee desire to enter into this Lease Agreement with respect to the Leased Property (as defined in Section 2.1 below), including the Lease Lines, in accordance with and subject to the terms and conditions set forth herein; and

D. Lessor and Lessee intend to enter into a certain Service Agreement to be dated as of July 12th, 2002 as Shipper and Operator, respectively (the "Service Agreement").

NOW, THEREFORE, in consideration of the payment of Ten Dollars (\$10.00), the receipt and sufficiency of which is hereby acknowledged, and in consideration of the mutual covenants and agreements set forth herein, the parties hereto, intending to be legally bound, agree as follows:

1. DEFINITIONS

1.1 Defined Terms. As used in this Lease Agreement, the following terms shall have the following meanings:

"Affiliate" – With respect to any person, any other person that directly or indirectly controls, is controlled by or is under common control of such person.

"Casualty Loss" – As defined in Section 9.1.

"Charge" – As defined in Section 13.1.

"Contracts" – All Easements and all other contracts, written agreements or leases to which the Lease Lines are subject, but not the Shipper Contracts.

“Easements” – Pipe, wire, utility and similar agreements or licenses, and public and private road crossing agreements or arrangements, to which the Lease Lines are subject.

“Effective Date” – As defined in Section 3.1.

“Encumbrance” – With respect to any portion of the Leased Property, any Contract, mortgage, pledge, lien, claim, security interest, title retention, Easement, license, or other encumbrance or restriction of any kind.

“Environmental Laws” – All applicable federal, state, municipal and local laws, statutes, ordinances, rules, by-laws, guidelines, treaties and regulations, and all applicable directives, rules, standards, requirements, policies, orders, judgments, injunctions, or decrees which have the force of law or which are capable of having the force of law, in each case relating to or addressing the environment.

“Execution Date” – As defined in the first paragraph of this Lease Agreement.

“Expenses” – Any and all expenses incurred in connection with investigating, defending or asserting any claim, action, suit or proceeding incident to any matter indemnified against hereunder (including court filing fees, court costs, arbitration fees or costs, witness fees, and reasonable fees and disbursements of legal counsel and other professionals).

“Expropriation Proceeding” – As defined in Section 8.1(a).

“Governmental Authority” – Any agency, board, bureau, executive, court, commission, department, tribunal, instrumentality or administration of the United States, the State of New Hampshire, or any local or other governmental body in a state, county, territory or possession in the United States.

“Governmental Permits” – All licenses, permits, approvals, consents, certificates, waivers, exemptions, orders and other authorizations from any and all Governmental Authorities.

“G&W” – Genesee & Wyoming Inc., a Delaware corporation and an Affiliate of Lessee.

“Initial Term” – As defined in Section 3.1.

“Lease Agreement” – This Lease Agreement (including all Exhibits and Schedules attached hereto) as the same may be amended or supplemented in accordance with the terms hereof.

“Leased Property” – As defined in Section 2.1.

“Lease Lines” – As defined in Recital A.

“Lessee Event of Default” – As defined in Section 14.1.

“Lessor Event of Default” – As defined in Section 14.2.

“Losses” – Any and all losses, costs, obligations, liabilities, settlement payments, awards, judgments, fines, penalties, damages, expenses, deficiencies or other charges.

“Obligations” – With respect to any Contract, lease or written agreement, all responsibilities, penalties and duties of a specified party under such Contract, lease or written agreement.

“Renewal Term” – As defined in Section 3.2.

“Shipper Contracts” – All contracts, agreements, commitments, arrangements or understandings between Lessor and any receiver, shipper or third party relating to the movement of rail traffic over the Lease Lines.

“Termination Date” – The date on which this Lease terminates, whether pursuant to its terms or pursuant to the exercise of either party’s rights to terminate this Lease Agreement under the conditions specified herein.

1.2 Other Definitional Provisions. Each definition in this Lease Agreement includes the singular and the plural, and references in this Lease Agreement to the neuter gender include the masculine and feminine where appropriate. References herein to any agreement or contract mean such agreement or contract as amended. References to a business day mean a day other than Saturday, Sunday or a legal holiday in Concord, New Hampshire. As used in this Lease Agreement, the word “including” means “without limitation,” and the words “herein,” “hereof” and “hereunder” refer to this Lease Agreement as a whole. Unless the context otherwise requires, references herein to Articles, Sections, Exhibits and Schedules mean the Articles and Sections of, and Exhibits and Schedules attached to, this Lease Agreement. Unless otherwise expressly stated, all dollar amounts stated herein are in United States currency.

2. GRANT OF A LEASE

2.1 Description of Lease Property. The property subject to this Lease Agreement consists of the Lease Lines and any and all improvements thereto or fixtures thereon existing as of the Effective Date and specifically includes without limitation rail, track, roadbed, crossings, bridge, bridge abutments, culverts, the Engine Shop, the Scale House, the Crew Trailer, railroad yard, and railroad storage areas located on the Lease Lines (hereinafter collectively referred to as the “Leased Property”). Excluded from the Leased Property are any and all railroad rolling stock, locomotives, automobiles, trucks, automotive equipment, machinery, supplies marked with any logo or letterhead of Lessor, computer terminals and printers and related hardware, computer software, photocopiers and telecopiers, radios, employees’ hand tools, and any other personal property of Lessor or its employees, and the property known as the “Cascade Bridge.”

2.2 Grant of a Lease. Subject to the terms and conditions set forth in this Lease Agreement, Lessor hereby leases to Lessee, and Lessee hereby leases from Lessor, the Leased Property. Lessor hereby represents to Lessee that this Lease Agreement grants Lessee sufficient rights and interests in the Lease Lines and the Leased Property for Lessee to conduct freight railroad operations on the Lease Lines and the Leased Property.

2.3 Permitted Uses of Leased Property.

(a) Lessee shall be entitled to use the Leased Property for the purpose of conducting freight railroad operations thereon, including the right to originate and/or terminate freight traffic on the Lease Lines, and for purposes of switching, storage of cars and equipment (including cars and equipment of third parties), and the making or breaking up of trains. Lessee shall be entitled to all revenues derived from its provision of freight railroad services on the Lease Lines.

