

Southern Montana Electric Mediation

**Reorganization Plan Settlement Term Sheet and Agreement in Principle Among
Authorized Counsel**

The following is a term sheet (the "Term Sheet") of material terms of a new plan of reorganization (the "Plan") of Southern Montana Electric Generation and Transmission Cooperative, Inc. (the "Debtor"), currently the Debtor in a case pending in the U.S. Bankruptcy Court for the District of Montana known as *In re Southern Montana Electric Generation and Transmission Cooperative, Inc.*, No. 11-62031 ("Chapter 11 Case") under chapter 11 of title 11 of the United States Code (the "Bankruptcy Code"). This Term Sheet is the product of a confidential mediation conducted by the Honorable Leif M. Clark (the "Mediator"). The parties to the mediation are (i) the Debtor; (ii) The Prudential Insurance Company of America, Universal Prudential Arizona Reinsurance Company, Prudential Investment Management, Inc. as successor-in-interest to Forethought Life Insurance Company, and Modern Woodmen of America (collectively, the "Noteholders"); and (iii) the current members of the Debtor consisting of Tongue River Electric Cooperative, Inc.; Fergus Electric Cooperative, Inc.; Mid-Yellowstone Electric Cooperative, Inc.; and Beartooth Electric Cooperative, Inc. (collectively, the "Members"). Nothing in this Term Sheet is intended to be, or shall constitute, a solicitation of a vote for any plan of reorganization or a sale or a solicitation of an offer to purchase any security of the Debtor.

The Plan shall be filed by the Debtor as promptly as possible with the consent of the parties hereto. The Plan shall generally follow the Noteholders' Plan of Reorganization dated December 17, 2013, currently on file with the Bankruptcy Court, adopting only as many of its provisions as are applicable to an in compliance with the matters agreed to in this Term Sheet. For the sake of clarity, the treatment accorded to the Noteholders and other claimants referenced herein, and the implementing terms of the Plan, shall be modified to correspond to the parties' agreement herein with such other corresponding technical, definitional and administrative changes to the Plan which shall not be inconsistent herewith and with such other changes deemed necessary by the Debtor (subject to the reasonable consent of the parties hereto) to provide for payment terms to, and classification of, other creditors in a manner not inconsistent with the terms hereof. In the event of the existence of an unanticipated issue not addressed in this Term Sheet as to which the parties disagree as to its treatment under the Plan, the parties agree to cooperate to facilitate a resolution of such dispute, including resorting to mediation to the extent appropriate.

Noteholders' Claims:

The Noteholders' Claims shall be satisfied by the Debtor (all references in this Term Sheet to the Debtor shall refer to the reorganized Debtor as applicable) by way of: (i) the retention by the Indenture Trustee and the Noteholders of the Adequate Protection Payments and professionals fees paid by the Debtor from the petition date of the Chapter 11 Case through April 2014;


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(ii) the delivery to the Noteholders of the deposit presently held by Northwestern Energy in the amount of \$1.25 million (the "NWE Deposit") if, when, and to the extent refunded to the Debtor by Northwestern Energy; (iii) 4-year term promissory notes allocated between the Noteholders in the aggregate principal amount of \$21 million on the terms set forth herein (the "Notes") and (iv) the granting of interests in the Trust (as defined below) and the Debtor's agreement to assign all HGS proceeds to the Noteholders (all as further described in this Term Sheet). In the event that Northwestern Energy requires a return of all or a portion of the NWE Deposit as a prerequisite to continuing service to the Debtor, any amount of the deposit required to be provided to Northwestern Energy and not repaid to the Noteholders (the "Remaining Deposit") shall be added on the Effective Date on a pro rata basis to the balance of the Notes, and additionally collateralized with a perfected lien on the Remaining Deposit with such lien acknowledged by Northwestern Energy, *provided that*, to the extent that any portion of the Remaining Deposit is added to the balance of the Notes, any subsequent release of all or any portion of the Remaining Deposit that is paid to the Noteholders shall be credited as a payment on the Notes. Interest on the Remaining Deposit shall begin to accrue 90 days after the Effective Date in a like manner as interest on the principal balance of the Notes. Notwithstanding the foregoing, no amortized principal payment shall be required to be made by the Debtor on account of the Remaining Deposit while the amount of the Notes attributable to the Remaining Deposit remains outstanding, but such amount shall be due and payable, if not earlier paid, upon maturity of the Notes (regardless of whether or not the Remaining Deposit is released by Northwestern Energy). The Debtor shall provide appropriate direction to Northwestern Energy in accordance with the terms hereof to tender the Remaining Deposit to the Noteholders when such Remaining Deposit is no longer required to be maintained by Northwestern Energy in an amount equal to the lesser of the amount of the Remaining Deposit or the balance then outstanding on the Notes.

