

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

(Mark One)

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 29, 2019

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission File Number 001-36285



RAYONIER ADVANCED MATERIALS INC.
Incorporated in the State of Delaware
I.R.S. Employer Identification No. 46-4559529
1301 RIVERPLACE BOULEVARD, SUITE 2300
JACKSONVILLE, FL 32207
(Principal Executive Office)
Telephone Number: (904) 357-4600

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$0.01 par value	RYAM	The New York Stock Exchange
Preferred Stock, \$0.01 par value	RYAM PR A	The New York Stock Exchange

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).
Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐

Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒
The registrant had 49,849,979 shares of common stock, \$.01 par value per share, outstanding as of August 5, 2019.

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Part I. Financial Information
Item 1. Financial Statements

Rayonier Advanced Materials Inc.
Condensed Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)
(Unaudited)
(Dollars in thousands, except per share amounts)

	Three Months Ended		Six Months Ended	
	June 29, 2019	June 30, 2018	June 29, 2019	June 30, 2018
Net Sales	\$ 487,816	\$ 541,720	\$ 970,597	\$ 1,063,711
Cost of Sales	(462,369)	(440,242)	(927,955)	(881,880)
Gross Margin	25,447	101,478	42,642	181,831
Selling, general and administrative expenses	(20,903)	(24,734)	(49,464)	(47,926)
Duties	(7,004)	(11,536)	(11,520)	(19,864)
Other operating income (expense), net	(5,835)	1,014	(8,422)	(1,561)
Operating Income (Loss)	(8,295)	66,222	(26,764)	112,480
Interest expense	(15,600)	(15,169)	(30,374)	(30,163)
Interest income and other, net	(750)	4,565	(99)	5,406
Other components of pension and OPEB, excluding service costs	1,177	2,199	2,643	4,393
Adjustment to gain on bargain purchase	—	14,661	—	14,661
Income (Loss) Before Income Taxes	(23,468)	72,478	(54,594)	106,777
Income tax (expense) benefit (Note 15)	8,551	(19,089)	17,627	(28,933)
Net Income (Loss) Attributable to Rayonier Advanced Materials Inc.	(14,917)	53,389	(36,967)	77,844
Mandatory convertible stock dividends	(3,441)	(3,440)	(6,805)	(6,843)
Net Income (Loss) Available to Rayonier Advanced Materials Inc. Common Stockholders	\$ (18,358)	\$ 49,949	\$ (43,772)	\$ 71,001
Earnings Per Share of Common Stock (Note 12)				
Basic earnings (loss) per share	\$ (0.37)	\$ 0.97	\$ (0.89)	\$ 1.38
Diluted earnings (loss) per share	\$ (0.37)	\$ 0.83	\$ (0.89)	\$ 1.22

Comprehensive Income (Loss):

Net Income (Loss)	\$ (14,917)	\$ 53,389	\$ (36,967)	\$ 77,844
Other Comprehensive Income (Loss), net of tax (Note 10)				
Foreign currency translation adjustments	3,658	(16,000)	(1,694)	(8,251)
Unrealized gain (loss) on derivative instruments	3,393	(8,334)	11,265	(7,062)
Net gain from pension and postretirement plans	1,865	2,398	3,756	4,795
Total other comprehensive income	8,916	(21,936)	13,327	(10,518)
Comprehensive Income (Loss)	\$ (6,001)	\$ 31,453	\$ (23,640)	\$ 67,326

See Notes to Condensed Consolidated Financial Statements.

Rayonier Advanced Materials Inc.
Condensed Consolidated Balance Sheets
(Unaudited)
(Dollars in thousands)

	June 29, 2019	December 31, 2018
Assets		
Current Assets		
Cash and cash equivalents	\$ 90,104	\$ 108,966
Accounts receivable, net (Note 2)	180,014	222,377
Inventory (Note 3)	298,902	321,377
Prepaid and other current assets	90,623	63,372
Total current assets	659,643	716,092
Property, Plant and Equipment (net of accumulated depreciation of \$1,443,368 at June 29, 2019 and \$1,388,234 at December 31, 2018)	1,370,307	1,381,039
Deferred Tax Assets	420,105	406,957
Intangible Assets, net	48,955	52,460
Other Assets	151,500	122,538
Total Assets	<u>\$ 2,650,510</u>	<u>\$ 2,679,086</u>
Liabilities and Stockholders' Equity		
Current Liabilities		
Accounts payable	\$ 182,458	\$ 192,740
Accrued and other current liabilities (Note 5)	114,686	151,356
Current maturities of long-term debt (Note 6)	21,633	15,012
Current liabilities for disposed operations (Note 7)	11,483	11,310
Total current liabilities	330,260	370,418
Long-Term Debt (Note 6)	1,215,059	1,173,157
Long-Term Liabilities for Disposed Operations (Note 7)	149,360	149,344
Pension and Other Postretirement Benefits	238,387	238,958
Deferred Tax Liabilities	26,071	28,016
Other Non-Current Liabilities	24,807	12,322
Commitments and Contingencies		
Stockholders' Equity		
Preferred stock, 10,000,000 shares authorized at \$0.01 par value, 1,725,000 issued and outstanding as of June 29, 2019 and December 31, 2018, aggregate liquidation preference \$172,500	17	17
Common stock, 140,000,000 shares authorized at \$0.01 par value, 49,848,087 and 49,291,130 issued and outstanding, as of June 29, 2019 and December 31, 2018, respectively	498	493
Additional paid-in capital	397,115	399,490
Retained earnings	411,306	462,568
Accumulated other comprehensive income (loss) (Note 10)	(142,370)	(155,697)
Total Stockholders' Equity	666,566	706,871
Total Liabilities and Stockholders' Equity	<u>\$ 2,650,510</u>	<u>\$ 2,679,086</u>

See Notes to Condensed Consolidated Financial Statements.

Rayonier Advanced Materials Inc.
Condensed Consolidated Statements of Cash Flows
(Unaudited)
(Dollars in thousands)

	Six Months Ended	
	June 29, 2019	June 30, 2018
Operating Activities		
Net income (loss)	\$ (36,967)	\$ 77,844
Adjustments to reconcile net income (loss) to cash provided by operating activities:		
Depreciation and amortization	72,356	70,533
Stock-based incentive compensation expense	3,456	6,500
Amortization of capitalized debt costs, discount and premium	282	512
Deferred income tax	(20,146)	25,916
Gain on bargain purchase	—	(13,306)
Net periodic benefit cost of pension and postretirement plans	3,496	2,867
Loss (gain) from foreign currency	5,914	(7,525)
Other	(1,081)	2,559
Changes in operating assets and liabilities:		
Receivables	41,430	(5,712)
Inventories	22,344	(26,164)
Accounts payable	(10,510)	22,459
Accrued liabilities	(24,581)	(22,321)
All other operating activities	(30,653)	(34,929)
Contributions to pension and other postretirement benefit plans	(4,755)	(5,586)
Expenditures for disposed operations	(2,289)	(4,422)
Cash Provided by Operating Activities	18,296	89,225
Investing Activities		
Capital expenditures	(59,897)	(63,621)
Cash Used for Investing Activities	(59,897)	(63,621)
Financing Activities		
Borrowings from revolving credit facility	86,000	—
Repayments of revolving credit facility	(36,000)	—
Repayment of debt	(5,562)	(12,368)
Dividends paid on common stock	(8,568)	(7,499)
Dividends paid on preferred stock	(6,900)	(6,900)
Proceeds from the issuance of common stock	—	342
Common stock repurchased	(5,826)	(14,529)
Cash Provided by (Used for) Financing Activities	23,144	(40,954)
Cash and Cash Equivalents		
Change in cash and cash equivalents	(18,457)	(15,350)
Net effect of foreign exchange on cash and cash equivalents	(405)	(1,076)
Balance, beginning of year	108,966	96,235
Balance, end of period	<u>\$ 90,104</u>	<u>\$ 79,809</u>

See Notes to Condensed Consolidated Financial Statements.

RAYONIER INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Dollar amounts in thousands unless otherwise stated)

1. Basis of Presentation and New Accounting Pronouncements

Basis of Presentation

The unaudited condensed consolidated financial statements and notes thereto of Rayonier Advanced Materials Inc. (the “Company”) have been prepared in accordance with generally accepted accounting principles in the United States of America (“GAAP”) for interim financial information and in accordance with the rules and regulations of the Securities and Exchange Commission (“SEC”). In the opinion of management, these financial statements and notes reflect all adjustments (all of which are normal recurring adjustments) necessary for a fair presentation of the results of operations, financial position and cash flows for the periods presented. These statements and notes should be read in conjunction with the financial statements and supplementary data included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2018, as filed with the SEC on March 1, 2019.

Liquidity

Cash flows from operations, primarily driven by operating results, have historically been the Company’s primary source of liquidity and capital resources. While the Company is in compliance with all debt covenants as of June 29, 2019, the significant decrease in the market prices for commodity-orientated products, primarily viscose, fluff, high-yield pulp, lumber, paperboard and newsprint, have caused the financial results of the Company to decline significantly over the last six months. As a result, the Company will not meet its 3 times first lien secured net leverage test as currently required under the Senior Secured Credit Facilities (the “Credit Facilities”) at the end of the third quarter. The Company is in active discussions with its lenders to amend the loans and expects to reach agreement in the third quarter of 2019. However, because the discussions with lenders have not been finalized and their decision is outside of the Company’s control, the outcome cannot be considered probable and no assurances can be given regarding the likelihood, certainty or timing of consummating such an amendment. If an amendment is not consummated, the lenders by contract, if they so choose, may request the immediate repayment of the loans thereunder following the filing of the Company’s third quarter report on Form 10-Q. Consequently, the Company is required to disclose that its ability to continue as a going concern is dependent on its ability to obtain an amendment or refinance the Credit Facilities.

Recently Adopted Accounting Pronouncements

Leases

The Company adopted Accounting Standards Update 2016-02, *Leases*, as amended, as of January 1, 2019. The standard requires the recognition of right of use (“ROU”) assets and lease liabilities to be reported on the balance sheet, but did not change the manner in which expenses are recorded in the income statement. The Company has adopted the lease guidance using the cumulative effect adjustment approach, which requires prospective application at the adoption date and elected certain practical expedients permitted under the transition guidance. The practical expedients allow for the carry forward of the historical lease classification of existing leases and eliminates the need to reassess any lease classification of expired leases and initial direct costs. The Company also elected the short-term lease practical expedient. The Company does not record ROU assets or lease liabilities for short-term leases. In addition, the Company utilized the portfolio approach to group leases with similar characteristics and did not use hindsight to determine the lease term. For leases that include other costs, such as maintenance and other services, in addition to lease cost, the Company is separating lease and non-lease components when determining the ROU assets and lease liabilities.

Adoption of the new standard resulted in the recording of a ROU lease assets and lease liability of \$10 million and \$11 million, respectively, and the reversal of deferred rent liability balances. See Note 4 — *Leases* for additional information.

Subsequent Events

Events and transactions subsequent to the balance sheet date have been evaluated for potential recognition and disclosure through August 7, 2019, the date these financial statements were available to be issued. The following subsequent events warranting disclosure were identified:

Rayonier Advanced Materials Inc.
Notes to Condensed Consolidated Financial Statements (Continued)
(Unaudited)
(Dollar amounts in thousands unless otherwise stated)

On July 18, 2019, the Company's Board of Directors declared a second quarter cash dividend of \$2.00 per share of mandatory convertible preferred stock. The preferred stock dividend will be paid on August 15, 2019 to mandatory convertible preferred stockholders of record as of August 1, 2019.

On August 1, 2019, the Company announced it had entered into an agreement to sell its Matane plant to Sappi Limited, a global diversified wood fiber company, for a purchase price of approximately US \$175 million.

2. Accounts Receivable, Net

The Company's accounts receivable included the following:

	June 29, 2019	December 31, 2018
Accounts receivable, trade	\$ 146,371	\$ 169,496
Accounts receivable, other (a)	35,800	54,943
Allowance for doubtful accounts	(2,157)	(2,062)
Total accounts receivable, net	\$ 180,014	\$ 222,377

(a) Accounts receivable, other consists primarily of value added/consumption taxes, grants receivable and accrued billings due from government agencies.

3. Inventory

The Company's inventory included the following:

	June 29, 2019	December 31, 2018
Finished goods	\$ 186,254	\$ 215,233
Work-in-progress	21,131	21,478
Raw materials	81,873	73,715
Manufacturing and maintenance supplies	9,644	10,951
Total inventory	\$ 298,902	\$ 321,377

4. Leases

The Company accounts for leases in accordance with ASC Topic 842, Leases, which was adopted on January 1, 2019. See Note 1 — *Basis of Presentation and New Accounting Pronouncements*, for additional information on the adoption. The Company's operating and finance leases are primarily for corporate offices, warehouse space, rail cars and equipment. As of June 29, 2019, the Company's leases have remaining lease terms of 1 year to 10 years with standard renewal and termination options available at the Company's discretion. Certain equipment leases have purchase options at the end of the term of the lease, which are not included in the ROU assets as it is not reasonably certain that the Company will exercise such options. The Company's lease agreements do not contain any material residual value guarantees or material restricted covenants.

The Company uses its incremental borrowing rate in determining the present value of lease payments unless the lease provides an implicit or explicit interest rate. The weighted average discount rate used in determining the operating lease ROU assets and liabilities as of June 29, 2019 was 5.7 percent. The weighted average discount rate used in determining the finance lease ROU assets and liabilities as of June 29, 2019 was 7.0 percent.

Rayonier Advanced Materials Inc.
Notes to Condensed Consolidated Financial Statements (Continued)
(Unaudited)
(Dollar amounts in thousands unless otherwise stated)

The Company's operating and finance lease cost is as follows:

	Three Months Ended	Six Months Ended
	June 29, 2019	June 29, 2019
Operating Leases		
Operating lease expense	\$ 1,141	\$ 2,606
Finance Leases		
Amortization of ROU assets	22	150
Interest	53	107
Total	<u>\$ 1,216</u>	<u>\$ 2,863</u>

As of June 29, 2019, the weighted average remaining lease term is 4.6 years and 7.4 years for operating leases and financing leases, respectively. Cash provided by operating activities includes approximately \$2 million from operating lease payments made during the six months ended June 29, 2019. Finance lease cash flows were immaterial during the six months ended June 29, 2019.

The Company's finance leases are included as debt and the maturities for the remainder of 2019 and the next four years and thereafter are included in Note 6 — *Debt and Finance Leases*. The Company's balance sheet includes the following operating lease assets and liabilities:

	Balance Sheet Classification	June 29, 2019
Right-of-use assets	Other assets	\$ 18,387
Lease liabilities, current	Accrued and other current liabilities	\$ 4,508
Lease liabilities, non-current	Other non-current liabilities	\$ 14,681

As of June 29, 2019, operating lease maturities for the remainder of 2019 through 2023 and thereafter are as follows:

	June 29, 2019
Remainder of 2019	\$ 2,771
2020	5,217
2021	4,526
2022	4,272
2023	3,477
Thereafter	1,672
Total minimum lease payments	<u>\$ 21,935</u>
Less: imputed interest	(2,746)
Present value of future minimum lease payments	<u>\$ 19,189</u>

Rayonier Advanced Materials Inc.
Notes to Condensed Consolidated Financial Statements (Continued)
(Unaudited)
(Dollar amounts in thousands unless otherwise stated)

5. Accrued and Other Current Liabilities

The Company's accrued and other current liabilities included the following:

	June 29, 2019	December 31, 2018
Accrued customer incentives and prepayments	\$ 39,407	\$ 43,907
Accrued payroll and benefits	28,769	30,695
Accrued interest	3,250	3,170
Derivative instruments	1,095	16,767
Accrued property and other taxes	12,931	10,663
Other current liabilities	29,234	46,154
Total accrued and other current liabilities	\$ 114,686	\$ 151,356

6. Debt and Finance Leases

The Company's debt and finance leases included the following:

	June 29, 2019	December 31, 2018
U.S. Revolver of \$100 million maturing in November 2022, \$0 available, bearing interest at LIBOR plus 2.00%, interest of 4.42% at June 29, 2019 (a)	\$ 50,000	\$ —
Multi-currency Revolver of \$150 million maturing in November 2022, \$0 available, bearing interest at LIBOR plus 2.00% at June 29, 2019 (a)	—	—
Term A-1 Loan Facility borrowings maturing through November 2022 bearing interest at LIBOR plus 2.00%, interest rate of 4.40% at June 29, 2019	160,000	160,000
Term A-2 Loan Facility borrowings maturing through November 2024 bearing interest at LIBOR plus 2.25% (after consideration of 0.60% patronage benefit), interest rate of 4.65% at June 29, 2019	438,875	438,875
Senior Notes due 2024 at a fixed interest rate of 5.50%	495,647	495,647
Canadian dollar, fixed interest rate term loans with rates ranging from 5.50% to 6.86% and maturity dates ranging from March 2020 through April 2028, secured by certain assets of the Temiscaming plant	89,732	91,304
Other loans	3,590	3,777
Finance lease obligation	2,973	3,124
Total debt principal payments due	1,240,817	1,192,727
Less: Debt premium, original issue discount and issuance costs, net	(4,125)	(4,558)
Total debt	1,236,692	1,188,169
Less: Current maturities of long-term debt	(21,633)	(15,012)
Long-term debt	\$ 1,215,059	\$ 1,173,157

(a) At June 29, 2019, availability under the revolving credit facility was restricted. See the Liquidity section of Note 1 — *Basis of Presentation and New Accounting Pronouncements*.

Rayonier Advanced Materials Inc.
Notes to Condensed Consolidated Financial Statements (Continued)
(Unaudited)
(Dollar amounts in thousands unless otherwise stated)

As of June 29, 2019, debt and finance lease payments due during the remainder of 2019 and the next four years and thereafter are as follows:

	Finance Lease Payments	Debt Principal Payments
Remaining 2019	\$ 258	\$ 7,814
2020	515	20,726
2021	515	12,676
2022	515	240,106
2023	515	10,756
Thereafter	1,502	945,766
Total principal payments	\$ 3,820	\$ 1,237,844
Less: Imputed interest	(847)	
Present value minimum finance lease payments	\$ 2,973	

7. Liabilities for Disposed Operations

An analysis of the liabilities for disposed operations for the six months ended June 29, 2019 is as follows:

Balance, December 31, 2018	\$ 160,654
Increase in liabilities	1,801
Payments	(2,289)
Foreign currency adjustments	677
Balance, June 29, 2019	160,843
Less: Current portion	(11,483)
Long-term liabilities for disposed operations	\$ 149,360

In addition to the estimated liabilities, the Company is subject to the risk of reasonably possible additional liabilities in excess of the established reserves due to potential changes in circumstances and future events, including, without limitation, changes to current laws and regulations; changes in governmental agency personnel, direction, philosophy and/or enforcement policies; developments in remediation technologies; increases in the cost of remediation, operation, maintenance and monitoring of its disposed operations sites; changes in the volume, nature or extent of contamination to be remediated or monitoring to be undertaken; the outcome of negotiations with governmental agencies and non-governmental parties; and changes in accounting rules or interpretations. Based on information available as of June 29, 2019, the Company estimates this exposure could range up to approximately \$69 million, although no assurances can be given that this amount will not be exceeded given the factors described above. These potential additional costs are attributable to several sites and other applicable liabilities. Further, this estimate excludes reasonably possible liabilities which are not currently estimable primarily due to the factors discussed above.

Subject to the previous paragraph, the Company believes established liabilities are sufficient for probable costs expected to be incurred over the next 20 years with respect to its disposed operations. However, no assurances are given they will be sufficient for the reasons described above, and additional liabilities could have a material adverse effect on the Company's financial position, results of operations and cash flows.

8. Derivative Instruments

The Company's earnings and cash flows are subject to fluctuations due to changes in interest rates and foreign currency exchange rates. The Company allows for the use of derivative financial instruments to manage interest rate and foreign currency exchange rate exposure, but does not allow derivatives to be used for speculative purposes.

All derivative instruments are recognized on the consolidated balance sheets at their fair value and are either designated as a hedge of a forecasted transaction or undesignated. Changes in the fair value of a derivative designated as a hedge are recorded in

Rayonier Advanced Materials Inc.
Notes to Condensed Consolidated Financial Statements (Continued)
(Unaudited)
(Dollar amounts in thousands unless otherwise stated)

other comprehensive income until earnings are affected by the hedged transaction and are then reported in current earnings. Changes in the fair value of undesignated derivative instruments and the ineffective portion of designated derivative instruments are reported in current earnings.

Interest Rate Risk

The Company's primary debt obligations utilize variable-rate LIBOR, exposing the Company to variability in interest payments due to changes in interest rates. The Company entered into interest rate swap agreements to reduce the volatility of financing costs, achieve a desired proportion of fixed-rate versus floating-rate debt and to hedge the variability in cash flows attributable to interest rate risks caused by changes in the LIBOR benchmark.

The Company designated the swaps as cash flow hedges and is assessing their effectiveness using the hypothetical derivative method in conjunction with regression. Effective gains and losses, deferred to accumulated other comprehensive income (loss) ("AOCI"), are reclassified into earnings over the life of the associated hedge.

Foreign Currency Exchange Rate Risk

Foreign currency fluctuations affect investments in foreign subsidiaries and foreign currency cash flows related to third party purchases, product shipments, and foreign-denominated debt. The Company is also exposed to the translation of foreign currency earnings to the U.S. dollar. Management uses foreign currency forward contracts to selectively hedge its foreign currency cash flow exposure and manage risk associated with changes in currency exchange rates. The Company's principal foreign currency exposure is to the Canadian dollar, and to a lesser extent, the euro.

The notional amounts of outstanding derivative instruments as of June 29, 2019 and December 31, 2018 are presented below.

	June 29, 2019	December 31, 2018
Interest rate swaps (a)	\$ 200,000	\$ 200,000
Foreign exchange forward contracts (b)	\$ 367,312	\$ 388,930
Foreign exchange forward contracts (c)	\$ 96,260	\$ 125,979

(a) Maturity date of December 2020

(b) Various maturity dates through July 2020

(c) Various maturity dates in 2020, 2022 and 2028

Rayonier Advanced Materials Inc.
Notes to Condensed Consolidated Financial Statements (Continued)
(Unaudited)
(Dollar amounts in thousands unless otherwise stated)

The fair values of derivative instruments included in the consolidated balance sheet as of June 29, 2019 and December 31, 2018 are provided in the below table. See Note 9 — *Fair Value Measurements* for additional information related to the Company's derivatives.

	Balance Sheet Location	June 29, 2019	December 31, 2018
Assets:			
Derivatives designated as hedging instruments:			
Interest rate swaps	Other current assets	\$ —	\$ 1,194
Interest rate swaps	Other assets	—	937
Foreign exchange forward contracts	Other current assets	3,450	—
Derivatives not designated as hedging instruments:			
Foreign exchange forward contracts	Other current assets	346	7
Liabilities:			
Derivatives designated as hedging instruments:			
Interest rate swaps	Other current liabilities	(149)	—
Interest rate swaps	Other non-current liabilities	(449)	—
Foreign exchange forward contracts	Other current liabilities	(945)	(16,408)
Foreign exchange forward contracts	Other non-current liabilities	(500)	(3,105)
Derivatives not designated as hedging instruments:			
Foreign exchange forward contracts	Other current liabilities	(2)	(360)
Total derivatives		<u>\$ 1,751</u>	<u>\$ (17,735)</u>

Rayonier Advanced Materials Inc.
Notes to Condensed Consolidated Financial Statements (Continued)
(Unaudited)
(Dollar amounts in thousands unless otherwise stated)

The effects of derivatives designated as hedging instruments, the related changes in AOCI and the gains and losses in income for the three and six months ended June 29, 2019 and June 30, 2018 are presented below.

Derivatives Designated as Hedging Instruments	Three Months Ended June 29, 2019		Location on Statement of Income
	Gain (Loss) Recognized in OCI on Derivative	Gain (Loss) Reclassified from AOCI into Income	
Interest rate swaps	\$ (1,471)	\$ 276	Interest expense
Foreign exchange forward contracts	\$ 1,817	\$ 612	Other operating expense, net
Foreign exchange forward contracts	\$ 3,137	\$ (3,137)	Cost of sales
Foreign exchange forward contracts	\$ 672	\$ 1,568	Interest income and other, net

Derivatives Designated as Hedging Instruments	Three Months Ended June 30, 2018		Location on Statement of Income
	Gain (Loss) Recognized in OCI on Derivative	Gain (Loss) Reclassified from AOCI into Income	
Interest rate swaps	\$ 853	\$ (11)	Interest expense
Foreign exchange forward contracts	\$ (10,183)	\$ 1,128	Other operating expense, net
Foreign exchange forward contracts	\$ 66	\$ (66)	Cost of sales
Foreign exchange forward contracts	\$ (1,389)	\$ (556)	Interest income and other, net

Derivatives Designated as Hedging Instruments	Six Months Ended June 29, 2019		Location on Statement of Income
	Gain (Loss) Recognized in OCI on Derivative	Gain (Loss) Reclassified from AOCI into Income	
Interest rate swaps	\$ (2,173)	\$ 556	Interest expense
Foreign exchange forward contracts	\$ 4,037	\$ 676	Other operating expense, net
Foreign exchange forward contracts	\$ 7,566	\$ (7,566)	Cost of sales
Foreign exchange forward contracts	\$ 3,031	\$ 3,367	Interest income and other, net

Derivatives Designated as Hedging Instruments	Six Months Ended June 30, 2018		Location on Statement of Income
	Gain (Loss) Recognized in OCI on Derivative	Gain (Loss) Reclassified from AOCI into Income	
Interest rate swaps	\$ 2,565	\$ (187)	Interest expense
Foreign exchange forward contracts	\$ (10,407)	\$ 1,128	Other operating expense, net
Foreign exchange forward contracts	\$ 66	\$ (66)	Cost of sales
Foreign exchange forward contracts	\$ (1,389)	\$ (556)	Interest income and other, net

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Notes to Condensed Consolidated Financial Statements (Continued)
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The effects of derivative instruments not designated as hedging instruments on the statement of income were as follows:

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Income on Derivative	Three Months Ended		Six Months Ended	
		June 29, 2019	June 30, 2018	June 29, 2019	June 30, 2018
Foreign exchange forward contracts	Other operating income (expense), net	\$ 656	\$ (412)	\$ 330	\$ (3,541)

The after-tax amounts of unrealized gains (losses) in AOCI related to hedge derivatives are presented below:

	June 29, 2019	December 31, 2018
Interest rate cash flow hedges	\$ (466)	\$ 1,663
Foreign exchange cash flow hedges	\$ 109	\$ (13,285)

The amount of future reclassifications from AOCI will fluctuate with movements in the underlying markets.

9. Fair Value Measurements

The following table presents the carrying amount, estimated fair values and categorization under the fair value hierarchy for financial instruments held by the Company at June 29, 2019 and December 31, 2018, using market information and what management believes to be appropriate valuation methodologies:

	June 29, 2019			December 31, 2018		
	Carrying Amount	Fair Value		Carrying Amount	Fair Value	
		Level 1	Level 2		Level 1	Level 2
Assets:						
Cash and cash equivalents	\$ 90,104	\$ 90,104	\$ —	\$ 108,966	\$ 108,966	\$ —
Interest rate swaps (a)	—	—	—	2,131	—	2,131
Foreign currency forward contracts (a)	3,796	—	3,796	7	—	7
Liabilities (b):						
Interest rate swaps (a)	598	—	598	—	—	—
Foreign currency forward contracts (a)	1,447	—	1,447	19,873	—	19,873
Fixed-rate long-term debt	584,356	—	519,242	585,824	—	541,267
Variable-rate long-term debt	649,360	—	652,465	599,221	—	602,652

(a) These items represent derivative instruments.

(b) Liabilities exclude finance lease obligation.

The Company uses the following methods and assumptions in estimating the fair value of its financial instruments:

Cash and cash equivalents — The carrying amount is equal to fair market value.

Derivative instruments — The fair value is calculated based on standard valuation models using quoted prices and market observable data of similar instruments. The interest rate derivatives are based on the LIBOR swap rate, which is observable at commonly quoted intervals for the full term of the swap and therefore is considered Level 2. The foreign currency derivatives are contracts to buy foreign currency at a fixed rate on a specified future date. The foreign exchange rate is observable for the full term of the swap and is therefore considered Level 2. See Note 8 — *Derivative Instruments* for additional information related to the derivative instruments.

Debt — The fair value of fixed rate debt is based upon quoted market prices for debt with similar terms and maturities. The variable rate debt adjusts with changes in the market rate, therefore the carrying value approximates fair value.

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10. Accumulated Other Comprehensive Income (Loss)

The components of AOCI are as follows:

	Six Months Ended	
	June 29, 2019	June 30, 2018
Unrecognized components of employee benefit plans, net of tax:		
Balance, beginning of year	\$ (135,590)	\$ (81,638)
Reclassifications to earnings: (a)		
Amortization of losses	5,219	5,938
Amortization of prior service costs	207	286
Amortization of negative plan amendment	—	(77)
Income tax on reclassifications	(1,196)	(1,352)
Foreign currency adjustments, net of tax of \$167	(474)	—
Net comprehensive gain (loss) on employee benefit plans, net of tax	3,756	4,795
Balance, end of quarter	(131,834)	(76,843)
Unrealized gain (loss) on derivative instruments, net of tax:		
Balance, beginning of year	(11,622)	619
Other comprehensive income before reclassifications	12,461	(9,165)
Income tax on other comprehensive income	(2,931)	2,260
Reclassifications to earnings: (b)		
Interest rate contracts	(556)	187
Foreign exchange contracts	3,523	(506)
Income tax on reclassifications	(1,232)	162
Net comprehensive gain (loss) on derivative instruments, net of tax	11,265	(7,062)
Balance, end of quarter	(357)	(6,443)
Foreign currency translation adjustments:		
Balance, beginning of year	(8,485)	4,868
Foreign currency translation adjustment, net of tax of \$0 and \$0	(1,694)	(8,251)
Balance, end of quarter	(10,179)	(3,383)
Accumulated other comprehensive income (loss), end of quarter	\$ (142,370)	\$ (86,669)

- (a) The AOCI components for defined benefit pension and post-retirement plans are included in the computation of net periodic benefit cost. See Note 14—*Employee Benefit Plans* for additional information.
- (b) Reclassifications of interest rate contracts are recorded in interest expense. Reclassifications of foreign currency exchange contracts are recorded in cost of sales, other operating income or non-operating income as appropriate. See Note 8 —*Derivative Instruments* for additional information.

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11. Stockholders' Equity

An analysis of stockholders' equity is shown below (share amounts not in thousands):

	Common Stock		Preferred Stock		Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
	Shares	Par Value	Shares	Par Value				
For the six months ended June 29, 2019								
Balance, December 31, 2018	49,291,130	\$ 493	1,725,000	\$ 17	\$ 399,490	\$ 462,568	\$ (155,697)	\$ 706,871
Net income (loss)	—	—	—	—	—	(36,967)	—	(36,967)
Other comprehensive income (loss), net of tax	—	—	—	—	—	—	13,327	13,327
Issuance of common stock under incentive stock plans	980,015	10	—	—	(10)	—	—	—
Stock-based compensation	—	—	—	—	3,456	—	—	3,456
Repurchase of common stock	(423,058)	(5)	—	—	(5,821)	—	—	(5,826)
Common stock dividends (\$0.14 per share)	—	—	—	—	—	(7,395)	—	(7,395)
Preferred stock dividends (\$4.00 per share)	—	—	—	—	—	(6,900)	—	(6,900)
Balance, June 29, 2019	<u>49,848,087</u>	<u>\$ 498</u>	<u>1,725,000</u>	<u>\$ 17</u>	<u>\$ 397,115</u>	<u>\$ 411,306</u>	<u>\$ (142,370)</u>	<u>\$ 666,566</u>
For the three months ended June 29, 2019								
Balance, March 30, 2019	49,798,884	\$ 498	1,725,000	\$ 17	\$ 397,606	\$ 433,256	\$ (151,286)	\$ 680,091
Net income (loss)	—	—	—	—	—	(14,917)	—	(14,917)
Other comprehensive income (loss), net of tax	—	—	—	—	—	—	8,916	8,916
Issuance of common stock under incentive stock plans	51,414	—	—	—	—	—	—	—
Stock-based compensation	—	—	—	—	(476)	—	—	(476)
Repurchase of common shares	(2,211)	—	—	—	(15)	—	—	(15)
Common stock dividends (\$0.07 per share)	—	—	—	—	—	(3,583)	—	(3,583)
Preferred stock dividends (\$2.00 per share)	—	—	—	—	—	(3,450)	—	(3,450)
Balance, June 29, 2019	<u>49,848,087</u>	<u>\$ 498</u>	<u>1,725,000</u>	<u>\$ 17</u>	<u>\$ 397,115</u>	<u>\$ 411,306</u>	<u>\$ (142,370)</u>	<u>\$ 666,566</u>

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	Common Stock		Preferred Stock		Additional	Retained	Accumulated Other	Total
	Shares	Par Value	Shares	Par Value	Paid in Capital	Earnings	Comprehensive Loss	Stockholders' Equity
For the six months ended June 30, 2018								
Balance, December 31, 2017	51,717,142	\$ 517	1,725,000	\$ 17	\$ 392,353	\$ 377,020	\$ (76,151)	\$ 693,756
Net income (loss)	—	—	—	—	—	77,844	—	77,844
Other comprehensive income (loss), net of tax	—	—	—	—	—	—	(10,518)	(10,518)
Issuance of common stock under incentive stock plans	302,562	3	—	—	340	—	—	343
Stock-based compensation	—	—	—	—	6,500	—	—	6,500
Repurchase of common stock	(802,109)	(8)	—	—	(3,867)	(10,654)	—	(14,529)
Common stock dividends (\$0.14 per share)	—	—	—	—	—	(7,557)	—	(7,557)
Preferred stock dividends (\$4.00 per share)	—	—	—	—	—	(6,900)	—	(6,900)
Balance, June 30, 2018	<u>51,217,595</u>	<u>\$ 512</u>	<u>1,725,000</u>	<u>\$ 17</u>	<u>\$ 395,326</u>	<u>\$ 429,753</u>	<u>\$ (86,669)</u>	<u>\$ 738,939</u>
For the three months ended June 30, 2018								
Balance, March 31, 2018	51,852,970	\$ 519	1,725,000	\$ 17	\$ 391,902	\$ 394,289	\$ (64,733)	\$ 721,994
Net income (loss)	—	—	—	—	—	53,389	—	53,389
Other comprehensive income (loss), net of tax	—	—	—	—	—	—	(21,936)	(21,936)
Issuance of common stock under incentive stock plans	10,873	—	—	—	222	—	—	222
Stock-based compensation	—	—	—	—	4,020	—	—	4,020
Repurchase of common shares	(646,248)	(7)	—	—	(818)	(10,654)	—	(11,479)
Common stock dividends (\$0.07 per share)	—	—	—	—	—	(3,821)	—	(3,821)
Preferred stock dividends (\$2.00 per share)	—	—	—	—	—	(3,450)	—	(3,450)
Balance, June 30, 2018	<u>51,217,595</u>	<u>\$ 512</u>	<u>1,725,000</u>	<u>\$ 17</u>	<u>\$ 395,326</u>	<u>\$ 429,753</u>	<u>\$ (86,669)</u>	<u>\$ 738,939</u>

Series A Mandatory Convertible Preferred Stock

On August 4, 2016, the Company completed a registered public offering of 1,725,000 shares of the Company's 8.00% Series A Mandatory Convertible Preferred Stock (the "Preferred Stock"), at a public offering price of \$100.00 per share. Net proceeds were \$167 million after deducting underwriting discounts, commissions and expenses.