(b) Lessee shall not interfere with Lessor's compliance with any of Lessor's Obligations under the Contracts. Lessor represents that it is not a party to any Contracts that could have a material adverse effect on the conduct of rail operations on the Lease Lines.

2.4 Restrictions On Use of Leased Property. Lessee shall not under any circumstances mine, take, extract, remove or market any coal, oil, petroleum, gas or any and all other ores or minerals of every kind, nature or description in or underlying the surface of the Leased Property, or any portion thereof, or cause or permit any other person or entity to do so. Except with the prior written consent of Lessor, which consent may be reasonably withheld by Lessor in its sole discretion, Lessee shall not:

(a) make, install, conduct, perform or cause any improvements, upgrades, new construction or refurbishments on the Leased Property, except that no consent shall be required to make, install, conduct, perform or cause any of the improvements, upgrades or refurbishments on the Leased Property required by the terms of Section 6 of this Lease Agreement; or

(b) conduct any passenger or commuter railroad operations on the Lease Lines; or

(c) cause or knowingly suffer the creation of any Encumbrance on the Leased Property or any portion thereof; provided that Lessor shall not unreasonably withhold, condition or delay consent to the creation of any Encumbrance on the Leased Property in favor of a government agency in connection with government agency funding for capital improvements to the Leased Property.

2.5 Other Licenses, Encumbrances, Reservations. Lessee shall also lease the Leased Property subject to:

(a) Any existing exceptions, reservations, restrictions and rights of record;

(b) Any and all Easements, licenses or Encumbrances on or affecting the Leased Property as of the Effective Date;

(c) The Contracts;

(d) Existing and future building, zoning, subdivision and other applicable federal, state, municipal and local laws, ordinances and regulations;

(e) All encroachments or any other state of facts which might be revealed from an accuracy survey, title search or personal inspection of the Leased Property;

(f) Any and all existing ways, alleys, party walls, privileges, rights, appurtenances and easements, howsoever created; and

(g) Any and all other restrictions, defects, reservations and liens, of any type or nature whatsoever, to which the Leased Property is subject or by which it is affected as of the Effective Date.

2.6 Lessor's Right to Entry. Lessor hereby reserves the right to cross, install, relocate, maintain and repair pipes, poles, wires and other structures on, under, over or across the Leased Property, provided that the exercise of such rights shall not unreasonably interfere with the ability of Lessee to conduct freight railroad operations on the Lease Lines. Lessor shall provide Lessee with reasonable notice prior to exercising its rights under this Section 2.6.

3. TERM AND TERMINATION

3.1 Initial Term. The term of this Lease Agreement shall begin on the date that it is approved (or exempted from approval) by the Surface Transportation Board (the "Effective Date") and shall expire on July 12th, 2017 (the "Initial Term"), unless sooner terminated as hereinafter provided.

3.2 Renewal Term. Upon expiration of the Initial Term, this Lease Agreement shall continue automatically for a subsequent term of five (5) years (the "Renewal Term"), provided that it shall not have been terminated by either party prior to the expiration of the Initial Term pursuant to the terms and provisions of this Lease Agreement (including Section 3.3 and Section 14.3).

3.3 Termination

(a) Lessee or Lessor may, at its sole option, terminate this Lease Agreement, for any reason or no reason, effective upon expiration of the Initial Term, by giving written notice of termination not less than one hundred eighty (180) days prior to any such expiration.

(b) Lessor may, at its sole option, terminate this Lease Agreement upon ninety (90) days' prior written notice to Lessee if Lessor decides to close permanently either or both of the Berlin and Gorham Mills, or if Lessor decides to reduce the total production (in tons) of either mill by seventy-five percent (75%) or more of its then current production. This provision shall not become effective until July 1, 2003.

(c) Lessee may, at its sole option, terminate this Lease Agreement, after having given written notice of such termination to Lessor in accordance with the provisions of Section 19.9.

(d) Prior to any expiration or termination of this Lease Agreement by Lessee having any force or effect, Lessee shall promptly seek to obtain any and all Government Permits

required to effect termination of this Lease Agreement or the discontinuance of Lessee's freight railroad operations on the Lease Lines. If required for any termination of this Lease Agreement by Lessor or when reasonably requested by Lessor, Lessee shall promptly seek to obtain any and all Government Permits required to effect the termination of this Lease Agreement or the discontinuance of Lessee's freight railroad operations on the Lease Lines. Lessor shall support Lessee's efforts to obtain any such Government Permits.

(e) On the Termination Date, Lessee shall vacate and peaceably surrender to Lessor the Leased Property, and Lessee shall remove from the Leased Property all personal property of Lessee located thereon, all at Lessee's sole risk, cost, and expense.

(f) Termination of this Lease Agreement, for any reason, shall not relieve or release any party from any obligation assumed, or from any liability which may have arisen or been incurred by such party, under the terms of this Lease Agreement prior to such termination.

4. TAXES AND ASSESSMENTS

4.1 Taxes.

(a) Except as otherwise required by this Section 4.1, Lessor shall bear and pay all property and ad valorem taxes, assessments, and levies (both general and special), and all other like charges, general and special, ordinary and extraordinary, of whatever name, nature and kind, that may be imposed, levied, assessed or charged against the Leased Property (but only to the extent applicable to the Leased Property), or any portion thereof, including any and all improvements or fixtures existing thereon as of the Effective Date of this Lease Agreement or built or made thereon during the term of this Lease Agreement.

(b) Lessee shall bear and pay directly to taxing authorities any and all taxes, assessments (both general and special), license fees, levies and all other charges, general and special, ordinary and extraordinary, that may be imposed, levied, assessed or charged in connection with Lessee's conduct of railroad operations on the Leased Property or any portion thereof.

(c) Lessor and Lessee each shall have the right to contest, object, protest, or appeal to any Governmental Authority as to any tax, license fee, special or general assessment, or other charge levied on such party by any taxing or similar authority. Lessor shall provide promptly to Lessee notice of any tax, fee, assessment or similar charge that Lessor (or its Affiliates) may receive as owner of the Leased Property, and for which Lessee is responsible pursuant to the terms of this Lease Agreement.

4.2 Operating Expenses. Except as otherwise agreed by the parties hereto, Lessee shall be solely responsible for all costs, Expenses, charges, obligations and liabilities, of any nature and kind, relating to or arising from Lessee's use, occupancy, interest in or rail operations on the Leased Property during the term of this Lease Agreement.

