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**SOUTHERN MONTANA ELECTRIC GENERATION AND  
TRANSMISSION COOPERATIVE, INC.,  
GRANTOR**

to

**U.S. BANK NATIONAL ASSOCIATION,  
TRUSTEE**

**FIRST SUPPLEMENTAL INDENTURE**

Dated as of February 26, 2010

Relating to

**SENIOR FIRST MORTGAGE NOTES, SERIES 2010A  
AND  
SENIOR FIRST MORTGAGE NOTES, SERIES 2010B**

THIS INSTRUMENT IS SUPPLEMENTAL TO THE INDENTURE OF MORTGAGE, SECURITY AGREEMENT AND FINANCING STATEMENT, DATED AS OF FEBRUARY 26, 2010, BETWEEN SOUTHERN MONTANA ELECTRIC GENERATION AND TRANSMISSION COOPERATIVE, INC., AS GRANTOR, AND U.S. BANK NATIONAL ASSOCIATION, AS TRUSTEE, WHICH HAS BEEN RECORDED, AMONG OTHER PLACES, IN THE SAME COUNTY OR COUNTIES WHERE THIS FIRST SUPPLEMENTAL INDENTURE IS TO BE FILED OF RECORD.

11 THIS INSTRUMENT IS A MORTGAGE.

THIS INSTRUMENT GRANTS A SECURITY INTEREST IN A TRANSMITTING UTILITY.

THIS INSTRUMENT CONTAINS PROVISIONS THAT COVER REAL AND PERSONAL PROPERTY, AFTER-ACQUIRED PROPERTY, FIXTURES, PROCEEDS, FUTURE ADVANCES AND FUTURE OBLIGATIONS WHICH ARE SECURED BY THIS INSTRUMENT.

11 THIS INSTRUMENT IS TO BE FILED OF RECORD, AMONG OTHER PLACES, IN THE REAL ESTATE RECORDS OF THE COUNTY OR COUNTIES REFERENCED IN SCHEDULE 1 HERETO, AND SUCH FILING SHALL SERVE, AMONG OTHER PURPOSES, AS A FIXTURE FILING.

11 THIS INSTRUMENT SECURES OBLIGATIONS THAT MAY INCREASE OR DECREASE FROM TIME TO TIME.

THE ADDRESSES AND THE SIGNATURES OF THE PARTIES TO THIS INSTRUMENT ARE STATED ON PAGES 1, 21 and 22..

STATE TAXPAYER'S IDENTIFICATION NUMBER: \_\_\_\_\_

FEDERAL TAXPAYER'S IDENTIFICATION NUMBER: \_\_\_\_\_

THIS INSTRUMENT DRAFTED BY SUTHERLAND ASBILL & BRENNAN LLP, 999 PEACHTREE STREET N.E., ATLANTA, GEORGIA 30309.

**THIS INSTRUMENT IS TO BE FILED OF RECORD, AMONG OTHER PLACES, IN THE REAL ESTATE RECORDS OF THE COUNTY OR COUNTIES REFERENCED IN SCHEDULE 1 HERETO, AND SUCH FILING SHALL SERVE, AMONG OTHER PURPOSES, AS A FIXTURE FILING. THIS INSTRUMENT SECURES OBLIGATIONS THAT MAY INCREASE OR DECREASE FROM TIME TO TIME. THE ADDRESSES AND THE SIGNATURES OF THE PARTIES TO THIS INSTRUMENT ARE STATED ON PAGES 1, 21 and 22.**

**FEDERAL TAXPAYER'S IDENTIFICATION NUMBER: 72-1560392.**

**THIS INSTRUMENT DRAFTED BY SUTHERLAND ASBILL & BRENNAN LLP, 999 PEACHTREE STREET N.E., ATLANTA, GEORGIA 30309.**

## FIRST SUPPLEMENTAL INDENTURE

THIS FIRST SUPPLEMENTAL INDENTURE, dated as of February 26, 2010 (the "*First Supplemental Indenture*"), between SOUTHERN MONTANA ELECTRIC GENERATION AND TRANSMISSION COOPERATIVE, INC., an electric cooperative existing under the laws of the State of Montana, as Grantor (the "*Company*"), and U.S. BANK NATIONAL ASSOCIATION, as Trustee, located at 60 Livingston Avenue, EP-MN-W53C, St. Paul, Minnesota 55107-2292 (the "*Trustee*").

### WITNESSETH:

**WHEREAS**, the Company has executed and delivered to the Trustee an Indenture, dated as of February 26, 2010 (the "*Original Indenture*") (the Original Indenture, as hereby supplemented and modified, being herein sometimes called the "*Indenture*") for the purpose of securing its Initial Obligations and providing for the authentication and delivery by the Trustee of Additional Obligations from time to time under the Indenture;

**WHEREAS**, pursuant to the Original Indenture, the Company established the series of Initial Obligations to be designated (a) the Senior First Mortgage Notes, Series 2010A, which as provided herein, shall be due February 26, 2040 in the aggregate principal amount of \$75,000,000 (the "*Series 2010A Notes*"), and (a) the Senior First Mortgage Notes, Series 2010B, which as provided herein, shall be due February 26, 2026 in the aggregate principal amount of \$10,000,000 (the "*Series 2010B Notes*", and with the Series 2010B Notes, the "*Series 2010 Notes*"), and the Company has complied with or will comply with all provisions required to issue the Series 2010 Notes as Initial Obligations, as provided in the Original Indenture;

**WHEREAS**, the Company desires to execute and deliver this First Supplemental Indenture, in accordance with the provisions of the Original Indenture, for the purpose of specifying the form and provisions of the Series 2010 Notes and for adding or amending covenants and events of default in the Indenture;

**WHEREAS**, Section 13.1 of the Original Indenture provides that, without the consent of the Holders of any of the Obligations at the time Outstanding, the Company, when authorized by a Board Resolution, and the Trustee, may enter into supplemental indentures for the purposes of and subject to the conditions set forth in such Section 13.1, and this First Supplemental Indenture is permitted pursuant to provisions of Sections 13.1(A), 13.1(C) and 13.1(G) of the Original Indenture;

**WHEREAS**, Section 4.5 of the Original Indenture provides that the Trustee shall execute and deliver the First Supplemental Indenture and authenticate and deliver the Series 2010 Notes;

**WHEREAS**, in connection with the issuance of the Series 2010 Notes, the Company is entering into a Note Purchase Agreement, dated as of February 26, 2010 (as it may be amended, modified, supplemented, extended or supplemented from time to time, the "*Note Agreement*"), pursuant to which one or more Purchasers (as defined in the Note Agreement) have agreed to purchase from the Company the Series 2010 Notes; and

**WHEREAS**, all acts and proceedings required by law and by the Articles of Incorporation and Bylaws of the Company necessary to secure the payment of the principal of, premium or Make-Whole Amount, (if any), and interest on the Series 2010 Notes, to make the Series 2010 Notes to be issued hereunder, when executed by the Company, authenticated and delivered by the Trustee and duly issued, the valid, binding and legal obligations of the Company, and to constitute the Indenture a valid and binding lien for the security of the Series 2010 Notes, in accordance with its terms, have been done and taken; and the execution and delivery of this First Supplemental Indenture has been in all respects duly authorized;

**NOW, THEREFORE, THIS FIRST SUPPLEMENTAL INDENTURE WITNESSES**, that, to secure the payment of the principal of, premium or make-whole amount, if any, and interest on the Outstanding Secured Obligations, including, when issued, the principal of, premium or Make-Whole Amount, if any, and interest on the Series 2010 Notes, to confirm the lien of the Indenture upon the Trust Estate, including property purchased, constructed or otherwise acquired by the Company since the date of execution of the Original Indenture, to secure performance of the covenants therein and herein contained, to declare the terms and conditions on which the Series 2010 Notes are secured, and in consideration of the premises thereof and hereof, the Company by these presents does grant, bargain, sell, alienate, remise, release, convey, assign, transfer, mortgage, hypothecate, pledge, set over and confirm to the Trustee, and its successors and assigns in the trust created thereby and hereby in trust, all property, rights, privileges and franchises (except any Excepted Property and any Excludable Property) of the Company of the character described in the Granting Clauses of the Indenture and including all such property, rights, privileges and franchises acquired since the date of execution of the Original Indenture, subject to all exceptions, reservations and matters of the character therein referred to, and does grant a security interest therein for the purposes expressed herein and in the Original Indenture subject in all cases to Sections 6.2 and 12.2B of the Original Indenture and to the rights of the Company under the Original Indenture, including the rights set forth in Article VI thereof, but expressly excepting and excluding from the lien and operation of the Indenture all properties of the character specifically excepted as “Excepted Property” and “Excludable Property” in the Original Indenture to the extent contemplated thereby.

**PROVIDED, HOWEVER**, that if, upon the occurrence of an Event of Default under the Indenture, the Trustee, or any separate trustee or co-trustee appointed under Section 10.14 of the Original Indenture or any receiver appointed pursuant to statutory provision or order of court, shall have entered into possession of all or substantially all of the Trust Estate, all the Excepted Property described or referred to in Paragraphs A through H, inclusive, of “Excepted Property” in the Original Indenture then owned or thereafter acquired by the Company, shall immediately, and in the case of any Excepted Property described or referred to in Paragraphs I and J of “Excepted Property” in the Original Indenture, upon demand of the Trustee or such other trustee or receiver, become subject to the lien of the Indenture to the extent permitted by law, and the Trustee or such other trustee or receiver may, to the extent permitted by law, at the same time likewise take possession thereof, and whenever all Events of Default shall have been cured and the possession of all or substantially all of the Trust Estate shall have been restored to the Company, such Excepted Property shall again be excepted and excluded from the lien of the Indenture to the extent and otherwise as hereinabove set forth and as set forth in the Original Indenture.

The Company may, however, pursuant to the Granting Clause Third of the Original Indenture, subject to the lien of the Indenture any Excepted Property or Excludable Property, whereupon the same shall cease to be Excepted Property or Excludable Property.

**TO HAVE AND TO HOLD** all such property, rights, privileges and franchises hereby and hereafter (by Supplemental Indenture or otherwise) granted, bargained, sold, alienated, remised, released, conveyed, assigned, transferred, mortgaged, hypothecated, pledged, set over or confirmed (or in which a security interest is granted) as aforesaid, together with all the tenements, hereditaments and appurtenances thereto appertaining (said properties, rights, privileges and franchises, including any cash and securities hereafter deposited or required to be deposited with the Trustee (other than any such cash which is specifically stated in the Original Indenture not to be deemed part of the Trust Estate) being part of the Trust Estate), unto the Trustee, and its successors and assigns in the trust herein created, forever.