Each share of the Preferred Stock will automatically convert into shares of common stock, subject to anti-dilution and other adjustments, on the mandatory conversion date, which is expected to be August 15, 2019. The number of shares of common stock issuable on conversion will be determined based on the volume-weighted average price of the Company's common stock over a 20 trading day period immediately prior to the mandatory conversion date ("Applicable Market Value"). If the Applicable Market Value for our common stock is greater than \$15.17 or less than \$12.91, the conversion rate per share of Preferred Stock will be 6.5923 or 7.7459, respectively. If the Applicable Market Value is between \$15.17 and \$12.91, the conversion rate per share of Preferred Stock will be between 6.5923 and 7.7459. Subject to certain restrictions, at any time prior to August 15, 2019, holders of the Preferred Stock may elect to convert all or a portion of their shares into common stock at the minimum conversion rate of 6.5923 shares of common stock per share of Preferred Stock, subject to adjustment.

Dividends on the Preferred Stock are payable on a cumulative basis if and when they are declared by our Board of Directors. If declared, dividends will be paid at an annual rate of 8.00% of the liquidation preference of \$100 per share. The final dividend was declared and is expected to be paid in cash on August 15, 2019.

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Common Stock Buyback

On January 29, 2018, the Board of Directors authorized a share buyback program pursuant to which the Company may, from time to time, purchase shares of its common stock with an aggregate purchase price of up to \$100 million. During the three months ended and six months ended June 29, 2019, the Company did not repurchase any common shares under this buyback program. During the three and six months ended June 30, 2018, the Company repurchased and retired 646,248 shares of common stock at an average price of \$17.80 totaling approximately \$11 million. As of June 29, 2019, there was approximately \$60 million of share repurchase authorization remaining under the program.

12.Earnings Per Share of Common Stock

The following table provides details of the calculations of basic and diluted earnings per share:

	Three Months Ended		Six Months Ended	
	June 29, 2019	June 30, 2018	June 29, 2019	June 30, 2018
Net income (loss)	\$ (14,917)	\$ 53,389	\$ (36,967)	\$ 77,844
Preferred Stock dividends	(3,441)	(3,440)	(6,805)	(6,843)
Net income (loss) available for common stockholders	<u>\$ (18,358)</u>	<u>\$ 49,949</u>	<u>\$ (43,772)</u>	<u>\$ 71,001</u>
Shares used for determining basic earnings per share of common stock	49,572,055	51,448,438	49,282,418	51,288,982
Dilutive effect of:				
Stock options	—	3,609	—	4,556
Performance and restricted stock	—	1,201,691	—	1,300,148
Preferred stock	—	11,371,718	—	11,371,718
Shares used for determining diluted earnings per share of common stock	<u>49,572,055</u>	<u>64,025,456</u>	<u>49,282,418</u>	<u>63,965,404</u>
Basic (loss) earnings per share (not in thousands)	<u>\$ (0.37)</u>	<u>\$ 0.97</u>	<u>\$ (0.89)</u>	<u>\$ 1.38</u>
Diluted (loss) earnings per share (not in thousands)	<u>\$ (0.37)</u>	<u>\$ 0.83</u>	<u>\$ (0.89)</u>	<u>\$ 1.22</u>

Anti-dilutive instruments excluded from the computation of diluted earnings per share:

	Three Months Ended		Six Months Ended	
	June 29, 2019	June 30, 2018	June 29, 2019	June 30, 2018
Stock options	226,058	263,672	226,058	263,672
Performance and restricted stock	845,935	454,563	454,959	410,329
Preferred stock	13,361,678	—	13,361,678	—
Total anti-dilutive instruments	<u>14,433,671</u>	<u>718,235</u>	<u>14,042,695</u>	<u>674,001</u>

13.Incentive Stock Plans

The Company's total stock based compensation cost for the six months ended June 29, 2019 and June 30, 2018 was \$3 million and \$7 million, respectively.

The Company made new grants of restricted stock units and performance-based stock units to certain employees during the first six months of 2019. The 2019 restricted stock unit awards vest over three years. The 2019 performance-based stock unit awards are measured against an internal return on invested capital target. Depending on performance against the target, the awards will pay out in common stock amounts between 0 and 200 percent of the performance-based stock units awarded. The total number of common stock awards granted will be adjusted up or down 25 percent, for certain participants, based on stock price performance relative to a peer group over the term of the plan, which could result in a final common stock issuance of 0 to 250 percent of the performance-based stock units awarded.

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In March 2019, the performance-based share units granted in 2016 were settled at an average of 246 percent of the performance-based stock units awarded, resulting in the issuance of 923,211 shares of common stock.

The following table summarizes the activity on the Company's incentive stock awards for the six months ended June 29, 2019:

	Stock Options		Restricted Stock and Stock Units		Performance-Based Stock Units	
	Options	Weighted Average Exercise Price	Awards	Weighted Average Grant Date Fair Value	Awards	Weighted Average Grant Date Fair Value
Outstanding at January 1, 2019	286,613	\$ 34.23	917,098	\$ 13.71	1,325,894	\$ 14.69
Granted	—	—	273,265	13.74	398,399	15.47
Forfeited	—	—	(8,495)	15.06	(7,325)	17.00
Exercised or settled	—	—	(455,255)	10.62	(520,167)	7.80
Expired or cancelled	(60,555)	26.80	—	—	—	—
Outstanding at June 29, 2019	226,058	\$ 36.22	726,613	\$ 15.64	1,196,801	\$ 17.93

14. Employee Benefit Plans

The Company has defined benefit pension and other postretirement plans covering certain union and non-union employees, primarily in the U.S., Canada and France. The defined benefit pension plans are closed to new participants. Employee defined benefit plan liabilities are calculated using actuarial estimates and management assumptions. These estimates are based on historical information, along with certain assumptions about future events.

The components of net periodic benefit costs from defined benefit plans that have been recorded are shown in the following table:

Components of Net Periodic Benefit Cost	Pension		Postretirement	
	Three Months Ended		Three Months Ended	
	June 29, 2019	June 30, 2018	June 29, 2019	June 30, 2018
Service cost	\$ 2,601	\$ 3,084	\$ 463	\$ 331
Interest cost	9,593	8,211	359	311
Expected return on plan assets	(13,839)	(13,795)	—	—
Amortization of prior service cost	142	143	(38)	—
Amortization of losses	2,587	2,912	20	57
Amortization of negative plan amendment	—	—	—	(38)
Total net periodic benefit cost	\$ 1,084	\$ 555	\$ 804	\$ 661

Components of Net Periodic Benefit Cost	Pension		Postretirement	
	Six Months Ended		Six Months Ended	
	June 29, 2019	June 30, 2018	June 29, 2019	June 30, 2018
Service cost	\$ 5,211	\$ 6,186	\$ 928	\$ 1,074
Interest cost	19,218	16,462	718	650
Expected return on plan assets	(28,005)	(27,652)	—	—
Amortization of prior service cost	284	286	(77)	—
Amortization of losses	5,178	5,824	41	114
Amortization of negative plan amendment	—	—	—	(77)
Total net periodic benefit cost	\$ 1,886	\$ 1,106	\$ 1,610	\$ 1,761

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Notes to Condensed Consolidated Financial Statements (Continued)
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Service cost is included in cost of sales and selling, general and administrative expenses in the statements of income, as appropriate. Interest cost, expected return on plan assets, amortization of prior service cost, amortization of losses and amortization of negative plan amendment are included in other components of net periodic benefit costs on the condensed consolidated statement of income.

15. Income Taxes

The Company's effective tax rate for the three and six months ended June 29, 2019 was a benefit of 36 percent and 32 percent, respectively, compared to an expense of 26 percent and 27 percent for the three and six months ended June 30, 2018, respectively.

The current quarter and year-to-date June 29, 2019 effective rate differs from the federal statutory rate of 21 percent primarily due to tax credits and state taxes, partially offset by different statutory rates on foreign operations. In addition to these items, the effective tax rate benefit for the six months ended June 29, 2019 is also impacted by excess tax deduction on vested stock compensation in the first quarter.

There have been no material changes to the balance of unrecognized tax benefits reported at December 31, 2018.

16. Segment Information

The Company has currently divided its operations into five reportable segments: High Purity Cellulose, Forest Products, Pulp, Paper and Corporate. The Corporate operations consist primarily of senior management, accounting, information systems, human resources, treasury, tax and legal administrative functions that provide support services to the operating business units. The Company does not currently allocate the cost of maintaining these support functions to its operating units.

The Company evaluates the performance of its segments based on operating income. Intersegment sales consist primarily of wood chips sales from Forest Products to High Purity Cellulose, Pulp and Paper segments and high-yield pulp sales from Pulp to Paper. Intersegment sales prices are at rates that approximate market.

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Notes to Condensed Consolidated Financial Statements (Continued)
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Net sales, disaggregated by product-line, was comprised of the following:

	Three Months Ended		Six Months Ended	
	June 29, 2019	June 30, 2018	June 29, 2019	June 30, 2018
High Purity Cellulose				
Cellulose Specialties	\$ 190,782	\$ 199,199	\$ 382,886	\$ 408,326
Commodity Products	56,187	54,025	130,144	96,772
Other sales (a)	21,821	32,026	41,770	62,534
Total High Purity Cellulose	268,790	285,250	554,800	567,632
Forest Products				
Lumber	64,308	81,593	121,660	159,973
Other sales (b)	16,890	15,502	34,718	36,309
Total Forest Products	81,198	97,095	156,378	196,282
Pulp				
High-yield pulp	78,213	90,901	147,891	176,055
Paper				
Paperboard	50,006	50,634	97,343	98,425
Newsprint	24,028	33,744	46,664	61,260
Total Paper	74,034	84,378	144,007	159,685
Eliminations	(14,419)	(15,904)	(32,479)	(35,943)
Total net sales	\$ 487,816	\$ 541,720	\$ 970,597	\$ 1,063,711

(a) Other sales include sales of electricity, resins, lignin and other by-products to third-parties

(b) Other sales include sales of logs, wood chips and other by-products to other segments and third-parties

Operating income (loss) by segment was comprised of the following:

	Three Months Ended		Six Months Ended	
	June 29, 2019	June 30, 2018	June 29, 2019	June 30, 2018
High Purity Cellulose	\$ 6,713	\$ 28,055	\$ 3,919	\$ 49,366
Forest Products	(16,340)	16,535	(21,588)	27,172
Pulp	10,494	26,224	20,916	48,935
Paper	2,736	6,891	972	9,817
Corporate	(11,898)	(11,483)	(30,983)	(22,810)
Total operating income (loss)	\$ (8,295)	\$ 66,222	\$ (26,764)	\$ 112,480

Identifiable assets by segment were as follows:

	June 29, 2019	December 31, 2018
High Purity Cellulose	\$ 1,613,128	\$ 1,643,092
Forest Products	166,404	166,801
Pulp	91,354	103,308
Paper	231,618	240,427
Corporate	548,006	525,458
Total identifiable assets	\$ 2,650,510	\$ 2,679,086

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Notes to Condensed Consolidated Financial Statements (Continued)
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17. Commitments and Contingencies

Commitments

The following table includes the material changes to the contractual financial obligations presented in Note 20 — *Commitments and Contingencies* in the Company's Annual Report on Form 10-K for the year ended December 31, 2018, as filed with the SEC. The changes in the future minimum payments under these purchase obligations are presented as of June 29, 2019. The amounts primarily consist of commitments for the purchase of natural gas, steam energy and electricity contracts. The payment amounts are estimates and may vary based on changes in actual price and volumes terms.

	Purchase Obligations
Remainder of 2019	\$ 3,588
2020	10,774
2021	6,134
2022	5,973
2023	2,828
Thereafter	5,471
Total	\$ 34,768

Contingencies

The Company is engaged in various legal and regulatory actions and proceedings, and has been named as a defendant in various lawsuits and claims arising in the ordinary course of its business. While the Company has procured reasonable and customary insurance covering risks normally occurring in connection with its businesses, the Company has in certain cases retained some risk through the operation of self-insurance, primarily in the areas of workers' compensation, property insurance and general liability. These other lawsuits and claims, either individually or in aggregate, are not expected to have a material adverse effect on the Company's financial position, results of operations or cash flows.

As of June 29, 2019, collective bargaining agreements covering approximately 250 unionized employees in Fernandina and in Canada had expired. In all cases, the parties have continued to work under the terms of the expired contracts while negotiations continue. While there can be no assurances, the Company expects to reach agreements with its unions. However, a work stoppage could have a material adverse effect on its business, results of operations and financial condition.

Guarantees and Other

The Company provides financial guarantees as required by creditors, insurance programs and various governmental agencies. As of June 29, 2019, the Company had net exposure of \$37 million from various standby letters of credit, primarily for financial assurance relating to environmental remediation, credit support for natural gas and electricity purchases, and guarantees related to foreign retirement plan obligations. These standby letters of credit represent a contingent liability. The Company would only be liable upon its default on the related payment obligations. The letters of credit have various expiration dates and will be renewed as required.

The Company had surety bonds of \$85 million as of June 29, 2019, primarily to comply with financial assurance requirements relating to environmental remediation and post closure care, to provide collateral for the Company's workers' compensation program, and to guarantee taxes and duties for products shipped internationally. These surety bonds expire at various dates and are expected to be renewed annually as required.

LignoTech Florida, a venture in which the Company owns 45 percent and its venture partner Borregaard ASA owns 55 percent, entered into a construction contract to build its lignin manufacturing facility and financing agreements to fund the construction of the facility, which was completed in the second quarter of 2018. The Company is a guarantor under both the construction and financing agreements. In the event of default, the Company expects it would only be liable for its proportional share as a result of an agreement with its venture partner. The remaining guarantee related to LignoTech Florida at June 29, 2019 was \$32 million.

The Company has not recorded any liabilities for these financial guarantees in its consolidated balance sheets, either because the Company has recorded the underlying liability associated with the guarantee or the guarantee is dependent on the Company's

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own performance and, therefore, is not subject to the measurement requirements or because the Company has calculated the estimated fair value of the guarantee and determined it to be immaterial based upon the current facts and circumstances that would trigger a payment obligation.

It is not possible to determine the maximum potential amount of the liability under these potential obligations due to the unique set of facts and circumstances likely to be involved with each provision.

18. Supplemental Disclosures of Cash Flows Information

Supplemental disclosures of cash flows information were comprised of the following for the six months ended:

	June 29, 2019	June 30, 2018
Cash paid (received) during the period:		
Interest	\$ 31,027	\$ 29,629
Income taxes	\$ (99)	\$ 9,780
Non-cash investing and financing activities:		
Capital assets purchased on account	\$ 17,204	\$ 15,941

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

When we refer to “we,” “us,” “our” or “the Company,” we mean Rayonier Advanced Materials Inc. and its consolidated subsidiaries. References herein to “Notes to Financial Statements” refer to the Notes to the Condensed Consolidated Financial Statements of Rayonier Advanced Materials Inc. included in Item 1 of this Quarterly Report on Form 10-Q (the “Report.”)

The Management's Discussion and Analysis of Financial Condition and Results of Operations (“MD&A”) is intended to provide a reader of our financial statements with a narrative from the perspective of management on our financial condition, results of operations, liquidity and certain other factors which may affect future results. Our MD&A should be read in conjunction with our 2018 Annual Report on Form 10-K and information contained in our subsequent Forms 10-Q, 8-K and other reports to the U.S. Securities and Exchange Commission (the “SEC”).

Note About Forward-Looking Statements

Certain statements in this Report regarding anticipated financial, business, legal or other outcomes including business and market conditions, outlook and other similar statements relating to the Company's future events, developments, or financial or operational performance or results, are “forward-looking statements” made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 and other federal securities laws. These forward-looking statements are identified by the use of words such as “may,” “will,” “should,” “expect,” “estimate,” “believe,” “intend,” “forecast,” “anticipate,” “guidance” and other similar language. However, the absence of these or similar words or expressions does not mean a statement is not forward-looking. While we believe these forward-looking statements are reasonable when made, forward-looking statements are not guarantees of future performance or events and undue reliance should not be placed on these statements. Although we believe the expectations reflected in any forward-looking statements are based on reasonable assumptions, we can give no assurance these expectations will be attained and it is possible actual results may differ materially from those indicated by these forward-looking statements due to a variety of risks and uncertainties. The following risk factors and those contained in Item 1A — *Risk Factors*, among others, could cause actual results or events to differ materially from the Company's historical experience and those expressed in forward-looking statements made in this document.

Amounts contained in this Report may not always add due to rounding.

Our operations are subject to a number of risks and uncertainties including, but not limited to, those listed below. When considering an investment in our securities, you should carefully read and consider these risks, together with all other information in our Annual Report on Form 10-K for the year ended December 31, 2018 as filed with the SEC and our other filings and submissions to the SEC, which provide much more information and detail on the risks described below. If any of the events described in the following risk factors actually occur, our business, financial condition or operating results, as well as the market price of our securities, could be materially adversely affected. These risks and events include, without limitation:

- The businesses we operate are highly competitive and many of them are cyclical, which may result in fluctuations in pricing and volume that can adversely impact our business, financial condition and results of operations.
- Our ten largest customers represent approximately 35 percent of our 2018 sales, and the loss of all or a substantial portion of our revenue from these large customers could have a material adverse effect on our business.
- A material disruption at one of our major manufacturing facilities could prevent us from meeting customer demand, reduce our sales and profitability, increase our cost of production and capital needs, or otherwise adversely affect our business, financial condition and results of operation.
- Changes in raw material and energy availability and prices could affect our business, financial condition and results of operations.
- The availability of, and prices for, wood fiber could materially impact our business, results of operations and financial condition.
- We are subject to risks associated with doing business outside of the United States.
- Our operations require substantial capital.
- Currency fluctuations may have a negative impact on our business, financial condition and results of operations.
- Restrictions on trade through tariffs, countervailing and anti-dumping duties, quotas and other trade barriers, in the United States and internationally, especially with respect to China, Canada and as a result of “Brexit”, could adversely affect our ability to access certain markets and otherwise impact our results of operations.
- We depend on third parties for transportation services and increases in costs and the availability of transportation could adversely affect our business.

- Our business is subject to extensive environmental laws, regulations and permits that may restrict or adversely affect our financial results and how we conduct business.
- The potential impacts of climate change and climate-related initiatives, remain uncertain at this time.
- Our failure to maintain satisfactory labor relations could have a material adverse effect on our business.
- We are dependent upon attracting and retaining key personnel, the loss of whom could adversely affect our business.
- Failure to develop new products or discover new applications for our existing products, or our inability to protect the intellectual property underlying such new products or applications, could have a negative impact on our business.
- The risk of loss of the Company's intellectual property and sensitive business information, or disruption of its manufacturing operations, in each case due to cyberattacks or cybersecurity breaches, could adversely impact the Company.
- We may need to make significant additional cash contributions to our retirement benefit plans if investment returns on pension assets are lower than expected or interest rates decline, and/or due to changes to regulatory, accounting and actuarial requirements.
- We have significant debt obligations that could adversely affect our business and our ability to meet our obligations.
- The phase-out of the London Inter Bank Office Rate ("LIBOR") as an interest rate benchmark could result in an increase to our borrowing costs.
- Challenges in the commercial and credit environments may materially adversely affect our future access to capital.
- We may need additional financing in the future to meet our capital needs or to make acquisitions, and such financing may not be available on favorable terms, if at all, and may be dilutive to existing stockholders.
- The inability to effectively integrate the Tembec Inc. ("Tembec") acquisition and meet our financial objectives therefrom, and any future acquisitions we may make, may affect our results.
- Absent an agreement with our lenders to amend the Company's Senior Secured Credit Facilities, the Company will not meet its secured net leverage covenant contained in such Facilities at the end of the third quarter of 2019.

Forward-looking statements are only as of the date they are made, and the Company undertakes no duty to update its forward-looking statements except as required by law. You are advised, however, to review any further disclosures we have made or may make in our filings and other submissions to the SEC, including those on Forms 10-Q, 10-K, 8-K and other reports.

Note About Non-GAAP Financial Measures

A "non-GAAP financial measure" is generally defined as a numerical measure of a company's historical or future performance that excludes or includes amounts, or is subject to adjustments, so as to be different from the most directly comparable measure calculated and presented in accordance with U.S. Generally Accepted Accounting Principles ("GAAP"). This Report contains certain non-GAAP financial measures, including Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA"), adjusted EBITDA, and adjusted free cash flows. These non-GAAP measures are reconciled to each of their respective most directly comparable GAAP financial measures in Item 2 — *Management's Discussion and Analysis of Financial Condition and Results of Operations*.

We believe these non-GAAP measures provide useful information to our Board of Directors, management and investors regarding certain trends relating to our financial condition and results of operations. Our management uses these non-GAAP measures to compare our performance to that of prior periods for trend analyses, purposes of determining management incentive compensation and budgeting, forecasting and planning purposes.

We do not consider non-GAAP measures an alternative to financial measures determined in accordance with GAAP. The principal limitation of these non-GAAP financial measures is they may exclude significant expense and income items that are required by GAAP to be recognized in our consolidated financial statements. In addition, they reflect the exercise of management's judgment about which expense and income items are excluded or included in determining these non-GAAP financial measures. In order to compensate for these limitations, reconciliations of the non-GAAP financial measures we use to their most directly comparable GAAP measures are provided. Non-GAAP financial measures should not be relied upon, in whole or part, in evaluating the financial condition, results of operations or future prospects of the Company.

Business

Rayonier Advanced Materials Inc. is a global leader of cellulose-based technologies, including high purity cellulose specialties, a natural polymer commonly found in cell phone and computer screens, filters and pharmaceuticals. In 2017, we acquired Tembec which was engaged in the manufacture of cellulose specialties, commodity products, forest products and pulp & paper (the "Acquisition"). The Acquisition created a combined company with leading positions in acetate and ethers high purity cellulose end-use markets, as well as, a more diversified earnings stream given the addition of the forest products, pulp and paper businesses. We now operate in the following business segments: High Purity Cellulose, Forest Products, Pulp and Paper.

Our plan is to grow EBITDA and drive long-term value for our stockholders. The plan focuses on the following:

- Go-to-Market Strategy - designed to improve cellulose specialties price and margin and align assets to market needs and sales mix to drive long term High Purity Cellulose segment EBITDA growth
- Improve our competitive positioning through the following Four Strategic Pillars
 - Cost Transformation - driving sustainable cost reductions by fostering a culture of continuous improvement.
 - New Products - expanding our business by developing next generation cellulose fibers and other value-added products utilizing our cellulose processing technology, expertise and co-products. We have made significant progress in developing and applying proprietary technologies to new products in many of the end-market segments we serve.
 - Market Optimization - maximizing the profitability of our existing products and assets by optimizing the intersection of our customers' needs, our manufacturing capabilities and transportation costs to drive higher value for our customers and our Company.
 - Investments - delivering a capital allocation strategy that maximizes our risk adjusted returns. We intend to de-lever our balance sheet through EBITDA growth and repayment of indebtedness with a target net leverage ratio of 2.5 times EBITDA. In conjunction with this de-leveraging, we will allocate capital across high return investments in our facilities, acquisitions and other external investments to grow profitability, as well as return capital to stockholders through stock buybacks and dividends. In addition, we will review our current portfolio of operating assets, determine market value and capture the highest value for our stockholders.

Outlook

High Purity Cellulose

For full year 2019, we continue to expect stable cellulose specialties prices to be lower by approximately 1 to 2 percent, as previously guided, excluding the impact of any Chinese duties on sales price which we continue to incur. Cellulose specialties volumes are expected to be down 4 to 5 percent due to weakness in the acetate and automotive markets. Commodity product sales prices are expected to be significantly lower in the second half of the year due to continued weakness in the broad paper pulp markets which is impacting both fluff and viscose prices. Wood costs declined in the second quarter from their first quarter peaks and are expected to further decline through the remainder of the year. For the full year, we anticipate High Purity Cellulose EBITDA of \$150 to \$160 million.

Forest Products

U.S. housing starts and remodeling activity are the key drivers for lumber demand. Though U.S. housing starts have remained relatively flat, they were negatively impacted by the poor weather in the first half of 2019. Coupled with an abundance of supply, lumber sales prices have declined further from the first quarter. Announced curtailments should contract market supply once inventories have been reduced and positively impact future pricing. Duties on lumber sales from Canada into the U.S. will continue to impact financial results. To date, we have paid approximately \$48 million of lumber duties.

Pulp

High-yield pulp prices continued to weaken in the second quarter primarily due to lower demand for paper pulp products as a result of the weakening Chinese economy, due to the extended trade issues between China and the U.S. This weak demand and high inventories have pressured global pulp prices. However, they are expected to bottom in the third quarter as sales prices approach the cash costs of the highest cost producers, resulting in market downtime or closures. In addition, the timing of the closing of the sale of the Matane plant could materially impact the segment's operating results.

Paper

North American paperboard prices will remain under pressure primarily due to U.S. capacity expansion and increased market supply from European and Asian imports as these producers redirect sales from their usual markets, due to weak demand and poor economic conditions. In newsprint, demand continues to decline as industry production capacity remains stable, resulting in continued pricing pressure.

Capital Allocation and Investment

Due to market conditions and increased leverage, we are in the process of evaluating our capital spending across all segments. We currently expect capital spending to be \$120 million for the full year 2019, down \$10 million from our original \$130 million estimate, and continue to evaluate further actions.

Additionally, we announced on August 1 that we have reached an agreement to sell our Matane plant for \$175 million less certain fees and expenses. The transaction is expected to close in the fourth quarter of 2019. Proceeds from the sale will be used for general corporate purposes, including the reduction of debt.

We will be reviewing our common stock dividend payment policy, which historically has been \$0.07 per share per quarter, with our Board of Directors.

Critical Accounting Policies and Use of Estimates

The preparation of financial statements requires us to make estimates, assumptions and judgments that affect our assets, liabilities, revenues and expenses and disclosure of contingent assets and liabilities. We base these estimates and assumptions on historical data and trends, current fact patterns, expectations and other sources of information we believe are reasonable. Actual results may differ from these estimates.

For a full description of our critical accounting policies, see Item 7 — *Management's Discussion and Analysis of Financial Condition and Results of Operations* in our 2018 Annual Report on Form 10-K.

Recent Accounting Pronouncements

See Item 1 of Part I, Financial Statements — Note 1 — *Basis of Presentation and New Accounting Pronouncements*.

Results of Operations

Financial Information (in millions, except percentages)	Three Months Ended		% Change	Six Months Ended		% Change
	June 29, 2019	June 30, 2018		June 29, 2019	June 30, 2018	
Net Sales	\$ 488	\$ 542	(10)%	\$ 971	\$ 1,064	(9)%
Cost of Sales	(462)	(440)		(928)	(882)	
Gross Margin	26	102	(75)%	43	182	(76)%
Selling, general and administrative expenses	(21)	(25)		(50)	(48)	
Duties	(7)	(12)		(12)	(20)	
Other operating expense, net	(6)	1		(8)	(2)	
Operating Income (Loss)	(8)	66	(112)%	(27)	112	(124)%
Interest expense	(16)	(15)		(30)	(30)	
Interest income and other, net	(1)	5		—	6	
Adjustment to gain on bargain purchase	—	15		—	15	
Net periodic pension and OPEB income (expense), excluding service costs	1	2		2	4	
Income Before Income Taxes	(24)	73	(133)%	(55)	107	(151)%
Income Tax (Expense) Benefit	9	(19)		18	(29)	
Net Income (Loss)	\$ (15)	\$ 54	(128)%	\$ (37)	\$ 78	(147)%
Gross Margin %	5 %	19%		4 %	17%	
Operating Margin %	(2)%	12%		(3)%	11%	
Effective Tax Rate %	36 %	26%		32 %	27%	

Net sales by segment were as follows:

Net sales (in millions)	Three Months Ended		Six Months Ended	
	June 29, 2019	June 30, 2018	June 29, 2019	June 30, 2018
High Purity Cellulose	\$ 269	\$ 285	\$ 555	\$ 568
Forest Products	81	97	156	196
Pulp	78	91	148	176
Paper	74	84	144	160
Eliminations	(14)	(15)	(32)	(36)
Total net sales	\$ 488	\$ 542	\$ 971	\$ 1,064

Net sales decreased \$54 million and \$93 million, during the three and six months ended June 29, 2019, down approximately 10 percent and 9 percent, respectively, when compared to the same prior year periods. The decrease was primarily driven by lower cellulose specialties, lumber, high-yield pulp and newsprint sales prices. For further discussion, see Operating Results by Segment.

Operating income (loss) by segment was as follows:

Operating income (loss) (in millions)	Three Months Ended		Six Months Ended	
	June 29, 2019	June 30, 2018	June 29, 2019	June 30, 2018
High Purity Cellulose	\$ 7	\$ 28	\$ 4	\$ 49
Forest Products	(16)	17	(22)	27
Pulp	10	26	21	49
Paper	3	7	1	10
Corporate	(12)	(12)	(31)	(23)
Total operating income (loss)	\$ (8)	\$ 66	\$ (27)	\$ 112

Operating results for the three and six month periods ended June 29, 2019 decreased \$74 million and \$139 million compared to the same 2018 period. These declines were primarily driven by lower sales prices and higher costs. For further discussion, see Operating Results by Segment.

Non-operating Expenses

Interest expense of \$30 million for the second quarter of 2019 was essentially flat when compared to the same prior year period. See Note 6 — *Debt and Finance Leases*.

Income Tax (Expense) Benefit

The Company's effective tax rate for the three and six months ended June 29, 2019 was a benefit of 36 percent and 32 percent, respectively, compared to an expense of 26 percent and 27 percent for the three and six months ended June 30, 2018, respectively.

The effective tax rate for the three months ended June 29, 2019 differs from the federal statutory rate of 21 percent primarily due to tax credits and state taxes, partially offset by different statutory rates on foreign operations. In addition to these items, the effective tax rate benefit for the six months ended June 29, 2019 is also impacted by excess tax deduction on vested stock compensation in the first quarter. See Note 15 — *Income Taxes* for additional information.

Operating Results by Segment

High Purity Cellulose

(in millions)	Three Months Ended		Six Months Ended	
	June 29, 2019	June 30, 2018	June 29, 2019	June 30, 2018
Net Sales	\$ 269	\$ 285	\$ 555	\$ 568
Operating income (loss)	\$ 7	\$ 28	\$ 4	\$ 49
Average Sales Prices (\$ per metric ton):				
Cellulose Specialties	\$ 1,310	\$ 1,324	\$ 1,297	\$ 1,350
Commodity Products	\$ 792	\$ 828	\$ 822	\$ 816
Sales Volumes (thousands of metric tons):				
Cellulose Specialties	146	150	295	303
Commodity Products	71	65	158	119

Changes in High Purity Cellulose net sales are as follows:

Three Months Ended		Changes Attributable to:		
Net Sales (in millions)	June 30, 2018	Price	Volume/Mix/Other	June 29, 2019
Cellulose Specialties	\$ 199	\$ (2)	\$ (6)	\$ 191
Commodity Products	54	(3)	5	56
Other sales (a)	32	—	(10)	22
Total Net Sales	\$ 285	\$ (5)	\$ (11)	\$ 269

(a) Other sales consist of electricity, resins, lignin and other by-products to third-parties.

Total net sales for the three months ended June 29, 2019 declined \$16 million, or 6 percent, to \$269 million. This decline was driven by a 1 percent decline in cellulose specialties sales prices due to duties on products sold in China and a 3 percent decline in cellulose specialties sales volumes, due to weaknesses in the acetate and automotive markets. Commodity product sales prices declined 4 percent due to weaker markets. This decline was more than offset by a 9 percent increase in commodity sales volumes due to improved production at the Jesup and Tartas plants, partially offset by production issues at the Temiscaming plant. Other sales declined by \$10 million as a result of the sale of the resin business in September 2018.

Six Months Ended		Changes Attributable to:		
Net Sales (in millions)	June 30, 2018	Price	Volume/Mix/Other	June 29, 2019
Cellulose Specialties	\$ 408	\$ (15)	\$ (10)	\$ 383
Commodity Products	97	—	33	130
Other sales (a)	63	—	(21)	42
Total Net Sales	\$ 568	\$ (15)	\$ 2	\$ 555

(a) Other sales consist of electricity, resins, lignin and other by-products to third-parties

Total net sales for the six months ended June 29, 2019 declined \$13 million dollars, or 2 percent, to \$555 million. Cellulose specialties sales prices declined by approximately 4 percent in 2019 due to duties on products sold in China and higher average prices in the 2018 comparable year-to-date period due to 2017 higher priced shipments which were recognized as sales in 2018. Cellulose specialties volumes decreased 3 percent during the six months ended June 29, 2019 due to weaknesses in the acetate and automotive markets. Commodity product sales volumes increased by approximately 33 percent primarily due to improved production at the Jesup and Tartas plants, partially offset by production issues at the Temiscaming plant. Other sales declined by \$21 million as a result of the sale of the resin business in September 2018.

Changes in High Purity Cellulose operating income are as follows:

Three Months Ended		Gross Margin Changes Attributable to (a):				
(in millions)	June 30, 2018	Sales Price	Sales Volume/Mix/Other	Cost	SG&A and other	June 29, 2019
Operating income (loss)	\$ 28	\$ (5)	\$ (11)	\$ (4)	\$ (1)	\$ 7
Operating margin %	9.8%	(1.6)%	(3.8)%	(1.5)%	(0.4)%	2.5%

(a) Sales Volume computed based on contribution margin.

Operating income decreased \$21 million for the three months ended June 29, 2019 to \$7 million. The decrease was driven by lower cellulose specialties sales prices and volumes, commodity product sale prices and a decline in other sales, partially offset by higher commodity sales volumes, as discussed above. Costs increased \$4 million driven by higher wood and maintenance costs, partially offset by lower commodity chemical prices, primarily caustic, labor costs and costs associated to the resin business due to the sale. The 2018 period includes operating income of \$1 million from the resins business, which was sold in September 2018. SG&A and other costs increased \$1 million primarily due to negative impact of the \$1 million loss associated with the lignin joint venture that began operations in the second half of 2018.

Six Months Ended		Gross Margin Changes Attributable to (a):				
(in millions)	June 30, 2018	Sales Price	Sales Volume/Mix/Other	Cost	SG&A and other	June 29, 2019
Operating income (loss)	\$ 49	\$ (15)	\$ (10)	\$ (22)	\$ 2	\$ 4
Operating margin %	8.6%	(2.5)%	(1.8)%	(4.0)%	0.4%	0.7%

(a) Sales Volume computed based on contribution margin.

Operating income decreased \$45 million for the six months ended June 29, 2019 to \$4 million. The decrease was driven by lower cellulose specialties sales prices and volumes and a decline in other sales volume, partially offset by higher commodity sales volumes, as discussed above. Costs increased \$22 million driven by production reliability issues at both our Jesup and Temiscaming plants as well as higher wood and maintenance costs, partially offset by lower energy costs. The 2018 period includes operating income of \$2 million from the resins business, which was sold in September 2018. SG&A and other costs improved \$2 million as the impact of the \$2 million loss associated with the lignin joint venture that began operations in the second half of 2018 was more than offset by favorable SG&A costs and foreign exchange gains.

Forest Products

(in millions)	Three Months Ended		Six Months Ended	
	June 29, 2019	June 30, 2018	June 29, 2019	June 30, 2018
Net Sales	\$ 81	\$ 97	\$ 156	\$ 196
Operating income (loss)	(16)	17	(22)	27
Average Sales Prices (\$ per thousand board feet):				
Lumber	\$ 356	\$ 534	\$ 371	\$ 506
Sales Volumes (millions of board feet):				
Lumber	180	153	328	316

Changes in Forest Products net sales are as follows:

Three Months Ended		Changes Attributable to:		
Net Sales (in millions)	June 30, 2018	Price	Volume/Mix/Other	June 29, 2019
Lumber	\$ 82	\$ (32)	\$ 15	\$ 64
Other sales (a)	15	—	1	17
Total Net Sales	\$ 97	\$ (32)	\$ 16	\$ 81

(a) Other sales consist of sales of logs, wood chips, and other by-products to other segments and third-parties

Total net sales for the three months ended June 29, 2019 declined \$16 million dollars, or 16 percent, to \$81 million. Average lumber sales prices declined 33 percent due to weak demand while lumber sales volumes increased approximately 18 percent as a result of efforts to reduce inventory levels and improve working capital.