5. CONDITION OF LEASED PROPERTY

5.1 Initial Joint Inspection. The parties shall conduct a joint inspection of the Leased Property pursuant to Section 3.1 of the Service Agreement.

5.2 Condition at Commencement of Lease. EXCEPT AS SET FORTH IN THIS LEASE AGREEMENT AND/OR THE SERVICE AGREEMENT: (I) LESSOR MAKES NO REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, AS TO THE DESIGN OR CONDITION OF THE LEASE LINES OR THE LEASED PROPERTY, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OR QUALITY OF THE MATERIALS OR WORKMANSHIP OF THE LEASE LINES OR LEASED PROPERTY, (II) LESSOR SHALL NOT BE LIABLE TO LESSEE FOR ANY INCIDENTAL OR CONSEQUENTIAL DAMAGES (INCLUDING STRICT LIABILITY IN TORT) WITH RESPECT TO THE DESIGN, CONDITION, QUALITY, SAFETY, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF THE LEASE LINES OR THE LEASED PROPERTY, AND (III) AS OF THE APPLICABLE INSPECTION APPROVAL DATE (AS DEFINED IN THE SERVICE AGREEMENT), LESSEE SHALL TAKE THE LEASE LINES AND LEASED PROPERTY IN "AS-IS, WHERE-IS" AND "WITH-ALL-FAULTS" CONDITION, AND SUBJECT TO ALL LIMITATIONS ON LESSOR'S RIGHT, TITLE AND INTEREST THEREIN AND THERETO.

5.2 No Notice of Defect. Lessor represents that, as of the Execution Date, Lessor has no knowledge of any pending or threatened litigation, penalty proceeding or fines under any law or regulation from any Governmental Authority with respect to any of the Leased Property. Lessor shall notify Lessee if it receives any such notice subsequent to the Execution Date.

5.3 Condition upon Termination of Lease. Lessee shall surrender the Lease Lines and the Leased Property upon any termination of the Lease Agreement in at least substantially the same physical condition (reasonable wear and tear excepted) as the Leased Property was in as of the Effective Date.

6. CAPITAL IMPROVEMENTS

6.1 Capital Improvements By Lessee. From time to time, Lessee may, with the prior written consent of Lessor, make such capital improvements to the Leased Property as Lessee may deem reasonably appropriate in its discretion; provided, however, that Lessee shall have no obligation to make any such capital improvements to the Leased Property at any time during the term of this Lease Agreement. Lessee shall retain for its own account scrap materials removed or replaced in the course of making such capital improvements. Lessee may, with the prior written consent of Lessor, remove and not replace any assets included in the Leased Property which Lessee deems are no longer used or useful in the operation of the Lease Lines. All such capital improvements shall be made under Lessee's direction, control and management and at Lessee's sole cost and expense, subject to Lessor's approval of designs and schedules.

6.2 Capital Improvements By Lessor. Lessor may, from time to time, make such capital improvements to the Leased Property as Lessor may deem reasonably appropriate in its

discretion; provided, however, that Lessor shall have no obligation to make any such capital improvements to the Leased Property at any time during the term of this Lease Agreement; provided, further, that such capital improvements shall be made in a manner so as to not unreasonably interfere with the ability of Lessee to conduct freight railroad operations on the Lease Lines. All such capital improvements shall be made under Lessor's direction, control and management and at Lessor's sole cost and expense, subject to Lessee's approval of designs and schedules.

6.3 Mandatory Capital Improvements. In the event that Lessor makes material changes to the physical layout of its pulp and paper mills in Berlin and Gorham, or material changes to the nature of its operations at those mills (due to technological advances, increases in production or otherwise), and such changes impair or interfere with Lessee's ability to conduct freight railroad operations on the Leased Property, Lessor shall be required to make any capital improvements to the Leased Property that may be required to allow Lessee to conduct freight railroad operations on the Leased Property without such impairment or interference.

6.4 Long- Term Plant Integrity. Operator and Shipper shall, from time to time, meet to discuss the condition of the Leased Property and the need for capital improvements to the Leased Property, if any, that may be required to provide appropriate rail service to the pulp and paper mills in the future.

6.5 Disposition of Capital Improvements Upon Termination.

(a) Upon termination of this Lease Agreement by Lessor or Lessee for any reason, any and all capital improvements made by Lessee to the track or right-of-way constituting the Leased Property during the Initial Term or any Renewal Term shall become the sole property of Lessor and, except as set forth in Section 6.5(b), Lessor shall have no obligation to pay Lessee compensation therefor.

(b) Upon termination of this Lease Agreement by Lessee under Section 3.3(b), 8.1(a), 9.1 or 14.3, Lessor shall compensate Lessee for any and all capital improvements made by Lessee to the track or right-of-way constituting the Leased Property in an amount substantially equivalent to the depreciated value of such capital improvements, less the then outstanding balance of any indebtedness secured by the Leased Property, or any portion thereof, which Lessee has permitted, knowingly suffered or caused. Upon payment of such amount by Lessor, Lessee shall have no claim for, and no right to seek, damages from Lessor by reason of or arising from such termination, to the extent such claims are for incidental, consequential, special, indirect, exemplary or punitive damages or loss of profits or cost of capital, related to this Lease Agreement.

7. COVENANTS

7.1 Covenants of Lessor.

(a) Lessor covenants that, subject to (i) Lessor's exercise of any and all exceptions, reservations, rights, remedies, privileges, and interests reserved to Lessor under this

Lease Agreement, and (ii) Section 3.3 and Section 15.1 hereof, so long as Lessee shall faithfully perform all of its agreements, terms, covenants, and obligations under this Lease Agreement, Lessor shall not interfere with or disturb Lessee's use or peaceful enjoyment of the Leased Property for the term hereby granted.

(b) Lessor represents that Lessor has full power and authority to enter into this Lease Agreement and grant to Lessee the rights conveyed hereunder. Except for the foregoing sentence and for Lessee's representation in Section 2.2, Lessee hereby acknowledges and agrees that Lessor makes no representation, warranty or covenant regarding the quality of title currently held by Lessor to the real property included in the Leased Property.