**SUBJECT, HOWEVER,** to (i) Permitted Exceptions and (ii) to the extent permitted by Section 14.6 of the Original Indenture as to property hereafter acquired (a) any duly recorded or perfected Prior Lien that may exist thereon at the date of the acquisition thereof by the Company and (b) purchase money mortgages, other purchase money liens, chattel mortgages, conditional sales agreements or other title retention agreements created by the Company at the time of acquisition thereof.

**BUT IN TRUST, NEVERTHELESS,** with power of sale, for the equal and proportionate benefit and security of the Holders from time to time of all the Outstanding Secured Obligations without any priority of any Outstanding Secured Obligation over any Outstanding Secured Obligation and for the enforcement of the payment of Outstanding Secured Obligations in accordance with their terms.

**UPON CONDITION** that, until the happening of an Event of Default and subject to the provisions of Article VI of the Original Indenture, and not in limitation of the rights elsewhere provided in the Original Indenture, including the rights set forth in Article VI of the Original Indenture, the Company shall be permitted to (i) possess, use, manage, operate and enjoy the Trust Estate (other than cash and securities constituting part of the Trust Estate that are deposited with the Trustee), (ii) explore for, gather, cut, mine and produce crops, timber, coal, ore, gas, oil, minerals or other natural resources and products, and to use, consume and dispose of any thereof, and (iii) collect, receive, use, make payments from, transfer, invest, otherwise utilize or employ amounts constituting or derived from the rents, issues, tolls, earnings, profits, revenues, products and proceeds from Trust Estate or the operation of the property constituting part of the Trust Estate.

**AND IT IS HEREBY COVENANTED AND DECLARED** that the Series 2010A Notes and the Series 2010B Notes are to be authenticated and delivered and the Trust Estate is to be held and applied by the Trustee, subject to the covenants, conditions and trusts set forth herein and in the Original Indenture, and the Company does hereby covenant and agree to and with the Trustee, for the equal and proportionate benefit of all Holders of the Outstanding Secured Obligations, as follows:

**ARTICLE I**  
**THE SERIES 2010 NOTES AND CERTAIN PROVISIONS RELATING THERETO**

*Section 1.1 Terms of the Series 2010A Notes.* Pursuant to the provisions of Article IV of the Original Indenture, there has been established a series of Obligations known as and entitled the “*Senior First Mortgage Notes, Series 2010A.*” The principal amount of the Series 2010A Notes which shall be authenticated and delivered and Outstanding at any one time is limited to \$75,000,000.

The Series 2010A Notes shall be dated the date of their authentication and shall be made payable to the Purchasers (as set forth in the Note Agreement). The entire unpaid principal balance of the Series 2010A Notes shall be due and payable on February 26, 2040, with interest (computed on the basis of a 360-day year of twelve 30-day months) on the unpaid balance thereof at the rate of 8.00% per annum from the date thereof payable quarterly, on the 26<sup>th</sup> day of February, May, August and November in each year commencing with the February, May, August or November next succeeding the date hereof, until the principal thereof shall have become due and payable. Notwithstanding the foregoing, and to the extent permitted by law, interest shall accrue on any overdue payment of interest and, during the continuance of an Event of Default, on such unpaid balance and on any overdue payment of any Make-Whole Amount (as defined in Section 1.10 hereof), at a rate per annum equal to the greater of (i) 10.00% or (ii) 2.00% over the rate of interest publicly announced by JP Morgan Chase Bank, N.A. from time to time in New York, New York as its “Base” or “Prime” rate.

*Section 1.2 Terms of the Series 2010B Notes.* Pursuant to the provisions of Article IV of the Original Indenture, there has been established a series of Obligations known as and entitled the “*Senior First Mortgage Notes, Series 2010B.*” The principal amount of the Series 2010B Notes which shall be authenticated and delivered and Outstanding at any one time is limited to \$10,000,000.

The Series 2010B Notes shall be dated the date of their authentication and shall be made payable to the Purchasers (as set forth in the Note Agreement). The entire unpaid principal balance of the Series 2010B Notes shall be due and payable on February 26, 2026, with interest (computed on the basis of a 360-day year of twelve 30-day months) on the unpaid balance thereof at the rate of 7.25% per annum from the date thereof payable quarterly, on the 26<sup>th</sup> day of February, May, August and November in each year commencing with the February, May, August, or November next succeeding the date hereof, until the principal thereof shall have become due and payable. Notwithstanding the foregoing, and to the extent permitted by law, interest shall accrue on any overdue payment of interest and, during the continuance of an Event of Default, on such unpaid balance and on any overdue payment of any Make-Whole Amount, at a rate per annum equal to the greater of (i) 9.25% or (ii) 2.00% over the rate of interest publicly announced by JP Morgan Chase Bank, N.A. from time to time in New York, New York as its “Base” or “Prime” rate.

*Section 1.3 Form of the Series 2010 Notes.* The Series 2010A Notes, shall be substantially in the form set forth in Exhibit A-1 (*Series 2010A Note*) and the Series 2010B Notes, shall be substantially in the form set forth in Exhibit A-2 (*Series 2010B Note*), such appropriate insertions, omissions, substitutions and other variations as are required or permitted

in the Indenture, and the Trustee's authentication certificate to be executed on such Series 2010 Notes shall be substantially in the form of Exhibit A-1 or A-2, as applicable.

*Section 1.4 Use of Proceeds.* The Company shall use the proceeds of the Series 2010 Notes to fund the development and construction of the Project.

*Section 1.5 Required Prepayment.* On the dates and in the amounts shown below, the Company will prepay the Series 2010A Notes and the Series 2010B Notes at par and without payment of the Make-Whole Amount or any premium, *provided* that upon any partial prepayment of the Series 2010A Notes or the Series 2010B Notes pursuant to Section 1.6 hereof, the principal amount of each required prepayment of the Series 2010A Notes or the Series 2010B Notes, respectively, becoming due under this Section 1.5 on and after the date of such prepayment shall be reduced in the same proportion as the aggregate unpaid principal amount of the Series 2010A Notes or the Series 2010B Notes is reduced as a result of such prepayment.

Series 2010A Notes:

<b>Years</b>	<b>Date</b>	<b>Interest</b>	<b>Principal</b>	<b>Principal Balance</b>
0.00	2/26/2010	\$ -	\$ -	\$75,000,000
0.25	5/26/2010	1,500,000	-	75,000,000
0.50	8/26/2010	1,500,000	-	75,000,000
0.75	11/26/2010	1,500,000	-	75,000,000
1.00	2/26/2011	1,500,000	-	75,000,000
1.25	5/26/2011	1,500,000	-	75,000,000
1.50	8/26/2011	1,500,000	-	75,000,000
1.75	11/26/2011	1,500,000	-	75,000,000
2.00	2/26/2012	1,500,000	663,717	74,336,283
2.25	5/26/2012	1,486,726	663,717	73,672,566
2.50	8/26/2012	1,473,451	663,717	73,008,850
2.75	11/26/2012	1,460,177	663,717	72,345,133
3.00	2/26/2013	1,446,903	663,717	71,681,416
3.25	5/26/2013	1,433,628	663,717	71,017,699
3.50	8/26/2013	1,420,354	663,717	70,353,982
3.75	11/26/2013	1,407,080	663,717	69,690,265
4.00	2/26/2014	1,393,805	663,717	69,026,549
4.25	5/26/2014	1,380,531	663,717	68,362,832
4.50	8/26/2014	1,367,257	663,717	67,699,115
4.75	11/26/2014	1,353,982	663,717	67,035,398
5.00	2/26/2015	1,340,708	663,717	66,371,681
5.25	5/26/2015	1,327,434	663,717	65,707,965
5.50	8/26/2015	1,314,159	663,717	65,044,248
5.75	11/26/2015	1,300,885	663,717	64,380,531
6.00	2/26/2016	1,287,611	663,717	63,716,814
6.25	5/26/2016	1,274,336	663,717	63,053,097
6.50	8/26/2016	1,261,062	663,717	62,389,381
6.75	11/26/2016	1,247,788	663,717	61,725,664

<b>Years</b>	<b>Date</b>	<b>Interest</b>	<b>Principal</b>	<b>Principal Balance</b>
7.00	2/26/2017	1,234,513	663,717	61,061,947
7.25	5/26/2017	1,221,239	663,717	60,398,230
7.50	8/26/2017	1,207,965	663,717	59,734,513
7.75	11/26/2017	1,194,690	663,717	59,070,796
8.00	2/26/2018	1,181,416	663,717	58,407,080
8.25	5/26/2018	1,168,142	663,717	57,743,363
8.50	8/26/2018	1,154,867	663,717	57,079,646
8.75	11/26/2018	1,141,593	663,717	56,415,929
9.00	2/26/2019	1,128,319	663,717	55,752,212
9.25	5/26/2019	1,115,044	663,717	55,088,496
9.50	8/26/2019	1,101,770	663,717	54,424,779
9.75	11/26/2019	1,088,496	663,717	53,761,062
10.00	2/26/2020	1,075,221	663,717	53,097,345
10.25	5/26/2020	1,061,947	663,717	52,433,628
10.50	8/26/2020	1,048,673	663,717	51,769,912
10.75	11/26/2020	1,035,398	663,717	51,106,195
11.00	2/26/2021	1,022,124	663,717	50,442,478
11.25	5/26/2021	1,008,850	663,717	49,778,761
11.50	8/26/2021	995,575	663,717	49,115,044
11.75	11/26/2021	982,301	663,717	48,451,327
12.00	2/26/2022	969,027	663,717	47,787,611
12.25	5/26/2022	955,752	663,717	47,123,894
12.50	8/26/2022	942,478	663,717	46,460,177
12.75	11/26/2022	929,204	663,717	45,796,460
13.00	2/26/2023	915,929	663,717	45,132,743
13.25	5/26/2023	902,655	663,717	44,469,027
13.50	8/26/2023	889,381	663,717	43,805,310
13.75	11/26/2023	876,106	663,717	43,141,593
14.00	2/26/2024	862,832	663,717	42,477,876
14.25	5/26/2024	849,558	663,717	41,814,159
14.50	8/26/2024	836,283	663,717	41,150,442
14.75	11/26/2024	823,009	663,717	40,486,726
15.00	2/26/2025	809,735	663,717	39,823,009
15.25	5/26/2025	796,460	663,717	39,159,292
15.50	8/26/2025	783,186	663,717	38,495,575
15.75	11/26/2025	769,912	663,717	37,831,858
16.00	2/26/2026	756,637	663,717	37,168,142
16.25	5/26/2026	743,363	663,717	36,504,425
16.50	8/26/2026	730,088	663,717	35,840,708
16.75	11/26/2026	716,814	663,717	35,176,991
17.00	2/26/2027	703,540	663,717	34,513,274
17.25	5/26/2027	690,265	663,717	33,849,558
17.50	8/26/2027	676,991	663,717	33,185,841
17.75	11/26/2027	663,717	663,717	32,522,124