Six Months Ended		Changes Attributable to:		
Net Sales (in millions)	June 30, 2018	Price	Volume/Mix/Other	June 29, 2019
Lumber	\$ 160	\$ (44)	\$ 6	\$ 122
Other sales (a)	36	—	(2)	34
Total Net Sales	\$ 196	\$ (44)	\$ 4	\$ 156

(a) Other sales consist of sales of logs, wood chips, and other by-products to other segments and third-parties

Total net sales for the six months ended June 29, 2019 declined \$40 million dollars, or 20 percent, to \$156 million. Average lumber sales prices declined 27 percent due to weak demand while lumber sales volumes increased approximately 4 percent as a result of efforts to reduce inventory levels and improve working capital.

Changes in Forest Products operating income are as follows:

Three Months Ended		Gross Margin Changes Attributable to (a)				
(in millions)	June 30, 2018	Sales Price	Sales Volume/Mix/Other	Cost	SG&A and other	June 29, 2019
Operating income (loss)	\$ 17	\$ (32)	\$ 9	\$ (10)	\$ —	\$ (16)
Operating margin %	17.5%	(40.6)%	15.7%	(12.3)%	—%	(19.7)%

(a) Sales Volume computed based on contribution margin.

Operating income decreased \$33 million for the three months ended June 29, 2019 to an operating loss of \$16 million. The decline was primarily driven by lower lumber sales prices partially offset by higher lumber sales volumes, as previously discussed. Higher costs were driven by a \$5 million inventory valuation reserve taken in the 2019 period as well as increased maintenance and depreciation expense. The three months ended June 30, 2018 and June 29, 2019 included \$8 million and \$7 million in softwood lumber duties, respectively, as lower lumber sales prices were offset by higher lumber sales volumes.

Six Months Ended		Gross Margin Changes Attributable to (a)				
(in millions)	June 30, 2018	Sales Price	Sales Volume/Mix/Other	Cost	SG&A and other	June 29, 2019
Operating income (loss)	\$ 27	\$ (44)	\$ 1	\$ (8)	\$ 2	\$ (22)
Operating margin %	13.8%	(25.0)%	0.9%	(5.1)%	1.3%	(14.1)%

(a) Sales Volume computed based on contribution margin.

Operating income decreased \$49 million for the six months ended June 29, 2019 to an operating loss of \$22 million. The decline was primarily driven by lower lumber sales prices partially offset by higher lumber sales volumes, as previously discussed.

Higher costs were driven by a \$3 million inventory valuation reserve taken in the 2019 period and increased maintenance and depreciation expense. SG&A and other costs improved primarily due to lower softwood lumber duties. The six months ended June 30, 2018 and June 29, 2019 included \$15 million and \$12 million in softwood lumber duties, respectively. The decrease in duties was due to lower lumber sales prices offset by higher lumber sales volumes.

Pulp

(in millions)	Three Months Ended		Six Months Ended	
	June 29, 2019	June 30, 2018	June 29, 2019	June 30, 2018
Net Sales	\$ 78	\$ 91	\$ 148	\$ 176
Operating income	\$ 10	\$ 26	\$ 21	\$ 49
Average Sales Prices (\$ per metric tons) (a):				
High-yield pulp	\$ 561	\$ 674	\$ 574	\$ 664
Sales Volumes (in thousands of metric tons) (a):				
High-yield pulp	128	125	235	245

(a) Average sales prices and volumes for external sales only. For the three month periods ended June 29, 2019 and June 30, 2018, the Pulp segment sold approximately 16,000 MT and 17,000 MT of high-yield pulp for \$6 million and \$7 million, respectively, to the Paper segment for the production of paperboard. For the six months ended June 29, 2019 and June 30, 2018 32,000 MT and 34,000 MT of high-yield pulp was sold to the Paper segment for \$13 million and \$14 million, respectively.

Changes in Pulp net sales are as follows:

Three Months Ended		Changes Attributable to:		
(in millions)	June 30, 2018	Price	Volume/Mix	June 29, 2019
High-yield pulp	\$ 91	\$ (15)	\$ 2	\$ 78

Total net sales for the three months ended June 29, 2019 declined \$13 million dollars, or 14 percent, to \$78 million. Average pulp sales prices declined 17 percent due to weak demand while pulp sales volumes increased approximately 2 percent as a result of efforts to reduce inventory levels and improve working capital.

Six Months Ended		Changes Attributable to:		
(in millions)	June 30, 2018	Price	Volume/Mix	June 29, 2019
High-yield pulp	\$ 176	\$ (21)	\$ (7)	\$ 148

Total net sales for the six months ended June 29, 2019 declined \$28 million dollars, or 16 percent, to \$148 million. Average pulp sales prices declined 14 percent due to weak demand while pulp sales volumes decreased approximately 4 percent as lower production from market downtime and production reliability issues at the Temiscaming plant were partially offset by efforts to reduce inventory levels and improve working capital and lower production.

Changes in Pulp operating income are as follows:

Three Months Ended		Gross Margin Changes Attributable to (a):				
(in millions)	June 30, 2018	Sales Price	Sales Volume/Mix	Cost	SG&A and other	June 29, 2019
Operating income	\$ 26	\$ (15)	\$ 1	\$ (2)	\$ —	\$ 10
Operating margin %	28.6%	(14.1)%	0.9%	(2.6)%	—%	12.8%

(a) Sales Volume computed based on contribution margin.

Operating income decreased \$16 million for the three months ended June 29, 2019 to operating income of \$10 million. The decline was primarily driven by lower pulp sales prices partially offset by higher pulp sales volumes, as previously discussed. Higher costs were primarily driven by increased transportation and warehousing expenses.

Six Months Ended
Gross Margin Changes Attributable to (a):

(in millions)	June 30, 2018	Sales Price	Sales Volume/Mix	Cost	SG&A and other	June 29, 2019
Operating income	\$ 49	\$ (21)	\$ (3)	\$ (4)	\$ —	\$ 21
Operating margin %	27.8%	(9.7)%	(1.2)%	(2.7)%	—%	14.2%

(a) Sales Volume computed based on contribution margin.

Operating income decreased \$28 million for the six months ended June 29, 2019 to operating income of \$21 million. The decline was primarily driven by lower pulp sales prices in addition to lower pulp sales volumes, as previously discussed. Higher costs were primarily driven by increased transportation and warehousing expenses.

Paper

(in millions)	Three Months Ended		Six Months Ended	
	June 29, 2019	June 30, 2018	June 29, 2019	June 30, 2018
Net Sales	\$ 74	\$ 84	\$ 144	\$ 160
Operating income (loss)	\$ 3	\$ 7	\$ 1	\$ 10
Average Sales Prices (\$ per metric ton):				
Paperboard	\$ 1,117	\$ 1,136	\$ 1,109	\$ 1,145
Newsprint	\$ 508	\$ 611	\$ 546	\$ 572
Sales Volumes (in metric tons):				
Paperboard	45	45	88	86
Newsprint	47	55	85	107

Changes in Paper net sales are as follows:

Three Months Ended
Changes Attributable to:

Net Sales (in millions)	June 30, 2018	Price	Volume/Mix	June 29, 2019
Paperboard	\$ 50	\$ —	\$ —	\$ 50
Newsprint	34	(5)	(5)	24
Total Net Sales	\$ 84	\$ (5)	\$ (5)	\$ 74

Total net sales for the three months ended June 29, 2019 declined \$10 million dollars, or 12 percent, to \$74 million. Newsprint sales price declined 17 percent primarily due to the affects of the removal of duties on newsprint imported into the U.S. Newsprint sales volumes declined 15 percent primarily as a result of reliability issues and an energy curtailment that required production downtime at the Kapuskasing plant.

Six Months Ended
Changes Attributable to:

Net Sales (in millions)	June 30, 2018	Price	Volume/Mix	June 29, 2019
Paperboard	\$ 99	\$ (3)	\$ 1	\$ 97
Newsprint	61	(2)	(12)	47
Total Net Sales	\$ 160	\$ (5)	\$ (11)	\$ 144

Net sales for the six months ended June 29, 2019 declined \$16 million, or 10 percent, to \$144 million. Paperboard sales prices declined 3 percent due to increased competition and weaker markets. Paperboard sales volumes increased 2 percent primarily due to increased production. Newsprint sales prices declined 4 percent primarily due to the affects of the removal of duties on newsprint imported into the U.S. Newsprint sales volumes declined 20 percent due to production reliability issues and an energy curtailment that required production downtime at the Kapuskasing plant.

Changes in Paper operating income are as follows:

Three Months Ended		Gross Margin Changes Attributable to (a):				
(in millions)	June 30, 2018	Sales Price	Sales Volume/Mix	Cost	SG&A and other	June 29, 2019
Operating income (loss)	\$ 7	\$ (5)	\$ (3)	\$ 2	\$ 2	\$ 3
Operating margin %	8.4%	(5.8)%	(3.9)%	2.7%	2.7%	4.1%

(a) Sales Volume computed based on contribution margin.

Operating income decreased \$4 million for the three months ended June 29, 2019 to \$3 million. The decline was primarily driven by lower newsprint sales prices and volumes, as previously discussed. Lower costs were primarily driven by lower energy costs due to credits received for the energy curtailment offset by higher costs due to lower newsprint production volumes. SG&A and Other declined due to the removal of duties on newsprint imported into the U.S.

Six Months Ended		Gross Margin Changes Attributable to (a):				
(in millions)	June 30, 2018	Sales Price	Sales Volume/Mix	Cost	SG&A and other	June 29, 2019
Operating income (loss)	\$ 10	\$ (5)	\$ (7)	\$ —	\$ 3	\$ 1
Operating margin %	6.2%	(3.0)%	(4.6)%	—%	2.1%	0.7%

(a) Sales Volume computed based on contribution margin.

Operating income decreased by \$9 million for the six month period ended June 29, 2019 to \$1 million. The decline was primarily driven by lower newsprint sales prices and volumes, as well as lower paperboard prices, as previously discussed. Costs were flat as lower energy costs, due to credits received for the energy curtailment, pulp prices for paperboard, chemical prices and labor were offset by higher costs due to lower newsprint production volumes. SG&A and Other declined due to the removal of duties on newsprint imported into the U.S.

Corporate

Operating Income (Loss) (in millions)	Three Months Ended		Six Months Ended	
	June 29, 2019	June 30, 2018	June 29, 2019	June 30, 2018
Operating loss	\$ (12)	\$ (12)	\$ (31)	\$ (23)

The operating loss for the three months ended June 29, 2019 was comparable to the same 2018 period as lower incentive compensation expense due to company performance was offset by the change in foreign exchange rates in the periods.

The increase in operating loss during the six months ended June 29, 2019 was primarily driven by the change in foreign exchange rates in the periods.

Liquidity and Capital Resources

Cash flows from operations, primarily driven by operating results, have historically been our primary source of liquidity and capital resources. While we are in compliance with all debt covenants as of June 29, 2019, the significant decrease in the market prices for commodity-orientated products, primarily viscose, fluff, high-yield pulp, lumber, paperboard and newsprint, have caused our financial results to decline significantly over the last six months. As a result, we will not meet our 3 times first lien secured net leverage test as currently required under the Senior Secured Credit Facilities (the “Credit Facilities”) at the end of the third quarter. We are in active discussions with our lenders to amend the loans and expect to reach agreement in the third quarter of 2019. However, because the discussions with lenders have not been finalized and their decision is outside of our control, the outcome cannot be considered probable and no assurances can be given regarding the likelihood, certainty or timing of consummating such an amendment. If an amendment is not consummated, the lenders by contract, if they so choose, may request the immediate repayment of the loans thereunder following the filing of our third quarter report on Form 10-Q. Consequently, we are required to disclose that our ability to continue as a going concern is dependent on our ability to obtain an amendment or refinance the Credit Facilities.

Our Board of Directors has declared, and we have paid, cash dividends on our preferred stock of approximately \$7 million. The final cash dividend on our preferred shares of approximately \$3 million will be paid on August 15, 2019.

Our Board of Directors has declared, and we have paid, cash dividends of \$0.07 per share on our common stock for the first and second quarters for a total of approximately \$9 million. The declaration and payment of future common stock dividends will be at the discretion of the Board of Directors and will be dependent upon our financial condition, results of operations, capital requirements and other factors the Board of Directors deems relevant. In addition, certain of our debt facilities may restrict the declaration and payment of dividends, depending upon our then current compliance with certain covenants. Additionally, based on the liquidity issues previously discussed there can be no assurances the Company's current dividend policy will be continued in the future.

On January 29, 2018, the Board of Directors authorized a \$100 million common stock share buyback, which we believe provides another option to maximize long-term shareholder value as we execute on a disciplined and balanced capital allocation strategy. For the six months ended June 29, 2019, we did not repurchase any common shares under this buyback program.

Our debt agreements contain various customary covenants. At June 29, 2019, we were in compliance with all covenants. Our financial statements include assets of \$1,561 million, revenue of \$586 million, covenant EBITDA of \$105 million and liabilities of \$860 million for non-guarantors of our debt as of June 29, 2019.

A summary of liquidity and capital resources is shown below (in millions of dollars):

	June 29, 2019	December 31, 2018
Cash and cash equivalents (a)	\$ 90	\$ 109
Availability under the Revolving Credit Facility (b)	—	217
Total debt (c)	1,237	1,188
Stockholders' equity	667	707
Total capitalization (total debt plus equity)	\$ 1,903	\$ 1,895
Debt to capital ratio	65%	63%

(a) Cash and cash equivalents consisted of cash, money market deposits and time deposits with original maturities of 90 days or less.

(b) At June 29, 2019 availability under the revolving credit facility was restricted due to the liquidity issues discussed above. Availability under the revolving credit facility is reduced by standby letters of credit of approximately \$33 million at December 31, 2018.

(c) See Note 6 — *Debt and Finance Leases* for additional information.

During the six months ended June 29, 2019, we did not have any required principal repayments on the Term A-1 or Term A-2 Loan Facility.

Cash Flows (in millions of dollars)

The following table summarizes our cash flows from operating, investing and financing activities for the six months ended:

Cash Provided by (Used for):	June 29, 2019	June 30, 2018
Operating activities	\$ 18	\$ 89
Investing activities	\$ (60)	\$ (64)
Financing activities	\$ 23	\$ (41)

Cash provided by operating activities during the first six months of 2019 was \$18 million compared to cash provided by operating activities of \$89 million generated in the comparable prior year period. Operating cash flows decreased primarily due to a decline in our operating results and partially offset by a decrease in working capital as lower inventories and accounts receivable were partially offset by lower accounts payable and accrued liabilities, from the timing of payments.

Cash used for investing activities during the first six months of 2019 decreased \$4 million to \$60 million when compared to the same prior year period due to lower capital spending.

Cash provided by financing activities during the six months of 2019 included \$44 million of increased debt as \$86 million of revolver borrowings were offset by \$42 million of debt repayments. Dividend payments made, both on common stock and preferred stock during the six months ended June 29, 2019, remained consistent with the levels paid during the comparable prior year period. Shares repurchased in lieu of income tax withholdings were \$6 million and \$4 million during the six months ended June 29, 2019.

and June 30, 2018, respectively. In addition, during the 2018 period, the Company repurchased 646 thousand shares of common stock for \$11 million under the share buyback program. See Note 6 — *Debt and Finance Leases*, Note 12 — *Earnings Per Share of Common Stock* and Note 13 — *Incentive Stock Plans* for additional information.

Performance and Liquidity Indicators

The discussion below is presented to enhance the reader's understanding of our operating performance, liquidity, ability to generate cash and satisfy rating agency and creditor requirements. This information includes the following measures of financial results: EBITDA and adjusted free cash flows. These measures are not defined by U.S. Generally Accepted Accounting Principles ("GAAP") and the discussion of EBITDA and adjusted free cash flows is not intended to conflict with or change any of the GAAP disclosures described above. Management considers these measures, in addition to operating income, to be important to estimate the enterprise and stockholder values of the Company, and for making strategic and operating decisions. In addition, analysts, investors and creditors use these measures when analyzing our operating performance, financial condition and cash generating ability. Management uses EBITDA as a performance measure and adjusted free cash flows as a liquidity measure. See Item 2 — *Note about Non-GAAP Financial Measures* for limitations associated with non-GAAP measures.

EBITDA is defined by SEC rules as earnings before interest, taxes, depreciation and amortization. EBITDA is not necessarily indicative of results that may be generated in future periods.

Below is a reconciliation of Net Income (Loss) to EBITDA and Adjusted EBITDA by segment for the respective three month periods (in millions of dollars):

Three Months Ended:	Forest Products	Pulp	Paper	High Purity Cellulose	Corporate & Other	Total
June 29, 2019						
Net Income (Loss)	\$ (17)	\$ 11	\$ 5	\$ 6	\$ (20)	\$ (15)
Depreciation and amortization	3	1	4	28	—	36
Interest expense, net	—	—	—	—	16	16
Income tax expense (benefit)	—	—	—	—	(9)	(9)
EBITDA	<u>\$ (14)</u>	<u>\$ 12</u>	<u>\$ 9</u>	<u>\$ 34</u>	<u>\$ (13)</u>	<u>\$ 28</u>
Non-recurring expense (a)	—	—	—	—	1	1
Adjusted EBITDA	<u>\$ (14)</u>	<u>\$ 12</u>	<u>\$ 9</u>	<u>\$ 34</u>	<u>\$ (12)</u>	<u>\$ 29</u>
June 30, 2018						
Net Income (Loss)	\$ 16	\$ 26	\$ 9	\$ 33	\$ (30)	\$ 54
Depreciation and amortization	2	1	4	26	—	33
Interest expense, net	—	—	—	—	15	15
Income tax expense (benefit)	—	—	—	—	19	19
EBITDA	<u>\$ 18</u>	<u>\$ 27</u>	<u>\$ 13</u>	<u>\$ 59</u>	<u>\$ 4</u>	<u>\$ 121</u>
Gain on bargain purchase	—	—	—	(3)	(12)	(15)
Adjusted EBITDA	<u>\$ 18</u>	<u>\$ 27</u>	<u>\$ 13</u>	<u>\$ 56</u>	<u>\$ (8)</u>	<u>\$ 106</u>

(a) Non-recurring expenses are related to the Company's review of its commodity asset portfolio.

Below is a reconciliation of Net Income to EBITDA and Adjusted EBITDA by segment for the respective six month periods (in millions of dollars):

Six Months Ended:	Forest Products	Pulp	Paper	High Purity Cellulose	Corporate & Other	Total
June 29, 2019						
Net Income (Loss)	\$ (22)	\$ 21	\$ 5	\$ 2	\$ (43)	\$ (37)
Depreciation and amortization	4	3	9	57	—	73
Interest expense, net	—	—	—	—	30	30
Income tax expense (benefit)	—	—	—	—	(18)	(18)
EBITDA	<u>\$ (18)</u>	<u>\$ 24</u>	<u>\$ 14</u>	<u>\$ 59</u>	<u>\$ (31)</u>	<u>\$ 48</u>
Non-recurring expense (a)	—	—	—	—	1	1
Adjusted EBITDA	<u>\$ (18)</u>	<u>\$ 24</u>	<u>\$ 14</u>	<u>\$ 59</u>	<u>\$ (30)</u>	<u>\$ 49</u>
June 30, 2018						
Net Income (Loss)	\$ 27	\$ 49	\$ 14	\$ 57	\$ (69)	\$ 78
Depreciation and amortization	3	2	9	56	—	70
Interest expense, net	—	—	—	—	30	30
Income tax expense (benefit)	—	—	—	—	29	29
EBITDA	<u>\$ 30</u>	<u>\$ 51</u>	<u>\$ 23</u>	<u>\$ 113</u>	<u>\$ (10)</u>	<u>\$ 207</u>
Gain on bargain purchase	—	—	—	(3)	(12)	(15)
Adjusted EBITDA	<u>\$ 30</u>	<u>\$ 51</u>	<u>\$ 23</u>	<u>\$ 110</u>	<u>\$ (22)</u>	<u>\$ 192</u>

(a) Non-recurring expenses are related to the Company's review of its commodity asset portfolio.

EBITDA and Adjusted EBITDA for the three and six month periods ended June 29, 2019 decreased primarily due to lower operating income. For the full discussion of changes to operating income, see *Management's Discussion of Results of Operations*.

We define adjusted free cash flows as cash provided by (used for) operating activities adjusted for capital expenditures excluding strategic capital. Adjusted free cash flows is a non-GAAP measure of cash generated during a period which is available for dividend distribution, debt reduction, strategic acquisitions and repurchase of our common stock. Adjusted free cash flows is not necessarily indicative of the adjusted free cash flows that may be generated in future periods.

Below is a reconciliation of cash flows from operations to adjusted free cash flows for the respective periods (in millions of dollars):

Cash Flows from Operations to Adjusted Free Cash Flows Reconciliation	Six Months Ended	
	June 29, 2019	June 30, 2018
Cash provided by operating activities	\$ 18	\$ 89
Capital expenditures (a)	(51)	(41)
Adjusted Free Cash Flows	\$ (33)	\$ 48

(a) Capital expenditures exclude strategic capital expenditures which are deemed discretionary by management. Strategic expenditures for the first six months of 2019 were approximately \$9 million. Strategic capital expenditures for the same period of 2018 were approximately \$23 million.

Adjusted free cash flows decreased primarily due to unfavorable earnings as well as increased capital expenditure requirements.

Contractual Financial Obligations and Off-Balance Sheet Arrangements

We have no material changes outside the ordinary course of business to the Contractual Financial Obligations table as presented in Item 7 — *Management's Discussion and Analysis of Financial Condition and Results of Operations* in our 2018 Annual Report on Form 10-K.

See Note 17 — *Commitments and Contingencies* for details on our letters of credit and surety bonds as of June 29, 2019.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Market and Other Economic Risks

We are exposed to various market risks, primarily changes in interest rates, currency and commodity prices. Our objective is to minimize the economic impact of these market risks. We use derivatives in accordance with policies and procedures approved by the Audit Committee of our Board of Directors. Derivatives are managed by a senior executive committee whose responsibilities include initiating, managing and monitoring resulting exposures. See Note 8 — *Derivative Instruments* for additional information.

We manage our foreign currency exposures by balancing certain assets and liabilities denominated in foreign currencies and through the use of foreign currency forward contracts. The principal objective of such contracts is to minimize the potential volatility and financial impact of changes in foreign currency exchange rates. The counterparties to these contractual agreements are major financial institutions with which we generally have other financial relationships. We are exposed to credit loss in the event of nonperformance by these counterparties. However, given their size and financial strength, we do not anticipate nonperformance by the counterparties. We do not utilize financial instruments for trading or other speculative purposes.

The prices, sales volumes and margins of the commodity products of our High Purity Cellulose segment and all the products of the Forest Products, Pulp and Paper segments have historically been cyclically affected by economic and market shifts, fluctuations in capacity, and changes in foreign currency exchange rates. In general, these products are commodities that are widely available from other producers; because these products have few distinguishing qualities from producer to producer, competition is based primarily on price, which is determined by supply relative to demand. The overall levels of demand for the products we manufacture, and consequently our sales and profitability, reflect fluctuations in end user demand. Our cellulose specialties product prices are impacted by market supply and demand, raw material and processing costs, changes in global currencies and other factors. They are not directly correlated to commodity paper pulp prices. In addition, a majority of our cellulose specialties products are under long-term contracts that expire between 2019 and 2021.

As of June 29, 2019, we had \$652 million principal amount variable rate debt, which is subject to interest rate risk. At this borrowing level, a hypothetical one-percentage point increase/decrease in interest rates would result in a corresponding increase/decrease of approximately \$7 million in interest payments and expense over a 12 month period. Our primary interest rate exposure on variable rate debt results from changes in the London interbank offered rate ("LIBOR").

The fair market value of our long-term fixed interest rate debt is also subject to interest rate risk. However, we intend to hold most of our debt until maturity. The estimated fair value of our fixed-rate debt at June 29, 2019 was \$519 million compared to the \$585 million principal amount. We use quoted market prices to estimate the fair value of our fixed-rate debt. Generally, the fair market value of fixed-rate debt will increase as interest rates fall and decrease as interest rates rise.

We may periodically enter into commodity forward contracts to fix some of our energy costs that are subject to price volatility caused by weather, supply conditions, political and economic variables and other unpredictable factors. Such forward contracts partially mitigate the risk of changes to our gross margins resulting from an increase or decrease in these costs. Forward contracts which are derivative instruments are reported in the consolidated balance sheets at their fair values, unless they qualify for the normal purchase normal sale ("NPNS") exception and such exception has been elected. If the NPNS exception is elected, the fair values of such contracts are not recognized on the balance sheet.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

Our management is responsible for establishing and maintaining adequate disclosure controls and procedures. Disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act")), are designed with the objective of ensuring that information required to be disclosed in reports filed under the Exchange Act, such as this quarterly report on Form 10-Q, is (1) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and (2) accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Because of the inherent limitations in all control systems, no control evaluation can provide absolute assurance that all control exceptions and instances of fraud have been prevented or detected on a timely basis. Even systems determined to be effective can provide only reasonable assurance their objectives are achieved.

Based on an evaluation of our disclosure controls and procedures as of the end of the period covered by this quarterly report on Form 10-Q, our management, including the Chief Executive Officer and Chief Financial Officer, concluded the design and operation of the disclosure controls and procedures were effective as of June 29, 2019.

During the quarter ended June 29, 2019, based upon the evaluation required by paragraph (d) of SEC Rule 13a-15, there were no changes in our internal control over financial reporting that would materially affect or are reasonably likely to materially affect our internal control over financial reporting.

Part II. Other Information

Item 1. Legal Proceedings

The Company is engaged in various legal and regulatory actions and proceedings, and has been named as a defendant in various lawsuits and claims arising in the ordinary course of its business. While the Company has procured reasonable and customary insurance covering risks normally occurring in connection with its businesses, the Company has in certain cases retained some risk through the operation of self-insurance, primarily in the areas of workers' compensation, property insurance, business interruption and general liability. While there can be no assurance, the ultimate outcome of these actions, either individually or in the aggregate, is not expected to have a material adverse effect on the Company's financial position, results of operations or cash flows, except as may be noted below.

Jesup Plant Permit

On January 27, 2016, the Altamaha Riverkeeper ("ARK") filed a Petition for Hearing in the Office of Administrative Hearings for the State of Georgia, captioned Altamaha Riverkeeper, Inc. v. Environmental Protection Division (the "EPD"), Georgia Department of Natural Resources, in which ARK appealed the issuance by the EPD to the Company of a new permit for the treatment and discharge of waste water from the Jesup mill, which was to go into effect March 1, 2016. In the petition, ARK claims, among other things, that the issuance of the permit by the EPD would violate Georgia's narrative water quality standard, a rule promulgated by the Georgia Department of Natural Resources Board pursuant to certain provisions of the Clean Water Act and the Georgia Water Quality Control Act. The petition seeks to have the permit invalidated and modified as demanded by ARK. On February 16, 2016, the Company moved to legally intervene, as a party-in-interest, in this matter (because the EPD, as the permit issuer, is the named defendant) and its petition was granted by the administrative law judge ("ALJ"). The trial was held in June of 2016, and on September 30, 2016 the ALJ issued her decision. While the ALJ rejected many of ARK's claims, she held there existed a reasonable potential for the Company's treated effluent discharged to the Altamaha River to cause a violation of Georgia's narrative water quality standard, but only under low (rather than "normal") river flow conditions. As such, the ALJ reversed the issuance of the new permit by EPD and remanded the matter back to the EPD for consideration and issuance of a permit that comports with this ruling.

The Company strongly disagreed with the decision and appealed it, as did the EPD. The appeal was heard in the Superior Court of Wayne County, Georgia and on March 17, 2017 the Superior Court Judge issued an order reversing ALJ's decision and ordering the permit affirmed as issued by the EPD. ARK appealed this decision to the Georgia Court of Appeals. Before the Court of Appeals ruled, on March 27, 2018 the Georgia Department of Natural Resources Board (the "Board") voted to clarify the language of the narrative water quality standard at issue in this litigation. The language clarification adopted by the Board confirmed and essentially ratified the Superior Court's decision. On June 13, 2018, the Court of Appeals issued its opinion affirming the Superior Court's decision, and remanded the case to the ALJ to apply the standard advocated by the Company and articulated by the Superior Court, as affirmed by the Court of Appeals, to the issuance of the Permit. To provide certainty to the Company while this matter is on remand to the ALJ, the Company and the EPD have entered into a consent order requiring the Company to continue to operate under the conditions of the Permit.

ARK has filed a petition asking the Georgia Supreme Court to hear its appeal of the Court of Appeals decision, and the Company and EPD have filed papers opposing the petition. Granting of certiorari in this case is discretionary on the part of the Georgia Supreme Court. The Company believes the decisions of both the Superior Court and Court of Appeals are legally sound, and we await the decision of the Georgia Supreme Court on ARK's certiorari petition.

Stockholder Lawsuit

On August 17, 2017, the City of Warren General Employees' Retirement System filed a putative class action complaint against the Company, Paul Boynton, our CEO, and Frank Ruperto, our CFO, in the United States District Court, Middle District of Tennessee, Nashville Division. The plaintiffs allege the Company made false statements in filings with the U.S. Securities and Exchange Commission ("SEC") and other public statements related to certain litigation with Eastman Chemical, a customer of the Company, in third quarter and fourth quarter 2015, in violation of §§10(b) and 20(a) of the Securities Exchange Act of 1934, causing unspecified damages to stockholders of the Company who purchased stock in the Company between October 29, 2014 and August 19, 2015. The applicable Eastman litigation was resolved via settlement in 2015. The Company was served with the complaint on August 28, 2017. On November 13, 2017, the Court appointed the Michigan Carpenters' Pension Fund and Local 295 IBT Employer Group Pension Trust Fund as lead plaintiff, and a law firm to act as lead counsel. On January 10, 2018, the Company and the individual defendants filed a motion to dismiss the case for improper venue or, in the alternative, asked the court to transfer it to the U. S. District Court for the Middle District of Florida. Per the court scheduling order, the lead plaintiff filed a consolidated amended complaint (the "CAC") on January 12, 2018. The CAC added Benson Woo, former CFO of the Company, as an additional defendant.

On June 15, 2018, the U.S. District Court for the Middle District of Tennessee granted the Company's motion to transfer the case to the Middle District of Florida, and on July 16, 2018 the Company filed a motion to dismiss the case. On March 29, 2019, the Court issued an order of judgment and dismissal, with prejudice, of the plaintiffs' complaint. Plaintiffs and their counsel have elected not to appeal the dismissal and this matter is now concluded.

In a related matter, on August 16, 2018, the Company received a derivative demand letter on behalf of Russell K. Carlisle, a purported stockholder, demanding that the Company's Board of Directors investigate and take action on behalf of the Company against the individual defendants named in the City of Warren lawsuit and certain current and former members of the Board of Directors of the Company. The demand alleges substantially similar facts as those set forth in the City of Warren action, and claims them to be breaches of fiduciary duties owed to the Company by the individual defendants in City of Warren and members of the Company's Board of Directors during the alleged class period described in the case. The Company, the individuals named and Mr. Carlisle have agreed to toll any action on the derivative claim pending the decision of the U.S. District Court on the Company's motion to dismiss the City of Warren suit. Given the March 29, 2019 order of judgment and dismissal of the City of Warren lawsuit by the U.S. District Court for the Middle District of Florida, it is anticipated that Mr. Carlisle and his counsel will no longer pursue this derivative claim.

Item 1A. Risk Factors

In addition to the risk factors previously disclosed in Part I, Item 1A, of our 2018 Annual Report on Form 10-K, the following risk factor is hereby added:

Absent an agreement with our lenders to amend the Company's Senior Secured Credit Facilities, the Company will not meet its secured net leverage covenant contained in such Facilities at the end of the third quarter of 2019.

Cash flows from operations, primarily driven by operating results, have historically been the Company's primary source of liquidity and capital resources. While the Company is in compliance with all debt covenants as of June 29, 2019, the significant decrease in the market prices for commodity-orientated products, primarily viscose, fluff, high-yield pulp, lumber, paperboard and newsprint, have caused the financial results of the Company to decline significantly over the last six months. As a result, the Company will not meet its 3 times first lien secured net leverage test as currently required under the Senior Secured Credit Facilities (the "Credit Facilities") at the end of the third quarter. The Company is in active discussions with its lenders to amend the loans and expects to reach agreement in the third quarter of 2019. However, because the discussions with lenders have not been finalized and their decision is outside of the Company's control, the outcome cannot be considered probable and no assurances can be given regarding the likelihood, certainty or timing of consummating such an amendment. If an amendment is not consummated, the lenders by contract, if they so choose, may request the immediate repayment of the loans thereunder following the filing of the Company's third quarter report on Form 10-Q. Consequently, the Company is required to disclose that its ability to continue as a going concern is dependent on its ability to obtain an amendment or refinance the Credit Facilities.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Issuer Purchases of Equity Securities

The following table provides information regarding our purchases of Rayonier Advanced Materials common stock during the quarter ended June 29, 2019:

<u>Period</u>	<u>Total Number of Shares Purchased</u>	<u>Average Price Paid per Share</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</u>	<u>Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (b)</u>
March 30 to May 4 (a)	2,211	\$ 14.37	—	\$ 60,294,000
May 5 to June 1	—	—	—	\$ 60,294,000
June 2 to June 29	—	—	—	\$ 60,294,000
Total	<u>2,211</u>		<u>—</u>	

(a) Repurchased to satisfy the tax withholding requirements related to the issuance of stock under the Rayonier Advanced Materials Incentive Stock Plan.

(b) As of June 29, 2019, approximately \$60 million of share repurchase authorization remains under the authorization declared by the Board of Directors on January 29, 2018.

Item 6. Exhibits

10.1	Asset Purchase Agreement by and between Sappi Canada Enterprises Inc., as purchaser and Sappi Papier Holding GmbH, as Purchaser guarantor, on the one hand, and Rayonier A.M. Canada G.P., Rayonier A.M. Compagnie de Construction Inc. and Rayonier A.M. Enterprises Inc., collectively the Seller, and Rayonier Advanced Materials Inc., as Seller guarantor, dated as of July 31, 2019 ¹	Filed herewith
31.1	Chief Executive Officer's Certification Pursuant to Rule 13a-14(a)/15d-14(a) and pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith
31.2	Chief Financial Officer's Certification Pursuant to Rule 13a-14(a)/15d-14(a) and pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith
32	Certification of Periodic Financial Reports Under Section 906 of the Sarbanes-Oxley Act of 2002	Furnished herewith
101	The following financial information from our Quarterly Report on Form 10-Q for the three and six months ended June 29, 2019 formatted in Extensible Business Reporting Language ("XBRL"), includes: (i) the Condensed Consolidated Statements of Income (Loss) and Comprehensive Income (Loss) for the Three and Six Months Ended June 29, 2019 and June 30, 2018; (ii) the Condensed Consolidated Balance Sheets as of June 29, 2019 and December 31, 2018; (iii) the Condensed Consolidated Statements of Cash Flows for the Six Months Ended June 29, 2019 and June 30, 2018; and (iv) the Notes to Condensed Consolidated Financial Statements	Filed herewith

¹ Certain confidential portions of this exhibit were omitted by means of marking such portions with asterisks because the identified confidential portions (i) are not material and (ii) would be competitively harmful if publicly disclosed.