7.2 Covenants of Lessee. Lessee covenants that, subject to (i) Lessee's exercise of any and all rights, remedies, privileges and interests accorded to it under this Lease Agreement, and (ii) Section 15.1 hereof, Lessee shall faithfully perform all of its agreements, terms, covenants and obligations under this Lease Agreement. Lessee further covenants that it will not cause or knowingly suffer any interference with Lessor's exercise of any and all exceptions, reservations, rights, remedies, privileges, and interests reserved to Lessor under this Lease Agreement.

8. EXPROPRIATION

8.1 Expropriation of Leased Property.

(a) If, during the term of this Lease Agreement, a proceeding is instituted by any Governmental Authority or other lawful entity for the condemnation, expropriation or seizure of the Leased Property or any portion thereof for any public or quasi-public purpose (an "Expropriation Proceeding"), and such Expropriation Proceeding results in the taking of the whole or such portion of the Leased Property which materially interferes with Lessee's ability to conduct railroad operations on the Lease Lines, then Lessee shall have the right, upon written notice to Lessor, to terminate this Lease Agreement in its entirety, and the term hereof shall terminate and expire on the date title to the Leased Property vests in the condemning authority.

(b) If an Expropriation Proceeding results in the taking of less than all of the Leased Property and does not materially interfere with Lessee's ability to conduct railroad operations on the Lease Lines, then this Lease Agreement shall terminate only as to the portion of the Leased Property so taken, and shall continue in full force and effect as to the part of the Leased Property remaining.

(c) If the use of the whole or any portion of the Leased Property shall be taken, on a temporary basis, at any time during the term of this Lease Agreement for any public or quasi-public purpose, this Lease Agreement shall continue for the balance of its term following such temporary taking. For purposes of this Section 8.1(c), such a temporary taking shall mean the use or occupation of all or a portion of the Leased Property not exceeding ninety (90) consecutive days. In the event that such taking shall exceed such ninety (90) day period, and such taking materially interferes with Lessee's ability to conduct railroad operations on the Lease Lines, then Lessee may elect to treat such taking in accordance with the provisions of Sections 8.1 (a), (b) and (d) hereof. The provisions of this Section 8.1(c) shall not apply to any temporary

use or taking of the Leased Property, or any portion thereof, involving or incident to the exercise of any exception, reservation, right, or privilege reserved to Lessor by the terms of this Lease Agreement.

(d) Lessor shall be entitled to any and all funds paid or payable by any Governmental Authority or other entity as compensation for the expropriation or temporary use of the Leased Property or any portion thereof, and upon written request of Lessor, Lessee shall assign, without warranty, any and all of Lessee's claims and rights against the condemning authority for Loss of Lessee's business or for the value of Lessee's leasehold estate as a result of such expropriation of the Leased Property, or any portion thereof; provided, however, that nothing contained herein shall be construed to preclude Lessee from prosecuting a separate claim directly against the condemning authority for loss of its business or for the value of its leasehold estate as a result of temporary use of the Leased Property by a Governmental Authority and Lessee shall be entitled to any and all funds paid or payable by any Governmental Authority or other entity as compensation for the temporary use of such leasehold estate or any portion thereof.

(e) Each party shall provide prompt notice to the other party of any Expropriation Proceeding, or threatened Expropriation Proceeding, involving the Leased Property. Each party shall be entitled to participate in any such proceeding, at its own expense, and to consult with the other party, its attorneys and experts.

9. CASUALTY LOSSES

9.1 Damage To Or Destruction of Leased Property. (i) Lessor shall at its sole cost and expense repair, replace, refurbish or rebuild the Leased Property in the event that Lessor materially damages or destroys the Leased Property, or a portion thereof. (ii) Lessor may, in its sole discretion, repair, replace, refurbish or rebuild the Leased Property at its sole cost and expense if the Leased Property or a portion thereof is materially damaged or destroyed by flood, fire, earthquake or any other Act of God, whether foreseeable or not foreseeable (any such event described in (i) or (ii), individually or collectively, a "Casualty Loss"). If Lessor has not begun to repair, replace, refurbish or rebuild the parts of the Leased Property affected by such Casualty Loss within thirty (30) days after the occurrence thereof and if such damage or destruction materially interferes with Lessee's ability to conduct railroad operations on Leased Lines, Lessee may, at its sole option, terminate this Lease Agreement, effective thirty (30) days after having given written notice of such termination to Lessor. In the event Lessor undertakes repair, replacement, refurbishment or rebuilding, during such time the Lease Lines or any material portion thereof are not capable of use by Lessee in its railroad operations, Lessee and Lessor shall not be obligated to perform their obligations under this Lease Agreement attributable to the period that the Lease Lines or portion thereof are not useable.

10. INSURANCE

10.1 Required Insurance Coverage. Lessee, at its own cost or expense, will procure and maintain in effect at all times during the term of this Lease Agreement, standard railroad liability policy or policies of insurance (with FELA coverage). Such policy or policies shall name Lessor

as additional insured, and, except for gross negligence and willful misconduct, shall waive subrogation against Lessor (and its directors, officers, employees and agents). Such policy or policies shall be primary and not excess to or contributory with any other applicable insurance or self-insurance of Lessor, and shall provide liability coverage in any one occurrence in the amount of not less than Five Million Dollars (\$5,000,000). If Lessee purchases a workers' compensation policy or policies to cover its New Hampshire exposures, such policy or policies shall waive subrogation against Lessor.

11. LIABILITY

11.1 Release and Indemnity.

(a) It is hereby understood and agreed that, except as otherwise provided elsewhere herein, Lessor shall not be held liable for or on account of any loss of and/or liability for loss of, damage to or destruction of any property whatsoever, or injury to or death of any person whomsoever, in each case relating to, resulting from or arising out of Lessee's use, occupancy, interest in, maintenance of or operations on the Leased Property (excluding any such loss and/or liability caused by or related to any loading or unloading or other acts or omissions by employees, agents, officers, directors, licensees, invitees, contractors, or other representatives of Lessor and/or its Affiliates).