<b>Years</b>	<b>Date</b>	<b>Interest</b>	<b>Principal</b>	<b>Principal Balance</b>
18.00	2/26/2028	650,442	663,717	31,858,407
18.25	5/26/2028	637,168	663,717	31,194,690
18.50	8/26/2028	623,894	663,717	30,530,973
18.75	11/26/2028	610,619	663,717	29,867,257
19.00	2/26/2029	597,345	663,717	29,203,540
19.25	5/26/2029	584,071	663,717	28,539,823
19.50	8/26/2029	570,796	663,717	27,876,106
19.75	11/26/2029	557,522	663,717	27,212,389
20.00	2/26/2030	544,248	663,717	26,548,673
20.25	5/26/2030	530,973	663,717	25,884,956
20.50	8/26/2030	517,699	663,717	25,221,239
20.75	11/26/2030	504,425	663,717	24,557,522
21.00	2/26/2031	491,150	663,717	23,893,805
21.25	5/26/2031	477,876	663,717	23,230,088
21.50	8/26/2031	464,602	663,717	22,566,372
21.75	11/26/2031	451,327	663,717	21,902,655
22.00	2/26/2032	438,053	663,717	21,238,938
22.25	5/26/2032	424,779	663,717	20,575,221
22.50	8/26/2032	411,504	663,717	19,911,504
22.75	11/26/2032	398,230	663,717	19,247,788
23.00	2/26/2033	384,956	663,717	18,584,071
23.25	5/26/2033	371,681	663,717	17,920,354
23.50	8/26/2033	358,407	663,717	17,256,637
23.75	11/26/2033	345,133	663,717	16,592,920
24.00	2/26/2034	331,858	663,717	15,929,204
24.25	5/26/2034	318,584	663,717	15,265,487
24.50	8/26/2034	305,310	663,717	14,601,770
24.75	11/26/2034	292,035	663,717	13,938,053
25.00	2/26/2035	278,761	663,717	13,274,336
25.25	5/26/2035	265,487	663,717	12,610,619
25.50	8/26/2035	252,212	663,717	11,946,903
25.75	11/26/2035	238,938	663,717	11,283,186
26.00	2/26/2036	225,664	663,717	10,619,469
26.25	5/26/2036	212,389	663,717	9,955,752
26.50	8/26/2036	199,115	663,717	9,292,035
26.75	11/26/2036	185,841	663,717	8,628,319
27.00	2/26/2037	172,566	663,717	7,964,602
27.25	5/26/2037	159,292	663,717	7,300,885
27.50	8/26/2037	146,018	663,717	6,637,168
27.75	11/26/2037	132,743	663,717	5,973,451
28.00	2/26/2038	119,469	663,717	5,309,735
28.25	5/26/2038	106,195	663,717	4,646,018
28.50	8/26/2038	92,920	663,717	3,982,301
28.75	11/26/2038	79,646	663,717	3,318,584

<b>Years</b>	<b>Date</b>	<b>Interest</b>	<b>Principal</b>	<b>Principal Balance</b>
29.00	2/26/2039	66,372	663,717	2,654,867
29.25	5/26/2039	53,097	663,717	1,991,150
29.50	8/26/2039	39,823	663,717	1,327,434
29.75	11/26/2039	26,549	663,717	663,717
30.00	2/26/2040	\$13,274	\$663,717	\$0

Series 2010B Notes:

<b>Years</b>	<b>Date</b>	<b>Interest</b>	<b>Principal</b>	<b>Principal Balance</b>
0.00	2/26/2010	\$ -	\$ -	\$ 10,000,000
0.25	5/26/2010	181,250	-	10,000,000
0.50	8/26/2010	181,250	-	10,000,000
0.75	11/26/2010	181,250	-	10,000,000
1.00	2/26/2011	181,250	-	10,000,000
1.25	5/26/2011	181,250	-	10,000,000
1.50	8/26/2011	181,250	-	10,000,000
1.75	11/26/2011	181,250	-	10,000,000
2.00	2/26/2012	181,250	175,439	9,824,561
2.25	5/26/2012	178,070	175,439	9,649,123
2.50	8/26/2012	174,890	175,439	9,473,684
2.75	11/26/2012	171,711	175,439	9,298,246
3.00	2/26/2013	168,531	175,439	9,122,807
3.25	5/26/2013	165,351	175,439	8,947,368
3.50	8/26/2013	162,171	175,439	8,771,930
3.75	11/26/2013	158,991	175,439	8,596,491
4.00	2/26/2014	155,811	175,439	8,421,053
4.25	5/26/2014	152,632	175,439	8,245,614
4.50	8/26/2014	149,452	175,439	8,070,175
4.75	11/26/2014	146,272	175,439	7,894,737
5.00	2/26/2015	143,092	175,439	7,719,298
5.25	5/26/2015	139,912	175,439	7,543,860
5.50	8/26/2015	136,732	175,439	7,368,421
5.75	11/26/2015	133,553	175,439	7,192,982
6.00	2/26/2016	130,373	175,439	7,017,544
6.25	5/26/2016	127,193	175,439	6,842,105
6.50	8/26/2016	124,013	175,439	6,666,667
6.75	11/26/2016	120,833	175,439	6,491,228
7.00	2/26/2017	117,654	175,439	6,315,789

<b>Years</b>	<b>Date</b>	<b>Interest</b>	<b>Principal</b>	<b>Principal Balance</b>
7.25	5/26/2017	114,474	175,439	6,140,351
7.50	8/26/2017	111,294	175,439	5,964,912
7.75	11/26/2017	108,114	175,439	5,789,474
8.00	2/26/2018	104,934	175,439	5,614,035
8.25	5/26/2018	101,754	175,439	5,438,596
8.50	8/26/2018	98,575	175,439	5,263,158
8.75	11/26/2018	95,395	175,439	5,087,719
9.00	2/26/2019	92,215	175,439	4,912,281
9.25	5/26/2019	89,035	175,439	4,736,842
9.50	8/26/2019	85,855	175,439	4,561,404
9.75	11/26/2019	82,675	175,439	4,385,965
10.00	2/26/2020	79,496	175,439	4,210,526
10.25	5/26/2020	76,316	175,439	4,035,088
10.50	8/26/2020	73,136	175,439	3,859,649
10.75	11/26/2020	69,956	175,439	3,684,211
11.00	2/26/2021	66,776	175,439	3,508,772
11.25	5/26/2021	63,596	175,439	3,333,333
11.50	8/26/2021	60,417	175,439	3,157,895
11.75	11/26/2021	57,237	175,439	2,982,456
12.00	2/26/2022	54,057	175,439	2,807,018
12.25	5/26/2022	50,877	175,439	2,631,579
12.50	8/26/2022	47,697	175,439	2,456,140
12.75	11/26/2022	44,518	175,439	2,280,702
13.00	2/26/2023	41,338	175,439	2,105,263
13.25	5/26/2023	38,158	175,439	1,929,825
13.50	8/26/2023	34,978	175,439	1,754,386
13.75	11/26/2023	31,798	175,439	1,578,947
14.00	2/26/2024	28,618	175,439	1,403,509
14.25	5/26/2024	25,439	175,439	1,228,070
14.50	8/26/2024	22,259	175,439	1,052,632
14.75	11/26/2024	19,079	175,439	877,193
15.00	2/26/2025	15,899	175,439	701,754
15.25	5/26/2025	12,719	175,439	526,316
15.50	8/26/2025	9,539	175,439	350,877
15.75	11/26/2025	6,360	175,439	175,439
16.00	2/26/2026	3,180	175,439	0

*Section 1.6 Optional Prepayment with Make-Whole Amount.* The Company may, at its option, upon notice as provided below, prepay at any time all, or from time to time any part of, the Series 2010 Notes, in an amount not less than 10% of the aggregate principal amount of the Series 2010 Notes then outstanding in the case of a partial prepayment, at 100% of the principal amount so prepaid, and the Make-Whole Amount determined for the prepayment date with respect to such principal amount for such Series 2010 Notes. The Company will give each holder of Series 2010 Notes written notice of each optional prepayment under this Section 1.6 not less than 30 days and not more than 60 days prior to the date fixed for such prepayment. Each such notice shall specify such date (which shall be a Business Day), the aggregate principal amount of the Series 2010A Notes and/or the Series 2010B Notes to be prepaid on such date, the principal amount of each Series 2010 Note to be prepaid (determined in accordance with Section 1.7 hereof), and the interest to be paid on the prepayment date with respect to such principal amount being prepaid, and shall be accompanied by a certificate of the chief financial officer, principal accounting officer, treasurer or comptroller of the Company (each, a “*Senior Financial Officer*”) as to the estimated Make-Whole Amount due in connection with such prepayment (calculated as if the date of such notice were the date of the prepayment), setting forth the details of such computation. Two Business Days prior to such prepayment, the Company shall deliver to each holder of Series 2010 Notes a certificate of a Senior Financial Officer specifying the calculation of such Make-Whole Amount as of the specified prepayment date.

*Section 1.7 Allocation of Partial Prepayments.* In the case of each partial prepayment of the Series 2010A Notes and/or the Series 2010B Notes, the principal amount of the Series 2010A Notes and/or the Series 2010B Notes to be prepaid shall be allocated among all of Series 2010A Notes or the Series 2010B Notes, as applicable, at the time outstanding in proportion, as nearly as practicable, to the respective unpaid principal amounts thereof not theretofore called for prepayment.

*Section 1.8 Maturity; Surrender, Etc.* In the case of each prepayment of the Series 2010 Notes, the principal amount of each Series 2010 Note to be prepaid shall mature and become due and payable on the date fixed for such prepayment (which shall be a Business Day), together with interest on such principal amount accrued to such date and the applicable Make-Whole Amount, if any. From and after such date, unless the Company shall fail to pay such principal amount when so due and payable, together with the interest and Make-Whole Amount, if any, as aforesaid, interest on such principal amount shall cease to accrue. Any Series 2010 Note paid or prepaid in full shall be surrendered to the Company and cancelled and shall not be reissued, and no Series 2010 Note shall be issued in lieu of any prepaid principal amount of any Series 2010 Note.