Signature

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Rayonier Advanced Materials Inc.

(Registrant)

By: /s/ MARCUS J. MOELTNER

Marcus J. Moeltner

Chief Financial Officer and

Senior Vice President, Finance

(Duly Authorized Officer and Principal Financial Officer)

Date: August 7, 2019

**Confidential Material Omitted – To be filed separately with the Securities and Exchange Commission upon request.
Double asterisks denote omissions.**

SAPPI CANADA ENTERPRISES INC.

as the Purchaser

and

SAPPI PAPIER HOLDING GMBH

as the Purchaser Guarantor

RAYONIER A.M. CANADA G.P.

and

RAYONIER A.M. COMPAGNIE DE CONSTRUCTION INC.

and

RAYONIER A.M. CANADA ENTERPRISES INC.

collectively, as the Seller

and

RAYONIER ADVANCED MATERIALS INC.

as the Seller Guarantor

ASSET PURCHASE AGREEMENT

July 31, 2019

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ASSET PURCHASE AGREEMENT

Asset Purchase Agreement dated July 31, 2019 among Sappi Canada Enterprises Inc., a corporation existing under the laws of Québec (the “**Purchaser**”), Sappi Papier Holding GmbH, a limited liability company existing under the laws of Austria (the “**Purchaser Guarantor**”), Rayonier A.M. Canada G.P., a partnership existing under the laws of Quebec (“**Rayonier GP**”), Rayonier A.M. Compagnie de Construction Inc., a corporation existing under the federal laws of Canada (“**RCC**”), Rayonier A.M. Canada Enterprises Inc., a corporation existing under the under the federal laws of Canada (“**RCE**”) and Rayonier Advanced Materials Inc., a corporation existing under the laws of Delaware (the “**Seller Guarantor**”).

RECITALS:

- (a) The Seller is the registered and beneficial owner of the Purchased Assets.
- (b) The Purchaser wishes to purchase the Purchased Assets from the Seller and to undertake and assume performance of the Assumed Obligations, and the Seller wishes to sell the Purchased Assets to the Purchaser, upon and subject to the terms and conditions of this Agreement.

NOW THEREFORE in consideration of the foregoing, and the respective covenants, agreements, representations and warranties of the Parties contained herein and for other good and valuable consideration (the receipt and adequacy of which are acknowledged), the Parties agree as follows:

Article 1 INTERPRETATION

Section 1.1 Defined Terms.

As used in this Agreement, the following terms have the following meanings:

“**Adjustment Statement**” means an unaudited statement substantially in the form of EXHIBIT A, and including a Working Capital calculation, a Pension Liability calculation and an estimate of the Purchase Price at Closing or a calculation of the Purchase Price at Closing, as the case may be.

“**Advance Ruling Certificate**” means an advance ruling certificate issued pursuant to Section 102 of the Competition Act.

“**Affiliates**” means, as to any Person, any other Person that, directly or indirectly, controls, or is controlled by, or is under common control with, such Person. As used in this definition, the term “control” (including, with its correlative meanings, “controlled by” and “under common control with”) means the possession, directly or indirectly, of the powers to direct or cause the direction of management or policies of a Person, through the ownership of securities or partnership or other ownership interests, by contract or otherwise.

“**Agreement**” means this asset purchase agreement, as it may be amended or supplemented from time to time.

“**Assigned Books and Records**” has the meaning specified in Section 2.1(p).

“**Assigned Permits**” has the meaning specified in Section 2.1(j).

“**Assumed Obligations**” has the meaning specified in Section 2.13.

“**Assumed Plans**” has the meaning specified Section 10.2(4).

“**Authorization**” means, with respect to any Person, any order, permit, approval, consent, filing, notification, waiver, licence, authorization or similar action of, to, from or with respect to any Governmental Entity having jurisdiction over the Person.

“**Benefit Plan**” means any plan, policy, agreement or arrangement including, for greater certainty, any modification thereto (whether written or unwritten) relating to stock options, stock purchases, stock awards, deferred compensation, bonus, profit sharing, severance, retention, termination, retirement, pension, supplemental pension, health, dental or other medical, life, disability or other insurance (whether insured or self-insured), mortgage insurance, employee loan, employee assistance, supplementary unemployment benefits, supplementary retirement, welfare benefits, change of control, fringe benefits, supplemental benefits or other employee benefits, in each case, sponsored, maintained or

contributed to, or required to be sponsored, maintained or contributed to, by the Seller, for the benefit of current or former employees, officers, directors or individual independent contractors employed or retained in connection with the Business, other than any multiemployer plan, the Québec Pension Plan or the Canada Pension Plan, any health or drug plan established and administered by a Province, and any employment, parental or workers' compensation insurance provided by Canadian federal or provincial Laws.

"Benefit Plan Setup" has the meaning specified in Section 5.10.

"Books and Records" means all information in any form relating in all or in part to the Business or the Purchased Assets, including books of account, financial and accounting information and records, tax records, sales and purchase records, customer and supplier lists, research and development reports and records, equipment logs, operating guides and manuals, technical documents and drawings including specifications and schematics, marketing and advertising materials, personnel, employment and all other documents, files, corporate records (whether in written or electronic form).

"Business" means the production, distribution, marketing and sale of high-yield (thermo-mechanical) pulp currently or formerly produced at the Seller's Matane site in the Province of Québec.

"Business Day" means any day of the year, other than a Saturday, Sunday or any day on which major banks are closed for business in Montreal, Québec, Canada.

"Business Intellectual Property" has the meaning specified in Section 3.1(s)(i).

"Cap" means [**].

"Cash Amount" has the meaning specified in Section 2.3(a).

"Claim" has the meaning specified in Section 9.5(1).

"Closing" means the completion of the transaction of purchase and sale of the Purchased Assets contemplated in this Agreement.

"Closing Date" means the date that is the fifth (5th) Business Day that immediately follows the day on which the last of the conditions to Closing set out in Article 6 (other than those conditions which by their nature can only be satisfied as of the Closing Date) have been satisfied or waived by the appropriate Party, but in no event before the earlier of the 90th day following the date of this Agreement and the date on which the SAP Setup is completed.

"Closing Time" means 12:01 a.m. on the Closing Date.

"Collective Bargaining Agreement" has the meaning specified in Section 3.1(q)(i).

"Commissioner of Competition" means the Commissioner of Competition appointed under the Competition Act or any Person authorized to exercise his powers and perform his duties.

"Competition Act" means the *Competition Act* (Canada).

"Competition Act Clearance" means one of the following has occurred in respect of the transactions contemplated by this Agreement:

- (a) the Commissioner of Competition shall have issued an Advance Ruling Certificate; or
- (b) either (i) the requirement to notify the Commissioner of Competition and supply information shall have been waived pursuant to Section 113(c) of the Competition Act or (1) the applicable waiting period under Section 123 of the Competition Act shall have expired or been terminated and, in the case of (i) or (ii), the Commissioner of Competition shall have issued a No-Action Letter, and such No-Action Letter remains in force and effect at Closing.

"Confidentiality Agreement" has the meaning specified in Section 5.4(1).

"Consent" means any consent, approval, permit, waiver, ruling, exemption or acknowledgement from any Person which is provided for or required: (a) in respect of or pursuant to the terms of any Contract; or (b) under any applicable Law, in either case in connection with the transactions contemplated by this Agreement, including (i) to transfer the Purchased

Assets and all rights and benefits thereunder to the Purchaser, (ii) for Purchaser to assume the Assumed Obligations, (iii) to permit the Purchaser to carry on the Business after the Closing as the Business is currently carried on by the Seller, or (iv) which is otherwise necessary for the Parties to perform their obligations under this Agreement or to consummate the transactions contemplated hereby.

“Contract” means any written or oral agreement, contract, obligation, promise, commitment, loan or credit agreement, employment or severance agreement, note, mortgage, bond, indenture, lease, benefit plan, permit, franchise, license or other instrument, understanding, undertaking or arrangement to which the Seller is a party or by which the Seller or the Purchased Assets or the Business is bound or under which the Seller has rights or obligations, in each case exclusively in respect of the Purchased Assets or the Business.

“Current Assets” means the combined current assets of the Seller related to the Business, determined on a basis consistent with the Financial Statements, adjusted to include spare parts reported as long-term assets, to be calculated as set out in EXHIBIT A.

“Current Liabilities” means the combined current liabilities of the Seller related to the Business, determined on a basis consistent with the Financial Statements, to be calculated as set out in EXHIBIT A.

“Custodial Trustee” means the CIBC Mellon Trust Company.

“Damages” means, whether or not involving a Third Party Claim, any loss, cost, liability, claim, interest, damages and expense (including reasonable legal counsel’s, consultant’s and expert’s fees and expenses).

“Data Room” means the virtual data room of the Seller maintained by Donnelly Financial Solutions “Venue”, access to which was provided to the Purchaser and its representatives for purposes of their due diligence investigations in connection with the transactions contemplated by this Agreement.

“Deductible” means [**].

“Direct Claim” means any cause, matter, thing, act, omission or state of facts not involving a Third Party Claim which entitles an Indemnified Party to make a claim for indemnification under this Agreement.

“Disclosure Letter” means the disclosure letter delivered by the Seller to the Purchaser contemporaneously with the execution and delivery of this Agreement.

“Draft Closing Statement” has the meaning specified in Section 2.7.

“Employees” means all individuals employed by the Seller in the operation of the Business on the Closing, whether on a full-time, part-time, temporary or casual basis, including the unionized employees and the non-unionized employees, and including those on vacation, short term disability, long term disability, workers’ compensation related leave, pregnancy, parental, sick leave or other statutory or approved leave of absence, other than the Excluded Employees, if any.

“Environment” means all or any part of the following media (alone or in combination): air (including the atmosphere and the air within any structure or underground space); water (including sea, seabed, marine sediments and any marine organisms and ecosystem, groundwater and any water under or within land and coastal and inland waters); land (including subsoil and land under water) and any organisms or systems supported by those media (including habitats, species and humans).

“Environmental Laws” means any Laws relating to the Environment or public health and public safety including those relating to the manufacture, transport, handling or disposal of Hazardous Substances, assessment and remediation of contaminated media and protection of the Environment.

“Environmental Liabilities” means all liabilities, obligations, responsibilities, response, remedial and removal costs, investigation costs, capital costs, operation and maintenance costs, losses, damages, including damages for diminution of the value of land, property damages, natural resource damages, costs and expenses, fines, penalties and sanctions incurred as a result of or related to:

- (i) any claim, suit, action, administrative order, investigation, proceeding or demand by any Person under any Environmental Laws or with respect to any environmental matter;
- (ii) any matter or condition arising under or related to any Environmental Laws or environmental Assigned Permits;

- (iii) any Release or threatened Release or presence of a Hazardous Substance whether on, at, in, under, from or about or in the vicinity of any immovable or movable property at any time; or
- (iv) the treatment, storage, handling, disposal, discharge, transportation or elimination of any Hazardous Substance, including the transportation or disposal of any Hazardous Substance by or on behalf of the Seller to any off site facility.

“Estimated Adjustment Amount” means the sum of the adjustments to the Cash Amount calculated pursuant to Section 2.5(1)(b) to Section 2.5(1)(d).

“Estimated Closing Date Statement” has the meaning specified in Section 2.6.

“Estimated Pension Liability” has the meaning specified in Section 2.6(2).

“Estimated Working Capital” has the meaning specified in Section 2.6(1).

“Excluded Assets” has the meaning specified in Section 2.2.

“Excluded Contracts” has the meaning specified in Section 2.2(c).

“Excluded Employees” has the meaning specified in Section 10.1(2).

“Exhibits” means the exhibits attached to this Agreement.

“Final Adjustment Amount” means the sum of the adjustments to the Cash Amount calculated pursuant to Section 2.3(b) to Section 2.3(d), as determined on the basis of the Final Closing Statement.

“Final Allocation” has the meaning specified in Section 2.4.

“Final Closing Statement” has the meaning specified in Section 2.8(3) and Section 2.8(4).

“Final Determination” means any final order, judgment, decision or award in a Legal Proceeding, after all delays to appeal have lapsed.

“Final Negative Adjustment Amount” has the meaning specified in Section 2.9(2).

“Final Positive Adjustment Amount” has the meaning specified in Section 2.9(3).

“Financial Statements” means, collectively, the financial information attached at Section 3.1(e) of the Disclosure Letter.

“First Nations” means any Indian or Indian Band (as those terms are defined in the *Indian Act* (Canada)), Inuit person or people, First Nation person or people, Métis person or people, indigenous person or people or aboriginal person or people of Canada and any person or group representing, or purporting to represent, any of the foregoing.

“First Nations’ Claims” means any claims, assertions or demands, written or oral, whether proven or unproven, in respect of aboriginal rights, aboriginal title, treaty rights or any other aboriginal interest in or to all or any portion of the Owned Real Property and the Leased Real Property.

“FSC” means the Forest Stewardship Council.

“GAAP” means generally accepted accounting principles as in effect in the United States of America, at the relevant time applied on a consistent basis.

“Governmental Entity” means any national, federal, provincial, municipal, local or foreign governmental authority, including any regional or departmental direction of a ministry and any independent administrative authority, any court, tribunal, administrative agency or commission, any body responsible for forest management or chain of custody certification or credits or any quasi-governmental body exercising any executive, regulatory, judicial, tribunal, administrative, taxing, importing or other governmental or quasi-governmental authority, including any arbitrator or arbitration body and any stock exchange.

“GST” shall mean any goods and services tax and harmonized sales tax imposed under Part IX of the Excise Tax Act (Canada).

“GST/QST Certificate and Indemnity” has the meaning specified in Section 5.15.

“Hazardous Substance” means any chemical, substance, contaminant, waste, pollutant or material that is prohibited, controlled or regulated by any Governmental Entity pursuant to Environmental Laws, including pollutants, contaminants, dangerous goods or substances, toxic or hazardous substances or materials, wastes (including solid non-hazardous wastes and subject wastes), residual materials, noise, vibration, petroleum and its derivatives and by-products and other hydrocarbons, all as defined in or pursuant to any Environmental Law.

“Indemnified Party” means a Person with indemnification rights or benefits under Section 9.2 or Section 9.3, or otherwise under this Agreement.

“Indemnifying Party” means a Party against which a Claim may be made for indemnification under this Agreement, including pursuant to Article 9.

“Insurance Policies” has the meaning specified in Section 3.1(ee).

“Intellectual Property Rights” means rights in the following: (a) all trademark rights, trade dress, service marks, trade names and brand names; (b) all works, copyrights, neighbouring rights, moral rights and all other rights associated therewith and the underlying works of authorship; (c) all patents rights; (d) designs and industrial designs; (e) all inventions, know how, discoveries, improvements and trade secrets; (f) computer programs and other software; (g) external IP addresses and (h) all registrations of any of the foregoing and all applications therefor.

“Interim Period” means the period between the date of this Agreement and the Closing.

“Inventories” means all inventories of the Business, including all finished goods, work in progress, raw materials, spare parts, manufacturing supplies, stores inventories, tooling, purchased finished goods related to the Business (including those in possession of suppliers, customers or other third parties).

“Investment Canada Act” means the *Investment Canada Act* (Canada).

“IT Systems” means all computer hardware, test bed and testing devices, peripheral equipment, software and firmware, databases, technology infrastructure and other information technology systems and services that are used by or accessible to the Seller to operate the Business and to receive, store, process or transmit data.

“Law” means all (a) constitutions, treaties, laws, statutes, codes, ordinances, rules, regulations, and by-laws or other requirements having force of law, whether federal, provincial, municipal, regional, domestic, foreign or international; (b) policies, guidelines, practices, standards, protocols, codes or rules that are legally binding and (c) all Orders.

“Leased Real Property” has the meaning specified in Section 3.1(y)(ii).

“Legal Proceeding” means any (a) claim, demand, action, suit, arbitration, litigation, dispute, complaint, grievance, mediation, arbitration and proceeding and (b) any audit by a Governmental Entity, investigation by a Governmental Entity or hearing or inquiry by a Governmental Entity.

“Licensed Intellectual Property” has the meaning specified in Section 2.1(l).

“Liens” means mortgages, hypothecs, charges, pledges, assignments, liens (statutory or otherwise), security interests, easements, servitudes, encroachments, retentions of title, rights-of-way, rights of refusal, restriction on use or other restrictions, preferential right, or other real, immovable, movable or personal right, prior claims, legal hypothecs or encumbrances of any nature whatsoever, whether contingent or absolute, and any agreement, option, right or privilege (whether by Law, Contract or otherwise) capable of becoming any of the foregoing.

“Master Trust Agreements” means, collectively, the master trust agreement (Tembec Liability Hedging Assets Master Trust Fund) between [**].

“Material Adverse Effect” means, any event, change, effect, condition, fact, development, occurrence or circumstance that, individually or in the aggregate with all other events, changes, effects, conditions, facts, developments, occurrences or circumstances, is or would reasonably be expected to be material and adverse to the Purchased Assets, the Assumed Obligations or the business, results of operations, capital, properties, condition (financial or otherwise), assets, obligations or liabilities of the Business, except any such event, change, effect, condition, fact, development, occurrence or circumstance resulting from or arising out of (a) any change in global, national or regional political, regulatory or legislative conditions or in general economic, business, regulatory, political or market conditions or in national or global financial or capital markets (including credit market or securities markets); (b) any change generally affecting the industries in which the Seller and Purchaser operate; (c) any adoption, proposed implementation or change in applicable

Laws, or any changes in generally accepted accounting practices (or any change in the authoritative interpretation by a Governmental Entity of any of the foregoing); (d) any global or national changes or developments in or relating to currency exchange rates or interest rates; (e) any action taken or refrained from being taken, in each case to which the Purchaser has expressly and in writing, approved, consented to or requested following the date of this Agreement, (f) any change in the market price or trading volume of such Person's securities (it being understood that the facts and circumstances that may have given rise to such change that are not otherwise excluded from the definition of a Material Adverse Effect may be taken into account in determining whether there has been a Material Adverse Effect); (g) any failure by such Person to meet any internal or public financial projections, forecasts or estimates of revenues, earnings or other financial metrics for any period (it being understood that the facts and circumstances that may have given rise to such failure that are not otherwise excluded from the definition of a Material Adverse Effect may be taken into account in determining whether there has been a Material Adverse Effect); or (h) the negotiation, execution, performance or announcement of this Agreement or the consummation of the transactions contemplated herein, except, in the case of clauses (a)-(g) above, to the extent that any such event, change, effect, condition, fact, development, occurrence or circumstance has a materially disproportionate effect on the Business, the Purchased Assets or the Assumed Obligations.

"Material Contract" has the meaning specified in Section 3.1(u)(i).

"No-Action Letter" means written confirmation from the Commissioner of Competition that he does not, at that time, intend to make an application under Section 92 of the Competition Act in respect of the transactions contemplated by this Agreement.

"Non-Exclusive Contracts" means any written or oral agreement, contract, obligation, promise, commitment, employment or severance agreement, note, indenture, lease, permit, franchise, license or other instrument, understanding, undertaking or arrangement to which the Seller is a party or by which the Seller or the Purchased Assets or the Business is bound or under which the Seller has rights or obligations, in each case on a non-exclusive basis in respect of the Purchased Assets or the Business.

"Notice" has the meaning specified in Section 11.1.

"Notice of Claim" has the meaning specified in Section 9.5(1).

"Order" means any order, writ, injunction, judgment, decision, ruling, awards, plan and decree of any Governmental Entity.

"Ordinary Course of Business" means, with respect to an action taken by or with respect to a Person, that such action is consistent in nature, scope and magnitude with the past practices of such Person and is taken in the ordinary course of normal day-to-day operations of such Person.

"Outside Date" means the date that is six (6) months after the date of this Agreement.

"Owned Intellectual Property" has the meaning specified in Section 2.1(k).

"Owned Real Property" has the meaning specified in Section 3.1(y)(i).

"Parties" means, collectively, the Purchaser, the Seller and any other Person who may become a party to this Agreement, and **"Party"** means any one of them.

"PEFC" means the Programme for the Endorsement of Forest Certification.

"Pension Liability" means the excess, if any, of the total liabilities under the Retirement Plan for Unionized Employees over the fair market value of such plan's assets, calculated using the Required Methodology and Required Assumptions and assuming the funded status of the Retirement Plan for Unionized Employees as at the Closing Time.

"Pension Plans" has the meaning specified in Section 3.1(p)(iii), which includes, for greater certainty, the Retirement Plan for Unionized Employees of Tembec Industries Inc. – Matane Division, and the Retirement Plan for Certain Non-Unionized Employees of Tembec Industries, in respect of all Employees.

"Per Claim Threshold" means [**].

"Permits" means all permits, consents, waivers, licences, certificates, certificates of authorization, approvals, authorizations, registrations, franchises, rights, privileges, quotas and exemptions, or any item with a similar effect, issued or granted by any Governmental Entity.

“Permitted Lien” means (a) any Lien for Taxes or governmental assessments, charges or claims of payment not yet delinquent or being contested in good faith by appropriate Legal Proceedings and, in each case, for which adequate accruals, provisions or reserves (based on good faith estimates of management) have been set aside for the payment thereof, (b) vendors’, mechanics’, materialmen’s, carriers’, workers’, landlords’, repairmen’s, warehousemen’s, construction and other similar Liens arising or incurred in the ordinary course of business on a basis consistent with past practice or with respect to liabilities that are not yet due and payable or, if due, are not delinquent or are being contested in good faith by appropriate Legal Proceedings and, in each case, for which adequate accruals or reserves (based on good faith estimates of management) have been set aside for the payment thereof, (c) Liens imposed or promulgated by applicable Laws with respect to real or immovable property, including zoning, building or similar restrictions, as well as Liens consisting of (i) easements, rights-of-way, servitudes, restrictions and similar rights in real or immovable property and (ii) the reservations, limitations, provisos and conditions, if any, expressed in any original grant from the Crown of any real or immovable property or any interest therein or in any similar grant from a Governmental Entity in jurisdictions other than Canada; provided that any such items would not, individually or in the aggregate, reasonably be expected to interfere in any material respect with the ordinary conduct of the Business or materially impair the continued use or operation of such real or immovable property for the purpose for which it is currently used, (d) pledges or deposits in the ordinary course of business on a basis consistent with past practice in connection with workers’ compensation, unemployment insurance or social security legislation, (e) Liens identified in Section 1.1 – Permitted Liens of the Disclosure Letter, or (f) statutory liens or deemed trusts arising under pension benefits standards legislation, to the extent that the Seller has made all contributions and payments required under such legislation when due.

“Person” includes an individual, a corporation, a partnership, a limited liability company, an unlimited liability company, an association, a trust or any other entity or organization, including a Governmental Entity.

“Personal Information” means information about an identifiable individual and includes any information that constitutes personal information within the meaning of any Privacy Law.

“Personal Property” means all machinery, equipment, furniture, motor vehicles and other property used in carrying on the Business (including those in possession of suppliers, customers and other third parties).

“Privacy Law” means the *Personal Information Protection and Electronic Documents Act* (Canada), the *Act respecting the Protection of Personal Information in the Private Sector* (Québec) and any comparable law of any other jurisdiction in which the Seller conducts the Business.

“Purchase Price” has the meaning specified in Section 2.3.

“Purchased Assets” means the assets referred to or described in Section 2.1.

“Purchaser” has the meaning specified in the introductory paragraph to this Agreement.

“Purchaser Fundamental Representations” means the representations and warranties set forth in Section 4.1(a) – *Organization* and Section 4.1(b) – *Authorization*, Section 4.1(c) – *No Violation*, and Section 4.1(g) – *No Finder’s Fee*.

“Purchaser Guarantor” has the meaning specified in the introductory paragraph to this Agreement.

“Purchaser Indemnitees” has the meaning specified in Section 9.2.

“Purchaser Parties” has the meaning specified in Section 5.2.

“QST” means any Quebec sales tax imposed under an *Act respecting the Quebec sales tax* (Quebec).

“Rayonier GP” has the meaning specified in the introductory paragraph to this Agreement.

“RCE” has the meaning specified in the introductory paragraph to this Agreement.

“RCC” has the meaning specified in the introductory paragraph to this Agreement

“Real Property Leases” has the meaning specified in Section 3.1(y)(ii).

“Receivables” means all accounts receivable, bills receivable, trade accounts, book debts and insurance claims related to the Business, together with any unpaid interest accrued on such items and any security or collateral for such items, including recoverable deposits.

“Registered IP” has the meaning specified in Section 3.1(s)(ii).

“Regulatory Approvals” means the Competition Act Clearance and any other Authorizations required pursuant to applicable Laws in connection with the transactions contemplated by this Agreement, including (i) to transfer the Purchased Assets and all rights and benefits thereunder to the Purchaser, (ii) for Purchaser to assume the Assumed Obligations, (iii) to permit the Purchaser to carry on the Business after the Closing as the Business is currently carried on by the Seller, or (iv) which is otherwise necessary for the Parties to perform their obligations under this Agreement or to consummate the transactions contemplated hereby.

“Release” means any release or discharge of any Hazardous Substance, including any discharge, spray, injection, inoculation, abandonment, deposit, spillage, leakage, seepage, pouring, emission, emptying, throwing, dumping, placing, exhausting, escape, leaching, migration, dispersal, dispensing or disposal.

“Required Assumptions” means the accounting discount rate under GAAP, inflation rate, and the value of the assets of the Retirement Plan for Unionized Employees as at the Closing Date. The required discount rate used will be as described in the Willis Towers Watson Actuarial Valuation Report Disclosure for Fiscal Year Ending December 31, 2018 and 2019 Benefit Cost under US GAAP – January 2019, updated to reflect rates at the Closing Date.

“Required Methodology” means the data, methods and assumptions used in the calculation of the unfunded pension liability (PBO) in regard to the Retirement Plan for Unionized Employees in the Financial Statements, except that the Required Assumptions shall be used.

“Retirement Plan for Unionized Employees” means the Retirement Plan for Unionized Employees of Tembec Industries Inc. – Matane Division.

“Retained Books and Records” has the meaning specified in Section 2.2(g).

“Retained Obligations” means all obligations and liabilities of the Seller at the Closing Time, other than the Assumed Obligations, including:

- (a) any liability under any Contract arising after the Closing Date that arises out of or relates to a breach of, or default under, that Contract prior to the Closing Date;
- (b) any liability for Taxes for the period prior to the Closing;
- (c) any liability under any Excluded Contract;
- (d) any liability to any Employee except as specifically assumed by the Purchaser pursuant to Section 10.1;
- (e) any liability under any Benefit Plan or any Pension Plan except as specifically assumed by the Purchaser in accordance with Section 10.2;
- (f) any liability of the Seller to any Affiliate of the Seller or other related Person of the Seller;
- (g) any liability to indemnify, reimburse or advance any amounts to any officer, director, or agent of the Seller or of one of its Affiliates;
- (h) any liability arising out of or resulting from the Seller's compliance or non-compliance with any applicable Law except to the extent specifically assumed pursuant to Section 2.13;
- (i) any liability with respect to the NAFTA audit survey conducted by U.S. Customs and Border Protection (CPB) and related prior disclosure initiated by the Seller with CPB, the whole as disclosed in Section 3.1(m) of the Disclosure Letter;
- (j) any Environmental Liabilities except as specifically assumed by the Purchaser pursuant to Section 2.13(e); and

(k) any liability of the Seller under this Agreement or in any other agreement, certificate or instrument executed and delivered pursuant to this Agreement.

“**SAP Setup**” has the meaning specified in Section 5.12.

“**Seller**” means collectively, Rayonier GP, RCC and RCE.

“**Seller Counsel**” means McCarthy Tétrault LLP.

“**Seller Indemnitees**” has the meaning specified in Section 9.3.

“**Seller Guarantor**” has the meaning specified in the introductory paragraph to this Agreement.

“**Seller Fundamental Representations**” means the representations and warranties set forth in Section 3.1(a) – *Organization*, Section 3.1(b) – *Authorization and Enforceability*, Section 3.1(c) – *No Violation*, and Section 3.1(gg) – *Commissions*.

“**Subsidiaries**” of any Person means any corporation or other form of legal entity (a) an amount of the outstanding voting securities of which is sufficient to elect at least a majority of its board of directors or other governing body (or, if there are not such voting securities, more than 50% of the equity interests of which) is owned or controlled, directly or indirectly, by such Person or by one or more of its Subsidiaries or (b) with respect to which such Person or one or more of its Subsidiaries is the general partner or the managing member or has similar authority.

“**Sustainable Forestry Certifications**” means the sustainable forestry or chain of custody certifications, awarded to or held by the Seller and related exclusively to the Business, including, without limitation, all such certifications issued pursuant to the FSC and PEFC certification regimes.

“**Sustainable Forestry Credits**” means the sustainable forestry or chain of custody credits, awarded to or held by the Seller and related exclusively to the Business, including, without limitation, all such credits issued pursuant to the FSC and PEFC certification regimes.

“**Tax**” or “**Taxes**” means all federal, state, provincial, territorial, county, municipal, local or foreign taxes, duties, imposts, levies, assessments, tariffs and other charges imposed, assessed or collected by a Governmental Entity including, (i) any gross income, net income, gross receipts, business, royalty, capital, capital gains, GST, QST, value added, severance, stamp, franchise, occupation, premium, capital stock, sales, sales and use, real or immovable property, land transfer, personal or movable property, ad valorem, transfer, licence, profits, windfall profits, environmental, payroll, employment, employer health, pension plan, anti-dumping, countervail, excise, severance, stamp, occupation, or premium tax, (ii) all withholdings on amounts paid to or by the relevant person, (iii) all employment insurance premiums, Canada, Québec and any other pension plan contributions or premiums, including any fine, penalty, interest, or addition to such taxes, (iv) any and all liability for the payment of any items described in clauses (i) to (iii) above as a result of being (or ceasing to be) a member of an affiliated, consolidated, combined, unitary or aggregate group, and (v) any and all liability for the payment of any amounts as a result of any express or implied obligation to indemnify any other person, or any successor or transferee liability, in respect of any items described in clauses (i) to (iv) above, in each case whether disputed or not.

“**Tax Act**” means the *Income Tax Act* (Canada), as now in effect and as it may be promulgated or amended from time to time.

“**Tax Return**” means a return, information return, withholding statement, report, election, designation, estimate, claim for refund or other information, form or statement required to be filed in accordance with applicable Laws in connection with, the calculation, determination, assessment, collection or payment of any Taxes, including, where permitted or required, combined or consolidated returns for a group of entities and including any amendment thereof, including any schedule or attachment thereto.

“**Temiscaming Mill**” means the mill producing Bleached Chemi-Thermo Mechanical Pulp located in the town of Temiscaming, Quebec currently owned by the Seller or its Affiliates.

“**Tenures**” means all forest licenses, timber sale licenses, forestry rights, Timber Supply Guarantees, timber quotas, pulpwood agreements and other Contracts granting harvest rights under the *Sustainable Forest Development Act* (Québec) held by the Seller or its Affiliates in connection with the Business.

“**Third Party Actuaries**” has the meaning specified in Section 2.8(2).

“**Third Party Auditors**” has the meaning specified in Section 2.8(2).

“Third Party Claim” means any Legal Proceeding that is instituted or asserted by a third party, including a Governmental Entity, against an Indemnified Party which entitles the Indemnified Party to make a claim for indemnification under this Agreement.

“Timber Supply Guarantees” means the volume of timber from forests in the Province of Quebec granted by the Minister of Forests, Wildlife and Parks to the Seller or its Affiliates in connection with the Business under the *Sustainable Forest Development Act* (Québec).

“Transition Services Agreement” means the transition services agreement, substantially in the form attached as EXHIBIT B.

“Transfer Taxes” means all transfer, land transfer, value added, ad-valorem, excise, sales, use, consumption, GST, QST, provincial sales, or other similar taxes or duties and any interest, fines and penalties imposed by any Governmental Entity, whether disputed or not.

“TSA Consents” has the meaning specified in Section 5.5(2).

“Working Capital” means, with respect to the Seller, an aggregate amount (positive or negative) equal to the sum of Current Assets minus the sum of the Current Liabilities, calculated in accordance with the methodology set forth in EXHIBIT A. An illustrative calculation of the Working Capital, as at the end of May, 2019 is also included in EXHIBIT A.

“Working Capital Target” means [**].

Section 1.2 Gender and Number.

Any reference in this Agreement to gender includes all genders. Words importing the singular number only shall include the plural and vice versa.

Section 1.3 Headings, etc.

The provision of a Table of Contents, the division of this Agreement into Articles, Sections and Exhibits and the insertion of headings are for convenient reference only and are not to affect its interpretation.

Section 1.4 Currency.

All references in this Agreement to dollars, or to \$ are expressed in U.S. currency unless otherwise specifically indicated.

Section 1.5 Certain Phrases, etc.

In this Agreement, (1) the words “including”, “includes” and “include” mean “including (or includes or include) without limitation”, and (1) the phrase “the aggregate of”, “the total of”, “the sum of”, or a phrase of similar meaning means “the aggregate (or total or sum), without duplication, of”. In the computation of periods of time from a specified date to a later specified date, unless otherwise expressly stated, the word “from” means “from and including” and the words “to” and “until” each mean “to but excluding”.

Section 1.6 Accounting Terms.

All accounting terms not specifically defined in this Agreement are to be interpreted in accordance with GAAP.

Section 1.7 Incorporation of Disclosure Letter, schedules and Exhibits.

The Disclosure Letter and any schedule or Exhibit attached to this Agreement is an integral part of this Agreement for all purposes of this Agreement.

Section 1.8 References to this Agreement.

Any reference in this Agreement to a Person or Persons includes his, her or their, directors, officers, administrators, executors, personal legal representatives, successors and permitted assigns. Except as otherwise provided in this Agreement, any reference to this Agreement or any other agreement or document is a reference to this Agreement, such other agreement or document as it may have been, or may from time to time be amended, restated, replaced, supplemented or novated and shall include all schedules to it.

Section 1.9 Statutes.

Except as otherwise provided in this Agreement, any reference in this Agreement to a statute refers to such statute and all rules and regulations made under it, as it or they may have been or may from time to time be amended or re-enacted.

Section 1.10 Non-Business Days.

Whenever payments are to be made or an action is to be taken on, or not later than, a day which is not a Business Day, such payment shall be made or such action shall be taken on the next succeeding Business Day.

Section 1.11 Knowledge.

References in this Agreement to the knowledge of the Seller, will be deemed to refer to the actual knowledge of any of Eric Gendreau, Marcus Moeltner, Patrick Lebel and Chris Black, in each case that such individual has, or would reasonably be expected to have, after making diligent inquiry.

Section 1.12 Made Available.

References in this Agreement to “made available”, “delivered” or “provided” mean that a document or other item of information was made available or provided to the Purchaser and its representatives for viewing in the Data Room, as that site existed as of 11:59 p.m. (Eastern time) on July 29, 2019.

ARTICLE 2 PURCHASE AND SALE

Section 2.1 Purchase and Sale.