(b) Lessee hereby releases Lessor, its officers, directors, agents, and employees from, and agrees forever to protect, indemnify, defend, and hold harmless Lessor, its officers, directors, agents, and employees, from and against, any and all claims, actions, costs, damages, losses, and Expenses, in any manner (i) caused by, arising out of, or connected with the representations Lessee makes or the obligations Lessee assumes under this Lease Agreement or (ii) caused in connection with Lessee's use or occupancy of the Leased Property, except to the extent that any such claim, action, cost, damage, loss or Expense arises out of any default by Lessor of this Lease Agreement, or the negligence or other fault of Lessor and/or its Affiliates, or their employees, agents, officers, directors, licensees, invitees, contractors or other representatives (other than to the extent due to Lessor's passive negligence or to the extent due to Lessee's failure to perform any of its obligations under this Lease Agreement), including any claims, actions, costs, damages, losses, and Expenses, in any manner caused by, arising out of, or connected with environmental contamination or breach of Environmental Laws during the term of this Lease Agreement.

(c) Lessor hereby releases Lessee, its officers, directors, agents, and employees from, and agrees forever to protect, indemnify, defend, and hold harmless Lessee, its officers, directors, agents, and employees, from and against, any and all claims, actions, costs, damages, losses, and Expenses in any manner caused by, arising out of, or connected with the representations Lessor makes or the obligations Lessor assumes or retains under this Lease Agreement, including any claims, actions, costs, damages, losses, and Expenses, in any manner caused by, arising out of, or connected with environmental contamination or breach of Environmental Laws before and after the term of this Lease Agreement.

12. COMPLIANCE WITH LAWS

12.1 Lessee's Obligation To Comply With Laws. Lessee hereby covenants and agrees that, throughout the term of this Lease Agreement, Lessee will promptly comply, at its sole cost and expense, with all statutes, laws, ordinances, orders, decisions, rules, regulations, and requirements of all Governmental Authorities now or hereafter existing, which may be applicable to Lessee's use or occupancy of, interest in or operations on the Leased Property.

12.2 Lessee's Right To Contest. Lessee shall have the right to contest by appropriate legal proceedings, at its sole cost and expense, the validity of any law, ordinance, order, decision, rule, regulation, or requirement of any nature referred to in Section 12.1 and compliance with which is the obligation of Lessee hereunder. Lessee may postpone compliance therewith until the final determination of any such proceeding; provided that all such proceedings shall be prosecuted with due diligence and dispatch on the part of Lessee; and provided further that Lessee shall forever protect, indemnify, defend, and hold harmless Lessor, its officers and directors from and against any and all liability, cost, and Expense arising out of or connected with any such contest by Lessee. In connection with any such contest, objection or protest, Lessee may, where necessary in Lessee's reasonable judgment, implead Lessor (or its Affiliates) as owner of the Leased Property. Lessor shall provide Lessee with notice of any alleged violation of any law, ordinance, order, decision, rule, regulation, or requirement of a nature referred to in Section 12.1 that Lessor (or its Affiliates) may receive as owner of the Leased Property during the term of this Lease Agreement.

13. LIENS AND CHARGES

13.1 Charges Against The Leased Property.

(a) Lessee shall not, at any time during the term of this Lease Agreement, create, knowingly suffer, or otherwise permit any lien, claim, mortgage, or charge of any nature whatsoever, including any mechanic's, materialmen's, supplier's or similar lien or charge, but excepting any inchoate lien or charge which has not ripened (hereinafter collectively referred to as a "Charge") to be asserted or claimed against the Leased Property or any portion thereof, for any reason; provided, however, that the provisions of this Section 13.1 shall not apply to a Charge created (i) by Lessor or (ii) by a person (other than Lessee) claiming any interest in the Leased Property by, through or under Lessor; provided, however, that the provisions of this Section 13.1 shall not apply with respect to rail, ties and track materials purchased for capital improvements and installed on the Lease Lines under a federal or state loan or grant program, if Lessee or its Affiliate is the recipient and the program requires the recipient to permit the grantor a lien on the rail, ties and track materials so installed.

(b) If any Charge (other than those excepted from Section 13.1(a)) shall at any time be asserted against the Leased Property, Lessee shall cause such Charge to be discharged of record within ninety (90) days after the date of filing of same. If Lessee fails to discharge such Charge within such period, then, in addition to any other rights or remedies available to Lessor, Lessor may, but shall not be obligated to, discharge such Charge by paying the amount claimed to be due, without inquiry by Lessor into the validity of such Charge. Lessor shall notify Lessee

at least five (5) days prior to exercising such rights. Any amount paid by Lessor in procuring the discharge of a Charge pursuant to this Section 13.1, and all costs and Expenses incurred by Lessor in connection therewith, shall be paid by Lessee to Lessor within thirty (30) days of Lessor's submission to Lessee of a bill therefor.

(c) Lessee shall have the right to contest any Charge asserted against the Leased Property; provided that, within sixty (60) days after any such Charge is filed or attaches, Lessee shall give written notice to Lessor of Lessee's intention to contest such Charge, and such notice shall specify the amount of the Charge to be contested. In the event that Lessee contests any Charge hereunder, Lessor may not pay, remove, or otherwise proceed to discharge such Charge pursuant to Section 13.1(b), provided, that all such legal proceedings shall be prosecuted with due diligence and dispatch on the part of Lessee.

13.2 Adverse Possession. Lessee shall not knowingly permit the Leased Property or any portion thereof to be used by any third party without restriction or in such manner as might reasonably tend to (i) impair Lessor's title to all or any part of the Leased Property, or (ii) make possible any claim by such party or the public of adverse usage, adverse possession or implied dedication of the Leased Property or any portion thereof. The foregoing shall not be construed to restrict public access to the Leased Property in the normal course of Lessee's railroad operations.

14. DEFAULT; RIGHTS AND REMEDIES

14.1 Events of Default by Lessee. Any of the following events, if occurring during the term of this Lease Agreement, shall constitute an event of default by Lessee (a "Lessee Event of Default"):

(a) any default or breach of Lessee's obligation to pay any amount payable by Lessee to Lessor hereunder, in accordance with the terms of this Lease Agreement, and Lessee's continuance in such default or breach for a period of five (5) business days after Lessor shall have first sent written notice to Lessee of the default or breach so occurring;

(b) any default or breach of Lessee's covenants and obligations under any other provision of this Lease Agreement, and Lessee's continuance in such default or breach for a period of thirty (30) days after Lessor shall have first sent written notice to Lessee of the default or breach so occurring;

(c) the voluntary or involuntary filing of any petition or similar pleading, or the commencement of any proceeding, by or against Lessee or G&W under any federal or state bankruptcy, insolvency, reorganization, arrangement of debt, readjustment of debt or receivership law or statute, whether now or hereafter in existence, or the assignment of all or a substantial portion of Lessee's or G&W's property for the benefit of creditors, or the appointment of a receiver, trustee, or liquidator for all or a substantial portion of Lessee's or G&W's property; provided, that such bankruptcy or insolvency proceedings or such assignments for the benefit of creditors or such appointment of a receiver, trustee, or liquidator is not discharged, vacated, dismissed, or otherwise terminated within sixty (60) days after the filing of same or a valid appeal therefrom shall not be pending.