*Section 1.9 Purchase of Series 2010 Notes.* The Company will not and will not permit any Affiliate to purchase, redeem, prepay or otherwise acquire, directly or indirectly, any of the outstanding Series 2010 Notes except upon the payment or prepayment of the Series 2010 Notes in accordance with the terms of this First Supplemental Indenture and the Series 2010 Notes. The Company will promptly cancel all Series 2010 Notes acquired by it or any Affiliate pursuant to any payment or prepayment of Series 2010 Notes pursuant to any provision of this First Supplemental Indenture and no Series 2010 Notes may be issued in substitution or exchange for any such Series 2010 Notes.

*Section 1.10 Make-Whole Amount.*

**“Make-Whole Amount”** means, with respect to any Series 2010 Note, an amount equal to the excess, if any, of the Discounted Value of the Remaining Scheduled Payments with respect to the Called Principal of such Series 2010 Note over the amount of such Called Principal, *provided* that the Make-Whole Amount may in no event be less than zero. For the purposes of determining the Make-Whole Amount, the following terms have the following meanings:

**“Called Principal”** means, with respect to any Series 2010 Note, the principal of such Series 2010 Note that is to be prepaid pursuant to Section 1.6 hereof or has become or is declared to be immediately due and payable pursuant to the Indenture.

**“Discounted Value”** means, with respect to the Called Principal of any Series 2010 Note, the amount obtained by discounting all Remaining Scheduled Payments with respect to such Called Principal from their respective scheduled due dates to the Settlement Date with respect to such Called Principal, in accordance with accepted financial practice and at a discount factor (applied on the same periodic basis as that on which interest on the Series 2010 Notes is payable) equal to the Reinvestment Yield with respect to such Called Principal.

**“Reinvestment Yield”** means, with respect to the Called Principal of any Series 2010 Note, 0.50% over the yield to maturity implied by (i) the yields reported as of 10:00 A.M. (New York City time) on the second Business Day preceding the Settlement Date with respect to such Called Principal, on the display designated as “Page PX1” (or such other display as may replace Page PX1) on Bloomberg Financial Markets for the most recently issued actively traded on the run U.S. Treasury Securities having a maturity equal to the Remaining Average Life of such Called Principal as of such Settlement Date, or (ii) if such yields are not reported as of such time or the yields reported as of such time are not ascertainable (including by way of interpolation), the Treasury Constant Maturity Series Yields reported, for the latest day for which such yields have been so reported as of the second Business Day preceding the Settlement Date with respect to such Called Principal, in Federal Reserve Statistical Release H.15 (or any comparable successor publication) for U.S. Treasury Securities having a constant maturity equal to the Remaining Average Life of such Called Principal as of such Settlement Date. In the case of each determination under clause (i) or clause (ii), as the case may be, of the preceding paragraph, such implied yield will be determined, if necessary, by (a) converting U.S. Treasury bill quotations to bond equivalent yields in accordance with accepted financial practice and (b) interpolating linearly between (1) the applicable U.S. Treasury Security with the maturity closest to and greater than such Remaining Average Life and (2) the applicable U.S. Treasury Security with the maturity closest to and less than such Remaining Average Life. The Reinvestment Yield shall be rounded to the number of decimal places as appears in the interest rate of the applicable Series 2010 Note.

**“Remaining Average Life”** means, with respect to any Called Principal, the number of years (calculated to the nearest one-twelfth year) obtained by dividing (i) such Called Principal into (ii) the sum of the products obtained by multiplying (a) the principal component of each Remaining Scheduled Payment with respect to such Called Principal by (b) the number of years (calculated to the nearest one-twelfth year) that will elapse between the Settlement Date

with respect to such Called Principal and the scheduled due date of such Remaining Scheduled Payment.

**“Remaining Scheduled Payments”** means, with respect to the Called Principal of any Series 2010 Note, all payments of such Called Principal and interest thereon that would be due after the Settlement Date with respect to such Called Principal if no payment of such Called Principal were made prior to its scheduled due date, *provided* that if such Settlement Date is not a date on which interest payments are due to be made under the terms of the Series 2010 Notes, then the amount of the next succeeding scheduled interest payment will be reduced by the amount of interest accrued to such Settlement Date and required to be paid on such Settlement Date pursuant to Section 1.6 hereof.

**“Settlement Date”** means, with respect to the Called Principal of any Series 2010 Note, the date on which such Called Principal is to be prepaid pursuant to Section 1.6 hereof or has become or is declared to be immediately due and payable pursuant to the Indenture.

*Section 1.11 Article XV of Indenture.* The prepayment of any Series 2010 Notes is governed by the provisions of this First Supplemental Indenture, and Article XV of the Original Indenture does not apply to the Series 2010 Notes.

*Section 1.12 Payments Due on Non-Business Days.* Except for the requirement in Section 1.6 hereof that the notice of any optional prepayment specify a Business Day as the date fixed for prepayment, any payment of principal of or Make-Whole Amount or interest on any Series 2010 Note that is due on a date other than a Business Day shall be made on the next succeeding Business Day without including the additional days elapsed in the computation of the interest payable on such next succeeding Business Day; *provided* that if the maturity date of any Series 2010 Note is a date other than a Business Day, the payment otherwise due on such maturity date shall be made on the next succeeding Business Day and shall include the additional days elapsed in the computation of interest payable on such next succeeding Business Day.

*Section 1.13 Defeasance.* In addition to the requirements set forth in Section 8.1B of the Original Indenture, the Company may not terminate its obligations under the Series 2010 Notes, and all of its obligations under the Indenture to or for the benefit of Holders of such Series 2010 Notes, under Section 8.1B of the Original Indenture, unless:

(a) the Company shall have delivered to the Trustee either (i) a ruling from the Internal Revenue Service and directed to the Trustee to the effect that the Holders of such Series 2010 Notes will not recognize income, gain or loss for Federal income tax purposes as a result of the Company's exercise of its option under Section 8.1B of the Original Indenture and will be subject to Federal income tax on the same amount and in the same manner and at the same times as would have been the case if such option had not been exercised, or (ii) an Opinion of Counsel from nationally recognized tax counsel not an employee of the Company to the same effect as the ruling described in clause (i);

(b) the Company has delivered an Opinion of Counsel from counsel acceptable to the Holders of the Series 2010 Notes stating that the deposit shall not result in the

Company, the Trustee or the trust becoming or being deemed to be an “investment company” under the Investment Company Act of 1940;

(c) the Company has delivered an Opinion of Counsel stating that the Holders of the Series 2010 Notes (or the Trustee for the benefit of such Holders) shall have a perfected security interest under applicable law in the money or Defeasance Securities so deposited; and

(d) the Company has delivered to the Trustee an Officers’ Certificate, stating that the conditions set forth in clauses (a)-(c) above have been complied with.

*Section 1.14 Certification to Trustee.* Upon the request of the Trustee, each Holder agrees to certify to the Trustee the amount of the unpaid principal balance of the Series 2010 Notes held by such Holder, any Make-Whole Amount or premium due thereon, and the accrued interest on such Series 2010 Notes, and the Company agrees that such certification shall be conclusive and binding on the Company.

*Section 1.15 Defined Terms.* Capitalized terms used herein without definition have the meanings given thereto in the Original Indenture. All accounting terms used herein without definition have the meanings respectively given to them in accordance with generally accepted accounting principles as in effect from time to time in the United States (“GAAP”). Except as otherwise specifically provided herein, all computations made pursuant to the Indenture shall be made in accordance with GAAP. For purposes of determining compliance with the financial covenant contained in the Indenture, any election by the Company to measure an item of indebtedness using fair value (as permitted by Statement of Financial Accounting Standards No. 159 or any similar accounting standard) shall be disregarded and such determination shall be made as if such election has not been made. Pursuant to Section 13.1 of the Original Indenture, for so long as any of the Series 2010 Notes are outstanding, Section 1.1 of the Original Indenture is hereby amended by adding the following definitions:

“**Additional Covenant**” means any affirmative or negative covenant or similar restriction applicable to the Company (regardless of whether such provision is labeled or otherwise characterized as a covenant) contained in any document or instrument creating or evidencing indebtedness of the Company the subject matter of which either (i) is similar to that of any covenant in the Indenture, or related definitions, but contains one or more percentages, amounts or formulas that is more restrictive than those set forth herein or more beneficial to the holder or holders of the indebtedness created or evidenced by the document in which such covenant or similar restriction is contained (and such covenant or similar restriction shall be deemed an Additional Covenant only to the extent that it is more restrictive or more beneficial) or (ii) is different from the subject matter of any covenant of the Indenture, or related definitions.

“**Additional Default**” means any provision contained in any document or instrument creating or evidencing indebtedness of the Company which permits the holder or holders of such indebtedness to accelerate (with the passage of time or giving of notice or both) the maturity thereof or otherwise requires the Company to purchase such indebtedness prior to the stated maturity thereof and which either (i) is similar to any Event of Default contained in the Indenture, or related definitions, but contains one or more percentages, amounts or formulas that is more restrictive or has a shorter grace period than those set forth herein or is more beneficial to

the holders of such other Indebtedness (and such provision shall be deemed an Additional Default only to the extent that it is more restrictive, has a shorter grace period or is more beneficial) or (ii) is different from the subject matter of any Event of Default contained in the Indenture, or related definitions.

**“Anti-Terrorism Order”** means the Executive Order No. 13224 of September 24, 2001, Blocking Property and Prohibiting Transactions with Persons Who Commit, Threaten to Commit or Support Terrorism, 66 U.S. Fed. Reg. 49, 079 (2001), as amended.

**“Business Day”** means any day other than a Saturday, a Sunday or a day on which commercial banks in New York, New York or Billings, Montana are required or authorized to be closed.

**“Cash Flow”** means, for any period, the sum of the following: (i) all cash revenues received by the Company during such period for sales of energy, capacity, ancillary services, interconnection, transmission and similar services, including revenues received under the Company’s wholesale power contracts, and (ii) revenues, if any, received by or on behalf of the Company during such period under any insurance policy as business interruption insurance proceeds.

**“Cash Flow Available for Debt Service”** for any period, means (i) Cash Flow received during such period minus (ii) all O&M Costs paid during such period.

**“Code”** means the Internal Revenue Code of 1986, as amended from time to time, and the rules and regulations promulgated thereunder from time to time.

**“Debt Service”** for any period, the aggregate (without duplication) of (i) all amounts of interest on the Initial Obligations and any other indebtedness of the Company required to be paid during such period, plus (ii) all amounts of principal on the Initial Obligations and any other indebtedness required to be paid during such period, excluding any optional prepayments of principal during such period, plus (iii) all other premiums, fees, costs, charges, expenses and indemnities due and payable to the holders of the Initial Obligations and of any other indebtedness or to any agent acting on their behalf during such period.