The Notes shall accrue interest at a simple interest rate of 4.125% per annum and cash interest will be paid monthly as due. The minimum monthly amortization shall be equal to 1/2 of a straight line monthly amortization of the indebtedness through maturity; *provided that*, in the event of a partial prepayment of the principal balance of the Notes upon Beartooth's withdrawal from the Debtor, as provided elsewhere herein, the straight line monthly amortization of the indebtedness through maturity shall

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be recalculated based upon the remaining principal balance after that prepayment, and the minimum monthly payment for all months after that shall be reduced to ½ of that adjusted monthly amortization figure. The initial minimum monthly payment due in each month shall be \$218,750 (which amount shall be “shaped and smoothed” over based upon expected cash flow during the initial 90-day period of the Notes after the Effective Date to prevent the possibility of an early amortization default).

Payments shall also be made by way of a monthly cash sweep of net operating cash over \$1 million and applied first to any unpaid interest then due under the Notes, if any, and second, to the principal balance of the Notes due at maturity. The cash sweep shall not go into effect until the Notes are issued under the Plan and Adequate Protection Payments cease under the Cash Collateral Order. Net operating cash shall consist of all cash on hand remaining after payment of non-Noteholder creditor payments under the Plan, Construction Lien Claims’ payments in the manner set forth under the Noteholders’ Plan, administrative payments, power supply, transportation charges, administrative overhead, operating expenses, and capital expenditures, if any. Except as to emergency capital expenditures for which advance notice and consent is impractical, any capital expenditures may only be incurred in accordance with a budget pre-approved by the Noteholders. Any unpaid amounts shall be due and payable upon maturity. The Debtor and/or Members may prepay, in whole or in part, the Notes and there shall be no prepayment premium or penalty, make whole payment provision or any similar provision whatsoever as a condition of the Notes.

The Notes shall be secured by the assets and proceeds of such assets presently securing the Indenture Trustee and Noteholders’ Claims (including collateral proceeds held at any time by the Trust) in the same order of priority as presently exists (accomplished through modifications or amendments of the existing loan and indenture documents as appropriate). The Members shall expressly acknowledge that their All Requirement Contracts serve as valid perfected collateral for the Notes and are enforceable by the Indenture Trustee and the Noteholders in the event of a subsequent default under the Notes.

The Notes shall contain standard negative covenants including no new indebtedness or non-operating obligations without prior approval by the Noteholders, no new long term contracts for sale by the Debtor of power to third parties without prior approval by the Noteholders, no amendment or release of existing All Requirement Contracts, except as provided herein, without



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consent of the Noteholders, no member capital credit distributions without Noteholders' prior consent, and no capital expenditures without Noteholders' prior approval, which approval shall not be unreasonably withheld, of capital expenditures as budgeted on an annual basis.

Adequate Protection Payments and professional fee payments to the Noteholders and the Indenture Trustee shall continue through the Effective Date on the present terms of the existing Cash Collateral Order, which shall be extended through the Effective Date; provided, however, that any Adequate Protection Payment paid to the Noteholders for the month of May 2014 and subsequently will be applied to the Notes as a principal prepayment of the same. The parties shall agree on an acceptable budget for the Cash Collateral Period. The Cash Collateral Order shall otherwise be consistent with the terms and conditions of this Term Sheet. The fees and costs of the Professionals for the Noteholders and the Indenture Trustee accrued up through the Effective Date shall not reduce the balance of the Notes.