14.2 Events of Default by Lessor. Any of the following events, if occurring during the term of this Lease Agreement, shall constitute an event of default by Lessor (a "Lessor Event of Default"):

(a) any default or breach of Lessor's obligation to pay any amount payable by Lessor to Lessee hereunder, in accordance with the terms of this Lease Agreement, and Lessor's continuance in such default or breach for a period of five (5) business days after Lessee shall have first sent written notice to Lessor of the default or breach so occurring;

(b) any default or breach of Lessor's covenants and obligations under any other provision of this Lease Agreement, and Lessor's continuance in such default or breach for a period of thirty (30) days after Lessee shall have first sent written notice to Lessor of the default or breach so occurring; or

(c) the voluntary or involuntary filing of any petition or similar pleading, or the commencement of any proceeding, by or against Lessor under any federal or state bankruptcy, insolvency, reorganization, arrangement of debt, readjustment of debt or receivership law or statute, whether now or hereafter in existence, or the assignment of all or a substantial portion of Lessor's property for the benefit of creditors, or the appointment of a receiver, trustee, or liquidator for all or a substantial portion of Lessor's property; provided, that such bankruptcy or insolvency proceedings or such assignments for the benefit of creditors or such appointment of a receiver, trustee, or liquidator is not discharged, vacated, dismissed, or otherwise terminated within sixty (60) days after the filing of same or a valid appeal therefrom shall not be pending.

14.3 Non-Defaulting Party's Remedies Upon An Event of Default. Upon the occurrence of any Lessee or Lessor Event of Default specified in Section 14.1 or Section 14.2, respectively, the non-defaulting party may, at its sole discretion, exercise one or more of the following remedies:

(a) The non-defaulting party shall have the right, within sixty (60) days thereafter, at its sole option and upon thirty (30) days written notice to the defaulting party, to terminate this Lease Agreement. In the event of termination pursuant to this Section 14.3(a), this Lease Agreement shall terminate as of the Termination Date specified in such notice. Termination of this Lease Agreement pursuant to this Section 14.3(a) shall not be deemed to affect in any way any rights, claims or causes of action (including any claim for money damages) which either party may have against the other party on account of any default or breach of this Lease Agreement prior to termination.

(b) The non-defaulting party shall afford the defaulting party a period of fifteen (15) days to cure the Event of Default, or such longer period as may be reasonable if despite due diligence cure cannot be completed within such period; provided that the defaulting party shall protect, defend, indemnify, and hold harmless the non-defaulting party from and against any liability, Charge, cost, or Expense arising from such Event of Default during the afforded cure period.

(c) The non-defaulting party shall have the right to exercise any and all rights or remedies provided to it in law or equity on account of the Event of Default, including injunctive relief. The defaulting party expressly acknowledges that the nature and purpose of this Lease Agreement are such that, in the event of a default or breach of any covenant hereunder, damages may not be an adequate remedy, and equitable relief, such as an injunction, mandatory or otherwise, may be necessary.

(d) Except to the extent inconsistent with the remedies specified in this Section 14.3, each right and remedy provided for in this Lease Agreement shall be cumulative and shall be in addition to every other right or remedy provided for in this Lease Agreement or now or hereafter existing at law or in equity or by statute or otherwise, and the exercise or beginning of the exercise by either party of any one or more of the rights or remedies provided in this Lease Agreement or now or hereafter existing at law or in equity or by statute or otherwise shall not preclude the simultaneous or later exercise by such party of any or all other rights or remedies provided for in this Lease Agreement or now or hereafter existing at law or in equity or by statute or otherwise.

15. FORCE MAJEURE

15.1 Force Majeure. Whenever a period of time is provided in this Lease Agreement for either party to do or perform any act or thing, such party shall not be liable or responsible for any delays due to acts of God, war, terrorism, court orders, nuclear incidents, riots, public disorder, criminal acts of other persons, or other such causes beyond the reasonable control of such party; and in any such event, such time period shall be extended for the amount of time such party is so delayed; provided that this Section 15.1 shall not be construed to affect the responsibilities of such party hereunder to so perform such act or thing once such delays have been removed. Any party invoking force majeure pursuant to this Section 15.1 shall provide written notice to the other party, setting forth the facts or circumstances giving rise to the applicability of this Section 15.1.

16. TIME OF THE ESSENCE

16.1 Acknowledgment. It is understood and agreed by Lessor and Lessee that the prompt and timely performance of all obligations and covenants under this Lease Agreement, including the obligation to make prompt and timely payment of any and all amounts of any nature payable by either party as required by the terms and provisions hereof, is of the essence of this Lease Agreement.

17. RECORDATION OF LEASE

17.1 Recordation by Lessee. Lessee may cause a memorandum of this Lease Agreement, in a form mutually agreeable to the parties hereto, to be recorded in the land register of any county in which the Leased Property is located. In the event that the description of the Leased Property contained in this Lease Agreement is deemed inadequate for recordation purposes by any Governmental Authority, then Lessor shall, if so requested by Lessee, execute and deliver such confirmatory leases with such description as Lessee may require for such

recordation purposes (except that neither Lessor nor Lessee, in performance of this obligation, shall be required to obtain a survey of the Leased Property). Upon the termination of this Lease Agreement with respect to all or any portion of the Leased Property, Lessee agrees to execute and deliver to Lessor an appropriate instrument or instruments, in recordable form, evidencing the termination of this Lease Agreement

18. INDEMNIFICATION PROCEDURES

18.1 Notice of Claims. If Lessee or Lessor (either such party referred to herein as the "Indemnified Party") seeks indemnification hereunder, such Indemnified Party shall give to the party obligated to provide indemnification (the "Indemnitor") a notice (a "Claim Notice") describing in reasonable detail the facts giving rise to any claim for indemnification hereunder and shall include in such Claim Notice (if then known) the amount or the method of computation of the amount of such claim, and a reference to the provision of this Agreement or any other agreement, document or instrument executed hereunder or in connection herewith upon which such claim is based; provided, that a Claim Notice in respect of any legal action by or against a third person as to which indemnification will be sought shall be given promptly after the action or suit is commenced; provided further that failure to give such notice shall not relieve the Indemnitor of its obligations hereunder except to the extent it shall have been prejudiced by such failure.