**“Debt Service Coverage Ratio”** means, for each period of four consecutive fiscal quarters, the quotient of (i) Cash Flow Available for Debt Service for such period to (ii) Debt Service for such period.

**“Environmental Laws”** means all Laws and Required Permits (as defined in the Note Agreement) in any way relating to the environmental protection of human health or safety, to the protection of the environment or natural resources or to any Hazardous Substance or the existence, use, generation, manufacture, handling, processing, storage, release, transportation, removal, disposal or clean-up thereof.

**“ERISA”** means the Employee Retirement Income Security Act of 1974, as amended from time to time, and the rules and regulations promulgated thereunder from time to time in effect.



**“ERISA Affiliate”** means any trade or business (whether or not incorporated) that is treated as a single employer together with the Company under section 414 of the Code.

**“Hazardous Substance”** means any hazardous substance or material, toxic substance or material, pollutant, waste, contaminant, degradation by-product, or asbestos, or petroleum waste or by-product, including any “hazardous substance”, “hazardous material”, “toxic substance”, “toxic material”, “hazardous waste” or “toxic pollutant”, as such terms are defined or identified in any Environmental Law.

**“Law”** means any law, statute, act, legislation, bill, enactment, policy, treaty, international agreement, ordinance, judgment, injunction, award, decree, rule, regulation, interpretation, determination, requirement, writ or order of any Governmental Authority.

**“Material Adverse Effect”** means a material adverse effect on (a) the business, operations, affairs, financial condition, assets or properties of the Company, or (b) the ability of the Company to perform its obligations under any Financing Agreement (as defined in the Note Agreement), or (c) the validity or enforceability of any Financing Agreement.

**“Multiemployer Plan”** means any Plan that is a “multiemployer plan” (as such term is defined in section 4001(a)(3) of ERISA).

**“O&M Costs”** means actual cash management and operation costs related to the Project and the Company’s other properties and assets, property taxes, insurance premiums, consumables, fees and expenses of, and other amounts owing to, the Trustee, and other costs and expenses in connection with the management or operation of the Company, but exclusive in all cases of (a) non-cash charges, including depreciation or obsolescence charges or reserves therefor, amortization of intangibles or other bookkeeping entries of a similar nature, (b) all other payments of Debt Service and Make-Whole Amounts, if any, and (c) costs of repair or replacement paid with insurance proceeds.

**“PBGC”** means the Pension Benefit Guaranty Corporation referred to and defined in ERISA or any successor thereto.

**“Plan”** means an “employee benefit plan” (as defined in section 3(3) of ERISA) subject to Title I of ERISA that is or, within the preceding five years, has been established or maintained, or to which contributions are or, within the preceding five years, have been made or required to be made, by the Company or any ERISA Affiliate or with respect to which the Company or any ERISA Affiliate may have any liability.

**“Project”** means an approximately 46 MW simple cycle gas-fired power generating facility located on the real property located in Cascade County, Montana, containing 197,561 acres, more or less, and shown on “Parcel B” on that certain Certificate of Survey No. 0004660, prepared by Schaeffer Engineering & Surveying, dated January 29, 2010, filed February 4, 2010, in the offices of the Clerk and Recorder of Cascade County, Montana.

**“Required Holders”** means, at any time, the holders of at least 51% in principal amount of the Initial Obligations at the time outstanding (exclusive of Initial Obligations then owned by the Company or any of its Affiliates).

**“Requirements of Law”** means as to any Person, the certificate of incorporation and by-laws or partnership or operating agreement or other organizational or governing documents of such Person, and any Law, or approval, consent, determination, interpretation or order of an arbitrator or a court or other Governmental Authority, in each case applicable to or binding upon such Person or any of its properties or its business or to which such Person or any of its properties or its business is subject.

**“Responsible Officer”** means any Senior Financial Officer and any other officer of the Company with responsibility for the administration of the relevant portion of this Agreement.

**“Senior Financial Officer”** is defined in Section 1.6 of the First Supplemental Indenture.

**“Transfer”** means, with respect to any item, the sale, exchange, conveyance, lease, transfer or other disposition of such item.”

## **ARTICLE II COVENANTS**

*Section 2.1 Covenants.* Pursuant to Section 13.1 of the Original Indenture, for so long as any of the Series 2010 Notes are Outstanding, Article XIV of the Original Indenture is hereby amended by adding the following Sections immediately following Section 14.16 of the Original Indenture:

**“Section 14.17 Debt Service Coverage Ratio.** The Company shall establish and collect Rates that, together with other moneys available to the Company, produce moneys sufficient to ensure that, and the Company otherwise shall ensure that, as of the last day of each fiscal quarter beginning March 31, 2011, with respect to the consecutive four fiscal quarter period then ended, the Debt Service Coverage Ratio for such period shall equal or exceed 1.10:1.00.

**Section 14.18 Transactions with Affiliates.** The Company will not enter into directly or indirectly any transaction or group of related transactions (including without limitation the purchase, lease, sale or exchange of properties of any kind or the rendering of any service) with any Affiliate, except (i) acquisition of certain assets and liabilities of SME Electric Generation and Transmission Cooperative, Inc. on or before the Cut-Off Date, (ii) the Ground Lease, (iii) the transaction required by Section 14.22 or (iv) in the ordinary course and pursuant to the reasonable requirements of the Company’s business and upon fair and reasonable terms no less favorable to the Company than would be obtainable in a comparable arm’s length transaction with a Person not an Affiliate.

**Section 14.19 Line of Business.** The Company will not engage in any business if, as a result, the general nature of the business in which the Company would then be engaged would be substantially changed from the general nature of the business in which the Company engaged on the date of this First Supplemental Indenture.

**Section 14.20 Change of Name; Corporate Documents.** The Company shall not change its name, its legal address, the address of its principal place of business or chief executive office, its type of entity, its jurisdiction of formation or its organizational identification number. The Company shall not adopt any trademark or fictitious business name. The Company shall not amend, modify, waive compliance with or terminate its certificate of incorporation or by-laws.

**Section 14.21 Mergers and Sale of Assets, Etc.** The Company will not merge or consolidate with, or acquire, any Person. The Company will not Transfer, or agree or otherwise commit to Transfer, any of the Trust Estate (including the Project) except:

(i) The Company may sell energy, capacity and ancillary services and interconnection, transmission and similar services in the ordinary course of business; and

(ii) The Company may Transfer assets (a) that are worn out or obsolete or are no longer necessary or productive in the ordinary course of business of the Company, (b) that are replaced in the ordinary course of business, and (c) the total aggregate value of which does not exceed \$500,000 for so long as any of the Initial Obligations remain outstanding.

**Section 14.22 Transfer of Fee Interest in Property Subject to Ground Lease.** On or before December 31, 2010, the Company shall acquire a fee interest in the real property that is subject to the Ground Lease (the "**Fee Property**"). Simultaneously with the transfer of the Fee Property to the Company, the Company shall certify the Fee Property as a Property Addition pursuant to Section 5.2, subject to the Lien of the Indenture.

**Section 14.23 No Subsidiaries.** The Company will not own or hold equity or voting securities in any Person.

**Section 14.24 Compliance with Law.** Without limiting Section 14.25, the Company will comply with all Requirements of Law, including ERISA, the USA Patriot Act and Environmental Laws, and will obtain and maintain in effect all licenses, certificates, permits (including all Required Permits (as defined in the Note Agreement)), franchises and other governmental authorizations necessary to the ownership of its properties or to the conduct of its business and will promptly pay when due all necessary license, franchise and other fees and charges due and payable thereunder, (a) in each case except where the Company is contesting such noncompliance, requirement to obtain or maintain, or payment in good faith by appropriate proceedings and has established adequate reserves therefor in accordance with GAAP on its books, or (b) where such noncompliance or failure to obtain, maintain or pay could not, individually or in the aggregate with other instances of noncompliance or failure to obtain, maintain or pay, reasonably be expected to have a Material Adverse Effect.

**Section 14.25 Terrorism Sanctions Regulations.** The Company will not (a) become a Person described or designated in the Specially Designated Nationals and Blocked Persons List of the Office of Foreign Assets Control or in Section 1 of the Anti-Terrorism Order or (b) engage in any dealings or transactions with any such Person.

**Section 14.26 Indenture Restrictions.** Notwithstanding the provisions of this Indenture, the Company will not either (a) enter into or permit any modification of, or supplement to, this Indenture of the type otherwise contemplated by Sections 13.1D, 13.1H or 13.1K, or (b) enter into or permit any other modification of or supplement to the Indenture if (i) such other modification or supplement results, directly or indirectly, in any Holders of Obligations issued under the Indenture other than the Initial Obligations (such Obligations other than the Initial Obligations being referred to as “*Other Obligations*”) having greater security rights in or to the Trust Estate than those security rights enjoyed by the Holders of Series 2010 Notes in their capacity as Holders of Obligations under the Indenture, *provided, however*, that neither (x) the existence of any Credit Enhancement nor (y) the creation and maintenance of any debt service, or similar funds for the payment of the principal and interest on Other Obligations (to the extent such debt service or other similar funds are funded from the proceeds of the issuance of such Other Obligations or funded in connection with the refinancing of other debt by such Other Obligations), shall constitute greater security rights in and to the Trust Estate requiring the Company to comply with this Section 14.26; (ii) such other modification or supplement provides for Additional Covenants, Additional Defaults or other covenants, restrictions, limitations, conditions, events of default or remedies not applicable to all Obligations then Outstanding or not equally available to all Holders of Obligations then Outstanding, or (iii) such other modification or supplement provides that the Other Obligations, or the indebtedness secured by or assumed pursuant to such Other Obligations, can be accelerated, or effectively accelerated through a mandatory purchase or similar mechanism, as a consequence of a breach or default by the Company under the related note or loan agreement or similar agreement entered into in connection with such Other Obligations or indebtedness.

**Section 14.27 Most Favorable Terms.** Without limiting the provisions of Section 14.26, if the Company enters into, assumes or otherwise becomes bound or obligated under any agreement creating or evidencing secured indebtedness containing one or more Additional Covenants or Additional Defaults without the prior written consent of the Required Holders, the terms of this First Supplemental Indenture shall, without any further action on the part of the Company or any of the Holders of the Initial Obligations, be deemed to be amended automatically to include each Additional Covenant and each Additional Default contained in such agreement. The Company further covenants to promptly execute and deliver at its expense (including the fees and expenses of counsel for the Holders of the Initial Obligations) an amendment to this First Supplemental Indenture in form and substance satisfactory to the Required Holders evidencing the amendment of this First Supplemental Indenture to include such Additional Covenants and Additional Defaults, but that the execution and delivery of such amendment shall not be a precondition to the effectiveness of such amendment as provided for in this Section 14.27, but shall merely be for the convenience of the parties hereto.