Termination of Security Interest in Contracts; Releases:

Upon payment in full of the Notes and satisfaction of the Debtor's and Members' obligations to the Noteholders as set forth in the Plan, the All Requirement Contracts shall cease to be collateral for the Notes and the Debtor shall have no continuing liability to the Noteholders.

The parties hereto further agree that upon payment in full of the Notes and satisfaction of the Debtor's and Members' obligations to the Noteholders as set forth in the Plan, the Debtor and the Members on the one hand and the Noteholders and the Indenture Trustee on the other hand shall exchange mutual and full releases regarding all damages, liabilities, conduct and claims of any nature whatsoever relating to the Debtor, including in respect of the original Noteholders' financing, this Chapter 11 Case, and the post-Effective Date period up to and including the date of the release. Mutual releases shall also be available from the Noteholders and the Indenture Trustee on the one hand and the past and present individual officers, managers and directors of each Member and the Debtor on the other hand regarding all damages, liabilities, conduct and claims of any nature whatsoever relating to the Debtor, including in respect of the original Noteholders' financing, this Chapter 11 Case, and the post-Effective Date period up to and including the date of the release, provided however, the release shall contain a mutual non-disparagement clause covering any verbal or written statement of any kind concerning any released or releasing party in the press

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or social media, or to any other energy cooperative.

Notwithstanding the foregoing, the release of the All Requirement Contract of Beartooth Electric Cooperative, Inc. ("Beartooth") as collateral for the Notes, and Beartooth's withdrawal from the Debtor, shall be approved by the Noteholders upon payment by Beartooth, or the Debtor on behalf of Beartooth, to the Noteholders of an amount equal to the outstanding balance of the Notes (without inclusion of the Remaining Deposit, though with inclusion of any interest accrued thereon) multiplied by 17.5211%, which is Beartooth's current average percentage load of electricity purchases from the Debtor, and upon such other terms and conditions as may be agreed between the Members and the Debtor which are in conformity and not inconsistent with any other provision stated herein and the Debtor's Bylaws and Beartooth's All Requirement Contract. Upon such event, in addition to the mutual releases to be granted upon the Effective Date as described herein, Beartooth shall receive and grant mutual releases from and to the Noteholders, Debtor and other Members upon the same terms and conditions associated with releases provided upon payment in full of the Notes by the Debtor.

Debtors' and Members'
Rights to Terminate
Debtor

Upon payment in full of the Notes and satisfaction of the Debtor's and Members' obligations to the Noteholders as set forth in the Plan, the Debtor and the Members shall have the right, as they decide, to dissolve and/or otherwise terminate the ongoing operation of the Debtor, *provided that*, regardless of whether or not the Debtor and the Members decide to dissolve and/or terminate the ongoing operation of the Debtor, they agree among themselves that, at a minimum, they shall cause the Debtor to take all necessary steps to (i) terminate the All Requirement Contracts without further duty, responsibility or performance of any party thereunder (subject to completion of any power contract then in effect); (ii) allocate the remaining WAPA power supply rights among the Members pursuant to the Members' agreement; and (iii) allow any Member to withdraw from further membership in the Debtor. The Debtor shall obtain advice of counsel and act consistently with such advice and with the fiduciary duties of the board of the Debtor with respect to the foregoing matters, and with respect to whether to formally dissolve the Debtor. These provisions are among, and for the benefit only of, the Debtor and Members, and not the Noteholders.