Subject to the terms and conditions of this Agreement, the Seller shall sell, assign and transfer to the Purchaser, and the Purchaser shall purchase from the Seller at the Closing Time, all of the property and assets used in or otherwise related to the Business (other than the Excluded Assets), whether movable or immovable, corporeal or incorporeal, of every kind and description and wheresoever situated, as a going concern (collectively, the “**Purchased Assets**”), including:

- (a) all Owned Real Property;
- (b) all rights as lessee in the Leased Real Property;
- (c) all fixed machinery and fixed equipment situated on the Owned Real Property;
- (d) all other machinery and equipment and all vehicles, tools, handling equipment, furniture, furnishings, computer hardware and peripheral equipment, supplies and accessories used in or otherwise related to the Business;
- (e) all leases of machinery and equipment used in or otherwise related to the Business of which the Seller is lessee;
- (f) all Inventories;
- (g) all new and unused production, shipping and packaging supplies of the Business (but only subject to the rights in respect thereof set forth in the Transition Services Agreement);
- (h) the Receivables as of the Closing Date;
- (i) all Contracts, other than Excluded Contracts and the Non-Exclusive Contracts, including:
 - (i) all unfilled orders received by the Seller in connection with the Business;
 - (ii) all forward commitments to the Seller for supplies or materials entered into in the Ordinary Course of

Business for use in the Business; and

- (iii) those listed in Section 2.1(i) of the Disclosure Letter;
- (j) all Permits applicable to the Purchased Assets, the Business or its operation, including the Permits listed or described in Section 2.1(j) of the Disclosure Letter, except such Permits that are not assignable or transferable by the Seller to the Purchaser pursuant to applicable Laws (such Permits that are assignable or transferable, the **"Assigned Permits"**);
- (k) all Business Intellectual Property owned by the Seller and exclusively used in the Business (the **"Owned Intellectual Property"**), including the Owned Intellectual Property listed in Section 2.1(k) of the Disclosure Letter;
- (l) all Business Intellectual Property not owned by the Seller and exclusively used by the Seller in the Business (the **"Licensed Intellectual Property"**), including the Licensed Intellectual Property listed in Section 2.1(l) of the Disclosure Letter;
- (m) all of the goodwill attributable exclusively to the Business, together with the right for the Purchaser to represent itself as carrying on the Business in succession to the Seller;
- (n) all pre-paid expenses and deposits relating to the Business;
- (o) all rights and claims under all warranties in respect of any of the Purchased Assets; and
- (p) the Books and Records other than the Retained Books and Records (the **"Assigned Books and Records"**).

Section 2.2 Excluded Assets.

The Purchased Assets shall not include the following property and assets (collectively, the **"Excluded Assets"**):

- (a) the names "Rayonier", "Rayonier Advanced Materials", "Rayonier A.M.", "Advanced Materials", "RYAM" and any derived forms thereof, either alone or as part of any trade name or trademark which is or has been used in connection with the Business, together with all product packaging and shipping material bearing such names or trademarks, subject to the right to use such product packaging and shipping material as contemplated in the Transition Services Agreement;
- (b) all insurance policies of the Seller, including those associated with the Business, and any proceeds paid in connection with such insurance policies and any prepaid insurance premiums;
- (c) the Contracts set out in Section 2.2(c) of the Disclosure Letter (the **"Excluded Contracts"**) and the Non-Exclusive Contracts;
- (d) all cash on hand, cash equivalents and bank deposits;
- (e) all Tax refunds and Tax credits receivable by the Seller, in each case applicable to periods prior to Closing;
- (f) all personal property of the Seller consumed after the date hereof and prior to the Closing Date in the ordinary course of the Business in a manner consistent with past practice;
- (g) all Books and Records that are not primarily related to the Business and all Books and Records that the Seller is required by applicable Law to retain in its possession (collectively, the **"Retained Books and Records"**);

- (h) all amounts owing to the Seller by any of its Affiliates, or by any Person who does not in fact, or who is deemed not to, deal with the Seller at arm's length (within the meaning of the Tax Act);
- (i) all material and information referred to in Section 11.14;
- (j) all Intellectual Property other than Business Intellectual Property; and
- (k) all assets relating to the Business set out in Section 2.2(k) of the Disclosure Letter.

Section 2.3 Purchase Price.

The aggregate consideration payable by the Purchaser to the Seller for the Purchased Assets (the "**Purchase Price**") will, subject to adjustments provided for in Section 2.9, be determined as follows:

- (a) \$175,000,000 (the "**Cash Amount**"); plus
- (b) the amount by which the Working Capital at the Closing Time exceeds the Working Capital Target, if applicable; minus
- (c) the amount by which the Working Capital Target exceeds the Working Capital at the Closing Time, if applicable; minus
- (d) the Pension Liability; plus
- (e) the fair market value of the Assumed Obligations at the Closing Time, as set forth in the allocation of the Purchase Price referred to in Section 2.4.

Section 2.4 Allocation of Purchase Price.

- (1) Within thirty (30) days following the date of this Agreement, the Purchaser will prepare and deliver to the Seller a statement setting out the allocation of the Purchase Price among the Purchased Assets. The Seller may review and propose changes to the allocation statement not later than thirty (30) days after receipt of the statement. The failure of the Seller to propose any changes or otherwise approve the allocation statement within such time period will be deemed to be evidence of its approval thereof. The Parties shall update the allocation once the Final Adjustment Amount has been determined (the "**Final Allocation**"). In any event, the Final Allocation must be agreed to by the Seller and the Purchaser within ten (10) Business Days of the determination of the Final Closing Statement.
- (2) The Seller and the Purchaser must each complete all Tax Returns, designations and elections in a manner consistent with the Final Allocation and otherwise follow the Final Allocation in the preparation of financial statements and for all Tax purposes, including in the filing of Tax Returns or in the course of any audit by any Governmental Entity, Tax review or Tax proceeding relating to any Tax Returns, on and subsequent to the Closing Date and not take any position inconsistent with the Final Allocation. If the Final Allocation is disputed by any Governmental Entity, the Party receiving notice of such dispute shall promptly notify the other Party and the Parties shall use their commercially reasonable efforts to sustain the Final Allocation. The Parties shall share information and cooperate to the extent reasonably necessary to permit the transactions contemplated by this Agreement to be properly, timely and consistently reported.

Section 2.5 Payment on Closing.

The consideration payable to the Seller on account of the Purchase Price will be paid at Closing and satisfied, subject to adjustments provided for in Section 2.9, as follows:

- (1) The Purchaser shall pay, by wire transfer of immediately available funds to the account designated by the Seller, an amount equal to:

- (a) the Cash Amount; plus
- (b) the amount by which the Estimated Working Capital exceeds the Working Capital Target, if applicable; minus
- (c) the amount by which the Estimated Working Capital is less than the Working Capital Target, if applicable; minus
- (d) the Estimated Pension Liability.

(2) The Purchaser shall assume the Assumed Obligations in accordance with Section 2.13.

Section 2.6 Estimated Closing Date Statement.

Not later than ten (10) Business Days prior to the Closing Date, the Seller shall deliver to the Purchaser an Adjustment Statement (the “**Estimated Closing Date Statement**”) setting out:

- (1) a good faith estimate of the expected Working Capital (the “**Estimated Working Capital**”) at the Closing Time, which itemizes the estimated balance of each component of such estimate of Working Capital, the whole in accordance with GAAP applied on a basis consistent with the preparation of the Financial Statements;
- (2) a good faith estimate of the expected Pension Liability (the “**Estimated Pension Liability**”); and
- (3) an estimate of the Purchase Price at Closing.

Section 2.7 Preparation of Closing Statement.

Within ninety (90) days following the Closing Date (or such other date as is mutually agreed to by the Seller and the Purchaser in writing), the Purchaser will prepare and deliver to the Seller a draft Adjustment Statement (the “**Draft Closing Statement**”) setting out:

- (1) the Working Capital as at the Closing Time, and itemizing the balance of each component of Working Capital, the whole in accordance with GAAP applied on a basis consistent with the preparation of the Financial Statements;
- (2) the Pension Liability, based on a report prepared by the Purchaser’s actuaries using the Required Methodology and Required Assumptions, which shall contain the data and additional information used to calculate such Pension Liability; and
- (3) the Purchase Price at Closing.

The Seller shall, upon request, provide the Purchaser and its representatives with reasonable access to all Retained Books and Records and employees necessary to permit the Purchaser to prepare the Draft Closing Statement.

Section 2.8 Settlement of Objections.

- (1) The Seller will have a period of forty-five (45) days to review the Draft Closing Statement following receipt of it. The Seller must notify the Purchaser in writing if the Seller has any objections to the Draft Closing Statement within such forty-five (45) day period. The notice of objection must contain a statement of the Seller’s objections and each amount in dispute. If the Seller’s objection relates to the calculation of the Pension Liability, the Seller shall provide to the Purchaser an actuarial report prepared by Seller’s actuaries using the Required Methodology and Required Assumptions, which shall contain the data and additional information used to calculate such Pension Liability. The Purchaser shall, upon request, provide the Seller and its representatives with reasonable access to all Assigned Books and Records and employees necessary or desirable (in the Parties’ opinion, acting reasonably) to permit the Seller to verify the accuracy, presentation and other matters relating to the preparation of the Draft Closing Statement.

- (2) If the Seller sends a notice of objection of the Draft Closing Statement within the forty-five (45) day period set forth in Section 2.8(1), the Seller and the Purchaser will work expeditiously and in good faith in an attempt to resolve such objections within a further period of twenty (20) Business Days following the date of notification by the Seller to the Purchaser of such objection. Failing resolution of any objection to the Draft Closing Statement raised by the Seller, the objections will be submitted for determination to an independent firm of chartered accountants (the “**Third Party Auditors**”) mutually agreed to by the Seller and the Purchaser (and, failing such agreement between the Seller and the Purchaser within a further period of five (5) Business Days, such independent firm of chartered accountants shall be PwC, or if such firm is unable to act or is not independent to all Parties at such time, Ernst & Young. Notwithstanding the foregoing, if the objection relates to the calculation of the Pension Liability, such objection shall be submitted for determination to an independent firm of actuaries (the “**Third Party Actuaries**”) jointly appointed by the Seller and the Purchaser (and, failing such agreement between the Seller and the Purchaser within the period of five (5) Business Days indicated above, such independent firm of actuaries shall be Mercer). The determination of the Third Party Auditors and/or Third Party Actuaries, as applicable, shall be final and binding upon the Seller and the Purchaser and will not be subject to appeal. The Seller and the Purchaser shall use commercially reasonable efforts to cause the Third Party Auditors and/or Third Party Actuaries, as applicable, to make their determination within thirty (30) days of their engagement. While the Third Party Auditors and/or Third Party Actuaries, as applicable are performing their engagement, the Parties shall not communicate with the Third Party Auditors and/or Third Party Actuaries, as applicable, on the subject matter of their work relating to this Agreement, except by joint conference call, joint meeting or letter with copy simultaneously delivered to the other Parties. The Third Party Auditors and/or Third Party Actuaries, as applicable, shall allow each Party to present their respective positions regarding the Draft Closing Statement, and each Party will have the right to present additional documents, materials and other information, and make an oral presentation to the Third Party Auditors and/or Third Party Actuaries, as applicable, regarding the objections. The Third Party Auditors and/or Third Party Actuaries, as applicable, shall consider such additional documents, materials and other information and such oral presentations. Any such other documents, materials or other information will be copied to each Party and each Party will be entitled to attend any such oral presentation, and to reply thereto. The Third Party Auditors and/or Third Party Actuaries, as applicable, will be acting as experts not as arbitrators.
- (3) If the Seller does not notify the Purchaser of any objection within the forty-five (45) day period set forth in Section 2.8(1), the Seller will be deemed to have accepted and approved the Draft Closing Statement and such Draft Closing Statement will be final, conclusive and binding upon the Seller and the Purchaser, and will not be subject to appeal. The Draft Closing Statement will become the “**Final Closing Statement**” on the next Business Day following the earlier of (1) the end of such forty-five (45) period and (1) the date on which the Seller notifies the Purchaser, in writing, that the Seller has no objection to the Draft Closing Statement.
- (4) If the Seller sends a notice of objection within the forty-five (45) day period set forth in Section 2.8(1), the Purchaser will revise the Draft Closing Statement to reflect the final resolution or final determination of such objections under Section 2.8(2) within two (2) Business Days following such final resolution or determination. Such revised Draft Closing Statement will be final, conclusive and binding upon the Seller and the Purchaser, and will not be subject to appeal. The Draft Closing Statement will become the “**Final Closing Statement**” on the next Business Day following revision of the Draft Closing Statement under this Section 2.8(4).
- (5) The Seller and the Purchaser will each bear their own fees and expenses in preparing or reviewing, as the case may be, the Draft Closing Statement and the Final Closing Statement. In the case of objections and the retention of the Third Party Auditors and/or Third Party Actuaries, as applicable, as provided in Section 2.8(2), the costs and expenses of such firm of chartered accountants and/or actuaries shall be equally borne and shared by both the Seller and the Purchaser.
- (6) The Seller and the Purchaser agree that the procedure set forth in this Section 2.8 for resolving objections with respect to the Draft Closing Statement is the sole and exclusive method of resolving such objections. This Section 2.8(6) will not prohibit the Seller or the Purchaser from initiating litigation to compel specific performance of this Section 2.8 or to enforce the determination of the Third Party Auditors and/or Third Party Actuaries, as applicable.

Section 2.9 Payment of Adjustment to Purchase Price.

- (1) The aggregate consideration payable to the Seller on account of the Purchase Price shall be increased or decreased, as the case may be, if the Final Adjustment Amount is more or less than the Estimated Adjustment Amount, as follows:

- (a) if the Final Adjustment Amount is less than the Estimated Adjustment Amount, there shall be a corresponding decrease to the consideration payable to the Seller on account of the Purchase Price, on a dollar for dollar basis, the amount of such decrease will be owed by the Seller to the Purchaser and paid as hereinafter provided; or
 - (b) if the Final Adjustment Amount is greater than the Estimated Adjustment Amount, there shall be a corresponding increase to the consideration payable to the Seller on account of the Purchase Price, on a dollar for dollar basis, the amount of such increase will be owed by the Purchaser to the Seller and paid as hereinafter provided.
- (2) If the net amount based on the calculations set forth in Section 2.9(1) is owed by the Seller to the Purchaser (the **“Final Negative Adjustment Amount”**), then within five (5) Business Days of the determination of the Final Closing Statement, the Seller will pay or cause to be paid to the Purchaser by wire transfer of immediately available funds the Final Negative Adjustment Amount for and on behalf of the Seller.
- (3) If the net amount based on the calculations set forth in Section 2.9(1) is owed by the Purchaser to the Seller (the **“Final Positive Adjustment Amount”**), then within five (5) Business Days of the determination of the Final Closing Statement, the Purchaser will pay to the Seller the Final Positive Adjustment Amount, plus applicable Transfer Taxes, by wire transfer of immediately available funds to the account designated by the Seller.

Section 2.10 No Effect on Other Rights.

The determination and adjustment of the consideration payable to the Seller on account of the Purchase Price in accordance with the provisions of Section 2.6, Section 2.7, Section 2.8 and Section 2.9 shall not limit or affect any other rights or causes of action either the Purchaser or the Seller, as the case may be, may have with respect to the representations, warranties, covenants and indemnities in their favour contained in this Agreement.

Section 2.11 Elections.

- (1) The Seller and the Purchaser shall execute and file, on a timely basis and using the prescribed form, a joint election under section 22 of the Tax Act, if applicable, and the corresponding provisions of any other applicable Tax Law, as to the sale of the accounts receivable of the Seller to be purchased under this Agreement, and prepare their respective Tax Returns in a manner consistent with such joint election. For purposes of such joint election, the elected amount in respect of the accounts receivable shall be consistent with the Final Allocation as determined pursuant to Section 2.4 with respect to the accounts receivable. This election, or these elections, shall be made within the time prescribed for such elections.
- (2) The Purchaser and Seller shall, if applicable, jointly execute and file an election under subsection 20(24) of the Tax Act in the manner required by subsection 20(25) of the Tax Act and under the corresponding provisions of any other applicable Tax Law, in the prescribed forms and within the time period permitted under the Tax Act and under any other applicable Tax Law, as to such amount paid by the Seller to the Purchaser for assuming future obligations. In this regard, the Purchaser and the Seller acknowledge that a portion of the Purchased Assets transferred by the Seller pursuant to this Agreement and having a value equal to the amount elected under subsection 20(24) of the Tax Act and the corresponding provisions of any other applicable Tax Law, and consistent with the Final Allocation, is being transferred by Seller as a payment for the assumption of such future obligations by the Purchaser.

Section 2.12 Property Taxes.

All property taxes (and related standard adjustments such as for public utilities) imposed on or with respect to the Owned Real Property for the tax year that includes the Closing Date will be prorated between the Seller and the Purchaser as of the Closing Date. The Seller will be liable for the portion of such taxes (and related standard adjustments) based on the number of days in the year occurring prior to the Closing Date, and the Purchaser will be liable for the portion of such taxes (and related standard adjustments) based on the number of days in the year occurring on and after the Closing Date. For any year in which an apportionment is required, the Purchaser will, if required file all required Tax Returns incident to these taxes assessed for the year in which the Closing Date occurs that are not paid by the Seller as of the Closing Date.

Section 2.13 Assumption of Obligations and Liabilities.

The Purchaser shall, from and after the Closing Date, pay, satisfy, discharge, assume, perform and fulfill in a timely manner only the following obligations and liabilities of the Seller relating to the Business and the Purchased Assets (collectively, the

“Assumed Obligations”):

- (a) obligations or liabilities of the Seller under (i) the Contracts (other than Excluded Contracts); (ii) the Assigned Permits; and (iii) the Business Intellectual Property, in each case in respect of the period commencing at the Closing Time and not related to any matter, circumstance or default existing at, prior to or as a consequence of Closing;
- (b) obligations or liabilities on account of trade accounts payable incurred in the Ordinary Course of Business before the Closing Time, but only to the extent that such trade accounts payable are included in the Working Capital at the Closing Time and reflected in the Final Closing Statement;
- (c) obligations or liabilities respecting Employees which are specifically assumed by the Purchaser pursuant to Section 10.1;
- (d) obligations or liabilities under the Assumed Plans specifically assumed by the Purchaser pursuant to Section 10.2;
- (e) all Environmental Liabilities in connection with the condition or quality of the Purchased Assets, but excluding any fines, penalties or sanctions which may be imposed on the Purchaser for violations to any Environmental Laws by the Seller which occurred prior to Closing; and
- (f) any Liability that the Purchaser has specifically agreed to assume in writing and which is reflected in the Working Capital at the Closing Time.

Section 2.14 Non-Assignable Contracts.

- (1) The Seller will use reasonable efforts (other than the payment of money or assumption of obligations) to obtain any third party consents or waivers necessary to permit the assignment to, and assumption by, the Purchaser of all the Contracts to be assigned to and assumed by the Purchaser pursuant to this Agreement.
- (2) Nothing in this Agreement will constitute an agreement to assign or an attempted assignment of any Contract for which any requisite consent or waiver to the assignment thereof has not been obtained. To the extent permitted by applicable Law, if any requisite consent has not been obtained on or prior to the Closing and the Purchaser has waived the condition precedent to Closing set forth in Section 6.1(e) (if applicable), the applicable Contract will be held by the Seller as agent for the benefit of the Purchaser and the Purchaser will perform the obligations of the Seller thereunder and be entitled to receive all money becoming due and payable under and other benefits derived from the Contract immediately after receipt by the Seller, without set-off or reduction by reason of any actual or alleged breach of any representation, warranty or covenant contained in this Agreement or any other right or alleged right to indemnification hereunder. The Purchaser shall be responsible for and shall pay, satisfy, discharge, assume, perform and fulfill in a timely manner any and all liabilities and obligations arising after the Closing in connection with any such Contract. The holding as agent by the Seller of any such Contract shall not create a relationship of association, partnership or joint venture between the Seller and the Purchaser.

**ARTICLE 3
REPRESENTATIONS AND WARRANTIES**

Section 3.1 Representations and Warranties of the Seller.

The Seller hereby represents and warrants as follows to the Purchaser and acknowledges and confirms that the Purchaser is relying on such representations and warranties in connection with the purchase of the Purchased Assets:

- (a) **Organization.** The Seller is a corporate entity or partnership, as applicable, duly organized, validly existing and in good standing under the Laws of the jurisdiction of its formation, incorporation, continuation or organization and has full power and authority to enter into, and to perform its obligations under this Agreement.

- (b) **Authorization and Enforceability of Seller's Obligations.** The Seller has the requisite power and authority to execute and deliver this Agreement and all other instruments and agreements to be executed by it as contemplated herein and to consummate the transactions contemplated hereby. The execution and delivery of this Agreement and the consummation of the transactions contemplated hereby have been duly authorized by all necessary corporate or other action, as applicable, on the part of the Seller, and no other corporate or other proceedings on the part of the Seller or its securityholders are necessary to authorize this Agreement and to consummate the transactions contemplated hereby. This Agreement has been duly executed and delivered by the Seller and, assuming due authorization, execution and delivery by the Purchaser, constitutes a legal, valid and binding obligation of the Seller, enforceable against it in accordance with its terms, subject to limitations with respect to enforcement imposed by law in connection with bankruptcy or similar proceedings and to the extent that equitable remedies such as specific performance and injunction are in the discretion of the court from which they are sought. To the knowledge of the Seller, no act or proceeding has been taken or authorized by or against the Seller by any other Person in connection with the dissolution, liquidation, winding up, bankruptcy or insolvency of the Seller or with respect to any amalgamation, merger, consolidation, arrangement or reorganization of, or relating to, the Seller and, to the knowledge of the Seller, no such proceedings have been threatened by any other Person.
- (c) **No Violation.** The execution and delivery by the Seller of this Agreement do not, and the performance by the Seller of this Agreement will not, conflict with, or result in any violation of, or constitute a default (with or without notice or lapse of time, or both) under, or give rise to a right of, or result by its terms in the, termination, cancellation or acceleration of any obligation or the loss of a benefit under, or to increased, additional, accelerated or guaranteed rights or entitlements of any Person under, or create any obligation to make a payment to any other Person under, or the loss of, any of the Purchased Assets pursuant to (i) any Laws or Order, (ii) any provision of the articles, by-laws or other charter documents of the Seller, or (iii) any Material Contract to which the Seller is a party. The execution and delivery by the Seller of this Agreement do not, and the performance by the Seller of this Agreement will not, result in the creation of any Lien upon any of the Purchased Assets (excluding any Permitted Liens).
- (d) **Qualification to do Business.** The Seller is registered, licensed or otherwise qualified to do business under the laws of the jurisdictions specified in Section 3.1(d) of the Disclosure Letter. The Seller has all necessary corporate power, authority, and capacity to carry on the Business and to own or lease and operate the Purchased Assets as now carried on and owned or leased and operated.
- (e) **Financial Statements.** Copies of the Financial Statements have been made available to the Purchaser prior to the date hereof. The Financial Statements (i) have been prepared in accordance with the Seller's or its Affiliates', as applicable, accounting policies and practices applied on a consistent basis during the respective periods and dates set forth therein unless otherwise disclosed therein and (ii) subject to the required adjustments, form the basis of the consolidated financial statements of Rayonier Advanced Materials Inc. for the respective periods and dates set forth in such consolidated financial statements. The balance sheets contained in the Financial Statements fairly present the financial position of the Business as of their respective dates and the statements of earnings contained in the Financial Statements fairly present the revenues and results of operations of the Business for the periods indicated. The Financial Statements are accurate and complete in all material respects and are based upon, and are consistent with, the Books and Records. No material adjustments to the Financial Statements would be required for such consolidated financial statements to present fairly, in all material respects, the financial position of the Business as at the dates set forth therein and the results of its operations for the respective periods and dates set forth therein in accordance with GAAP.
- (f) **Books and Records.** The Seller has made available to the Purchaser all Books and Records. The Books and Records have been fully, properly and accurately kept, and are complete in all material respects. All Books and Records are in the full possession and exclusive control of, and are owned exclusively by, the Seller and, except for the Books and Records that are housed on systems licensed by third parties, are not dependent upon any computerized or other system, program or device that is not exclusively owned and controlled by the Seller. Section 3.1(f) of the Disclosure Letter sets out the third party systems on which the Assigned Books and Records are housed.
- (g) **Title to and Sufficiency of Purchased Assets.**

- (i) Except as disclosed in Section 3.1(g)(i) of the Disclosure Letter, the Seller has good and marketable legal and beneficial title to all of the Purchased Assets (other than the Owned Real Property with respect to which specific representations and warranties are made by the Seller in Section 3.1(y)), free and clear of any and all Liens, except for Permitted Liens.
- (ii) The Purchased Assets together with any assets that the Purchaser is permitted to use under the Transition Services Agreement constitute all of the property and assets used or held for use in connection with the Business and are sufficient to permit the continued operation of the Business in substantially the same manner as conducted as of the date hereof and during the year ended on the date of the most recent annual Financial Statements. There is no agreement, option or other right or privilege outstanding in favour of any Person for the purchase from the Seller of the Business or any part thereof or of any of the Purchased Assets other than the purchase of Inventories in the Ordinary Course of Business.
- (iii) Section 3.1(g)(iii) of the Disclosure Letter sets out a complete and accurate list of all locations where the Purchased Assets are situated.

(h) **Tax Matters.**

- (i) The Purchased Assets are not subject to any Liens for Taxes of the Seller, other than Permitted Liens.
- (ii) Each entity comprising the Seller is either (i) a resident of Canada for purposes of the Tax Act, or (ii) if a partnership, a “Canadian partnership” for purposes of the Tax Act.
- (iii) Rayonier GP is registered for GST purposes under Part IX of the *Excise Tax Act* (Canada) with registration number 81671 8357 RT0001 and for QST purposes under Chapter VIII of Title I of the *Act respecting Québec sales tax* with registration number 1213978621 TQ0001.
- (iv) RCC is registered for GST purposes under Part IX of the *Excise Tax Act* (Canada) with registration number 12294 7146 RT0001 and for QST purposes under Chapter VIII of Title I of the *Act respecting Québec sales tax* with registration number 1009537232 TQ0001.
- (v) RCE is registered for GST purposes under Part IX of the *Excise Tax Act* (Canada) with registration number 13228 3037 RT0001 and for QST purposes under Chapter VIII of Title I of the *Act respecting Québec sales tax* with registration number 1015769463 TQ0001.
- (vi) The Seller has withheld from each payment made to any Person, including any of its present or former employees or any Persons who are or are deemed to be non-residents of Canada for purposes of the Tax Act, all amounts required by applicable Law to be withheld, and has remitted such withheld amounts within the prescribed periods to the appropriate Governmental Entity. The Seller has remitted all Canada Pension Plan contributions, provincial pension plan contributions, employment insurance premiums, employer health taxes and other Taxes payable by it in respect of its employees to the proper Governmental Entity within the time required under applicable Law. The Seller has charged, collected and remitted on a timely basis all Taxes as required under applicable Law on any sale, supply or delivery whatsoever, made by the Seller.

- (i) **Absence of Certain Changes or Events.** Except as disclosed in Section 3.1(i) of the Disclosure Letter, since December 31, 2018, (A) there has been no Material Adverse Effect and no event has occurred nor do any circumstances exist which could result in a Material Adverse Effect and (B) the Seller has carried on the Business in the Ordinary Course of Business and, in particular, but without limitation, has not:

- (i) mortgaged, hypothecated, pledged, granted a security interest in or otherwise created a Lien on any of the Purchased Assets, other than Permitted Liens;

- (ii) entered into any Contract or any other transaction that was not in the Ordinary Course of Business;
 - (iii) revalued or disposed of any of the Purchased Assets except for sales of Inventory in the Ordinary Course of Business;
 - (iv) entered into or became bound by, terminated, cancelled, modified, renewed or otherwise amended in any material respect or received notice or a request for termination, cancellation, modification, renewal or other amendment of any Material Contract or taken or failed to take any action that would entitle any party to a Material Contract to terminate, modify, cancel, renew or otherwise amend any Material Contract;
 - (v) incurred any material damage, destruction or loss with respect to any of the Purchased Assets (whether or not insured);
 - (vi) in respect of the Business, made any capital expenditure or authorized any capital expenditure or made any commitment for the purchase, construction or improvement of any capital assets except in the Ordinary Course of Business, except in accordance with a Contract disclosed to the Purchaser before the date hereof;
 - (vii) made any changes in its accounting principles, policies, practices or methods;
 - (viii) entered into any Contract or commitment to hire, or terminated the services of, any officer or senior management Employee with responsibilities for matters related to the Business; or
 - (ix) agreed, committed or entered into any understanding to take any actions enumerated in paragraphs (i) to (viii) of this Section 3.1(i).
- (j) **Litigation; Orders.** Except as disclosed in Section 3.1(j) of the Disclosure Letter, there is no Legal Proceeding pending or, to the knowledge of the Seller, threatened against or affecting the Business or any of the Purchased Assets or title thereto. There is no Order outstanding against or affecting the Seller, the Business or any of the Purchased Assets. There are no internal investigations or inquiries being conducted by the Seller or an Affiliate of the Seller or any third party at the request of the Seller or of an Affiliate of the Seller concerning any financial, accounting, Tax, conflict of interest, illegal activity, fraudulent or deceptive conduct or other misfeasance or malfeasance issues affecting or relevant to the Business or the Purchased Assets.
- (k) **Regulatory Approvals.** Except as set forth in Part A of Section 3.1(k) of the Disclosure Letter and for any Regulatory Approval legally required of the Purchaser (and that would not have been generally required of another Person), there are no other Regulatory Approvals required. Except as set forth in Part B of Section 3.1(k) of the Disclosure Letter and except as may be required pursuant to Contracts, no Consent is required to implement the transactions set forth in this Agreement.
- (l) **Permits.** The Permits listed in Section 3.1(l) of the Disclosure Letter are the only Permits required for the operation of the Business as conducted on the Closing Date. All the Permits listed in Section 3.1(l) of the Disclosure Letter are valid and are in full force and effect. Except as disclosed in subsections (i) and (ii) of Part A of Section 3.1(n) of the Disclosure Letter, the Seller is not in violation of any material term or provision or requirement of any Permit, and no Person has threatened to revoke, amend or impose any condition in respect of, or commenced proceedings to revoke, amend or impose conditions in respect of, any Permit. All Assigned Permits are listed in Section 2.1(j) of the Disclosure Letter.
- (m) **Compliance with Laws.** The Seller has been and is conducting the Business in compliance with all Laws (excluding Environmental Laws and those Laws covered by the representations and warranties in Section 3.1(cc) and Section 3.1(dd)) and Orders in all material respects. Except (A) as has been fully resolved or settled prior to the date hereof or (B) as disclosed in Section 3.1(m) of the Disclosure Letter, the Seller has not received any written notice from a Governmental Entity alleging that the Business is not in compliance with any Laws or Orders.

- (n) **Environmental Matters.** To the knowledge of the Seller and except as disclosed in the relevant subsection of Part A of Section 3.1(n) of the Disclosure Letter: (i) no written notice, Order, Legal Proceeding or penalty relating to Environmental Laws has been received by the Seller with respect to any alleged violation by or alleged liability of the Seller under any Environmental Laws or with respect to the Purchased Assets, the operation of the Business, any presence of Hazardous Substances in connection with the Owned Real Properties or the Leased Real Properties, and to the knowledge of the Seller, there is none threatened; (ii) the Seller, the Business and the Purchased Assets are, and the operation of the Business and the Purchased Assets by the Seller have been, in compliance with all Environmental Laws; (iii) the Seller has not used any of the Purchased Assets, or permitted them to be used, to generate, manufacture, refine, treat, transport, store, handle, dispose of, transfer, produce or process any Hazardous Substances, except in compliance with all Environmental Laws; and (iv) there is and there has been, no Release of Hazardous Substances by the Seller, which could reasonably be expected to form the basis of an Environmental Liability. The Seller has made available to the Purchaser (a) all material environmental assessments, audits, investigations, reports, and other material environmental documents (excluding legal opinions prepared by Seller's outside counsel) prepared by or on behalf of the Business that are in the possession or control of the Seller, a complete and accurate list of which is set forth in Part B of Section 3.1(n) of the Disclosure Letter, and (b) any current environmental Permits relating to the Purchased Assets and the operation of the Business. To the knowledge of the Seller, there is no reason which could reasonably be expected to result in the Ministry of Environment and Climate Change refusing or requesting amendments to the application filed by the Seller with such ministry on September 25, 2015 (as subsequently amended) to obtain a certificate of authorization to increase the authorized production capacity of the Matane site to 300,000 tons/year or imposing material conditions on the issuance of said authorization.
- (o) **First Nations.** Except as disclosed in Section 3.1(o) of the Disclosure Letter: (i) the Seller has not received written notice that the Business or Purchased Assets are subject to any, and to the knowledge of the Seller, there are no, material current or pending unresolved First Nations' Claims; (ii) the Seller has not entered into any written or oral arrangements or agreements with any First Nation to provide benefits, pecuniary or otherwise, with respect to the Business and the Purchased Assets; and (iii) the Seller has not offered to any First Nation any benefits with respect to the Business or the Purchased Assets, or engaged in discussions, negotiations or similar communications with any First Nation regarding the foregoing. To the knowledge of the Seller, no consultations or discussions occurred or were carried out between a Governmental Entity and a First Nation in connection with any Timber Supply Guarantee granted to the Seller.
- (p) **Employee Benefits.**
- (i) Section 3.1(p)(i) of the Disclosure Letter contains a true and complete list of each material Benefit Plan. The Seller has made available to the Purchaser copies of (i) each material Benefit Plan (or, with respect to any unwritten material Benefit Plan, a written description thereof), and (ii) the most recent summary plan description, if any, required under applicable Laws with respect to such Benefit Plan. With respect to each Assumed Plan, and to the extent applicable, the Seller has made available to the Purchaser copies of (i) the most recent annual report on file and all schedules thereto filed with respect to such Benefit Plan, (ii) each current trust agreement, insurance contract or policy, group annuity contract and any other funding arrangement relating to such Benefit Plan, (iii) the most recent actuarial report, financial statement or valuation report, and (iv) all material correspondence to or from any Governmental Entity relating to such Benefit Plan.
- (ii) Each Assumed Plan has been established, operated and administered in all material respects in compliance with its terms and applicable Laws, the terms of such Assumed Plan and all applicable Collective Bargaining Agreements. Except as duly registered under the *Supplemental Pension Plans Act* (Québec) or the pension standards legislation of another applicable Canadian jurisdiction or the Tax Act, none of the Assumed Plans enjoys any special tax status under applicable Law. No advance tax rulings or interpretations have been sought, issued or received in respect of any Assumed Plan. To the knowledge of the Seller, no fact or circumstance exists that could adversely affect the tax-preferred or tax-exempt status of any Assumed Plan.
- (iii) Section 3.1(p)(iii) of the Disclosure Letter identifies each Benefit Plan that is a "registered pension plan" as that term is defined in subsection 248(1) of the Tax Act (collectively the "**Pension Plans**"). Except as disclosed in Section 3.1(p)(iii) of the Disclosure Letter, no Pension Plan contains or has ever contained a

“defined benefit provision” as that term is defined in subsection 147.1(1) of the Tax Act.