18.2 Control of Defense. The Indemnitor shall have the right to conduct and control, through counsel of its choosing, the defense, compromise or settlement of any third person claim, action or suit against such Indemnified Party. The Indemnified Party shall cooperate in connection therewith and shall furnish such records, information and testimony and attend such conferences, discovery proceedings, hearings, trials and appeals as may be reasonably requested by the Indemnitor in connection therewith; provided, that the Indemnified Party may participate, through counsel chosen by it and at its own expense, in the defense of any such claim, action or suit as to which the Indemnitor has so elected to conduct and control the defense thereof. The Indemnitor shall not, without the written consent of the Indemnified Party (which written consent shall not be unreasonably withheld), pay, compromise or settle any such claim, action or suit. No such consent shall be required if, fourteen (14) days following a written request from the Indemnitor, the Indemnified Party shall fail to acknowledge and agree in writing that, if such claim, action or suit shall be adversely determined, such Indemnified Party has an obligation to provide indemnification hereunder to such Indemnitor. Notwithstanding the foregoing, the Indemnified Party shall have the right to pay, settle or compromise any such claim, action or suit without such consent; provided that in such event the Indemnified Party shall waive any right to indemnity therefor hereunder unless the Indemnified Party shall have sought the consent of the Indemnitor to such payment, settlement or compromise and such consent is unreasonably withheld, in which event no claim for indemnity therefor hereunder shall be waived.

19. MISCELLANEOUS

19.1 Governmental Permits. Lessee shall, at its sole cost and expense, make all such notices, applications or filings, and obtain all such Governmental Permits, as may be required in connection with this Lease Agreement and the transaction contemplated hereby.

19.2 Additional Actions and Documents. Following the Execution Date, and without further consideration, Lessor and/or Lessee, as appropriate, will promptly execute and deliver such further instruments and take such other actions as the other party may reasonably request in order to convey, assign and transfer to Lessee all of the rights, title and interest in the Leased Property contemplated by this Lease Agreement. Without limiting the generality of the foregoing, Lessor shall support Lessee's efforts to obtain expedited approval (or an expedited exemption from approval) from the Surface Transportation Board for this Lease Agreement.

19.3 Payment Addresses. All payments due Lessor under this Lease Agreement shall be made payable to Fraser Papers Inc., 70 Seaview Avenue, P.O. Box 10055, Stamford, Connecticut 06904, to the attention of the person Lessor shall direct by written notice to Lessee. All payments due Lessee under this Lease Agreement shall be made to St. Lawrence & Atlantic Railroad Company, 415 Rodman Road, Auburn, Maine 04210, to the attention of General Manager or to such other person as Lessee may direct by written notice to Lessor.

19.4 Brokers. Each party represents and warrants to the other party that such party has not incurred any liability to any broker, finder or agent for any brokerage fees or commissions or finder's fees or commissions with respect to the transactions contemplated by this Lease Agreement which will be a direct or indirect obligation of the other party hereto. Each party agrees to indemnify, defend and hold harmless the other party from and against any and all claims asserted against such other party for any such fees or commissions claimed by any persons purporting to act or to have acted for or on behalf of the indemnifying party.

19.5 Expenses. Any sales tax, use tax, goods and services tax, real property transfer or gains tax, documentary stamp tax, or similar taxes, duties or charges relating to the transfer of the Leased Property to Lessee, and all fees in connection with the recordation of this Lease Agreement, shall be for the account of and be payable by Lessee. Except as set forth in this Section 19.5 or as otherwise expressly provided in this Lease Agreement, each party shall pay its own expenses incident to the preparation and negotiation of this Lease Agreement, the consummation of the transactions contemplated hereby, and its compliance with all its agreements, covenants and obligations contained herein or therein, including all taxes, all legal and accounting fees and disbursements and all costs of obtaining necessary consents.

19.6 Waiver. Any term or provision of this Lease Agreement may be waived, or the time for its performance may be extended, by the party or parties entitled to the benefit thereof. The failure of any party hereto to enforce at any time any provision of this Lease Agreement shall not be construed to be a waiver of such provision, nor to affect in any way the validity of this Lease Agreement or any part hereof or the right of any party thereafter to enforce each and every such provision. No waiver of any breach of this Lease Agreement shall be held to constitute a waiver of any other or subsequent breach.

19.7 Successors and Assigns. This Lease Agreement shall be binding upon, and inure to the benefit of, the respective successors and permitted assigns of the parties.

19.8 Assignment. Neither party may assign or otherwise transfer this Lease Agreement, or any rights or obligations hereunder or delegate its performance hereunder without the prior

written consent of the other party, which consent shall not be unreasonably withheld, conditioned or delayed; provided that either party may assign this Lease Agreement to an Affiliate upon giving written notice to the other party. In the event of a sale of all of the stock or assets of Lessor or in the event Lessor transfers or sells either of the plants served by the Lease Lines or Lessor transfers or sells the Lease Lines or the Leased Property, Lessee shall be entitled to review the operations or operating plan of any such successor entity to Lessor, and if the operations or operating plan vary materially from the operations of Lessor as of the Effective Date, Lessee and Lessor or its successor shall negotiate in good faith an amendment to this Lease Agreement to account for the altered operations of such successor entity. In the event the parties cannot agree within a reasonable time upon an amendment acceptable to Lessee, in the exercise of its sole and absolute discretion, Lessee shall be entitled to terminate this Lease Agreement upon one hundred eighty (180) days written notice to Lessor and its successor.