General Unsecured Claims: The Debtor may assign or transfer any and all Chapter 5 actions

and rights to recovery therefrom to the Official Committee or to any other party designated as an estate fiduciary as the Debtor may decide subject to the proviso that the Debtor may not provide for a total recovery to the holders of Allowed General Unsecured Claims (as that term may come to be defined under the Plan) in excess of a value of \$1 million without the consent of the Members and the Noteholders. The payment of Allowed General Unsecured Claims may come from a combination of any or all of each holder of an Allowed General Unsecured Claim receiving its pro rata share of (i) any cash proceeds recovered from avoidance actions including the action against PPL (but excluding any action against the Indenture Trustee or the Noteholders); (ii) any fees or costs disgorged as a result of disallowed Professional Fee Claims pursuant to a Final Order of the Court (expressly excluding any disgorgements of fees associated with fee applications of Noteholders' and Indenture Trustee's Professionals or the Debtor's Professionals which amounts, if any, shall as to the Noteholders' and Indenture Trustee's Professionals be retained by the Noteholders and Indenture Trustee as proceeds of their collateral and shall not reduce the balance of the Notes and, as to the Debtor's Professionals, be retained by the Debtor as operating capital); (iii) unencumbered cash, if any, on hand on the Effective Date, if in the discretion of the Debtor such is necessary or advisable to procure the consent of the Official Committee or confirmation of the Plan. Allowed General Unsecured Claims (and the PPL Claim to the extent Allowed and not subordinated) shall receive no other recoveries in the absence of the consent of the Members and the Noteholders.

Construction Lien Claims:

All Construction Lien Claims shall be treated as set forth in the Noteholders' Plan. For the sake of clarity, the payment of amounts on account of the Construction Lien Claims shall not reduce the balance due under the Notes. The Construction Lien Claims shall be due and payable prior to the satisfaction of the Notes.

Member Reserve Account Claims:

Member Reserve Account Claims may be restored in whole or in part by the Members at their discretion to ensure payment of the Members' obligations to the Debtor.

Member Capital Claims:

Member Capital Claims shall be treated as set forth in the Noteholders' Plan, with repayment subordinated to the payment of the Notes.

Effective Date:

The Effective Date is anticipated to occur on May 1, 2014, unless such date is extended with the consent of the parties hereto. Any



Adequate Protection Payments received after May 1, 2014 shall be applied to reduce the balance of the Notes. The Debtor shall have at least \$1 million of working capital on the Effective Date. The cash balance remaining in the Estate on the Effective Date above the \$1 million working capital floor and after the \$1 million paid to the Noteholders for the Trust and all other amounts payable under the Plan on the Effective Date shall remain in the Estate to be used for Estate purposes as the Debtor deems appropriate. These excess cash funds shall be excluded from the monthly sweep described above, but be subject to the lien of the Indenture Trustee. As of the Effective Date, the property of the Debtor, including, without limitation, HGS and the All Requirement Contracts assumed under the Plan as amended in accordance with the terms hereof, shall continue to be vested in the Debtor, subject to the terms of the Plan and the Trust.

Power Supply:

The Debtor may manage and purchase its power supply after the Effective Date at prices and at contract durations of any term, or by way of spot market purchase, as the Debtor may determine.

All Requirement Contracts and Bylaws:

The Members' All Requirement Contracts shall be assumed as modified herein (with no cure amount being due) and power rates shall be set throughout the term of the Notes at the current rate of approximately \$70/ mwh and shall not vary up or down unless approved by the board of the Debtor. Such rates may not be amended absent the consent of the Noteholders in the event any rate change would render the Debtor unable to pay amounts due on the Notes. The All Requirement Contracts shall be modified as necessary to comply with this Term Sheet, including that the term of the All Requirement Contracts shall be shortened to expire upon the payment of the Notes in full and satisfaction of the obligations thereunder, *provided, however*, that in the event that payment of the Notes in full is not made within the four year period of amortization and the Notes are not otherwise in default except for the requirement to pay outstanding amounts due upon maturity, the All Requirement Contracts will remain as collateral for the Notes until payment of the Notes is made in full and satisfaction of the obligations thereunder except that, subsequent to the conclusion of the four year amortization period, each Member, including Beartooth if it has not already withdrawn its membership in the Debtor as authorized herein, may pay to the Noteholders within 90 days thereafter an amount in one cash payment equivalent to the paying Member's load share as established as of the Effective Date multiplied by the outstanding amount of the indebtedness as of the date of the payment and, upon such payment, the paying Member will be released from the



Debtor and its All Requirement Contract will be released as collateral for payment of the Notes by the Noteholders (which release shall not impair the enforceability of any other All Requirement Contract). The Debtor's Bylaws shall also be assumed, and shall not be amended without Noteholders' consent regarding any provision relating to the payment of the Noteholders' debt or the process for setting rates.