- (iv) Except as required under any applicable Collective Bargaining Agreement or applicable Law, no amendments or improvements to any Benefit Plan have been promised by the Seller and no future amendments or improvements to any Benefit Plan will be made or promised by the Seller prior to Closing.
- (v) Other than as contemplated by this Agreement, no changes have occurred or are expected to occur in respect of to the Benefit Plans which would affect any of the Financial Statements or, if applicable, the most recent actuarial report for any Assumed Plan (regardless of whether the actuarial report has been filed with a Governmental Entity).
- (vi) All data necessary to administer each Assumed Plan is in the possession of the Seller or its agents and is in a form which is sufficient for the proper administration of the Assumed Plan in accordance with its terms and all applicable Laws and to the knowledge of the Seller, such data is true and correct.
- (vii) No conditions have been imposed by any Governmental Entity or other Person and no undertakings or commitments have been given by the Seller to any Employee, union, Governmental Entity or other Person concerning the use or application of assets relating to any Assumed Plan or any related funding medium.
- (viii) Except as set out in Section 3.1(p)(viii) of the Disclosure Letter, there are no Legal Proceedings (except routine claims for benefits payable under the Assumed Plans) pending or, to the knowledge of the Seller, threatened, in relation to any Assumed Plan.
- (ix) None of the Assumed Plans is a multi-employer pension plan or a multi-employer benefit plan.
- (x) No Benefit Plan provides health insurance, life insurance or death benefits to current or former Employees of the Seller beyond their retirement or other termination of service, or to or in respect of the beneficiaries of such Employees and former Employees, other than as disclosed in Section 3.1(p)(x) of the Disclosure Letter.
- (xi) All material contributions or premiums required to be made by the Seller under the terms of each Assumed Plan, any Collective Bargaining Agreement or by applicable Laws have been made in a timely fashion in accordance with applicable Laws and the terms of such Assumed Plan and any applicable Collective Bargaining Agreement. All liabilities of the Seller (whether accrued, absolute, contingent or otherwise) related to all Assumed Plans have been fully and accurately disclosed in the Financial Statements.
- (xii) To the knowledge of the Seller, no event has occurred respecting any Assumed Plan which would entitle any Person to cause the wind-up or termination of such Assumed Plan in whole or in part.
- (xiii) Neither the execution and delivery of this Agreement nor the consummation of the transactions contemplated hereby will (either alone or in conjunction with any other event): (i) entitle any current or former employee, officer, director or independent contractor of the Seller to any payment or benefit (or result in the funding of any such payment or benefit) under any Assumed Plan; or (ii) result in the acceleration of the time of payment, funding or vesting of any compensation, equity award or other benefits under any Assumed Plan.
- (xiv) To the knowledge of Seller and except as permitted under the Assumed Plans, their applicable funding agreements and applicable Law, there has been no withdrawal of assets or any other amount from any of the Assumed Plans other than proper payments of benefits to eligible beneficiaries, refunds of contributions to plan members and permitted payments of reasonable expenses incurred by or in respect of such Assumed Plans.

(q) **Labor and Employee Matters.**

- (i) Section 3.1(q)(i) of the Disclosure Letter sets forth a true and complete list of each labor agreement, collective bargaining agreement, work rule or letter of agreement with any labor union, labor organization, works council, employee association, group of employees or employee and relating to the Business (each, a **“Collective Bargaining Agreement”**). Copies of all Collective Bargaining Agreements have been made available to the Purchaser.
- (ii) Except as set out in Section 3.1(q)(ii) of the Disclosure Letter, with respect to the Business: (i) there are no applications for certification or, to the knowledge of the Seller, threatened or apparent union-organizing campaigns for employees not covered under a Collective Bargaining Agreement; (ii) there are no current or, to the knowledge of the Seller, threatened strikes, slowdowns, stoppages, walkouts, lockouts or other labour-related disputes; (iii) there are no complaints of unfair labour practice, charges, grievances, arbitration, proceedings or appeals of such matters (other than routine individual grievances); and (iv) there are no successor or related employer applications.
- (iii) The Seller is in material compliance with all applicable Laws with respect to labour and employment standards, employment practices, terms and conditions of employment, wages and hours, vacation, overtime, labour relations, collective bargaining, unfair labour practices, language, human rights, privacy, immigration, employment, pay equity, occupational health and safety, (b)and workers' compensation.

(r) **Employees.**

- (i) The Seller does not have any written employment contracts relating to the Business with any Person whomsoever, except as disclosed in Section 3.1(r)(i) of the Disclosure Letter.
- (ii) Section 3.1(r)(ii) of the Disclosure Letter sets out (redacted to comply with Privacy Laws, as needed):
 - (A) the names of all Employees;
 - (B) their position or title;
 - (C) their status (such as full time, part time, temporary, casual, seasonal, co-op student);
 - (D) their total annual remuneration, including a breakdown of salary and bonus, profit sharing plan, short-term incentive plan or other incentive compensation, if any;
 - (E) whether the Employee is a member of a collective bargaining union or agency;
 - (F) their total length of employment including any prior employment that would affect calculation of years of service for any purpose, including statutory entitlements, contractual entitlements (express or implied) benefit entitlement and/or pension entitlement;
 - (G) whether any Employees are on any approved or statutory leave of absence and, if so, the reason for such absence and the expected date of return; and
 - (H) their current location.
- (iii) The Seller (i) has not paid nor will it be required to pay any retention, bonus, fee, termination, change-in-control, distribution, remuneration or other compensation to any Person (other than salaries, wages or

bonuses paid or payable in the Ordinary Course of Business in accordance with current compensation levels and practices as set out in Section 3.1(r)(ii) of the Disclosure Letter), (ii) has not forgiven nor will it be required to forgive any indebtedness of any Person, or (iii) has not increased nor will it be required to increase any benefits otherwise payable as a result of the transaction contemplated by this Agreement.

- (iv) Except as disclosed in Section 3.1(r)(ii) of the Disclosure Letter, the Seller is not a party to any application, complaint or other Legal Proceeding under any applicable Law relating to Employees or former employees nor is the Seller aware of nor is there any factual or legal basis on which any such Legal Proceeding might be commenced.
- (v) All current assessments under the *Act Respecting Industrial Accidents and Occupational Diseases* (Québec) that relate to the Seller have been paid or accrued, and the Seller has not been subject to any specialty or penalty assessment under such legislation which has not been paid. The Seller has complied in all material respects with any Orders issued under occupational health and safety laws.

(s) **Intellectual Property.**

- (i) Except as would not be material to the Business, the Seller has good title to, or with respect to items not owned by the Seller, sufficient rights to use all Intellectual Property Rights that is used by the Seller in the conduct of the Business (collectively, the **"Business Intellectual Property"**). Other than commercially available off-the-shelf software, the Business Intellectual Property constitutes all of the Intellectual Property Rights that are used, held for use in, related to or reasonably necessary for the current operation of the Business.
- (ii) Section 3.1(s)(ii) of the Disclosure Letter sets forth a complete and accurate list of all registrations and applications for registration of all Owned Intellectual Property (collectively, the **"Registered IP"**). All such Registered IP is currently in compliance with applicable Law (including payment of filing, examination and maintenance fees and proofs of use), is not subject to any unpaid maintenance or renewal fees or taxes or actions falling due within ninety (90) days after the Closing Date. All appropriate applications, documents, recordations, and certificates in connection with the Registered IP have been filed with the relevant patent, copyright, trademark or other authorities for the purposes of maintaining or prosecuting the Registered IP. There are no pending or, to the knowledge of the Seller, threatened, interferences, re-examinations, office actions, oppositions, cancellation proceedings, or any equivalent proceedings involving any patents or trademarks included in the Registered IP. Other than as set out in Section 3.1(s)(ii) of the Disclosure Letter, there have been no patents or trademarks related to the Business that have expired, lapsed or been abandoned or deemed withdrawn according to the applicable patent or trademark offices.
- (iii) The Seller has taken all reasonable steps to protect its rights in confidential information and trade secrets associated with or related to the Business Intellectual Property.
- (iv) To the knowledge of the Seller, the conduct of the Business has not and does not (A) infringe or misappropriate the Intellectual Property Rights of any other Person or (B) constitute a misuse or misappropriation of any Intellectual Property Rights of any Person. The Seller has not received written notice from any Person claiming any of the above or challenging the ownership, validity, enforceability or effectiveness of any Business Intellectual Property.
- (v) The consummation of the transactions contemplated hereby will not impair any rights of the Seller, to or under any Business Intellectual Property.

(t) **Privacy and Data Security.**

The Seller has complied in all material respects with all Privacy Laws in connection with the Seller's collection, use and disclosure of Personal Information.

(u) **Material Contracts.**

- (i) Section 3.1(u) of the Disclosure Letter contains a complete and accurate list of all Material Contracts. The Seller has delivered to the Purchaser complete copies of each Material Contract (or a summary of the material terms of any oral Material Contract). For purposes of this Agreement, "**Material Contract**" means each Contract that:
- (A) involves or would reasonably be expected to involve aggregate payments by or to the Seller in excess of [**] per year, except for (A) sales orders and purchase orders for products and raw materials to operate the Business entered into in the Ordinary Course of Business, and (B) any Contract which is terminable on ninety (90) days or less notice without payment or continuing obligation;
 - (B) provides for or otherwise relates to joint venture, partnership, strategic alliance or similar arrangements;
 - (C) constitutes or provides for indentures, incurrence of any Liens, mortgages, promissory notes, loan agreements, guarantees, letter of credit or other agreements or instruments of the Seller for the borrowing of money or commitments for the borrowing or the lending by the Seller with an outstanding payable amount or available commitment, as applicable, in excess of [**];
 - (D) provides for reserve production capacity or a call or option in production;
 - (E) provides for the guarantee of obligations of any Person;
 - (F) is a Contract with respect to Business Intellectual Property (other than the license of commercially available software) that is material to the Business;
 - (G) requires the Seller to make any advance, extension of credit or capital contribution to, or other investment in, any Person, other than Contracts providing for short-term extensions of credit to customers in the Ordinary Course of Business;
 - (H) has been entered into in the past 12 months or in respect of which the applicable transaction has not yet been consummated and relating to the purchase or acquisition of a business or operating assets to be used in the conduct of the Business by the Seller for an aggregate consideration of more than [**];
 - (I) has been entered into in the past 12 months or in respect of which the applicable transaction has not yet been consummated and relating to the sale, transfer or other disposition of a business or operating assets or real, immovable, movable or personal property used in the conduct of the Business by the Seller for an aggregate consideration of more than [**];
 - (J) is a financial risk management Contract, such as a currency, commodity, interest or equity related hedge or derivative Contract;
 - (K) materially impacts the Seller's rights relating to Tenures;
 - (L) is a Contract that if terminated or if it ceased to be in effect, would reasonably be expected to have a Material Adverse Effect on the Business;
 - (M) is a Contract with any Employee who is a senior manager or any Person who is receiving

remuneration of at least [**] for work or services provided to the Seller or the Business who is not an Employee as of the date of this Agreement, which expressly stipulates for termination or severance entitlements in respect of the termination of such employment or working relationship other than for entitlements to notice or pay in lieu of notice provided by applicable Laws;

- (N) is a Contract with any Employee or any Person who is receiving remuneration for work or services provided to the Seller or the Business who is not an Employee as of the date of this Agreement, which provides for entitlements arising on or as a result of a change of control or sale of business;
 - (O) is a Contract to which a First Nation is a party;
 - (P) grants any Person a right of first or last refusal, first offer or first negotiation;
 - (Q) grants the counterparty or any Person "most favoured nation" status, price matching rights, any rebate, credit or other analogous benefit (whether upon the satisfaction or milestones or otherwise), or any other price protection or material discount rights;
 - (R) is a Contract in connection with the acquisition of property, business or securities not in the Ordinary Course of Business, and which contains obligations of any party thereto which remain outstanding;
 - (S) contains minimum purchase commitments or requirements in excess of [**] per year;
 - (T) limits or restricts in any material respect (i) the ability of any of the Seller or the Business to compete or engage in any line of business or carry on business in any geographic area, to set the material terms of its Contracts with any other Person or to solicit Persons for any purpose, or (ii) the scope of Persons to whom any of the Seller or the Business may sell products or services or from whom any of Seller or the Business may purchase products or services;
 - (U) is a Contract for capital expenditures involving payments in the aggregate in excess of [**] per year; and
 - (V) is a Contract with a Governmental Entity, including any Contract relating to grants or other forms of assistance received for the Business from any Governmental Entity; or
 - (W) is a Contract with a Person with whom the Seller is not dealing at arm's length (within the meaning of the Tax Act);
- (ii) Each Material Contract is valid and binding on the Seller and, to the knowledge of the Seller, each other party thereto, and in full force and effect. Except as disclosed in Section 3.1(u) of the Disclosure Letter, there are no ongoing contractual negotiations that if they were completed would result in a Material Contract. The Seller is not in material breach or default under any Material Contract, nor does the Seller have knowledge of any condition that with the passage of time or the giving of notice or both would result in such a breach or default. To the knowledge of the Seller, there is no material breach or default under, nor does there exist any condition that with the passage of time or the giving of notice or both would result in such a breach or default by any other party thereto. Each Material Contract is in full force and effect, unamended by written or oral agreement, and the Seller is entitled to the full benefit and advantage of each Contract to which it is a party in accordance with its terms. The Seller has not received any written or, to the knowledge of the Seller, other notice that any party to a Material Contract intends to cancel, terminate or otherwise modify such Material Contract, or otherwise terminate its relationship with the Seller, and, to the knowledge of the Seller, no such action has been threatened. Except as disclosed in Section 3.1(u) of the Disclosure Letter, no Consent is required nor is any notice required to be given under any Material Contract by any party thereto or any other Person in order to allow the Purchaser to acquire

all rights of the Seller or the Business under such Material Contract. Except as disclosed in Section 3.1(u) of the Disclosure Letter, the completion of the transactions contemplated by this Agreement will not afford any party to any of the Material Contracts or any other Person the right to terminate any Material Contract nor will the completion of such transactions result in any additional or more onerous obligation on the Purchaser under any Contract.

- (iii) The commitments and other obligations of the Seller to supply wood pulp under all Contracts, do not exceed, in the aggregate, [**] tons of wood pulp in any calendar year from [**], unless such Contract may be terminated without any penalty or liability to the Purchaser upon three months notice and there exist no provision in any Contract that, with the passage of time or the giving of notice or both, would result in the Seller being committed or otherwise bound to supply more than [**] tons of wood pulp in any calendar year from [**], in the aggregate, under all Contracts unless such Contract may be terminated without any penalty or liability to the Purchaser upon three months notice.
- (v) **Non-Exclusive Contracts.** Section 3.1(v) of the Disclosure Letter contains (a) a complete and accurate list of all Non-Exclusive Contracts that would have qualified as “Material Contracts” had they been related exclusively to the Purchased Assets or the Business and (b) a summary of the following terms of such Non-Exclusive Contract, if applicable: the counterpart to the agreement, the remaining term of the agreement, the volume and specifications of the products purchased by Seller for the Business under the agreement, the number of facilities covered by the agreement (including the Business) and how is the product purchased transported to Matane.
- (w) **Inventories.** The Inventories consist of items that are current and of good and merchantable quality and not subject to any write-down or write-off. The portion of the Inventories consisting of finished products is saleable in the Ordinary Course of Business at normal prices. The portion of the Inventories consisting of raw materials and work-in-progress is of a quality useable in the production of finished products in accordance with the operation of the Business in the Ordinary Course of Business. Current Inventory levels are consistent with the level of Inventories that has been maintained in the operation of the Business prior to the date hereof in accordance with the operation of the Business in the Ordinary Course of Business.
- (x) **Personal Property.** Section 3.1(x) of the Disclosure Letter reproduces the list of Personal Property maintained by Seller. All material assets identified on the list included in Section 3.1(x) of the Disclosure Letter are located as disclosed in Section 3.1(g)(iii) of the Disclosure Letter. No Personal Property is in the possession of a third party or is on consignment. The Personal Property required for the operation of the Business in the Ordinary Course of Business is in all material respects in good operating condition and repair, ordinary wear and tear excepted, and is suitable and adequate for the purpose for which it is being used.
- (y) **Real Property.**
 - (i) RCE or RCC, as applicable, is the sole registered and beneficial owner of the real or immovable property set forth next to their respective names in Section 3.1(y)(i)(A) of the Disclosure Letter (such owned property collectively, the “**Owned Real Property**”). The Seller has good marketable and valid title to the Owned Real Property, free and clear of all Liens other than Permitted Liens. Except as set forth in Section 3.1(y)(i)(B), of the Disclosure Letter the Seller is not using any other real or immovable property in connection with the Business.
 - (ii) The rights, title and interests in each lease, sublease and other agreement under which the Seller uses or occupies or has the right to use or occupy the real or immovable property used in connection with the Business are set forth in Section 3.1(y)(ii) of the Disclosure Letter (such property subject to a lease, sublease or other agreement, the “**Leased Real Property**” and such leases, subleases and other agreements are, collectively, the “**Real Property Leases**”). Copies of all the Real Property Leases in the possession of the Seller have been made available to the Purchaser. The Real Property Leases are valid and binding on the Seller and, to the knowledge of the Seller, each other party thereto, and in full force and effect. The Seller is not in material breach or default under any Real Property Lease, nor does the Seller have knowledge of any condition that with the passage of time or the giving of notice or both would result in such a breach or default. To the knowledge of the Seller, there is no material breach or default under, nor does there exist any condition that with the passage of time or the giving of notice or both would result

in such a breach or default by any other party thereto.

- (iii) The Seller has not received written notice of any pending or, to the knowledge of the Seller, threatened expropriation proceedings relating to the Owned Real Property or any part thereof.
- (iv) No written notice has been received by the Seller which remains outstanding from any Governmental Entity advising of any defects in the construction of any building on the Owned Real Property or any installations therein, or relating to any work order, deficiency or non-compliance with any building restrictions, zoning by-laws, fire codes, other regulations or applicable laws (excluding Environmental Laws) in respect of the Owned Real Property.
- (v) To the knowledge of the Seller, there is no Legal Proceeding against the Seller affecting the Owned Real Property and there is not presently outstanding against the Seller in connection with the Owned Real Property any Order which adversely affects the Owned Real Property.
- (vi) There are no leases, subleases, licenses, rights or other agreements affecting the Owned Real Property or the Leased Real Property. The Seller is currently not subleasing, licensing or otherwise granting any person the right to use or occupy any portion of an Owned Real Property or a Leased Real Property. There are no outstanding options or rights of first refusal in favour of any other party to purchase any Owned Real Property or any portion thereof or interest therein.
- (vii) Except as set forth in Section 3.1(y)(vii) of the Disclosure Letter, the Purchased Assets do not encroach any adjacent lands to the Owned Real Property and the Leased Real Property, as the case might be, unless the appropriate servitudes, easements or rights-of-ways are in place in connection with such encroachments.

(z) **Tenures.**

- (i) Each of the Tenures is recorded in the records of the appropriate Governmental Entity in the name of the Seller and no material rentals, stumpage, royalty or scale accounts and other Taxes, assessments or costs arising under the Tenures are overdue or in dispute with any Governmental Entity.
- (ii) The Seller is not in breach of, nor has received any written notice of breach of the Tenures, any of the timber cutting rights or permits or operating or development plans issued or filed pursuant to any of the Tenures, other than breaches which individually or in the aggregate, would not be material to the Business.
- (iii) The Seller has not received written notice from any Governmental Entity with respect to any matter that would have the effect of reducing, impairing, suspending or terminating in a material manner any Tenures or any rights or privileges attached thereto after the date hereof, and there is none threatened.

(aa) **Sustainable Forestry Certifications and Credits.** Section 3.1(aa) of the Disclosure Letter sets forth a complete list of the Sustainable Forestry Certifications and Sustainable Forestry Credits.

(bb) **Customers.** Section 3.1(bb)(A) of the Disclosure Letter lists the ten (10) largest customers of the Business (or such additional customers of the Business which are sufficient to constitute then (10) per cent or more of total sales) for each of the 2016, 2017 and 2018 calendar years and the six (6)-months period ended on June 30, 2019 and the aggregate amount which each customer was invoiced during such period. To the knowledge of the Seller, no such customer intends to cease doing business with the Seller with respect to the Business or to modify or change in any material manner any existing arrangement with the Seller for the purchase of any products or services to the Business. Section 3.1(bb)(B) of the Disclosure Letter lists substantially all of the spot customers of the Business that involved payments to the Seller in excess of [**] in any year for the five (5) year period ending immediately prior to the date of this Agreement.

- (cc) **Anti-Corruption.** Since December 31, 2013, the Seller has been and is in compliance with all applicable anti-corruption Laws, including (i) the *United States Foreign Corrupt Practices Act of 1977*, as amended, (ii) the *Corruption of Foreign Public Officials Act* (Canada), as amended, (iii) the *Criminal Code* (Canada), as amended, and (iv) any other applicable anti-corruption laws of any relevant jurisdiction and (b) neither the Seller nor, to the knowledge of the Seller, any director, officer, employee or agent of the Seller has, directly or indirectly, (i) used any funds of the Seller for unlawful contributions, unlawful gifts, unlawful entertainment or other unlawful expenses relating to political activity, (ii) made any unlawful payment, loan or benefit of any kind to foreign or domestic government officials or employees or to foreign or domestic political parties or campaigns from funds of the Seller, (iii) made any unlawful payments or gifts to any governmental officials out of funds of the Seller (but excluding payments to governmental agencies in amounts legally due and owing by the Seller), (iv) established or maintained any unlawful fund of monies or other assets of the Seller, (v) made any fraudulent entry on the books or records of the Seller or (vi) made any unlawful bribe, unlawful rebate, unlawful payoff, unlawful influence payment, unlawful kickback or other unlawful payment, to obtain favorable treatment in securing business for the Seller, to obtain special concessions for the Seller or to pay for favorable treatment for business secured or to pay for special concessions already obtained for the Seller.
- (dd) **Export/Import Controls and Sanctions.** Since December 31, 2013 and except as set forth in Section 3.1(dd) of the Disclosure Letter, the Seller has been and is in compliance with all applicable export/import controls and sanctions Laws, including (i) the *Customs Act*, (ii) the *Export and Import Permits Act*, (iii) the *United Nations Act*, (iv) the *Special Economic Measures Act*, (v) the *Freezing Assets of Corrupt Foreign Officials Act*, (vi) the *Justice for Victims of Corrupt Foreign Officials Act*, (vii) the *Foreign Extraterritorial Measures Act*, (viii) the *Criminal Code* (Canada), all as amended. Neither the Seller nor, to the knowledge of the Seller, any director, officer, employee or agent of the Seller has violated or operated in non-compliance with any applicable import or export Laws, applicable sanctions Laws, including without limitation any trade, economic or financial sanctions Laws.
- (ee) **Insurance.** All insurance policies maintained by the Seller which relate exclusively to the Business or the Purchased Assets (collectively, the **"Insurance Policies"**) as of the date hereof have been made available to the Purchaser. Each Insurance Policy is in full force and effect and in good standing. The Seller has not received written notice of default under any of the Insurance Policies or notice of any pending or threatened termination or cancellation, coverage limitation or reduction or rejection of any claim with respect to any such policy.
- (ff) **Investment Canada Act.** The Business is not a cultural business within the meaning of the *Investment Canada Act*.
- (gg) **Commissions.** The Purchaser will not be liable for any brokerage commission, finder's fee or other similar payment in connection with the transactions contemplated by this Agreement because of any action taken by, or agreement or understanding reached by, the Seller or any of its Affiliates.

Section 3.2 Disclaimer of Other Representations and Warranties.

The representations and warranties set forth in this Article 3 are the only representations and warranties made by the Seller with respect to the Purchased Assets, the Seller, the Business or any other matter relating to the transactions contemplated by this Agreement. Except as specifically set forth in this Article 3, (1) the Seller makes no other representation or warranty (including warranty of quality) concerning (A) the Purchased Assets, the Seller, the Business or any other matter relating to the transactions contemplated by this Agreement, or (B) the probable success or profitability of the Business after the Closing, and (1) other than the indemnification obligations set forth in Article 9, none of the Seller, any of its Affiliates, or any of their respective officers, directors, employees, agents, representatives or shareholders will have, or will be subject to, any liability or indemnification obligation to the Purchaser or any other Person resulting from the distribution to the Purchaser or its Affiliates or any of their representatives of, or the Purchaser's use of, any information relating to the Seller or the Business. In connection with the transactions contemplated hereby, the Purchaser has been represented by, and consulted with, legal counsel of its choice and the Purchaser and such counsel have read this Agreement and have been given time to consider this Agreement, understand this Agreement, and, after such consideration and with such understanding, the Purchaser has knowingly, freely and without coercion entered into this Agreement and, in particular, this Section 3.2 and Section 9.9.

ARTICLE 4 REPRESENTATIONS AND WARRANTIES OF THE PURCHASER

Section 4.1 Representations and Warranties of the Purchaser.

The Purchaser represents and warrants as follows to the Seller and acknowledges and confirms that the Seller is relying on such representations and warranties in connection with the sale of the Purchased Assets:

- (a) **Organization.** The Purchaser is a Person duly organized, validly existing and in good standing under the Laws of the jurisdiction of its incorporation, continuation or organization and has full power and authority to enter into, and to perform its obligations under this Agreement.
- (b) **Authorization.** The Purchaser has full corporate power and authority to execute and deliver this Agreement and to consummate the transactions contemplated hereby. The execution and delivery of this Agreement and the consummation of the transactions contemplated hereby have been duly authorized by all necessary corporate action on the part of the Purchaser, and no other corporate proceedings on the part of the Purchaser or its securityholders are necessary to authorize this Agreement and to consummate the transactions contemplated hereby. This Agreement has been duly executed and delivered by the Purchaser and, assuming due authorization, execution and delivery by the Seller, constitutes a legal, valid and binding obligation of the Purchaser, enforceable against it in accordance with its terms, subject to limitations with respect to enforcement imposed by law in connection with bankruptcy or similar proceedings and to the extent that equitable remedies such as specific performance and injunction are in the discretion of the court from which they are sought.
- (c) **No Violation.**
 - (i) The execution and delivery by the Purchaser of this Agreement do not, and the performance by the Purchaser of this Agreement will not, conflict with, or result in any violation of, or constitute a default (with or without notice or lapse of time, or both) under, or give rise to a right of, or result by its terms in the, termination, cancellation or acceleration of any obligation or the loss of a benefit under, or to increased, additional, accelerated or guaranteed rights or entitlements of any Person under, or create any obligation to make a payment to any other Person under, or the loss of, any properties or assets of the Purchaser pursuant to (1) any Laws or Order, (2) any provision of the articles, by-laws or other charter documents of the Purchaser, or (3) any material Contract to which the Purchaser is a party, except, in the case of this sub-clause (3), as would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect on the Purchaser.
 - (ii) Except for Regulatory Approvals that are legally required of the Purchaser (and would not have been generally required of another Person) and as set forth in Section 4.1(c)(ii) of the Disclosure Letter, the Purchaser is not required to submit any notice, report or other filing with any Governmental Entity in connection with the execution, delivery or performance of this Agreement or the consummation of the transactions contemplated hereby and no waiver, consent, approval or authorization of any Governmental Entity is required to be obtained or made by the Purchaser in connection with its execution, delivery or performance of this Agreement or the consummation of the transactions contemplated hereby.
- (d) **Financing.** The Purchaser has available to it as of the date hereof, and will have available to it at the Closing, funds sufficient to enable the Purchaser to perform its obligations hereunder, including delivering the Purchase Price, as and when contemplated by this Agreement and to pay or otherwise perform the obligations of the Purchaser under this Agreement and the other agreements or commitments contemplated by this Agreement.
- (e) **Tax Matters.** The Purchaser is registered for GST purposes under Part IX of the *Excise Tax Act* (Canada) with registration number 781 530 738 RT0001 and for QST purposes under Chapter VIII of Title I of the *Act respecting Québec sales tax* with registration number 12 2668 4197 TQ0001.
- (f) **Litigation.** There are no Legal Proceedings pending or, to the knowledge of the Purchaser, threatened against the Purchaser or any of its respective officers or directors (in such capacity) or affecting its business or assets that, if adversely determined, individually or in the aggregate, has had or would reasonably be expected to have a Material Adverse Effect on the Purchaser. None of the Purchaser, its business or assets is subject to any Order of any Governmental Entity that, individually or in the aggregate, has had or would reasonably be expected to have a Material Adverse Effect on the Purchaser.

- (g) **No Finder's Fee.** The Purchaser has not taken, and agrees that the Purchaser will not take, any action that would cause the Seller to become liable to any claim or demand for a brokerage commission, finder's fee or other similar payment.
- (h) **Investment Intent.** The Purchased Assets are being acquired by the Purchaser for its own account. The Purchaser has sufficient knowledge and experience in financial and business matters so as to be capable of evaluating the merits and risks of its investment in the Purchased Assets and participation in the transactions contemplated by this Agreement.
- (i) **Investment Canada Act.** The Purchaser is not a state-owned enterprise within the meaning of the Investment Canada Act, and is a trade agreement investor or a WTO investor within the meaning of the Investment Canada Act.

ARTICLE 5 COVENANTS

Section 5.1 Conduct of Business Prior to Closing.

- (1) **Operate in Ordinary Course of Business.** During the Interim Period, the Seller shall conduct the Business in the Ordinary Course of Business, in compliance with applicable Law and the terms and conditions of all Contracts and Permits.
- (2) **Negative Covenants.** During the Interim Period, except (a) as set forth in Section 5.1(2) of the Disclosure Letter, (b) with the prior written consent of the Purchaser, such consent not to be unreasonably withheld, delayed or conditioned, or (c) as otherwise expressly set forth in this Agreement:
 - (i) the Seller shall not take any action that if taken prior to the date hereof would have caused the representations and warranties in Section 3.1(i) or Section 3.1(u)(iii) to be incorrect;
 - (ii) neither the Seller nor the Seller Guarantor shall contact, solicit, induce, divert or interfere with (or attempt to do any of the foregoing) any customer or prospective customer of the Business for the purpose of persuading or attempting to persuade such customer or prospective customer of the Business to change its relationship with the Business, or to restrict, limit or discontinue or to reduce the amount of business which any such customer has customarily done with the Business;
 - (iii) neither the Seller nor the Seller Guarantor shall solicit, hire, recruit or attempt to solicit, hire or recruit, or assist or encourage any Person to solicit, hire, recruit, or attempt to solicit, hire or recruit, or induce the termination of employment or cessation of services of any employee of the Business, or any contractor who regularly provides services to the Business, or assist or encourage any such employee or contractor to accept employment or engagement elsewhere, unless such solicitation occurs as a result of general advertisements for employment or contract services not specifically directed at such employees or contractors; and
 - (iv) neither the Purchaser nor the Purchaser Guarantor shall solicit, hire, recruit or attempt to solicit, hire or recruit, or assist or encourage any Person to solicit, hire, recruit, or attempt to solicit, hire or recruit, or induce the termination of employment or cessation of services of any employee of the business of the Seller or the Seller Guarantor in Canada (excluding the Business), or any contractor who regularly provides services to the business of the Seller or the Seller Guarantor in Canada (excluding the Business), or assist or encourage any such employee or contractor to accept employment or engagement elsewhere, unless such solicitation occurs as a result of general advertisements for employment or contract services not specifically directed at such employees or contractors.

Section 5.2 Other Covenants.

During the Interim Period, if the Seller, the Seller Guarantor or their respective Affiliates desire to enter into a purchase

agreement with respect to [**], whether through an asset, equity or unit purchase, the Seller and the Seller Guarantor shall obtain from [**] concurrently with the execution of [**], an agreement for the benefit of the Purchaser pursuant to which [**] in each [**]. The Seller and Seller Guarantor shall provide an original copy of such agreement to the Purchaser, promptly after its execution.

Section 5.3 Actions to Satisfy Closing Conditions.

- (1) Subject to applicable Laws and the specific obligations in Section 5.5, Section 5.7 and Section 5.8, the Seller shall take all reasonable actions that are within its power and control and shall use its commercially reasonable efforts to cause other actions to be taken which are not within its power and control, so as to ensure compliance with all of the conditions set forth in Section 6.1.
- (2) Subject to applicable Laws and the specific obligations set out in Section 5.7, the Purchaser shall take all reasonable actions that are within its power and control and shall use its commercially reasonable efforts to cause other actions to be taken which are not within its power and control, so as to ensure compliance with all of the conditions set forth in Section 6.2.

Section 5.4 Confidentiality.

- (1) The Purchaser acknowledges having signed a confidentiality agreement dated December 31, 2018 between the Purchaser and Rayonier Advanced Materials Inc. and a confidentiality and clean team undertaking dated March 25, 2019 (collectively, the “**Confidentiality Agreement**”). The Purchaser agrees that the Confidentiality Agreement continues to apply in accordance with and subject to its terms and that the Purchaser is bound by its terms. Upon Closing, the Confidentiality Agreement shall terminate with respect to the Business, but shall remain in full force and effect to the extent of any confidential information and other obligations that do not relate to the Business. If the Closing does not occur, the Confidentiality Agreement shall remain in effect in accordance with and subject to its terms.
- (2) Subject to Section 11.3, the Seller shall keep confidential and shall not disclose to any Person the existence and terms of this Agreement and the fact that information has been disclosed or made available to the Seller or the Seller's representatives, without the prior written consent of the Purchaser (which consent shall not be unreasonably withheld, delayed or conditioned).

Section 5.5 Request for Consents.

- (1) Subject to applicable Laws and Section 5.7, reasonably promptly following the execution of this Agreement, the Seller and the Purchaser shall use their commercially reasonable efforts (other than the payment of money or assumption of obligations) to obtain or cause to be obtained, prior to Closing:
 - (a) subject to Section 5.7(2), all Consents; and
 - (b) either (i) the consent of the Québec Minister of Forests, Wildlife and Parks to the transfer of the Timber Supply Guarantees granted by the Québec Government, or (ii) written comfort acceptable to the Purchaser, acting reasonably, from the Québec Minister of Forests, Wildlife and Parks of his intention to issue the Timber Supply Guarantees granted by the Québec Government to the Purchaser. For the purposes of this Section 5.5(1)(b), “Timber Supply Guarantees” shall mean all or substantially all of the Timber Supply Guarantees, for which purpose “substantially all of the Timber Supply Guarantees” shall mean all volume of timber under the Timber Supply Guarantees, other than such volume of timber with respect to which the failure to receive such consent or written comfort referred to in clauses (i) and (ii) above would not have the effect of reducing, impairing, suspending or terminating (other than in a *de minimis* manner) any rights or privileges enjoyed by the Seller with respect to the operation of the Business as of the date of this Agreement.
- (1) If, after using commercially reasonable efforts to obtain the consents required to allow the Seller or its Affiliates to provide the services under the Transition Services Agreement (the “**TSA Consents**”), the Seller is unable to obtain any of the TSA Consents, the Seller and the Purchaser shall use commercially reasonable efforts to find and implement an alternative solution to enable the Seller or its Affiliates to provide such services in respect of which the missing TSA Consent was required.

- (2) If an alternative solution acceptable to the Parties, acting reasonably, cannot be implemented in order to provide all services contemplated in the Transition Services Agreement in accordance with the Transition Services Agreement from the Closing Date, the Parties agree to delay the Closing Date to a date that is no later than the Outside Date to provide additional time to the Seller to implement an alternative solution, with the reasonable assistance of the Purchaser. Any change to the draft Transition Services Agreement that might be required to reflect such an alternative solution shall require the consent of the Purchaser, which consent shall not be unreasonably withheld.

Section 5.6 Notice of Certain Matters and Updates to Information.

During the Interim Period, the Seller shall promptly upon becoming aware, give written notice to the Purchaser of: (a) the occurrence of any event that causes any representation and warranty of the Seller contained in this Agreement (i) that is qualified as to materiality or any Seller Fundamental Representation to be untrue or inaccurate or (ii) that is not so qualified to be untrue and incorrect in any material respect, and (b) any failure of the Seller to comply with or satisfy, in any material respect, any covenant, condition or agreement to be complied with or satisfied by it hereunder. Receipt by the Purchaser of any notice from the Seller pursuant to this Section 5.6 shall not be deemed to be a waiver or release by the Purchaser of any provision of this Agreement and shall not limit or otherwise affect any remedies available to the Purchaser.

Section 5.7 Regulatory Approvals.