**Section 14.28 Information as to Company.**

The Company shall deliver to each Holder of the Initial Obligations:

(a) *Quarterly Statements* — within sixty (60) days after the end of each quarterly fiscal period in each fiscal year of the Company (other than the last quarterly fiscal period of each such fiscal year), duplicate copies of,

(i) a balance sheet of the Company as at the end of such quarter, and

(ii) statements of income and cash flows of the Company for such quarter and (in the case of the second and third quarters) for the portion of the fiscal year ending with such quarter,

setting forth in each case in comparative form the figures for the corresponding periods in the previous fiscal year, all in reasonable detail, prepared in accordance with GAAP applicable to quarterly financial statements generally, and certified by a Senior Financial Officer as fairly presenting, in all material respects, the financial position of the Company and its results of operations and cash flows, subject to changes resulting from year-end adjustments;

(b) *Annual Statements* — within one hundred twenty (120) days after the end of each fiscal year of the Company, duplicate copies of

(i) a balance sheet of the Company as at the end of such year, and

(ii) statements of income, changes in patronage capital and membership fees and cash flows of the Company for such year,

setting forth in each case in comparative form the figures for the previous fiscal year, all in reasonable detail, prepared in accordance with GAAP, and accompanied by

(A) an opinion thereon of Junkermier, Clark, Campanella, Stevens, P.C. or other independent public accountants of recognized regional standing and qualified to practice in front of the Securities and Exchange Commission or national standing, which opinion shall state that such financial statements present fairly, in all material respects, the financial position of the Company and its results of operations and cash flows and have been prepared in conformity with GAAP, and that the examination of such accountants in connection with such financial statements has been made in accordance with generally accepted auditing standards, and that such audit provides a reasonable basis for such opinion in the circumstances, and

(B) a certificate of such accountants stating that they have reviewed the Indenture and the Note Agreement and stating further whether, in making their audit, they have become aware of any condition or event that then constitutes a Default or an Event of Default, and, if they are aware that any such condition or event then exists, specifying the nature and period of the existence thereof (it being understood that such accountants shall not be liable, directly or indirectly, for any failure to obtain knowledge of any Default or Event of Default unless such accountants should have obtained knowledge thereof in making an audit in

accordance with generally accepted auditing standards or did not make such an audit);

(c) *Press Releases* — promptly upon their becoming available, copies of all press releases and other statements made available generally by the Company to the public concerning material developments;

(d) *Notice of Default or Event of Default* — promptly, and in any event within five days after a Responsible Officer becoming aware of the existence of any Default or Event of Default or that any Person has given any notice or taken any action with respect to a claimed default hereunder or that any Person has given any notice or taken any action with respect to a claimed default of the type referred to in Section 9.1D of the Original Indenture, a written notice specifying the nature and period of existence thereof and what action the Company is taking or proposes to take with respect thereto;

(e) *ERISA Matters* — promptly, and in any event within five days after a Responsible Officer becoming aware of any of the following, a written notice setting forth the nature thereof and the action, if any, that the Company or an ERISA Affiliate proposes to take with respect thereto:

(i) with respect to any Plan, any reportable event, as defined in section 4043(c) of ERISA and the regulations thereunder, for which notice thereof has not been waived pursuant to such regulations as in effect on the date hereof; or

(ii) the taking by the PBGC of steps to institute, or the threatening by the PBGC of the institution of, proceedings under section 4042 of ERISA for the termination of, or the appointment of a trustee to administer, any Plan, or the receipt by the Company or any ERISA Affiliate of a notice from a Multiemployer Plan that such action has been taken by the PBGC with respect to such Multiemployer Plan; or

(iii) any event, transaction or condition that could result in the incurrence of any liability by the Company or any ERISA Affiliate pursuant to Title I or IV of ERISA or the penalty or excise tax provisions of the Code relating to employee benefit plans, or in the imposition of any Lien on any of the rights, properties or assets of the Company or any ERISA Affiliate pursuant to Title I or IV of ERISA or such penalty or excise tax provisions, if such liability or Lien, taken together with any other such liabilities or Liens then existing, could reasonably be expected to have a Material Adverse Effect;

(f) *Notices from Governmental Authority* — promptly, and in any event within 30 days of receipt thereof, copies of any notice to the Company from any Federal or state Governmental Authority relating to any order, ruling, statute or other law or regulation that could reasonably be expected to have a Material Adverse Effect;

(g) *Supplemental Indentures* — promptly, and in any event within 10 days after the execution and delivery thereof, a copy of any supplement to the Indenture that the Company from time to time may hereafter execute and deliver; and

(h) *Requested Information* — with reasonable promptness, such other data and information relating to the business, operations, affairs, financial condition, assets or properties of the Company or relating to the ability of the Company to perform its obligations hereunder and under the Initial Obligations as from time to time may be reasonably requested by any such Holder of the Series 2010 Notes.

**Section 14.29 Officer's Certificate.** In addition to the statements delivered to the Trustee under Section 14.12, each set of financial statements delivered to a holder of Notes pursuant to Section 14.28 (a) or (b) shall be accompanied by a certificate of a Senior Financial Officer setting forth:

(a) *Covenant Compliance* — the information (including detailed calculations) required in order to establish whether the Company was in compliance with the requirements of Sections 14.14, 14.15 and 14.17, during the quarterly or annual period covered by the financial statements then being furnished (including with respect to each such Section, where applicable, the calculations of the maximum or minimum amount, ratio or percentage, as the case may be, permissible under the terms of such Sections, and the calculation of the amount, ratio or percentage then in existence); and

(b) *Event of Default* — a statement that such Senior Financial Officer has reviewed the relevant terms hereof and has made, or caused to be made, under his or her supervision, a review of the transactions and conditions of the Company from the beginning of the quarterly or annual period covered by the statements then being furnished to the date of the certificate and that such review shall not have disclosed the existence during such period of any condition or event that constitutes a Default or an Event of Default or, if any such condition or event existed or exists (including, without limitation, any such event or condition resulting from the failure of the Company to comply with any Environmental Law), specifying the nature and period of existence thereof and what action the Company shall have taken or proposes to take with respect thereto.

**Section 14.30. Visitation.** The Company shall permit the representatives of each Holder of the Initial Obligations:

(a) *No Default* — if no Default or Event of Default then exists, at the expense of such Holder and upon reasonable prior notice to the Company, to visit the principal executive office of the Company, to discuss the affairs, finances and accounts of the Company and its Subsidiaries with the Company's officers, and (with the consent of the Company, which consent will not be unreasonably withheld) its independent public accountants, and (with the consent of the Company, which consent will not be unreasonably withheld) to visit the other offices and properties of the Company and each Subsidiary, all at such reasonable times and as often as may be reasonably requested in writing; and

(b) *Default* — if a Default or Event of Default then exists, at the expense of the Company to visit and inspect any of the offices or properties of the Company or any Subsidiary, to examine all their respective books of account, records, reports and other papers, to make copies and extracts therefrom, and to discuss their respective affairs, finances and accounts with their respective officers and independent public accountants (and by this provision the Company authorizes said accountants to discuss the affairs, finances and accounts of the Company and its Subsidiaries), all at such times and as often as may be requested.”

**Section 14.31. Yellowstone Valley Electric Cooperative, Inc. Wholesale Power Contract.** Upon (i) the agreement between the Company and Yellowstone Valley Electric Cooperative, Inc. (“*YVEC*”) that the wholesale power contract with YVEC (the “*YVEC WPC*”) may be added to the Trust Estate or (ii) entry of a final, non-appealable order or judgment or orders or judgments in that certain action now pending in the Montana Thirteenth Judicial District Court, Yellowstone County, Cause No. DV-08-1797, captioned Yellowstone Valley Electric Cooperative, Inc. v. Southern Montana Electric Generation and Transmission Cooperative Inc. et al., resolving all claims raised by YVEC in such action (the “*YVEC Decision*”), unless the Company is prohibited by the YVEC Decision from adding the YVEC WPC to the Trust Estate, then the YVEC WPC shall automatically cease to be Excepted Property hereunder and shall instead constitute part of the Trust Estate, Exhibit B shall be promptly amended to reflect such change in status, and the Company shall undertake all such further actions as may be necessary or desirable to add the YVEC WPC to the Trust Estate.

### ARTICLE III DEFAULTS

*Section 3.1 Amended Events of Default.* Pursuant to Section 13.1 of the Original Indenture, for so long as any of the Series 2010 Notes are Outstanding, Article IX of the Original Indenture is hereby amended by deleting clauses A and C through E of Section 9.1 of the Original Indenture in their entirety and inserting the following language in lieu thereof:

“A. default in the payment of any interest upon any Obligation when such interest becomes due and payable, and continuance of such default for (i) five (5) days, in the case of interest upon the Initial Obligations, or (ii) forty-five (45) days, in the case of Obligations other than the Initial Obligations, except as provided in clause (iii), or (iii) such other period as may be provided for in such other Obligation or in the Supplemental Indenture under which such other Obligation is issued; **PROVIDED, HOWEVER,** that no payment by RUS pursuant to any guarantee by the United States of America, acting through the Administrator of RUS, or pursuant to any RUS insuring of, or by any other guarantor or insurer of, any Obligation shall be considered a payment under this paragraph for purposes of determining the existence of the failure to pay;

C. (i) any representation or warranty made in writing by or on behalf of the Company or by any officer of the Company in the Indenture, the Note Agreement (as defined in the First Supplemental Indenture) or any Financing Agreement (as defined in the Note



Agreement) or in any writing furnished in connection with the transactions contemplated hereby proves to have been false or incorrect in any material respect on the date as of which made; or (ii)(A) the Company defaults in the performance of or compliance with any term contained in Sections 14.8, 14.14, 14.15, 14.17 through 14.30, or (B) the Company defaults in the performance of or compliance with any term contained herein (other than those referred to in another paragraph of this Section 9.1), and such default is not remedied within thirty (30) days after the earlier of (i) a Responsible Officer obtaining actual knowledge of such default and (ii) the Company receiving written notice of such default from any Holder (any such written notice to be identified as a “notice of default” and to refer specifically to this Section 9.1C.(ii)); or