HGS Trust:

The HGS Holding Trust ("Trust") shall be created for the benefit of the Noteholders, as beneficiaries, for the purpose of managing the disposition of their tangible collateral for the Notes known as "HGS" as defined in the Noteholders' Plan, except as modified herein. The Trust shall be funded by way of the application of: (i) the Adequate Protection Payments of \$780K payable in each of February, March and April of 2014 and (ii) \$1 million of cash on hand with the Debtor upon the Effective Date, which amounts shall not reduce the amounts due under the Notes. Trust assets will be applied to pay employee and administrative costs incurred by the Debtor in connection with holding HGS and associated assets, but not the administrative costs and expenses of the Debtor. Once funded on the Effective Date, the Noteholders as beneficiaries of the Trust shall have the risks or benefits, as applicable, of all costs, liabilities and proceeds resulting from the Trust. The Debtor shall pay through the Effective Date all expenses of HGS, as and when due in the same manner as the Debtor and/or Trustee have paid during the pendency of the Chapter 11 Case. Other than any unpaid HGS Costs (as defined below) for which the Debtor is solely responsible in accordance with the immediately preceding sentence, the Trust shall be responsible for payment, on behalf of the Debtor, of all obligations, agreements and contracts of the Debtor deemed necessary by the Trust for the use, access, operation, maintenance, retention and disposition of HGS (and its associated assets consisting of both real and personal property) as contemplated in this Term Sheet ("HGS Costs") existing prior to and after the Effective Date (though coming due for payment after the Effective Date). For the month in which the Effective Date occurs, the Debtor and the Trust shall allocate the payment of the HGS Costs, with the Debtor paying for the pre-Effective Date period and the Trust covering the post-Effective Date portion of expenses attributable to HGS. The Trust shall be responsible for all Bankruptcy Code section 365 cure costs associated with contracts and unexpired leases relating to HGS designated for assumption under the Plan by the Noteholders. The Debtor shall cooperate in good faith with the Trust, to the extent within the Debtor's control and in accordance with its

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fiduciary duties, and subject to the benefit of the indemnity below, to minimize HGS Costs payable by the Trust. Any and all unused funds held by the Trust and any and all net proceeds of a disposition of HGS shall be indefeasibly paid to the Noteholders, and shall not reduce the amounts due under the Notes.

Beginning on the Effective Date, the Trust shall be responsible for, and indemnify the Debtor as provided herein against all HGS Costs, including, without limitation, any liability, cost, expense or exposure accruing after the Effective Date resulting from holding title to HGS and the associated assets. All reasonable and necessary costs and expenses incurred by the Debtor as a result of HGS and the associated assets incurred subsequent to the Effective Date shall be fully reimbursed by the Trust. Except as to (1) unauthorized acts by the Debtor and (2) acts committed with willful misconduct by the Debtor, the Trust shall fully defend and indemnify the Debtor against any and all claims, damages and liabilities, including reasonable attorneys' fees and costs, arising in any manner out of Debtor's ownership of HGS and the associated assets accruing after the Effective Date. Such indemnity shall be limited to the assets of the Trust and shall not extend to the Indenture Trustee or the Noteholders. If the Debtor submits an indemnity claim to the Trust which is received by the Trust on or before the date of a distribution by the Trust to the beneficiaries thereof, and the amount of the loss or reasonably anticipated loss associated with such indemnity claim exceeds or may be reasonably be expected to exceed the amount of the insurance policy limits and the then-existing assets of the Trust available to cover such loss, the Trust and the Debtor shall cooperate in evaluating and potentially establishing a reserve in an amount reasonably adequate to cover a reasonable estimate of any indemnity claim (including an agreement to set aside, if required, any net sale proceeds subsequently received by the Trust from the disposition of HGS and associated assets), and the mechanics and standards for payment or release of any such reserve, which reserve shall not exceed the amount of the then-existing assets of the Trust plus the net proceeds from a sale of HGS. Absent agreeing on such reserve, the Trust and the Debtor shall cooperate in mediating the necessity for (if applicable) and the amount and terms of a reserve. For the sake of clarity, the Debtor shall have no claim to any funds previously distributed by the Trust to the Indenture Trustee or the Noteholders and shall have no right to enforce the provisions hereof by way of interfering or obstructing in any way the sale or disposition of HGS and its associated assets.