19.9 Notices. All notices, requests or demands required or permitted by this Lease Agreement: (i) shall be in writing; (ii) shall be deemed to have been given, forwarded, made or delivered: (x) if delivered in person or by overnight courier service, when received, and (y) if sent by registered or certified mail return receipt requested, on the earlier of the date of receipt or the fifth day after it is mailed; and (iii) shall be addressed as follows:

(i) If to Lessor to it at:

Fraser N.H. LLC
c/o Fraser Papers Inc.
70 Seaview Avenue
P.O. Box 10055
Stamford, Connecticut 06904
Attention: Vice President for Materials Management

(ii) If to Lessee to it at:

St. Lawrence & Atlantic Railroad Company
415 Rodman Road
Auburn, ME 04210
Attention: General Manager

Each party may designate by notice in writing a new address to which any notice, demand, request or communication may thereafter be so given, served or sent.

19.10 Confidentiality. Each party agrees that it will treat in confidence this Lease Agreement and all documents, materials and other information that it obtained from the other party during the course of the negotiations leading to the consummation of the transactions contemplated hereby, and the preparation of this Lease Agreement. The obligation of each party to treat such documents, materials and other information in confidence shall not apply to any information which (i) such party can demonstrate was already lawfully in its possession prior to the disclosure thereof by the other party; (ii) is known to the public and did not become so known through any violation of a legal obligation; (iii) became known to the public through no fault of

such party; (iv) is later lawfully acquired by such party from other sources; (v) such party determines, based on the advice of counsel, is legally required to be disclosed to another party; (vi) is required to be disclosed to the public under federal securities laws and regulations or regulations of the National Association of Securities Dealers; or (vii) is disclosed in connection with preserving or enforcing such party's rights.

19.11 Entire Agreement. This Lease Agreement and the Exhibits and Schedules referred to herein contain the entire understanding of the parties with respect to the subject matter contained herein or therein and supersede all prior oral or written agreements and understandings between the parties with respect to such subject matter. The parties hereto, by mutual agreement in writing, may amend, modify and supplement this Lease Agreement.

19.12 Headings. Article, Section, and Exhibit headings contained in this Lease Agreement are inserted for convenience of reference only, shall not be deemed to be a part of this Lease Agreement for any purpose and shall not in any way define or affect the meaning, construction or scope of any of the provisions hereof.

19.13 Limitation on Benefits. Nothing herein is intended to be for the benefit of any person or entity other than the parties hereto and their successors and permitted assigns. It is the explicit intention of the parties hereto that no person or entity other than the parties hereto and their successors and permitted assigns is or shall be entitled to bring any action to enforce any provision of this Lease Agreement against any of the parties hereto, and the assumptions, indemnities, covenants, undertakings and agreements set forth in this Lease Agreement shall be solely for the benefit of, and shall be enforceable only by, the parties hereto or their respective successors and permitted assigns.

19.14 Governing Law. This Lease Agreement shall be governed by and construed in accordance with the laws of the State of New Hampshire without regard to the conflicts of laws principles thereof.

19.15 Partial Invalidity. Wherever possible, each provision hereof shall be interpreted in such manner as to be effective and valid under applicable law, but in case any one or more of the provisions contained herein shall, for any reason, be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provisions of this Lease Agreement, and this Lease Agreement shall be construed as if such invalid, illegal or unenforceable provision or provisions had never been contained herein unless the deletion of such provision or provisions would result in such a material change as to cause completion of the transactions contemplated hereby to be unreasonable.

19.16 Counterparts. This Lease Agreement may be executed in two or more counterparts, all of which shall collectively constitute this Lease Agreement.

19.17 Information Releases. No press release or public announcement with respect to the transaction contemplated herein shall be made by either party without prior written approval of the other party, which approval shall not be unreasonably withheld, except as may be necessary, in the opinion of counsel for such party, to meet the requirements of any applicable

law, regulation or ordinance, to comply with any request of any stock exchange on which the securities of such party may be listed or to enable such party to perform its obligations hereunder. It is expressly understood that this Lease Agreement, its contents and the provision of switching services may be disclosed by either party in connection with obtaining governmental approvals, or any application for any permit, license, exemption or certification in connection with the provision of switching services.

19.18 Execution. If Lessee or Lessor execute this Lease Agreement by agent or representative, such agent or representative by the act of signing this Lease Agreement individually warrants and represents to the parties, and Lessee and Lessor represent and warrant respectively to each other, that he/she is authorized to execute, acknowledge and deliver this Lease Agreement on behalf of Lessee or Lessor, as the case may be, and thereby to bind the respective party to the same.

19.19 Jurisdiction and Venue. Each party irrevocably stipulates that any claim or dispute concerning this Lease Agreement shall be submitted for decision by courts located within the State of New Hampshire, including the United States District Court sitting in Concord, New Hampshire (by reason of diversity of citizenship and where venue is proper, except if the amount in controversy is less than the statutory limit), which each party hereto irrevocably stipulates shall have exclusive jurisdiction and venue. Each party irrevocably stipulates that any process issued with respect to any action filed in such court may be served by certified mail, return receipt requested or as a notice under Section 19.9 hereof.

19.20 Interpretation. This Lease Agreement shall be interpreted as to its fair meaning and not strictly for or against any drafter of any provision of this Lease Agreement.

19.21 Damages. EXCEPT AS MAY BE OTHERWISE EXPRESSLY PROVIDED HEREUNDER, NEITHER PARTY SHALL BE LIABLE TO THE OTHER FOR INCIDENTAL, CONSEQUENTIAL, SPECIAL OR INDIRECT DAMAGES OR FOR EXEMPLARY OR PUNITIVE DAMAGES ARISING OUT OF ANY ACT OR OMISSION HEREUNDER OR OTHERWISE WITH RESPECT TO THE TRANSACTION CONTEMPLATED HEREIN, WHETHER ATTRIBUTABLE TO ANY CLAIM FOR BREACH OF CONTRACT, TORT OR OTHER CAUSE OF ACTION.

IN WITNESS WHEREOF, each of the parties hereto has caused this Lease Agreement to be duly executed on its behalf, as of the day and year first above written.

ST. LAWRENCE & ATLANTIC RAILROAD
COMPANY

By: _____
Title: _____

FRASER PAPERS INC.

By: _____
Title: _____

FRASER N.H. LLC

By: _____
Title: _____