- (1) Unless external legal counsel to the Parties otherwise agree on behalf of the Parties, the Parties shall cooperate and use their commercially reasonable efforts to file promptly (and in any event, within ten (10) Business Days) after the date of this Agreement pre-merger notification filings under Part IX of the Competition Act with the Commissioner of Competition and the Purchaser shall concurrently file a request for an Advance Ruling Certificate and in the alternative, a No-Action Letter.
- (2) Without limiting the foregoing, each of the Seller and the Purchaser, as promptly as practicable after the execution of this Agreement, will use their commercially reasonable efforts to make all filings with, give all notices to, cause to be done all commercially reasonable things necessary, proper or advisable, and to obtain all Regulatory Approvals.
- (3) All filing fees (including any Taxes thereon) in respect of any filing made to any Governmental Entity in respect of any Regulatory Approvals shall be paid by the Purchaser.
- (4) With respect to obtaining the Regulatory Approvals, each of the Seller and the Purchaser shall:
- (a) not extend or consent to any extension of any applicable waiting or review period or enter into any agreement with a Governmental Entity to not consummate the transactions contemplated by this Agreement, except upon the prior consent of the other Party;
 - (b) promptly notify the other Party of written or oral communications of any nature from a Governmental Entity relating to any Regulatory Approval and provide the other Party with copies thereof and provide copies of all notices and correspondence received from any Governmental Entity;
 - (c) respond as promptly as reasonably possible to any inquiries or requests received from a Governmental Entity in respect of any Regulatory Approval;
 - (d) use their commercially reasonable efforts to cooperate with and assist the other Party in the preparation and making of all such filings, applications and submissions; and
 - (e) not participate in any meeting or discussion (whether in person, by phone or otherwise) with a Governmental Entity in respect of any Regulatory Approval unless it consults with the other Party in advance and gives the other Party the reasonable opportunity to attend and participate to the extent permitted by such Governmental Entity.
- (5) A Party will not be required to provide information in its possession to the other Party, even if that information may be

required in connection with the filings referred to in this Section 5.7, if that Party, acting reasonably, determines that the information is material and commercially or competitively sensitive or that providing the information could reasonably be expected to have a material adverse effect on that Party if the transactions contemplated by this Agreement are not completed. In any such case, the Parties shall provide the information to external counsel for the other Party on an "external counsel only" basis. Such information shall be provided only to the external counsel of the other Party and shall not be disclosed by such external counsel to directors, officers, employees or other agents of that Party, unless express prior written permission is obtained from the source of the materials.

- (6) If any objections are asserted with respect to the transactions contemplated hereby under any applicable Laws or if any suit, application, challenge, injunction, action or Proceeding is commenced by a Governmental Entity in connection with the transactions contemplated hereby, each Party shall use commercially reasonable efforts to oppose or defend against any objections, suit, application, challenge, action or Proceeding to prevent or enjoin consummation of this Agreement (and the transactions contemplated herein). Notwithstanding anything to contrary contained in this Section 5.7(6), the Purchaser will not be required to offer or agree to (i) hold separate, sell, or otherwise dispose of any assets, categories of assets or businesses of the Purchased Assets or of the Purchaser or its Affiliates; (ii) terminate any existing relationships and contractual rights and obligations of the Purchased Assets or of the Purchaser or its Affiliates; or (iii) effectuate any other change or restructuring of the Purchased Assets or of the Purchaser or its Affiliates (or, in each case, to enter into agreements or stipulate to the entry of an order or decree with the Commissioner of Competition or any other Governmental Entity).
- (7) The Purchaser shall not, and shall cause its Affiliates and ultimate parent entities not to, acquire or agree to acquire, by merging with or into or consolidating with, or by purchasing a substantial portion of the assets of or equity in, or by any other manner, any business or any corporation, partnership, association or other business organization or division thereof that is engaged in the production of bleached chemi-thermomechanical pulp in Canada if the entering into of a definitive agreement relating to, or the consummation of such acquisition, merger or consolidation would reasonably be expected to materially (i) delay the obtaining of, or increase the risk of not obtaining, any consents of any Governmental Entity necessary to consummate the transactions contemplated by this Agreement or the expiration or termination of any applicable waiting period; (ii) increase the risk of any Governmental Entity seeking or entering an order prohibiting the consummation of the transactions contemplated by this Agreement; (iii) increase the risk of not being able to remove any such order on appeal or otherwise; or (iv) delay or prevent the consummation of the transactions contemplated by this Agreement.
- (8) The Purchaser shall not make the notification filing under the Investment Canada Act until after the Closing Date.

Section 5.8 Access.

- (1) During the Interim Period and subject to Section 5.8(3) and to compliance with applicable Laws, the Seller shall, upon reasonable notice by the Purchaser, (a) give the Purchaser and its accountants, potential lenders, legal advisors and other representatives, during normal business hours, access to the Books and Records, Leases, Contracts and all other Purchased Assets and (b) provide the Purchaser with such reasonable information relating to the Business and the Purchased Assets as the Purchaser may reasonably request to assess the financial and legal condition of the Purchased Assets and the Business.
- (2) The exercise of any rights by or on behalf of the Purchaser under this Section 5.8 shall be carried out (i) strictly for purposes of transitional planning, during normal business hours in such manner as not to interfere unduly with the normal operation of the Business and upon reasonable prior notice to the Seller, (ii) under the supervision of the Seller's personnel and (iii) in compliance with the Seller's internal standards and policies. All notices by the Purchaser pursuant to this Section 5.8 shall be submitted or directed exclusively to either Marcus Moeltner, Aaron Blanch, Patrick LeBel or Michael Herman or such other individuals as the Seller may designate in writing from time to time.
- (3) This Section 5.8 shall survive and not merge on any termination of this Agreement or upon this Agreement otherwise becoming null and void.

Section 5.9 Contact with Customers, Suppliers, Employees and Other Business Relations.

- (1) Except as required to implement the transactions contemplated in this Agreement or to perform its obligations or exercise its rights under this Agreement, during the Interim Period, the Purchaser shall not contact any customers, suppliers,

employees, Governmental Entities or any other business relations of the Seller in connection with the transactions contemplated by this Agreement without the prior written consent of the Seller, which consent shall not be unreasonably withheld, delayed or conditioned. Notwithstanding the foregoing, the consent of the Seller shall not be required in connection with, and the Parties hereby confirm their agreement to, any communication made by a Party in accordance with the communications plan agreed to between the Parties.

- (2) Notwithstanding anything provided to the contrary in this Agreement or in any Contract between the Seller and any of the Employees, the Purchaser may, during the Interim Period, confirm the employment of, and/or offer employment to, any Employee listed in Section 3.1(r)(ii) of the Disclosure Letter, through any agreement, contract, letter or any similar document to confirm or offer employment by the Purchaser. Notwithstanding any other provision contained in this Agreement, the Seller shall also cooperate with the Purchaser to effectuate the transfer of any such Employees in respect of whom continuing employment was confirmed or to whom employment was offered by the Purchaser pursuant to this Section 5.9. For greater certainty, the Seller acknowledges and agrees that neither the Purchaser nor any Employees will be in breach of any obligations, covenants or legal duties whatsoever to the Seller or any of its Affiliates (including in respect of any restrictive covenants), by confirming employment with, and/or by accepting employment with, the Purchaser during the Interim Period.
- (3) Notwithstanding Section 5.9(1), the customers, agents and other sales representatives of the Business identified in Section 5.9(3) of the Disclosure Letter shall be contacted by the Seller as soon as practicable after the date of this Agreement to advise them of the transactions contemplated hereby and introduce the Purchaser, after which the Purchaser will be authorised to communicate with them in accordance with competition law guidelines to be agreed upon between Seller's and Purchaser's respective regulatory counsel within five (5) days from the date of this Agreement.

Section 5.10 Benefits Plan.

During the Interim Period, the Purchaser shall work diligently and use commercially reasonable efforts to assume the Assumed Plans and to implement its own version of the other Benefit Plans (the "**Benefit Plan Setup**") before the Closing Date, and the Seller shall diligently provide assistance to the Purchaser in order for the Purchaser to implement the foregoing. If, fifteen (15) days prior to the estimated Closing Date, the Purchaser reasonably believes that it will be unable to finalize the Benefit Plan Setup by the Closing Date, the Seller or its Affiliates shall administer and provide coverage under such plans for such Employees consistent with the coverage prior to the Closing Date, as contemplated in the Transition Services Agreement.

Section 5.11 Action Items.

During the Interim Period, the Parties shall work together diligently and shall use commercially reasonable efforts to implement before the Closing Date the action items listed in Section 5.11 of the Disclosure Letter, as contemplated therein.

Section 5.12 SAP Interfaces.

The Purchaser shall work diligently and use commercially reasonable efforts to implement integrated and automated interfaces from Empac, Elixir and Empath to Purchaser's or its Affiliates' primary SAP instance as designed and planned by the Parties (the "**SAP Setup**") as soon as practicable following the date of this Agreement. The Seller shall diligently provide assistance to the Purchaser in order for the Purchaser to complete the SAP Setup as soon as practicable following the date of this Agreement. If, on or before seventy-five (75) days following the date of this Agreement, the Purchaser reasonably concludes that it will be unable to finalize the SAP Setup before the Closing Date, the Seller or its Affiliates shall administer and provide accounting and IT systems support to continue transaction processing to support the operations of the Business, as contemplated in the Transition Services Agreement, until such time as the Purchaser has completed the SAP Setup.

Section 5.13 Risk of Loss.

The Purchased Assets shall be at the risk of the Seller until Closing. If before the Closing, the Purchased Assets sustain a loss, damage or a taking by condemnation or expropriation and such loss, damage or taking would prevent the Purchaser from producing the same volume and quality of high-yield pulp at costs substantially similar to those currently incurred by the Seller, the Seller will promptly give the Purchaser notice thereof and if the portion of the Purchased Assets which sustained a loss, were damaged, destroyed or taken by condemnation or expropriated:

- (a) can be replaced or repaired within thirty (30) days or less by Seller, the Seller shall replace or repair the Purchased Assets, at its own cost, and the Closing Date shall be postponed by such period of time not exceeding thirty (30) days to allow for the completion of such replacement or repairs; or

- (b) cannot be replaced or repaired within thirty (30) days or less by Seller, the Purchaser shall have the option, exercisable by notice to the Seller:
 - (i) to proceed with the Closing, and the Purchase Price will be reduced by the amount corresponding to the cost of repair of the portion of the Purchased Assets which were damaged or destroyed or, if lost, damaged beyond repair or taken by condemnation or expropriation, by the replacement cost of the particular Purchased Assets so lost, damaged or taken, such reduction in price to be net of all proceeds of insurance actually received by the Seller and paid to the Purchaser; or
 - (ii) to terminate this Agreement, as provided in Section 8.1.

Section 5.14 Exclusive Dealings.

During the Interim Period, neither the Seller nor the Seller Guarantor nor any of their respective representatives shall directly or indirectly in any manner:

- (a) entertain, solicit or encourage;
- (b) furnish or cause to be furnished any information to any Persons (other than the Purchaser or its representatives) in connection with; or
- (c) negotiate or otherwise pursue;

any proposal or discussions for or in connection with any possible sale of any Purchased Assets or of the Business, no matter how structured, including without limitation by sale of all or any significant or controlling part of the shares or other equity interests of the Seller, by sale or license of all or any significant part of the Purchased Assets, or by any merger or other business combination involving the Seller or otherwise. The Seller shall be responsible for any breach by its representatives or its direct shareholders of any provisions of this Section 5.14.

Section 5.15 Transfer Taxes.

- (1) The Purchaser will be liable for and will pay, or cause to be paid, all Transfer Taxes payable under any applicable Law on or with respect to the purchase by the Purchaser of the Purchased Assets under this Agreement on or before the due date for any such payments, and the Purchaser will provide notice and evidence of any such payments to the Seller promptly after any such payments. The Purchaser will prepare and file any affidavits or returns required in connection with the foregoing at its own cost and expense. To the extent that any Transfer Taxes or any interest or penalties are required to be paid by and are imposed upon the Seller under any applicable Law on or with respect to the purchase by the Purchaser of the Purchased Assets, the Purchaser will reimburse, or cause to be reimbursed, to the Seller such Transfer Taxes and any applicable interest and penalties within ten (10) Business Days of payment of such Transfer Taxes and of any applicable interest and penalties by the Seller. All amounts payable by the Purchaser to the Seller hereunder do not include Transfer Taxes unless specifically mentioned hereunder. For greater certainty, the Purchaser shall self-assess and remit to the applicable Governmental Entity the applicable GST and QST payable in connection with the transfer of the Purchased Assets which are real or immovable property, and shall deliver to the Seller a certificate and indemnity in standard form agreeable to both the Seller and the Purchaser (the “**GST/QST Certificate and Indemnity**”). Subject to Section 5.15(2), the Purchaser shall pay all applicable GST and QST to the Seller in respect of the Purchased Assets other than the real or immovable property, provided that the Seller provides to the Purchaser an invoice containing all prescribed information required by the Purchaser to support its claims for input tax credits and input tax refunds. The Parties agree that the Purchaser shall only be obligated to pay any applicable GST and QST to the Seller seven (7) Business Days before the Seller is required to remit such GST and QST, and the Seller shall remit such GST and QST to the relevant Governmental Entities as and when required by applicable Laws. The Purchaser is acquiring each of the Owned Real Property and Leased Real Property as principal for its own account and is not being purchased by the purchaser as an agent, trustee, or otherwise on behalf of or for another person. The Purchaser shall remit the GST and QST to the appropriate Governmental Entity with respect to the Owned Real Property and Leased Real Property in the time and the manner prescribed by Part IX of the *Excise Tax Act* (Canada) and *An Act respecting the Quebec Sales Tax*. For greater certainty, the Purchaser shall indemnify and save harmless the Seller from any GST, QST penalty, interest or other amounts which may be payable by or be assessed against the Seller under Part IX of the *Excise Tax Act* (Canada) and *An Act respecting the Quebec Sales Tax* as a result of, or in connection with, the Seller's

failure to collect and remit any GST or QST applicable on the sale and conveyance of the Owned Real Property or the Leased Real Property or for the failure of the Purchaser to remit the GST and QST in the time and the manner prescribed by Part IX of the *Excise Tax Act* (Canada) and *An Act respecting the Quebec Sales Tax*.

- (2) Notwithstanding the foregoing, the Seller and the Purchaser shall cooperate to use Revenu Québec's GST/QST "Fast Track" program, and shall file, jointly and separately, all tax returns, forms and documents as required by Revenu Québec, for purposes of obtaining the expedited GST and QST refunds for the Purchaser in connection with the purchase and sale of the Purchased Assets hereunder. To the extent that Revenu Québec is authorized to pay or credit the refund owing to the Purchaser directly to the Seller on account of GST and QST in accordance with the terms of the "Fast Track" program, the Purchaser shall be relieved of its obligation to pay GST and QST to the Seller under Section 5.15(1). The Purchaser represents that its registered office is presently located in the Province of Québec and covenants and agrees to maintain a registered office in the Province of Québec until the transactions with respect to GST/QST payable in connection with the transfer of the Purchased Assets described in this Section 5.15 are completed.

Section 5.16 Cooperation on Tax Matters.

The Seller and the Purchaser will furnish or cause to be furnished to each other, each at its own expense, as promptly as practicable, such reasonable information and assistance, and provide additional information and explanations of any material provided, relating to the Purchased Assets as is reasonably necessary for the filing of any Tax Returns, for the preparation of any audit, for the prosecution or defence of any Claim relating to any adjustment or proposed adjustment with respect to Taxes and to obtain or benefit from any Tax refund, credit or exemption.

Section 5.17 Proceeds Received after Closing.

A Party shall segregate and hold in trust solely for the benefit of the other Party, and immediately remit in kind to such Party, all payments that it receives on or after the Closing Date in respect of the period of time after the Closing Date, relating to any of the Purchased Assets.

ARTICLE 6 CONDITIONS OF CLOSING

Section 6.1 Conditions for the Benefit of the Purchaser.

The purchase and sale of the Purchased Assets is subject to the following conditions being satisfied at or prior to Closing, which conditions are for the exclusive benefit of the Purchaser and may be waived, in whole or in part, by the Purchaser in its sole discretion:

- (a) **Truth of Representations and Warranties.** The representations and warranties of the Seller contained in this Agreement that are qualified as to materiality and the Seller Fundamental Representations shall be true and correct in all respects and those not so qualified shall be true and correct in all material respects as of the Closing Date with the same force and effect as if such representations and warranties had been made on and as of such date (except those representations and warranties that address matters only as of a specified date, in which case such representations and warranties that are qualified as to materiality shall have been true and correct in all respects, and those not so qualified shall have been true and correct in all material respects as of such specified date).
- (b) **Performance of Covenants.** The Seller shall have fulfilled or complied, in all material respects, with all covenants contained in this Agreement or in any other agreement, certificate or instrument executed and delivered pursuant to this Agreement to be fulfilled or complied with by it at or prior to the Closing.
- (c) **Material Adverse Effect.** During the Interim Period, there shall have been no Material Adverse Effect.
- (d) **Regulatory Approvals.** The Regulatory Approvals set forth in Section 6.1(d) of the Disclosure Letter shall have been obtained or given, as applicable, in each case in form and substance reasonably acceptable to the Purchaser.
- (e) **Consents.** The Seller shall have delivered to the Purchaser the Consents set forth in Section 6.1(e) of the

Disclosure Letter, in each case in form and substance reasonably acceptable to the Purchaser.

- (f) **Deliveries.** The Seller shall deliver or cause to be delivered to the Purchaser the following in form and substance satisfactory to the Purchaser acting reasonably:
- (i) certified copies of (i) the articles and by-laws of the Seller, (ii) certified resolutions of the board of directors and shareholders of the Seller approving, as applicable, the entering into and completion of the transactions contemplated by this Agreement (including, without limitation, the transfer of the Purchased Assets to the Purchaser), and (iii) a list of the officers and directors of the Seller authorized to sign agreements together with their specimen signatures;
 - (ii) a certificate of status, compliance, good standing or like certificate with respect to the Seller issued by the appropriate government official of the jurisdiction of its formation or incorporation, as the case may be;
 - (iii) all keys, entry devices and passcodes with respect to the Purchased Assets (including the Owned Real Property and the Leased Owned Real Property), including combinations to any locks or vaults;
 - (iv) all plans and specifications in the Seller's possession or under its control relating to the plant, buildings, structures, erections, improvements, appurtenances and fixtures situated on or forming part of the Owned Real Property, including all such electrical, mechanical and structural drawings related thereto as are in the possession or under the control of the Seller;
 - (v) all data bases recorded or stored by means of any device, including in electronic form (but in such case, only to the extent technically possible), title documents, abstracts of title, deeds, surveys, leases, certificates of patents, trademarks and copyrights, contracts and commitments in the possession or under the control of the Seller relating to the Business;
 - (vi) the Assigned Books and Records;
 - (vii) all necessary deeds, conveyances, bills of sale, discharges, assurances, transfers, assignments and any other documentation necessary or reasonably required to transfer the Purchased Assets to the Purchaser with good and marketable title, free and clear of all Liens other than the Permitted Liens;
 - (viii) evidence satisfactory to the Purchaser that any Liens registered against the Purchased Assets, including Liens registered during the Interim Period, other than Permitted Liens, have been released;
 - (ix) the elections referred to in Section 2.11, as applicable;
 - (x) the GST and QST invoices referred to in Section 5.15;
 - (xi) a duly executed Transition Services Agreement, effective as of the Closing;
 - (xii) a non-solicitation of Employees and confidentiality agreement, substantially in the form of EXHIBIT C, duly executed by the Seller and the Seller Guarantor;
 - (xiii) a certification (without personal liability) of an executive officer of the Seller confirming the accuracy of Section 6.1(a) through Section 6.1(c);
 - (xiv) in force title insurance coverage for the Owned Real Property from a reputable title insurance company, in form and with customary owner coverage acceptable to the Purchaser and in the amount of [**]; and

(xv) **[**]** (year-to-date and balance of the year) including **[**]** (if applicable).

- (g) **No Law.** No Law shall be in effect that prohibits or enjoins the Purchaser or the Seller from consummating the transactions contemplated by this Agreement.
- (h) **No Litigation.** During the Interim Period, there shall have been no Order (whether temporary, preliminary or permanent) made or any Legal Proceedings commenced or threatened against any Party or against any of their respective Affiliates or any of their respective directors or officers, for the purpose of enjoining, prohibiting, preventing or restraining, temporarily or permanently, the completion of the transactions contemplated by this Agreement.
- (i) **Functioning Payroll System.** The Seller shall have implemented a functioning payroll system for the salaried Employees.
- (j) **Single Site Sustainable Forestry Certifications.**
 - (i) The Seller shall have caused the Seller's Matane site to have obtained, and the Matane site shall have in existence, duly issued and validly existing certifications, on a single-site basis, for the following:
 - (A) Forest Stewardship Council Chain of Custody certification in accordance with FSC Chain of Custody standard and applicable FSC Chain of Custody normative framework with respect to sourcing, processing and sale of pulp; and
 - (B) Programme for the Endorsement of Forest Certification Schemes in accordance with PEFC Chain of Custody of Forest-Based Products standard for the manufacturing of the wood-based pulp;
 - (ii) The Seller shall have caused all Sustainable Forestry Credits, which shall be the amounts set out in Section 3.1(aa) of the Disclosure Letter, as such amounts may be amended in the Ordinary Course of Business, to be allocated to the single-site Sustainable Forestry Certifications;
 - (iii) The Seller shall have caused NEPCo to re-issue the single-site Sustainable Forestry Certifications set forth in Section 6.1(j)(i)(A) and Section 6.1(j)(i)(B) under the Purchaser's name; and
 - (iv) The Seller shall have transferred the Sustainable Forestry Credits referenced in Section 6.1(j)(ii) to the Purchaser.

Section 6.2 Conditions for the Benefit of the Seller.

The purchase and sale of the Purchased Assets is subject to the following conditions being satisfied at or prior to Closing, which conditions are for the exclusive benefit of the Seller and may be waived, in whole or in part, by the Seller in its sole discretion:

- (a) **Truth of Representations and Warranties.** The representations and warranties of the Purchaser contained in this Agreement that are qualified as to materiality and the Purchaser Fundamental Representations shall be true and correct in all respects and those not so qualified shall be true and correct in all material respects as of the Closing Date with the same force and effect as if such representations and warranties had been made on and as of such date (except those representations and warranties that address matters only as of a specified date, in which case such representations and warranties that are qualified as to materiality shall have been true and correct in all respects, and those not so qualified shall have been true and correct in all material respects as of such specified date).
- (b) **Performance of Covenants.** The Purchaser shall have fulfilled or complied, in all material respects, with all

covenants contained in this Agreement or in any other agreement, certificate or instrument executed and delivered pursuant to this Agreement to be fulfilled or complied with by it at or prior to the Closing.

- (c) **Regulatory Approvals.** The Regulatory Approvals and the consents and notices identified in Section 4.1(c)(ii) of the Disclosure Letter shall have been obtained or given, as applicable, in each case in form and substance reasonably acceptable to the Seller.
- (d) **Deliveries.** The Purchaser shall deliver or cause to be delivered to the Seller the following in form and substance satisfactory to the Seller, acting reasonably:
 - (i) certified copies of (i) the resolutions of the board of directors of the Purchaser approving the entering into and completion of the transactions contemplated by this Agreement, and (ii) a list of the officers and directors of the Purchaser authorized to sign agreements together with their specimen signatures;
 - (ii) a certificate of status, compliance, good standing or like certificate with respect to the Purchaser issued by the appropriate government official of the jurisdiction of its formation or incorporation, as the case may be;
 - (iii) the elections referred to in Section 2.11, as applicable;
 - (iv) the GST/QST Certificate and Indemnity referred to in Section 5.15, as applicable;
 - (v) a duly executed Transition Services Agreement, effective as of the Closing;
 - (vi) a certification (without personal liability) of an executive officer of the Purchaser confirming the accuracy of Section 6.2(a) and Section 6.2(b); and
 - (vii) in force title insurance coverage for the Owned Real Property from a reputable title insurance company, in form and with customary owner coverage acceptable to Seller and in the amount of CDN\$80,000,000.
- (e) **No Law.** No Law shall be in effect that prohibits or enjoins the Purchaser or the Seller from consummating the transactions contemplated by this Agreement.
- (f) **No Litigation.** During the Interim Period, there shall have been no Order (whether temporary, preliminary or permanent) made against any Party or any Legal Proceedings commenced or threatened against any of their respective Affiliates or any of their respective directors or officers, for the purpose of enjoining, prohibiting, preventing or restraining, temporarily or permanently, the completion of the transactions contemplated by this Agreement.

ARTICLE 7 CLOSING

Section 7.1 Date, Time and Place of Closing.

The completion of the transactions contemplated by this Agreement shall take place at the offices of McCarthy Tétrault LLP, 1000 De La Gauchetière Street West, Suite 2500, Montréal, Québec, at 10:00 a.m. (Montreal time) on the Closing Date or at such other place, on such other date and at such other time or solely by way of electronic means as may be agreed upon in writing between the Seller and the Purchaser.

ARTICLE 8 TERMINATION

Section 8.1 Termination Rights.

- (1) This Agreement may be terminated by notice in writing:
- (a) by mutual written consent of the Seller and the Purchaser;
 - (b) by either the Seller or the Purchaser if a Law shall have been enacted, entered or promulgated prohibiting the consummation of the transactions contemplated hereby substantially on the terms contemplated hereby; provided, however, that the right to terminate this Agreement pursuant to this Section 8.1(1)(b) shall not be available to any Party if such Law was primarily due to the failure of such Party to perform any of its obligations under this Agreement;
 - (c) by either the Seller or the Purchaser if the Closing has not occurred on or prior to the Outside Date, provided that the right to terminate this Agreement shall not be available to any Party whose failure to fulfill any of its obligations or breach of any of its representations, warranties or covenants under this Agreement has been the primary cause of, or resulted in, the failure of the Closing to occur by the Outside Date;
 - (d) by the Seller if a breach of any representation or warranty or failure to perform any covenant or agreement on the part of the Purchaser under this Agreement occurs that would cause any condition in Section 6.1(g) not to be satisfied, and such breach or failure is incapable of being cured by the Outside Date or is not cured by the Purchaser within thirty (30) days of being so notified by the Seller; provided that the Seller is not then in breach of this Agreement so as to cause any condition in Section 6.1 not to be satisfied;
 - (e) by the Purchaser if a breach of any representation or warranty or failure to perform any covenant or agreement on the part of the Seller under this Agreement occurs that would cause any condition in Section 6.1 not to be satisfied, and such breach or failure is incapable of being cured by the Outside Date or is not cured by the Seller within thirty (30) days of being so notified by the Purchaser; provided that the Purchaser is not then in breach of this Agreement so as to cause any condition in Section 6.1(g) not to be satisfied; and
 - (f) by the Purchaser as permitted under Section 5.10.

Section 8.2 Effect of Termination.

- (1) Each Party's right of termination under this Article 8 is in addition to any other rights each Party or a Party may have under this Agreement, and the exercise of a right of termination will not be an election of remedies. Nothing in this Article 8 limits or affects any other rights or causes of action any Party may have with respect to the representations, warranties, covenants and indemnities in its favour contained in this Agreement. If a Party waives compliance with any of the conditions, obligations or covenants contained in this Agreement, the waiver will be without prejudice to any of its rights of termination in the event of non-fulfilment, non-observance or non-performance of any other condition, obligation or covenant in whole or in part.
- (2) If this Agreement is terminated pursuant to Section 8.1, all obligations of the Parties under this Agreement will terminate, except that:
- (a) each Party's obligations under Section 5.4, Section 11.3, Section 11.4 and Section 11.5 will survive; and
 - (b) if this Agreement is terminated by the Purchaser, on the one hand, or the Seller, on the other hand, because of fraud or a wilful breach of this Agreement by the other Party, the terminating Party's right to pursue all legal remedies will survive such termination unimpaired.

ARTICLE 9 INDEMNIFICATION

Section 9.1 Survival.

- (1) Subject to Section 9.1(2), the representations and warranties contained in this Agreement will survive the Closing and continue in full force and effect for a period of eighteen (18) months after the Closing Date, except that:
 - (a) the Seller Fundamental Representations and the Purchaser Fundamental Representations will survive the Closing and continue in full force and effect indefinitely;
 - (b) the representations and warranties contained in Section 3.1(h) – *Tax Matters* will survive the Closing and continue in full force and effect for a period of sixty (60) days after the expiration of the last applicable limitation period under any Tax legislation subsequent to the expiration of which an assessment, reassessment or other form or recognized document assessing liability for Tax with respect to any taxation period to which these matters relate cannot be issued;
 - (c) the representations and warranties contained in Section 3.1(n) – *Environmental Matters* will survive the Closing and continue in full force and effect for a period of five (5) years after the Closing; and
 - (d) the representations and warranties contained in Section 3.1(g)(i) – *Title and Sufficiency of Purchased Assets* and Section 3.1(y)(i) – *Real Property* will survive the Closing and continue in full force and effect for a period of ten (10) years after the Closing.
- (2) Notwithstanding anything to the contrary in this Agreement, the time limitation set out in Section 9.1(1) will not apply in respect of any Claims arising out of, resulting from, related to, or involving fraud, fraudulent or willful misconduct or intentional or gross fault by the Party making the representation and warranty nor will it apply to any of the indemnities set out in Section 9.2(b) through Section 9.2(e) and in Section 9.3(b).
- (3) No Party has any obligation or liability with respect to any representation and warranty in this Agreement after the end of the applicable time period specified in Section 9.1(1), except for Claims relating to the representations and warranties that the Party has been notified of prior to the end of the applicable time period.

Section 9.2 Indemnification in Favour of the Purchaser.

The Seller will indemnify, defend and save harmless the Purchaser and its Affiliates, and their respective directors, officers and employees (collectively, the “**Purchaser Indemnitees**”) from any Damages suffered by, imposed upon or asserted against any of the Purchaser Indemnitees as a result of, in respect of, connected with, or arising out of, under, or pursuant to:

- (a) any breach, default or violation or any representation or warranty of the Seller contained in this Agreement or in any other agreement, certificate or instrument executed and delivered pursuant to this Agreement;
- (b) any failure of the Seller to perform or fulfill any covenant of the Seller contained in this Agreement or in any other agreement, certificate or instrument executed and delivered pursuant to this Agreement;
- (c) the Retained Obligations;
- (d) any Legal Proceedings by any Governmental Entities relating to the assessment of Transfer Taxes for the period prior to the Closing Date; and
- (e) the grievance disclosed in Section 3.1(p)(viii) of the Disclosure Letter for the period prior to the Closing Date.

Section 9.3 Indemnification in Favour of the Seller.

The Purchaser will indemnify, defend and save harmless the Seller and its Affiliates, and their respective directors, officers and employees (collectively, the “**Seller Indemnitees**”) harmless from, any Damages suffered by, imposed upon or asserted against

any of the Purchaser Indemnitees as a result of, in respect of, connected with, or arising out of, under, or pursuant to:

- (a) any breach, default or violation or any representation or warranty of the Purchaser contained in this Agreement or in any other agreement, certificate or instrument executed and delivered pursuant to this Agreement; and
- (b) any failure of the Purchaser to perform or fulfill any covenant of the Purchaser contained in this Agreement or in any other agreement, certificate or instrument executed and delivered pursuant to this Agreement.

For greater certainty, should any Transfer Taxes be deemed included in any amount payable under this Section 9.3, such amount shall be grossed-up accordingly in order for the Purchaser to pay to the Seller (i) the full indemnity amount provided for under this Section 9.3 and (ii) an additional amount equivalent to any Transfer Taxes deemed included in such payment under applicable Law.

Section 9.4 Limitations.

(1) *Damages from Seller*

- (a) The Seller shall have no liability under this Agreement and no Damages may be recovered from the Seller unless the Claims of any Purchaser Indemnitee exceed, in the aggregate, the Deductible, in which case the liability of the Seller shall be limited to the amount by which such Claims exceed the Deductible.
- (b) The Purchaser Indemnitees shall not be entitled to recover any Damages for any Claim (or series of Claims arising from similar events or facts) where the Damages relating to each such Claim are less than the Per Claim Threshold, and such Damages shall not be counted toward the Deductible.
- (c) The Purchaser Indemnitees will not be entitled to recover under this Article 9 an aggregate amount in excess of the Cap.
- (d) Notwithstanding any other provisions of this Agreement, the limitations set forth in:
 - (i) Section 9.4(1)(a), Section 9.4(1)(b) and Section 9.4(1)(c) shall not apply to any Claim by the Purchaser Indemnitees (i) involving fraud, fraudulent or willful misconduct or intentional or gross fault of the Seller; (ii) based on the incorrectness or breach of the Sellers' Fundamental Representations; nor (iii) shall the limitations be construed to apply to any of the indemnities set out in Section 9.2(b) through Section 9.2(e).
 - (ii) Section 9.4(1)(c) shall not apply to any Claim by the Purchaser Indemnitees based on the incorrectness or breach of the representations and warranties contained in Section 3.1(g)(i) – *Title and Sufficiency of Purchased Assets*, Section 3.1(y)(i) – *Real Property* and Section 3.1(n) – *(Environmental Matters)*.

(2) *Damages from Purchaser*

- (a) The Purchaser shall have no liability under this Agreement and no Damages may be recovered from the Purchaser unless the Claims of any Seller Indemnitee exceed, in the aggregate, the Deductible, in which case the liability of the Purchaser shall be limited to the amount by which such Claims exceed the Deductible.
- (b) The Seller Indemnitees shall not be entitled to recover any Damages for any Claim (or series of Claims arising from similar events or facts) where the Damages relating to each such Claim are less than the Per Claim Threshold, and such Damages shall not be counted toward the Deductible.
- (c) The Seller Indemnitees will not be entitled to recover under this Article 9 an aggregate amount in excess of the Cap.

- (d) Notwithstanding any other provisions of this Agreement, the limitations set forth in Section 9.4(2)(a), Section 9.4(2)(b) and Section 9.4(2)(c) shall not apply to any Claim by the Seller Indemnitees (i) involving fraud, fraudulent or willful misconduct or intentional or gross fault the Purchaser; (ii) based on the incorrectness or breach of the Purchaser's Fundamental Representations; nor (iii) shall the limitations be construed to apply to any of the indemnities set out in Section 9.3(b).

Section 9.5 Notice of Claim.

- (1) Any Indemnified Party shall be entitled to make a claim for indemnification (a "**Claim**") under this Agreement, by written notification to the Indemnifying Party of such Claim (a "**Notice of Claim**") promptly upon becoming aware of the Claim, but in no event later than the relevant date, if any, as specified in Section 9.1. The Notice of Claim shall specify whether the Claim arises as a result of a Third Party Claim or a Direct Claim, and shall also specify with reasonable particularity (to the extent that the information is available), the factual basis for the Claim, the amount of the Claim and the identity of the Person making the Claim if it is a Third Party Claim.
- (2) If, through the fault of the Indemnified Party, the Indemnifying Party does not receive a Notice of Claim in time to effectively contest the determination of any liability susceptible of being contested or to assert a right to recover an amount under applicable insurance coverage, then the liability of the Indemnifying Party to the Indemnified Party under this Article 9 shall be reduced only to the extent that Damages are actually incurred by the Indemnifying Party resulting from the Indemnified Party's failure to give the Notice of Claim on a timely basis.
- (3) If the date by which a Notice of Claim must be given in respect of a breach of representation and warranty has passed without any Notice of Claim having been given to the Indemnifying Party, then the related Claim shall be forever extinguished, notwithstanding that by the date specified in Section 9.5(1) the Indemnified Party did not know, and in the exercise of reasonable care could not have known, of the existence of the Claim.

Section 9.6 Direct Claims.