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The Trust shall also take all steps necessary to pay for reasonable insurance for HGS and its associated assets during the period of time such assets are titled in the Debtor. Such insurance shall be in place as of the Effective Date in an amount and type no less than that held by the Debtor as of the petition date of the Chapter 11 Case. Such insurance coverage shall include an all-risk blanket policy; directors, officers and manager's liability and corporate indemnification; worker's compensation and employer's liability, general liability, umbrella coverage and property. In addition, the Trust shall require any third party or entity performing work or services at HGS to maintain adequate insurance to protect against loss or damage. All insurance shall provide coverage for the Debtor and, to the extent applicable the Trust, and provide coverage for the Indenture Trustee on behalf of the Noteholders as a lender loss payee with associated policy endorsements. Notwithstanding any other provision of this Term Sheet, during the period of time that HGS and its associated assets are titled in the Debtor, the Trust shall carry at all times a minimum of \$17 million in liability insurance (whether primary, excess, or combined) on which the Debtor is an additional named insured, insuring against liability arising from the ownership or operation of the assets of the Trust. The general liability coverage shall be written on an occurrence basis to allow for coverage for an occurrence during the policy period (even if a claim is made after the policy is terminated).

The Debtor shall terminate the employment of any current Debtor employees at HGS and cooperate with the Noteholders and Trust to facilitate the Trust's employment of those employees so that as of the Effective Date of the Plan, the Debtor no longer has any employees' costs related to HGS and the associated assets, provided however, that the Trust is under no obligation to hire any Debtor employee not deemed necessary to the Trust to preserve and protect HGS pending disposition. Notwithstanding anything herein to the contrary, the Trust shall not assume any successor liability of the Debtor or any liability or exposure to damages, actions, or liabilities accruing prior to the Effective Date. The Debtor need not continue in existence beyond the date of the satisfaction of the Notes (except as may otherwise be required by law but not as may otherwise be required under any contract, license or agreement pertaining to the Trust assets).

The Debtor, at the expense of the Trust, shall cooperate in good faith with the HGS Trustee, the Indenture Trustee and the Noteholders in the disposition of HGS and any and all licenses, permits and other regulatory documentation associated with the

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ownership of HGS and associated assets. The Debtor shall reasonably cooperate with the reasonable requests of the HGS Trustee relating to the disposition of HGS by exercising ownership and operational control over HGS for purposes of testing, demonstration, and transfer of title without representation or warranty by the Debtor of any kind other than ownership of good title and power and authority to transfer the same, with the Trust bearing all costs and liabilities associated therewith, net of any revenue or value received by the Debtor from any power generated from such operations. As set forth in the Plan, the Trust shall have no right to itself direct or effect any transmission or wholesale sale of electricity, nor to set any price for such transmission or wholesale sale.

Upon the fourth anniversary of the Effective Date, the Debtor shall no longer be required to retain title to the Trust assets, but shall transfer them, and to the extent legally permissible and practicable, the related licenses and permits, to the Noteholders or, upon instructions from the Noteholders, to the Noteholders' designee. The Debtor and Noteholders shall cooperate so as to achieve such transfers no later than the fourth anniversary of the Effective Date.