D. (i) the Company is in default (as principal or as guarantor or other surety) in the payment of any principal of or premium or make-whole amount or interest on any bond, indenture, note or other evidence of indebtedness of the Company, other than any Indebtedness evidenced or secured by the Initial Obligations, whether such indebtedness now exists or is created hereafter that is outstanding in an aggregate principal amount of at least \$2,000,000 beyond any period of grace provided with respect thereto, or (ii) the Company is in default in the performance of or compliance with any term of any evidence of any Indebtedness in an aggregate outstanding principal amount of at least \$2,000,000 or of any mortgage, indenture or other agreement relating thereto or any other condition exists, and as a consequence of such default or condition such Indebtedness has become, or has been declared (or one or more Persons are entitled to declare such Indebtedness to be), due and payable before its stated maturity or before its regularly scheduled dates of payment, or (iii) as a consequence of the occurrence or continuation of any event or condition (other than the passage of time or the right of the holder of Indebtedness to convert such Indebtedness into equity interests), (x) the Company has become obligated to purchase or repay Indebtedness before its regular maturity or before its regularly scheduled dates of payment in an aggregate outstanding principal amount of at least \$2,000,000, or (y) one or more Persons have the right to require the Company so to purchase or repay such Indebtedness; or

E. a final judgment or judgments for the payment of money aggregating in excess of \$2,000,000 are rendered against the Company any of which is not, within forty five (45) days after entry thereof, bonded, discharged or stayed pending appeal, or is not discharged within forty five (45) days after the expiration of such stay; or”

*Section 3.2 Additional Events of Default.* Pursuant to Section 13.1 of the Original Indenture, for so long as any Series 2010 Notes are Outstanding, Section 9.1 of the Original Indenture is hereby amended by adding the following additional Events of Default at the end of such Section, as new paragraphs H, I, J and K thereof:

H. any lien granted to the Trustee pursuant to the Indenture or the SME Mortgage is invalid, void, unenforceable or unperfected or ceases to have first priority (subject to Permitted Exceptions), or any Person commences any proceeding or takes any other action to render any such lien invalid, or to avoid any such lien or to render any such lien unenforceable or unperfected or to challenge the priority of such lien; or

I. (i) any Plan shall fail to satisfy the minimum funding standards of ERISA or the Code for any plan year or part thereof or a waiver of such standards or extension of any amortization period is sought or granted under section 412 of the Code, (ii) a notice of intent to terminate any Plan shall have been or is reasonably expected to be filed with the PBGC or the PBGC shall have instituted proceedings under ERISA section 4042 to terminate or appoint a trustee to administer any Plan or the PBGC shall have notified the Company or any ERISA Affiliate that a Plan may become a subject of any such proceedings, (iii) the aggregate “amount of unfunded benefit liabilities” (within the meaning of section 4001(a)(18) of ERISA) under all Plans, determined in accordance with Title IV of ERISA, shall exceed \$2,000,000, (iv) the Company or any ERISA Affiliate shall have incurred or is reasonably expected to incur any liability pursuant to Title I or IV of ERISA or the penalty or excise tax provisions of the Code relating to employee benefit plans, (v) the Company or any ERISA Affiliate withdraws from any Multiemployer Plan, or (vi) the Company establishes or amends any employee welfare benefit plan that provides post-employment welfare benefits in a manner that would increase the liability of the Company; and any such event or events described in clauses (1) through (6) above, either individually or together with any other such event or events, could reasonably be expected to have a Material Adverse Effect. As used in this Section 3.1 I., the terms “*employee benefit plan*” and “*employee welfare benefit plan*” shall have the respective meanings assigned to such terms in section 3 of ERISA; or

J. any Event of Default (as defined in any Supplemental Indenture) exists; or

K. for so long as the SME Guaranty (as defined in the Note Purchase Agreement) or the SME Mortgage (as defined in the Note Purchase Agreement) shall be in effect, any default or breach of covenant exists thereunder (after any applicable cure periods).”

#### **ARTICLE IV MISCELLANEOUS**

*Section 4.1 Supplemental Indenture.* This First Supplemental Indenture is executed and shall be construed as an indenture supplemental to the Original Indenture, and shall form a part thereof, and the Original Indenture, as hereby supplemented and modified, is hereby confirmed. Except to the extent inconsistent with the express terms hereof and the Series 2010 Notes, all of the provisions, terms, covenants and conditions of the Original Indenture shall be applicable to the Series 2010 Notes to the same extent as if specifically set forth herein.

*Section 4.2 Recitals.* All recitals in this First Supplemental Indenture are made by the Company only and not by the Trustee; and all of the provisions contained in the Original Indenture, in respect of the rights, privileges, immunities, powers and duties of the Trustee shall be applicable in respect hereof as fully and with like effect as if set forth herein in full.

*Section 4.3 Successors and Assigns.* Whenever in this First Supplemental Indenture any of the parties hereto is named or referred to, this shall, subject to the provisions of Articles X and XII of the Original Indenture, be deemed to include the successors and assigns of such party,

and all the covenants and agreements in this First Supplemental Indenture contained by or on behalf of the Company, or by or on behalf of the Trustee shall, subject as aforesaid, bind and inure to the respective benefits of the respective successors and assigns of such parties, whether so expressed or not.

*Section 4.4 No Third Party Beneficiaries.* Nothing in this First Supplemental Indenture, expressed or implied, is intended, or shall be construed, to confer upon, or to give to, any person, firm or corporation, other than the parties hereto and the Holders of the Outstanding Secured Obligations, any right, remedy or claim under or by reason of this First Supplemental Indenture or any covenant, condition, stipulation, promise or agreement hereof, and all the covenants, conditions, stipulations, promises and agreement in this First Supplemental Indenture contained by or on behalf of the Company shall be for the sole and exclusive benefit of the parties hereto, and of the Holders of Outstanding Secured Obligations.

*Section 4.5 Counterparts.* This First Supplemental Indenture may be executed in several counterparts, each of such counterparts shall for all purposes be deemed to be an original, and all such counterparts, or as many of them as the Company and the Trustee shall preserve undestroyed, shall together constitute but one and the same instrument. Each counterpart may consist of a number of copies hereof, each signed by less than all, but together signed by all, of the parties hereto.

*Section 4.6 Security Agreement.* To the extent permitted by applicable law, this First Supplemental Indenture shall be deemed to be a security agreement and financing statement whereby the Company grants to the Trustee a security interest in all of the Trust Estate that is personal property or fixtures under the Uniform Commercial Code. The mailing address of the Company, as debtor, is:

3251 Gabel Road, Suite 5  
Billings, Montana 59102

The mailing address of the Trustee, as secured party, is:

60 Livingston Avenue  
EP-MN-WS3C  
St. Paul, Minnesota 55107-2292

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IN WITNESS WHEREOF, the parties hereto have caused this First Supplemental Indenture to be duly executed as of the day and year first above written.


**SOUTHERN MONTANA ELECTRIC  
GENERATION AND TRANSMISSION  
COOPERATIVE, INC.**

By: *William C. FitzGerald*  
 Name: William C FitzGerald  
 Title: President

STATE OF MONTANA     )  
   : ss.  
 County of Yellowstone )

On this 25<sup>th</sup> day of February, 2010, before me, the undersigned, a Notary Public for the State of Montana personally appeared William FitzGerald, known to me to be the President of Southern Montana Electric Generation and Transmission Cooperative, Inc who executed the within instrument, and acknowledged to me that said corporation executed the same.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal the day and year first above written.

 *Lisa J. Johnson*  
 LISA J. JOHNSON  
 NOTARY PUBLIC for the State of Montana  
 Residing at Billings, Montana  
 My Commission Expires  
 June 02, 2013

Print Name: LISA J JOHNSON  
 Notary Public for the State of Montana  
 Residing at BILLINGS MT  
 My Commission expires: JUNE 02, 2013

IN WITNESS WHEREOF, the parties hereto have caused this First Supplemental Indenture to be duly executed as of the day and year first above written.

U.S. BANK, NATIONAL ASSOCIATION, as Trustee

By: [Signature]  
Name: Joshua A. Hahn  
Title: Assistant Vice President

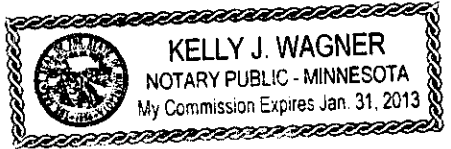
STATE OF Minnesota )  
: ss.  
County of Dakota )

On this 24 day of February, 2010, before me, the undersigned, a Notary Public for the State of Minnesota personally appeared Josh Hahn, known to me to be the Assistant Vice President of U.S. Bank, N.A., who executed the within instrument, and acknowledged to me that said corporation executed the same.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal the day and year first above written.

[Signature]  
Print Name: Kelly J. Wagner  
Notary Public for the State of Minnesota  
Residing at 60 Livingston Ave  
My Commission expires: 1/31/13

(SEAL)



**SCHEDULE 1**

Cascade County, Montana

**EXHIBIT A  
SCHEDULE OF MORTGAGED PROPERTY**

All right, title and interest of the Company in all real property in Cascade County, Montana, including, without limitation, the following described property, to wit:

**PARCEL B OF CERTIFICATE OF SURVEY NO. S-0004660, ACCORDING TO THE PLAT THEREOF FILED FEBRUARY 4, 2010 IN THE OFFICE OF THE CLERK AND RECORDER OF CASCADE COUNTY, INCLUDING THEREIN THE W $\frac{1}{2}$ SE $\frac{1}{4}$  OF SECTION 24 AND THE N $\frac{1}{2}$ NW $\frac{1}{4}$  AND NW $\frac{1}{4}$ NE $\frac{1}{4}$  OF SECTION 25, ALL IN TOWNSHIP 21 NORTH, RANGE 5 EAST, P.M.M., CASCADE COUNTY**

**EXHIBIT A-1**

**FORM OF SENIOR FIRST MORTGAGE NOTE, SERIES 2010A, DUE FEBRUARY 26, 2040**

THIS SENIOR FIRST MORTGAGE OBLIGATION, 2010 SERIES A NOTE, HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "*SECURITIES ACT*"), AND MAY BE RESOLD ONLY IF REGISTERED PURSUANT TO THE PROVISIONS OF THE SECURITIES ACT OR IF AN EXEMPTION FROM REGISTRATION IS AVAILABLE, EXCEPT UNDER CIRCUMSTANCES WHERE NEITHER SUCH REGISTRATION NOR SUCH AN EXEMPTION IS REQUIRED BY LAW.