- (1) With respect to any Direct Claim, following receipt of notice from the Indemnified Party of the Claim, the Indemnifying Party shall have sixty (60) days to make such investigation of the Claim as is considered necessary or desirable. For the purpose of such investigation, the Indemnified Party shall make available to the Indemnifying Party the information relied upon by the Indemnified Party to substantiate the Claim, together with all such other information, books and records and access to employees as the Indemnifying Party may reasonably request.
- (2) If the Indemnifying Party disputes the validity or amount of the Direct Claim, the Indemnifying Party shall provide written notice of the dispute to the Indemnified Party within the sixty (60)-day period specified in Section 9.6(1). The dispute notice will describe in reasonable detail the nature of the Indemnifying Party's dispute. During the sixty (60)-day period immediately following receipt of a notice of dispute by the Indemnified Party, the Indemnifying Party and the Indemnified Party shall attempt in good faith to resolve the dispute. If the Indemnifying Party and the Indemnified Party fail to resolve the dispute within that sixty (60)-day time period, the Indemnifying Party's dispute shall be submitted to the Chief Executive Officer of each of the Indemnifying Party and the Indemnified Party, which shall conduct negotiations in good faith to resolve the dispute. If the Chief Executive Officer of each of the Indemnifying Party and the Indemnified Party fail to resolve the dispute within an additional fifteen (15)-day time period, the Indemnified Party is free to pursue all rights and remedies available to it, subject only to this Agreement. If the Indemnifying Party fails to respond in writing to the Direct Claim within the sixty (60)-day period specified in Section 9.6(1), the Indemnifying Party is deemed to have rejected the Direct Claim in which event the Indemnified Party is free to pursue all rights and remedies available to it, subject to this Agreement.

Section 9.7 Procedure for Third Party Claims.

- (1) In the event a Notice of Claim is delivered with respect to a Third Party Claim, the Indemnifying Party shall have the right, at its expense, to participate in but not control the negotiation, settlement or defence of the Third Party Claim, which control shall rest at all times with the Indemnified Party, unless the Indemnifying Party:
- (a) acknowledges in writing that the Third Party Claim is within the scope of its obligations to indemnify the

Indemnified Party in accordance with and subject to the terms of this Section 9.7; and

- (b) furnishes evidence to the Indemnified Party whenever requested by the Indemnified Party, which is satisfactory to the Indemnified Party of the Indemnifying Party's financial ability to indemnify the Indemnified Party;

in which case the Indemnifying Party may assume such control at its expense through counsel of its choice; provided, however, that notwithstanding the foregoing, the Indemnifying Party shall not be permitted to assume control of the negotiation, settlement or defence of the Third Party Claim if: (i) such Third Party Claim seeks equitable relief or provisional or control measures against the Indemnified Party as a primary form of relief; (ii) there is a reasonable probability that such Third Party Claim would result in monetary damages or payments in excess of 100% of the amount for which the Indemnifying Party is obligated to indemnify the Indemnified Party pursuant to this Article 9; (iii) such Third Party Claim involves criminal liability; (iv) such Third Party Claim involves a Governmental Entity; or (v) such Third Party Claim is by a current material customer or supplier of the Business.

- (2) Subject to Section 9.7(1), in order to assume the investigation and defence of a Third Party Claim, the Indemnifying Party must give the Indemnified Party written notice of its election within thirty (30) days of Indemnifying Party's receipt of notice of the Third Party Claim.
- (3) If the Indemnifying Party assumes the investigation and defence of a Third Party Claim, the Indemnifying Party will pay for all costs and expenses of the investigation and defence of the Third Party Claim except that the Indemnifying Party will not, so long as it diligently conducts such defence, be liable to the Indemnified Party for any fees of other counsel or any other expenses with respect to the defence of the Third Party Claim incurred by the Indemnified Party after the date the Indemnifying Party validly exercised its right to assume the investigation and defence of the Third Party Claim.
- (4) If the Indemnifying Party is not entitled to assume the investigation and defence of a Third Party Claim as aforesaid, does not elect to assume the investigation and defence of a Third Party Claim, or assumes the investigation and defence of a Third Party Claim but fails to diligently pursue such investigation and defence, the Indemnified Party has the right (but not the obligation) to undertake the investigation and defence of the Third Party Claim. In the case where the Indemnifying Party fails to diligently pursue the investigation and defence of the Third Party Claim, the Indemnified Party may not assume the investigation and defence of the Third Party Claim unless the Indemnified Party gives the Indemnifying Party written demand to diligently pursue the investigation and defence and the Indemnifying Party fails to do so within fifteen (15) Business Days after receipt of the demand, or such shorter period as may be required to respond to any deadline imposed by a court.
- (5) If the Indemnified Party undertakes the investigation and defence of a Third Party Claim, the Indemnifying Party shall be bound by the results obtained by the Indemnified Party with respect to such Third Party Claim.
- (6) The Indemnifying Party will not be permitted to compromise and settle or remedy or to cause a compromise and settlement or remedy of a Third Party Claim without the prior written consent of the Indemnified Party, which consent may not be unreasonably withheld, delayed or conditioned, unless:
 - (a) the terms of the compromise and settlement or remedy require only the payment of money for which the Indemnified Party is entitled to full indemnification under this Agreement;
 - (b) the terms of the compromise and settlement do not require the Indemnified Party to admit any wrongdoing, take or refrain from taking any action, acknowledge any rights of the Person making the Third Party Claim or waive any rights that the Indemnified Party may have against the Person making the Third Party Claim; and
 - (c) the Indemnified Party receives, as part of the compromise and settlement or remedy, a legally binding and enforceable unconditional release, which is in form and substance satisfactory to the Indemnified Party, acting reasonably, from any and all obligations or liabilities it may have with respect to the Third Party Claim.
- (7) The Indemnified Party and the Indemnifying Party agree to keep each other fully informed of the status of any Third Party

Claim and any related proceedings. If the Indemnifying Party assumes the investigation and defence of a Third Party Claim, the Indemnified Party will act in such manner as not to interfere with the investigation and defence of the Third Party Claim and will, at the request and expense of the Indemnifying Party, make available to the Indemnifying Party, on a timely basis, those employees whose assistance, testimony or presence is necessary to assist the Indemnifying Party in investigating and defending the Third Party Claim. The Indemnified Party shall, at the request and expense of the Indemnifying Party, make available to the Indemnifying Party, or its representatives, on a timely basis all documents, records and other materials in the possession, control or power of the Indemnified Party, reasonably required by the Indemnifying Party for its use solely in defending any Third Party Claim which it has elected to assume the investigation and defence of. The Indemnified Party shall cooperate on a timely basis with the Indemnifying Party in the defence of any Third Party Claim.

Section 9.8 Manner of Payment.

Subject to, and in accordance with, the provisions of this Article 9, any indemnification payment to an Indemnified Party pursuant to this Article 9 shall be delivered by the Indemnifying Party to the Indemnified Party by wire transfer of immediately available funds to an account designated by the Indemnified Party within ten (10) days after the final, non-appealable determination thereof.

Section 9.9 Exclusion of Other Remedies.

Except as provided in this Section 9.9 and in Section 2.9, the indemnities provided in Section 9.2 and Section 9.3 constitute the only remedy of the Purchaser, on the one hand, or the Seller, on the other hand, against a Party in the event of any breach of a representation, warranty, covenant or agreement of such Party contained in this Agreement. The Parties may exercise their right to payment of an adjustment in Section 2.9 and their rights of termination in Section 8.1. The Parties acknowledge that the failure to comply with a covenant or obligation contained in this Agreement may give rise to irreparable injury to a Party inadequately compensable in Damages. Accordingly, a Party may seek to enforce the performance of this Agreement by injunction or specific performance upon application to a court of competent jurisdiction without proof of actual damage (and without the requirement of posting a bond or other security). The Purchaser and the Seller expressly waive and renounce any other remedies whatsoever, whether at law or in equity, which it would otherwise be entitled to as against any other Party. The provisions in this Agreement relating to indemnification, and the limits imposed on the Purchaser Indemnitees' and the Seller Indemnitees' remedies with respect to this Agreement and the transactions contemplated hereby were specifically bargained for between sophisticated parties and were specifically taken into account in the determination of the amounts to be paid to the Seller hereunder. No Purchaser Indemnitees may avoid the limitations on liability set forth in this Article 9 by seeking damages for breach of contract, tort or pursuant to any other theory of liability.

Section 9.10 Calculation of Damages.

For greater certainty, for the purpose only of calculating the amount of Damages under this Article 9, the representations and warranties of the Parties contained in this Agreement or in any other agreement, certificate or instrument executed and delivered pursuant to this Agreement shall be deemed to have been made without qualifications as to materiality where the words or phrases "material", "immaterial", "in all material respects" or words or phrases of similar import are used, such that the amount of Damages payable to an Indemnified Party is not subject to any deduction in respect of amounts below the level of materiality stated in the relevant representation and warranty.

Section 9.11 Joint and Several (Solidary) Obligations.

Notwithstanding anything to the contrary in this Agreement, Rayonier GP, RCC and RCE, hereby agree to be solidarily liable (within the meaning of the Civil Code of Quebec) for all of the obligations hereunder of the Seller to the extent provided in this Agreement, including any indemnification obligations of the Seller pursuant to this Article 9, such that if any claim for Damages is made against the Seller hereunder, the Purchaser shall be entitled to seek indemnification from any of Rayonier GP, RCC and RCE for the full amount of such Damages payable by the Seller. Each of Rayonier GP, RCC and RCE hereby waive the benefit of division and discussion.

Section 9.12 Seller Guarantee.

Notwithstanding anything to the contrary in this Agreement, the Seller Guarantor hereby agrees to be solidarily liable (within the meaning of the *Civil Code of Quebec*) with the Seller for all of the obligations hereunder of the Seller to the extent provided in this Agreement, including any indemnification obligations of the Seller pursuant to this Article 9, such that if any claim for Damages is made against the Seller hereunder, the Purchaser shall be entitled to seek indemnification from the Seller Guarantor for the full amount of such Damages payable by the Seller. The Seller and the Seller Guarantor hereby waive the benefit of division and discussion.

Section 9.13 Purchaser Guarantee.

Notwithstanding anything to the contrary in this Agreement, the Purchaser Guarantor hereby agrees to be solidarily liable (within the meaning of the *Civil Code of Quebec*) with the Purchaser for all of the obligations hereunder of the Purchaser to the extent provided in this Agreement, including any indemnification obligations of the Purchaser pursuant to this Article 9, such that if any claim for Damages is made against the Purchaser hereunder, the Seller shall be entitled to seek indemnification from the Purchaser Guarantor for the full amount of such Damages payable by the Purchaser. The Purchaser and the Purchaser Guarantor hereby waive the benefit of division and discussion.

Section 9.14 Duty to Mitigate.

Nothing in this Agreement in any way restricts or limits the general obligation pursuant to applicable Laws of an Indemnified Party to mitigate any loss which it may suffer or incur by reason of the breach by an Indemnifying Party of any representation, warranty, covenant or obligation of the Indemnifying Party under this Agreement. If any Claim can be reduced by any recovery any, settlement or otherwise under or pursuant to any insurance coverage (including, for greater certainty, the title insurance policy purchased by the Seller in accordance with Section 6.2(d)(vii)), the Indemnified Party shall, at the expense of the Indemnifying Party, take all appropriate and commercially reasonable steps to enforce such recovery or settlement and the amount of any Damages of the Indemnified Party shall be reduced by the amount of insurance proceeds actually received by the Indemnified Party (net of any deductible or other costs or expenses of recovery including Taxes and any actual increase in insurance premiums as a result of such Claim). Any Claim shall also be reduced by any net Tax benefit actually realized by the Indemnified Party on account of such Damages in the taxable period in which such Damages were incurred or in the immediately following taxable period. An Indemnifying Party shall not be entitled to delay or reduce the payment of all or any portion of a Claim to an Indemnified Party on the basis of the expected mitigation of such Claim by the Indemnified Party.

Section 9.15 One Recovery.

Any Indemnified Party is not entitled to double recovery for any Claim even though they may have resulted from the breach of more than one of the representations, warranties, covenants and obligations of the Indemnifying Party in this Agreement.

Section 9.16 Adjustments to Purchase Price.

Any payment made to the Purchaser Indemnitees under this Article 9 is a dollar-for-dollar decrease in the Purchase Price and any payment made to the Seller Indemnitees under this Article 9 is a dollar-for-dollar increase in the Purchase Price, in each case unless otherwise required by applicable Law.

Section 9.17 Set-off.

Any Indemnified Party shall be entitled to set off the amount of any Claim following Final Determination of such Claim against any other amounts payable by the Indemnified Party to the Indemnifying Party under this Agreement.

ARTICLE 10 POST-CLOSING COVENANTS AND OTHER MATTERS

Section 10.1 Employees.

(1) The Purchaser:

(a) will, effective on and after the Closing Date, employ all the Employees:

(i) who are not covered by the Collective Bargaining Agreement and whose names are listed in Section 3.1(r) (ii) of the Disclosure Letter (redacted to comply with privacy Laws, as needed), on terms and conditions of employment substantially similar, in the aggregate, to such Employees' terms and conditions of employment as are in effect on the date hereof; and

(ii) who on the day immediately preceding the Closing Date are covered by the Collective Bargaining Agreement; and

(b) to the extent that any Collective Bargaining Agreement applies to Employees on the Closing Date, will be the successor to the Seller under any such Collective Bargaining Agreement pursuant to the provisions of applicable labour legislation and on and after the Closing Date will be bound by and observe all of the terms, conditions,

rights and obligations of the Seller under any such Collective Bargaining Agreements to the extent that they apply to Employees.

- (c) will offer employment effective as of the Closing Date to all Employees located in the Province of Ontario who are not covered by the Collective Bargaining Agreement and whose names are listed in Section 3.1(r)(ii) of the Disclosure Letter (redacted to comply with Privacy Laws, as needed), on terms and conditions of employment substantially similar, in the aggregate, to such Employees' terms and conditions of employment as are in effect on the date hereof. The Purchaser shall recognize the past service of such Employees with the Seller for all purposes, including any required notice of termination, termination or severance pay (contractual, statutory or at common-law). The Seller shall cooperate in the Purchaser's efforts to make offers of employment as contemplated by this Section.
- (2) For greater certainty, the Employees listed in Section 10.1 of the Disclosure Letter shall continue their employment with the Seller and shall not be transferred to the Purchaser under the terms herein (the **"Excluded Employees"**).
- (3) The Seller will be responsible for and will discharge all obligations and liabilities for wages, severance pay, termination pay, notice of termination of employment or indemnity in lieu of such notice, damages for wrongful dismissal or other employee benefits or claims, including vacation pay and short-term incentive plan payments, and any other compensation or payment accrued up to the Closing Date in respect of all Employees as at the Closing Date, provided that, for greater certainty:
 - (a) all obligations and liabilities of the Seller for severance pay, termination pay, notice of termination of employment or indemnity in lieu of such notice, damages for wrongful dismissal shall only relate to Employees whose employment was terminated prior to the Closing Date; and
 - (b) the Purchaser assumes and will discharge all such obligations occurring and liabilities accruing on and after the Closing Date (including all such obligations and liabilities resulting from the transactions contemplated by this Agreement) in respect of all Employees, save and except for any obligations and liabilities relating to the Excluded Employees.
- (4) From and after the Closing Date, the Employees shall be entitled to use and obtain their unused and accrued vacation benefits and vacation pay under the Seller's vacation arrangements, determined as of the Closing Date; provided, however, that the Seller shall indemnify the Purchaser for any liability assumed by the Purchaser in excess of the amount reflected in the calculation of the Working Capital in that respect as at the Closing Time. For greater certainty, the indemnity provided in this Section 10.1(4) is subject to the limitations set forth in Section 9.4(1)(a), Section 9.4(1)(b) and Section 9.4(1)(c).
- (5) At least ten (10) days before the Closing Date, the Seller shall deliver to the Purchaser an up-to-date list of all Employees as at such date certified complete by a senior officer of the Seller. On the Closing Date, the Seller shall also deliver to the Purchaser an updated version of Section 3.1(r)(ii) of the Disclosure Letter as at the Closing Time certified complete by a senior officer of the Seller, which shall be subject to Purchaser's approval.

Section 10.2 Pension Plans and Other Benefit Plan.

- (1) All items in respect of Employees of the Business, except Excluded Employees, employed by the Purchaser that require adjustment including premiums for unemployment insurance, the Québec Pension Plan or the Canada Pension Plan, employer health tax, applicable statutory hospitalization insurance, workers' compensation assessments, accrued wages, salaries and commissions and employee benefit plan payments will be appropriately adjusted up to the Closing Date. To the extent that the Seller makes any payments to the Purchaser on account of such adjustments, the Purchaser agrees to indemnify and save harmless the Seller from and against all Damages in connection therewith.
- (2) Subject to Section 10.1(3) and Section 10.2(4), the Seller shall retain responsibility for and satisfy its obligations with respect to any Pension Plans, the Collective Bargaining Agreement, and other Benefit Plans up to the Closing Date in respect of all Employees of the Business in accordance with the terms of any Pension Plans and other Benefit Plans, and applicable Laws based on service of such employees up to the Closing Date. Except as may be specifically provided

herein, the Purchaser shall not assume any liability or obligation with respect to any Pension Plans or other Benefit Plans that are not Assumed Plans.

- (3) Effective as of the Closing Date, the non-unionized Employees shall cease to participate in and accrue benefits under any Pension Plans and other Benefit Plans that were in place prior to the Closing Date. Any Pension Plans and other Benefit Plans in which such non-unionized Employees participated shall not be transferred to or assumed by the Purchaser. Prior to and after the Closing Date, the Seller shall retain responsibility for all amounts payable by reason of or in connection with any and all claims incurred under Pension Plans and other Benefit Plans in which non-unionized Employees (and their eligible dependants) participated before the Closing Date.
- (4) Effective as of the Closing Date, and subject to any third party consents or waivers and other regulatory approvals necessary to permit the transfer or assignment, the Seller shall transfer or assign and the Purchaser shall assume all of the rights, responsibilities, duties, obligations and liabilities of the Seller with respect to the Retirement Plan for Unionized Employees and the Sun Life Financial Group Policy no 83907-213 (Matane Plant – Hourly Union Employees), as well as the agreements in respect of such plans described in EXHIBIT D (collectively, the “**Assumed Plans**”). Upon obtaining the required consent, waiver and approvals of such transfer or assignment and assumption, the Purchaser shall become the successor sponsor or policyholder, as applicable, of the Assumed Plans. In order to effect such assignment and assumption, the Seller and the Purchaser shall take such steps, prepare and execute such documents and seek such approvals of the appropriate regulatory authorities as may be necessary or desirable. The Purchaser shall enter into new agreements as necessary to allow the efficient transfer or assignment and assumption of the Assumed Plans. Upon the completion of the transfer or assignment of the Assumed Plans to the Purchaser, and except as otherwise provided herein, the Seller shall be completely discharged of all of its obligations and liabilities, if any, with respect to the pension benefits accrued by the Employees and the former employees under the Assumed Plans in accordance with the terms of such Assumed Plans, the Collective Bargaining Agreements and applicable Laws. Each of the Seller and Purchaser shall be solely responsible for its respective expenses attributable to the assignment of the rights, duties, obligations and liabilities under the Assumed Plans to the Purchaser. The Seller shall also collaborate with the Purchaser with regard to the administration of the Retirement Plan for Unionized Employees, pending its intended transfer, if it does not occur as of the Closing Date, including, among others, with respect to the replacement of any member of the pension committee for such plan. For the avoidance of doubt, and subject to any necessary Pension Plan committee consents, the Seller shall also collaborate with the Purchaser to allow the Purchaser to establish its own investment structure for the Retirement Plan for Unionized Employees.
- (5) As soon as reasonably practicable following the date of this Agreement, the Seller shall cause a written notice to be issued to the Custodial Trustee seeking the segregation and transfer of the assets underlying the units of the funds established pursuant to the terms of the Master Trust Agreements owned by, or attributed to, the Retirement Plan for Unionized Employees pursuant to the terms of the Master Trust Agreements. Such proportionate share of the underlying assets of the funds established pursuant to the Master Trust Agreements, shall, on or before the Closing Date, be segregated in favour of the Retirement Plan for Unionized Employees and shall be transferred to the pension fund of the Retirement Plan for Unionized Employees.
- (6) Any costs and expenses attributable to the segregation and transfer of the underlying assets of the funds established pursuant to the Master Trust Agreements, as described in Section 10.2(5), shall be payable by the Seller. During the period from the execution of the Agreement up to and including the Closing Date, the Seller shall ensure that no notice of redemption is issued by any Person in respect of the Master Trust Agreements, other than consistent with past practice, and that the assets of the Master Trust Agreements are invested consistent with past practice.
- (7) The Parties agree that the value of the assets to be segregated and transferred from the funds established pursuant to the Master Trust Agreements to the pension fund of the Retirement Plan for Unionized Employees, as described in Section 10.2(5), shall include the return obtained by the relevant investment or investment structure up to the date of the transfer of the relevant assets.
- (8) The Seller shall provide, prior to Closing, all true, complete and correct data, records and correspondence in its possession that is necessary or useful to administer the Assumed Plans, in a form which is sufficient for the proper administration of any such Assumed Plan in accordance with their terms and all applicable Laws. Prior to Closing, the Purchaser shall have the right to reasonably request, and shall be provided with, all data, records or other information deemed to be necessary or useful to allow the Purchaser to offer benefit coverage to the non-unionized Employees as provided under this Agreement.

- (9) For greater certainty, it is acknowledged that the Seller shall retain all liabilities and obligations with respect to all post-retirement and post-employment insurance coverages in respect of employees of the Seller who are retired or no longer employed by the Seller as of the Closing Date, any Excluded Employee and any employee or former employee not related to the Business or the Purchased Assets. The Buyer shall assume all liabilities and obligations with respect to all post-retirement and post-employment benefits in respect of the Employees.

Section 10.3 Access to Books and Records.

For a period of six (6) years from the Closing Date or for such longer period as may be required by applicable Laws, (a) the Purchaser shall retain all original Assigned Books and Records and (b) the Seller shall retain all original Retained Books and Records. So long as any such Assigned Books and Records and such Retained Books and Records are retained by the Purchaser or the Seller, as applicable, pursuant to this Agreement, the Seller or the Purchaser, as applicable, shall have the reasonable right to inspect and to make copies (at its own expense) of them at any time upon reasonable request during normal business hours and upon reasonable notice for any proper purpose and without undue interference to the business operations of the Purchaser, the Seller or their respective Affiliates, as applicable. The Seller shall have the right to redact from the Retained Books and Records requested by the Purchaser any information that is not related to the Business or the Purchased Assets. The Purchaser or the Seller, as applicable, shall have the right to have its representatives present during any such inspection. Each of the Purchaser and the Seller agrees to provide timely access to the Assigned Books and Records or Retained Books and Records, as applicable, and any other resources and personnel of the Purchaser or the Seller, to the Seller or the Purchaser, as applicable, upon the reasonable request of the Seller or the Purchaser, as applicable, for purposes of complying with any applicable tax, financial reporting, regulatory requirements or any other proper purpose.

Section 10.4 Cooperation and Access regarding [].**

The Purchaser shall, at the request of the Seller, make available to the Seller, its accountants, its legal advisors or its representatives on a timely basis all documents, records and other materials in the possession or control of the Purchaser reasonably required by the Seller [**].

Section 10.5 Further Assurances.

From time to time after the Closing Date, each Party shall, at the request of any other Party, execute and deliver such additional conveyances, transfers and other assurances as may be reasonably required to effectively transfer the Purchased Assets to the Purchaser and carry out the intent of this Agreement.

ARTICLE 11 MISCELLANEOUS

Section 11.1 Notices.

Any notice, request for consent, direction or other communication (each a “**Notice**”) given regarding the matters contemplated by this Agreement must be in writing (regardless of the fact that a specific provision of this Agreement specifies or fails to specify that a particular notice will be in writing), sent by personal delivery or courier and addressed:

- (a) to the Seller or the Seller Guarantor at:

Rayonier Advanced Materials Inc.
1301 Riverplace Boulevard
Suite 2300
Jacksonville, Florida 32207
United States of America

Attention: Chief Financial Officer
with a copy to: General Counsel

- (b) to the Purchaser at:

Sappi Canada Enterprises Inc.
c/o Blake, Cassels & Graydon LLP
1 Place Ville Marie, Suite 3000

Montreal, Québec H3B 4T9
Canada

Attention: Philippe Bourassa

with a copy to:

Sappi North America, Inc.
255 State Street, 4th Floor
Boston, Massachusetts 02109
United States of America

Attention: General Counsel

(c) to the Purchaser Guarantor at:

Sappi Papier Holding GmbH
c/o Sappi International S.A.
Chaussée de la Hulpe 166
Watermael-Boitsfort
1170 Brussels, Belgium

Attention: Jorg Passler

with a copy to:

Blake, Cassels & Graydon LLP
1 Place Ville Marie, Suite 3000
Montreal, Québec H3B 4T9
Canada

Attention: Philippe Bourassa

A Notice is deemed to be delivered and received (i) if sent by personal delivery, on the date of delivery if it is a Business Day and the delivery was made prior to 4:00 p.m. (local time in place of receipt) and otherwise on the next Business Day, (ii) if sent by same-day service courier, on the date of delivery if sent on a Business Day and delivery was made prior to 4:00 p.m. (local time in place of receipt) and otherwise on the next Business Day, or (iii) if sent by overnight courier, on the next Business Day. A Party may change its address for service from time to time by providing a Notice in accordance with the foregoing. Any subsequent Notice must be sent to the Party at its changed address. Any element of a Party's address that is not specifically changed in a Notice shall be assumed not to be changed.

Section 11.2 Time of the Essence.

Time is of the essence in this Agreement.

Section 11.3 Announcements and Public Communications.

- (1) A Party who wishes to make a release, public announcement or publicity with respect to the transactions contemplated in this Agreement shall obtain approval of the other Party to the form, nature and extent of such disclosure, which approval shall not be unreasonably withheld, delayed or conditioned; provided, however, that to the extent the disclosure is required by Law or by a recognized securities exchange, the disclosing Party shall use reasonable commercial efforts to give prior notice to the other Party and a reasonable opportunity for the other Party to review or comment on the disclosure.
- (2) The Parties consent to, and nothing in this Section 11.3 or elsewhere in this Agreement shall prohibit, the use and disclosure by any Party or its respective Affiliates of information with respect to the Business, the Purchased Assets or the transactions contemplated in this Agreement necessary to comply with disclosure obligations under applicable Canadian, U.S. and South African securities laws and rules of the New York Stock Exchange or the Johannesburg Stock Exchange, including the public filing of this Agreement on the Canadian Securities Administrators' System for Electronic Document Analysis and Retrieval (SEDAR) at www.sedar.com or on the United States Securities and Exchange Commission's Electronic Data Gathering, Analysis and Retrieval (EDGAR) system at www.sec.gov.

Section 11.4 Third Party Beneficiaries.

Except as otherwise provided in Section 9.2, Section 9.3 and Section 11.14, the Parties intend that this Agreement will not benefit or create any right or cause of action in favour of any Person, other than the Parties. Except for the Indemnified Party, no Person, other than the Parties, shall be entitled to rely on the provisions of this Agreement in any action, suit, proceeding, hearing or other forum.

Section 11.5 Expenses.

The Purchaser will pay for its own costs and expenses and the Seller will pay for its own costs and expenses which are, in each case, incurred in connection with the negotiation, preparation, execution and performance of this Agreement and the transactions contemplated by them including the fees and expenses of legal counsel, investment advisors and accountants.

Section 11.6 Amendments.

This Agreement may only be amended, supplemented or otherwise modified by written agreement signed by the Parties.

Section 11.7 Waiver.

No waiver of any of the provisions of this Agreement will constitute a waiver of any other provision (whether or not similar). No waiver will be binding unless executed in writing by the Party to be bound by the waiver. A Party's failure or delay in exercising any right under this Agreement will not operate as a waiver of that right. A single or partial exercise of any right will not preclude a Party from any other or further exercise of that right or the exercise of any other right.

Section 11.8 Non-Merger.

Except as otherwise expressly provided in this Agreement, the covenants, representations and warranties shall not merge on and shall survive the Closing as provided herein.

Section 11.9 Entire Agreement.

This Agreement constitutes the entire agreement between the Parties with respect to the transactions contemplated by this Agreement and supersedes all prior agreements, understandings, negotiations and discussions, whether oral or written, of the Parties. There are no representations, warranties, covenants, conditions or other agreements, express or implied, collateral, statutory or otherwise, between the Parties in connection with the subject matter of this Agreement, except as specifically set forth in this Agreement. The Parties have not relied and are not relying on any other information, discussion or understanding in entering into and completing the transactions contemplated by this Agreement.

Section 11.10 Successors and Assigns.

- (1) This Agreement becomes effective only when executed by all of the Parties. After that time, it will be binding upon and enure to the benefit of each of the Parties and their respective successors and permitted assigns.
- (2) Neither this Agreement nor any of the rights or obligations under this Agreement are assignable or transferable by any Party without the prior written consent of the other Parties, provided that the Purchaser may assign all or any part of its rights and obligations under this Agreement to any of its Affiliates without consent, except that such assignment shall not relieve the Purchaser of its obligations hereunder.

Section 11.11 Severability.

If any provision of this Agreement is determined to be illegal, invalid or unenforceable by an arbitrator or any court of competent jurisdiction, that provision will be severed from this Agreement and the remaining provisions shall remain in full force and effect.

Section 11.12 Governing Law.

- (1) This Agreement will be governed by and interpreted and enforced in accordance with the laws of the Province of Québec and the federal laws of Canada applicable therein.
- (2) Each Party irrevocably attorns and submits to the exclusive jurisdiction of the Québec courts situated in the City of Montreal and waives objection to the venue of any Legal Proceeding in such court or that such court provides an

inconvenient forum.

Section 11.13 Counterparts.

This Agreement may be executed in any number of counterparts (including counterparts by facsimile or PDF) and all such counterparts taken together shall be deemed to constitute one and the same instrument.

Section 11.14 Legal Representation.

In any proceeding by or against the Purchaser wherein the Purchaser asserts or prosecutes any claim under, or otherwise seeks to enforce, this Agreement, the Purchaser agrees in connection with such proceeding (a) that neither the Purchaser nor counsel therefor will move to seek disqualification of Seller Counsel, (b) to waive any right the Purchaser may have to assert the attorney-client privilege against Seller Counsel or the Seller or any of their Affiliates with respect to any communication or information contained in Seller Counsel's possession or files and (c) to consent to the representation of the Seller and its Affiliates by Seller Counsel, notwithstanding that Seller Counsel has or may have represented the Seller or any of its Affiliates as counsel in connection with any matter, including any transaction (including the transactions contemplated by this Agreement), negotiation, investigation, proceeding or action, prior to the Closing. This consent and waiver extends to Seller Counsel representing the Seller against the Purchaser or its Subsidiaries in litigation, arbitration or mediation in connection with this Agreement or the transactions contemplated by this Agreement. In addition, all communications between the Seller, on the one hand, and Seller Counsel, on the other hand, related to this or any other proposed sale of the Purchased Assets, this Agreement or the transactions contemplated hereby shall be deemed to be attorney-client confidences that belong solely to the Seller and its Affiliates (the "**Seller Pre-Closing Communications**"). Accordingly, the Purchaser shall not have access to any such Seller Pre-Closing Communications or to the files of Seller Counsel relating to such engagement from and after the Closing, and all books, records and other materials in any medium (including electronic copies) containing or reflecting any of the Seller Pre-Closing Communications or the work product of legal counsel with respect thereto, including any related summaries, drafts or analyses, and all rights with respect to any of the foregoing, are hereby retained by, assigned and transferred to the Seller effective as of the Closing. Such material and information shall be excluded from the transfer contemplated by this Agreement and shall be delivered to the Seller immediately prior to the Closing with no copies thereof retained by the Purchaser or any of the Purchaser's Affiliates or representatives. From and after the Closing, the Purchaser and its Affiliates shall maintain the confidentiality of all such material and information. From and after the Closing, none of the Purchaser, its Affiliates and representatives shall access or in any way, directly or indirectly, use or rely upon any such materials or information. To the extent that any such materials or information are not delivered to the Seller prior to the Closing, they will be held for the benefit of the Seller, and the Purchaser and its Affiliates will deliver all such material and information to the Seller promptly upon discovery thereof, without using or retaining copies thereof. Without limiting the generality of the foregoing, from and after the Closing, (a) the Seller and its Affiliates shall be the sole holders of the attorney-client privilege with respect to such engagement and the Seller Pre-Closing Communications, and none of the Purchaser and its Affiliates shall be a holder thereof, and (b) to the extent that files of Seller Counsel in respect of such engagement and with respect to the Seller Pre-Closing Communications constitute property of the client, only the Seller and its Affiliates shall hold such property rights. As to Seller Pre-Closing Communications, the Purchaser and the Seller, together with any of their respective Affiliates, successors or assigns, agree that no such party may use or rely on any of the Seller Pre-Closing Communications in any action or claim against or involving any of the Parties after the Closing. The Purchaser hereby acknowledges and confirms that it has had the opportunity to review and obtain adequate information regarding the significance and risks of the waivers and other terms and conditions of this Section 11.14, including the opportunity to discuss with counsel such matters and reasonable alternatives to such terms. This Section 11.14 is for the benefit of the Seller and Seller Counsel and Seller Counsel is the intended third party beneficiary of this Section 11.14. This Section 11.14 shall be irrevocable, and no term of this Section 11.14 may be amended, waived or modified, without the prior written consent of the Seller and Seller Counsel. The covenants and obligations set forth in this Section 11.14 shall survive for ten (10) years following the Closing Date.

[Remainder of page intentionally left blank]

IN WITNESS WHEREOF the Parties have executed this Asset Purchase Agreement.

PURCHASER:

SAPPI CANADA ENTERPRISES INC.

By:

Authorized Signatory

SELLER:

RAYONIER A.M. CANADA G.P.

By:

Authorized Signatory

RAYONIER A.M. COMPAGNIE DE CONSTRUCTION INC.

By:

Authorized Signatory

RAYONIER A.M. CANADA ENTERPRISES INC.

By:

Authorized Signatory

SELLER GUARANTOR:

RAYONIER ADVANCED MATERIALS INC.

By:

Authorized Signatory

PURCHASER GUARANTOR:

SAPPI PAPIER HOLDING GMBH

By:

Authorized Signatory

By:

Authorized Signatory

EXHIBIT A
SAMPLE ADJUSTMENT STATEMENT

EXHIBIT B
FORM OF TRANSITION SERVICES AGREEMENT

EXHIBIT C
NON-SOLICITATION AND CONFIDENTIALITY AGREEMENT

EXHIBIT D
ASSUMED PLANS AGREEMENTS

Pension Plans

- *Régime de retraite des employés syndiqués de Les Entreprises Tembec Inc. - Division Matane* (Retraite Québec: no 31439. Canada Revenue Agency: no 1017847), and following related agreements:
 - o Investments for the Defined Contribution Component:
 - [**];
 - [**].
- [**] available to [**] as established pursuant to the following agreements with [**]:
 - o [**]
 - o [**]

Other Benefits

- [**] contract covering benefits for both Active and Retirees – [**]
 - o [**]

Certification

I, Paul G. Boynton, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Rayonier Advanced Materials Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 7, 2019

/s/ PAUL G. BOYNTON

Paul G. Boynton
 Chairman, President and Chief Executive Officer
 Rayonier Advanced Materials Inc.

Certification

I, Marcus J. Moeltner, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Rayonier Advanced Materials Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 7, 2019

/s/ MARCUS J. MOELTNER

Marcus J. Moeltner
*Chief Financial Officer and
 Senior Vice President, Finance
 Rayonier Advanced Materials Inc.*

Certification

The undersigned hereby certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that to our knowledge:

1. The quarterly report on Form 10-Q of Rayonier Advanced Materials Inc. (the "Company") for the quarterly period ended June 29, 2019 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

August 7, 2019

/s/ PAUL G. BOYNTON

Paul G. Boynton

*Chairman, President and Chief Executive Officer
Rayonier Advanced Materials Inc.*

/s/ MARCUS J. MOELTNER

Marcus J. Moeltner

*Chief Financial Officer and
Senior Vice President, Finance
Rayonier Advanced Materials Inc.*