Confirmation Order:

The Confirmation Order shall include the following provisions:

- (i) the Members agree among themselves that no voluntary bankruptcy filing may be made by the Debtor unless (a) the Notes are fully satisfied for a period of at least 90 days, or (b) unanimous board approval of the Debtor and Indenture Trustee consent upon the direction of the Noteholders (with any filing in contravention of this provision being deemed to be in bad faith);
- (ii) no assignment, amendment or termination of the All Requirement Contracts (except as to Beartooth upon a permitted release of the All Requirement Contract of Beartooth and Beartooth's withdrawal from the Debtor in accordance with the terms hereof) unless (a) the Notes are fully satisfied for a period of at least 90 days, or (b) unanimous board approval of the Debtor and Indenture Trustee consent upon the direction of the Noteholders;
- (iii) acknowledgement and authorization by the Members and the Debtor of the existing assignment of the All Requirement Contracts by the Debtor to the Noteholders as collateral for the restructured debt on the terms provided herein;
- (iv) acknowledgement of the right of the Debtor to assume the All Requirement Contracts in any subsequent bankruptcy proceeding (subject to providing adequate assurance of performance and curing any existing default) and the reliance upon the same as consideration for the Noteholders' settlement



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on the Notes (and the right of the Debtor to assign such contracts in a subsequent bankruptcy proceeding to a Debtor entity, to the Indenture Trustee or designee of the Noteholders, or to an entity able to satisfy, or arrange for the satisfaction of, the power supply obligations of the Debtor); (v) a finding that there is no condition in the All Requirement Contracts (a) that there must be a certain number of members, or (b) that HGS must be the source of power; and (vi) the Bankruptcy Court retains jurisdiction over the term of the Plan. Subsections (iv) and (v) of this Section shall only be enforceable by the Indenture Trustee and the Noteholders and only in the event that the Notes are not satisfied in full or the Debtor or the Members are in default of, or have failed to comply with, any obligations to the Indenture Trustee and the Noteholders under the Plan, and only to the extent necessary to satisfy the Debtor's and Members' obligations to the Indenture Trustee and the Noteholders under the Plan.

Plan Support:

The parties hereto shall agree to support actively the Plan, including expediting confirmation of the Plan and the occurrence of the Effective Date. Pending confirmation of the Plan, all litigation with respect to competing plans, conversion, or other disputes and discovery among the parties shall be stayed until the earlier of (i) the Effective Date when all pending matters shall be dismissed or resolved pursuant to the Plan, or (ii) June 1, 2014 if the Effective Date does not occur by then. If the Confirmation Order is appealed, the parties agree to oppose actively any stay and to take all reasonable actions necessary to equitably moot the appeal, dismiss the appeal, and prevent any modification or overturning of the Confirmation Order.

Other:

Except for obligations under the Plan and as described above, the Plan shall provide for immediately effective mutual releases on the Effective Date between the Noteholders and the Indenture Trustee on one hand and the Debtor and Members on the other hand related in any way to the Debtor and the Chapter 11 Case, such mutual releases to be effective as of the Effective Date of the Plan, and will provide for updated mutual releases between these parties upon payment in full of the Notes and satisfaction of the obligations thereunder. Individual mutual releases shall be exchanged between the Noteholders and the past and present individual board members, officers, and managers for the Debtor and the Members effective upon the Effective Date of the Plan, limited to matters related in any way to the Debtor and the Chapter 11 Case, and subject to each such individual agreeing to a non-disparagement requirement.

All releases provided for pursuant to this Term Sheet for the



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parties hereto, whether granted on the Effective Date or on a subsequent date, shall extend to professionals and advisors of the relevant party.

The parties shall not oppose the fee applications of the Debtor's Professionals and the Noteholders' Professionals. In connection with the agreement not to oppose such applications, nothing contained herein shall require any party to take an action, or refrain from taking an action, that is contrary to applicable ethical or fiduciary duties.

Upon the Effective Date, all pending adversary proceedings and contested matters between and among the Debtor, the Members, the Noteholders, and the Indenture Trustee shall be dismissed with prejudice, including the Members' Adversary Proceeding, the Beartooth Adversary Proceeding, and any pending motions that are inconsistent with the Plan.

Upon the filing of the Debtor's Plan consistent with the terms hereof, (i) the Noteholders and the Members, respectively, shall each withdraw their pending plans and disclosure statements and (ii) the Debtor shall withdraw the Trustee's pending plan and disclosure statement.

The parties shall agree on a mutually acceptable press release by the Debtor or by any or all of the Members associated with the settlement. The result of the mediation shall remain confidential pending mutual agreement of all parties.