**SOUTHERN MONTANA ELECTRIC GENERATION AND TRANSMISSION COOPERATIVE, INC.**

**8.00% SENIOR FIRST MORTGAGE NOTE, SERIES 2010A, DUE FEBRUARY 26, 2040**

No. R2010A-[ ] [Date]  
\$[ ] PPN [ ]

FOR VALUE RECEIVED, the undersigned, Southern Montana Electric Generation and Transmission Cooperative, Inc. (herein called the "**Company**"), a cooperative corporation organized and existing under the laws of the State of Montana, hereby promises to pay to [ ], or registered assigns, the principal sum of [ ] DOLLARS (or so much thereof as shall not have been prepaid) on February 26, 2040, with interest (computed on the basis of a 360-day year of twelve 30-day months) (a) on the unpaid balance hereof at the rate of 8.00% per annum from the date hereof, payable quarterly, on the 26<sup>th</sup> day of February, May, August and November, in each year, commencing with the February, May, August or November next succeeding the date hereof, until the principal hereof shall have become due and payable, and (b) to the extent permitted by law, on any overdue payment of interest and, during the continuance of an Event of Default, on such unpaid balance and on any overdue payment of any Make-Whole Amount, at a rate per annum from time to time equal to the greater of (i) 10.00% or (ii) 2.00% over the rate of interest publicly announced by JP Morgan Chase Bank N.A. from time to time in New York, New York as its "base" or "prime" rate, payable quarterly as aforesaid (or, at the option of the registered holder hereof, on demand).

Payments of principal of, interest on and any Make-Whole Amount with respect to this Note are to be made in lawful money of the United States of America in accordance with the Indenture.

This Series 2010A Note is one of a series of Senior First Mortgage Notes (herein called the "**Notes**") issued pursuant to the First Supplemental Indenture, dated as of February 26, 2010 (as from time to time amended, the "**First Supplemental Indenture**"), between the Company and the Trustee named therein which amends and supplements the Indenture of Mortgage, Security Agreement and Financing Statement, dated as of February 26, 2010, between the Company and U.S. Bank National Association, as trustee, as amended and supplemented from time to time, (the "**Indenture**") and is entitled to the benefits thereof and of the Note Purchase Agreement, dated as of February 26, 2010 (as from time to time amended, modified or



supplemented, the “**Note Agreement**”), between the Company and the purchasers named therein. Each holder of this Note will be deemed, by its acceptance hereof, to have (i) agreed to the confidentiality provisions set forth in Section 14 of the Note Agreement and (ii) made the representation set forth in Section 6.2 of the Note Agreement. Unless otherwise indicated, capitalized terms used in this Series 2010A Note shall have the respective meanings ascribed to such terms in the Note Agreement.

This Note is a registered Note and, as provided in the Indenture, upon surrender of this Note for registration of transfer accompanied by a written instrument of transfer duly executed, by the registered holder hereof or such holder’s attorney duly authorized in writing, a new Note for a like principal amount will be issued to, and registered in the name of, the transferee. Prior to due presentment for registration of transfer, the Company may treat the Person in whose name this Note is registered as the owner hereof for the purpose of receiving payment and for all other purposes, and the Company will not be affected by any notice to the contrary.

The Company will make required prepayments of principal on the dates and in the amounts specified in the First Supplemental Indenture. This Series 2010A Note is also subject to optional prepayment, in whole or from time to time in part, at the times and on the terms specified in the First Supplemental Indenture, but not otherwise.

If an Event of Default occurs and is continuing, the principal of this Series 2010A Note may be declared or otherwise become due and payable in accordance with the terms of the Indenture, at the price (including Make-Whole Amount) and with the effect provided in the Indenture.

This Note shall be construed and enforced in accordance with, and the rights of the Company and the holder of this Note shall be governed by, the law of the State of Montana excluding choice-of-law principles of the law of such State that would permit the application of the laws of a jurisdiction other than such State.

The Holder of this Series 2010A Note shall have no right to enforce the provisions of the Indenture, or to institute action to enforce the covenants therein, or to take any action with respect to any default under the Indenture, or to institute, appear in or defend any suit or other proceeding with respect thereto, except as provided in the Indenture and the Note Agreement.

All acts and proceedings required by law and by the Articles of Incorporation and Bylaws of the Company necessary to make the Series 2010A Notes issued under the Indenture, when executed by the Company, authenticated and delivered by the Trustee and duly issued, the valid, binding and legal obligations of the Company, in accordance with its terms, have been done and taken.

This Series 2010A Note shall not be entitled to any benefit under the Indenture or be valid until this Series 2010A Note shall have been authenticated by the execution by the Trustee, or its successor as Trustee, of the Certificate of Authentication inscribed hereon.

**SOUTHERN MONTANA ELECTRIC GENERATION  
AND TRANSMISSION COOPERATIVE, INC.**

By \_\_\_\_\_  
[Title]

TRUSTEE'S CERTIFICATE OF AUTHENTICATION

This is one of the Obligations of the series designated therein referred to in the within-mentioned Indenture.

U.S. BANK NATIONAL ASSOCIATION, as  
Trustee

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

**EXHIBIT A-2**

**FORM OF SENIOR FIRST MORTGAGE NOTE, SERIES 2010B, DUE FEBRUARY 26, 2026**

THIS SENIOR FIRST MORTGAGE OBLIGATION, 2010 SERIES B NOTE, HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "*SECURITIES ACT*"), AND MAY BE RESOLD ONLY IF REGISTERED PURSUANT TO THE PROVISIONS OF THE SECURITIES ACT OR IF AN EXEMPTION FROM REGISTRATION IS AVAILABLE, EXCEPT UNDER CIRCUMSTANCES WHERE NEITHER SUCH REGISTRATION NOR SUCH AN EXEMPTION IS REQUIRED BY LAW.

**SOUTHERN MONTANA ELECTRIC GENERATION AND TRANSMISSION COOPERATIVE, INC.**

**7.25% SENIOR FIRST MORTGAGE NOTE, SERIES 2010B, DUE FEBRUARY 26, 2026**

No. R2010A-[ ] [Date]  
\$[ ] PPN [ ]

FOR VALUE RECEIVED, the undersigned, Southern Montana Electric Generation and Transmission Cooperative, Inc. (herein called the "**Company**"), a cooperative corporation organized and existing under the laws of the State of Montana, hereby promises to pay to [ ], or registered assigns, the principal sum of [ ] DOLLARS (or so much thereof as shall not have been prepaid) on February 26, 2026, with interest (computed on the basis of a 360-day year of twelve 30-day months) (a) on the unpaid balance hereof at the rate of 7.25% per annum from the date hereof, payable quarterly, on the 26<sup>th</sup> day of February, May, August and November in each year, commencing with the February, May, August or November next succeeding the date hereof, until the principal hereof shall have become due and payable, and (b) to the extent permitted by law, on any overdue payment of interest and, during the continuance of an Event of Default, on such unpaid balance and on any overdue payment of any Make-Whole Amount, at a rate per annum from time to time equal to the greater of (i) 9.25% or (ii) 2.00% over the rate of interest publicly announced by JP Morgan Chase Bank N.A. from time to time in New York, New York as its "base" or "prime" rate, payable quarterly as aforesaid (or, at the option of the registered holder hereof, on demand).

Payments of principal of, interest on and any Make-Whole Amount with respect to this Note are to be made in lawful money of the United States of America in accordance with the Indenture.

This Series 2010B Note is one of a series of Senior First Mortgage Notes (herein called the "**Notes**") issued pursuant to the First Supplemental Indenture, dated as of February 26, 2010 (as from time to time amended, the "**First Supplemental Indenture**"), between the Company and the Trustee named therein which amends and supplements the Indenture of Mortgage, Security Agreement and Financing Statement, dated as of February 26, 2010, between the Company and U.S. Bank National Association, as trustee, as amended and supplemented from time to time, (the "**Indenture**") and is entitled to the benefits thereof and of the Note Purchase Agreement, dated as of February 26, 2010 (as from time to time amended, modified or supplemented, the "**Note Agreement**"), between the Company and the purchasers named therein. Each holder of this Note will be deemed, by its acceptance hereof, to have (i) agreed to

the confidentiality provisions set forth in Section 14 of the Note Agreement and (ii) made the representation set forth in Section 6.2 of the Note Agreement. Unless otherwise indicated, capitalized terms used in this Series 2010B Note shall have the respective meanings ascribed to such terms in the Note Agreement.

This Note is a registered Note and, as provided in the Indenture, upon surrender of this Note for registration of transfer accompanied by a written instrument of transfer duly executed, by the registered holder hereof or such holder's attorney duly authorized in writing, a new Note for a like principal amount will be issued to, and registered in the name of, the transferee. Prior to due presentment for registration of transfer, the Company may treat the Person in whose name this Note is registered as the owner hereof for the purpose of receiving payment and for all other purposes, and the Company will not be affected by any notice to the contrary.

The Company will make required prepayments of principal on the dates and in the amounts specified in the First Supplemental Indenture. This Series 2010B Note is also subject to optional prepayment, in whole or from time to time in part, at the times and on the terms specified in the First Supplemental Indenture, but not otherwise.

If an Event of Default occurs and is continuing, the principal of this Series 2010B Note may be declared or otherwise become due and payable in accordance with the terms of the Indenture, at the price (including Make-Whole Amount) and with the effect provided in the Indenture.

This Note shall be construed and enforced in accordance with, and the rights of the Company and the holder of this Note shall be governed by, the law of the State of Montana]excluding choice-of-law principles of the law of such State that would permit the application of the laws of a jurisdiction other than such State.

The Holder of this Series 2010B Note shall have no right to enforce the provisions of the Indenture, or to institute action to enforce the covenants therein, or to take any action with respect to any default under the Indenture, or to institute, appear in or defend any suit or other proceeding with respect thereto, except as provided in the Indenture and the Note Agreement.

All acts and proceedings required by law and by the Articles of Incorporation and Bylaws of the Company necessary to make the Series 2010B Notes issued under the Indenture, when executed by the Company, authenticated and delivered by the Trustee and duly issued, the valid, binding and legal obligations of the Company, in accordance with its terms, have been done and taken.

This Series 2010B Note shall not be entitled to any benefit under the Indenture or be valid until this Series 2010B Note shall have been authenticated by the execution by the Trustee, or its successor as Trustee, of the Certificate of Authentication inscribed hereon.

**SOUTHERN MONTANA ELECTRIC GENERATION  
AND TRANSMISSION COOPERATIVE, INC.**

By \_\_\_\_\_  
[Title]

TRUSTEE'S CERTIFICATE OF AUTHENTICATION

This is one of the Obligations of the series designated therein referred to in the within-mentioned Indenture.

U.S. BANK NATIONAL ASSOCIATION, as  
Trustee

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