The parties acknowledge that this Term Sheet remains subject, in whole or in part, to the approval of the Bankruptcy Court. The parties may agree to waive or modify any terms of this Term Sheet to comply with instructions or rulings of the Bankruptcy Court.

The Mediator shall file a report with the Bankruptcy Court indicating that the mediation has been successful and that the Mediator supports the Term Sheet.



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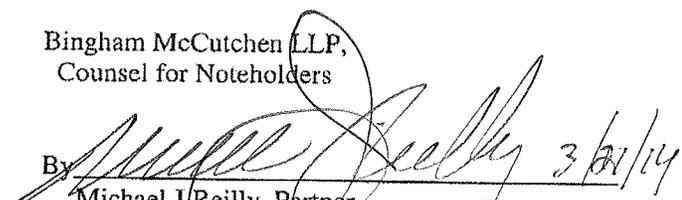
AGREEMENT IN PRINCIPLE

The undersigned law firms or sole practitioners, as counsel for their respective clients named below, hereby mutually confirm to each other solely for purposes of mutual representations among counsel: (1) their belief that this Term Sheet reflects their understanding of their client's agreement in principle to the terms hereof and related matters contemplated hereby, (2) their clients have informed them no further corporate action or authority is necessary to be bound by such transactions and matters except mutually satisfactory final documentation reflecting the terms hereof, the Confirmation Order of the Bankruptcy Court and other related Bankruptcy Court orders or dismissals contemplated hereby, and satisfaction of closing conditions to the Effective Date, and (3) their clients have instructed them to document, complete, and implement the settlement and related matters contemplated hereby as promptly as possible on their behalf.

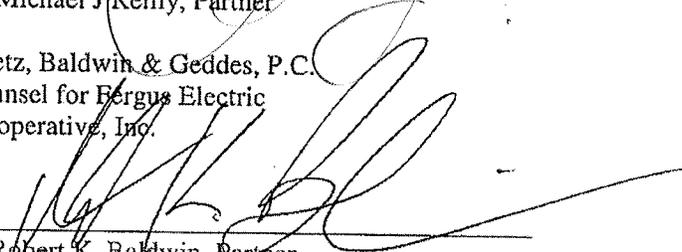
Goodrich Law Firm P.C., Counsel for
Debtor

By 
Malcolm Goodrich, Partner

Bingham McCutchen LLP,
Counsel for Noteholders

By  3/26/14
Michael J Reilly, Partner

Goetz, Baldwin & Geddes, P.C.
Counsel for Fergus Electric
Cooperative, Inc.

By 
Robert K. Baldwin, Partner

Gutthals, Hunnes & Reuss, P.C.,
Counsel for Tongue River
Cooperative, Inc.

By _____
Jeffrey A. Hunnes, Partner

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Goodrich Law Firm P.C., Counsel for
Debtor

By _____
Malcolm Goodrich, Partner

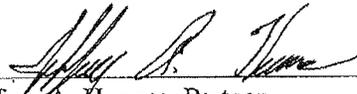
Bingham McCutchen LLP,
Counsel for Noteholders

By _____
Michael J Reilly, Partner

Goetz, Baldwin & Geddes, P.C.
Counsel for Fergus Electric
Cooperative, Inc.

By _____
Robert K. Baldwin, Partner

Gutthals, Hunnes & Reuss, P.C.,
Counsel for Tongue River
Cooperative, Inc.

By  _____
Jeffrey A. Hunnes, Partner

Felt, Martin, Frazier & Weldon, P.C.
Counsel for Beartooth Electric
Cooperative, Inc.

By Martin S. Smith
Martin S. Smith, ~~Partner~~

Counsel for Mid-Yellowstone Electric
Cooperative, Inc.

By _____
Gary Ryder

Felt, Martin, Frazier & Weldon, P.C.
Counsel for Beartooth Electric
Cooperative, Inc.

By _____
Martin S. Smith, Partner

Counsel for Mid-Yellowstone Electric
Cooperative, Inc.

By  _____
Gary Rydel