Court File No. CV-09-8062-00CL

ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST

THE HONOURABLE	)	MONDAY, THE 31st
	)	
JUSTICE MORAWETZ	)	DAY OF MAY, 2010

IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*, R.S.C. 1985, c. C-36, AS AMENDED

AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF TERRACE BAY PULP INC.

Applicant

CREDITORS' MEETING ORDER

THIS MOTION made by Terrace Bay Pulp Inc. (the "Applicant") for an Order:

(a) abridging the time for service of the Notice of Motion and Motion Record, if necessary, and declaring that the motion is properly returnable on Wednesday, May 31, 2010;

(b) approving the Twelfth Report of the Monitor, Ernst & Young Inc. (the "Monitor") dated May 21, 2010 (the "Monitor's Twelfth Report");

(c) authorizing and directing the filing of the Plan (as defined below);

(d) approving the materials to be distributed to creditors affected by the Plan;

(e) authorizing and establishing the procedure for the Applicant to call, hold and conduct a meeting of its creditors to consider and vote on the Plan;

(f) establishing a procedure for the purpose of voting on the Plan; and

(g) setting the date for the return of the Applicant's motion for an order sanctioning the Plan,

was heard this day at 330 University Avenue, Toronto, Ontario.

UPON READING the Notice of Motion, the Monitor's Twelfth Report, the Affidavit of Russell York sworn May 21, 2010 and on hearing the submissions of counsel for the Applicant and counsel for the Monitor, and on being advised that the parties listed on the service list as of May 21, 2010 attached to the Motion Record (the "Service List") were served with the Motion Record herein;

SERVICE

1. **THIS COURT ORDERS AND DECLARES** that the time for service of the Notice of Motion and the Motion Record herein be and is hereby abridged and that the Motion is properly returnable today, and service thereof upon any person other than those on the Service List be and is hereby dispensed with.

MONITOR'S ACTIVITIES

2. **THIS COURT ORDERS** that the Monitor's Twelfth Report and the activities described therein are hereby approved.

DEFINITIONS

3. **THIS COURT ORDERS** that any capitalized terms not otherwise defined in this Order shall have the meanings ascribed to them in the Plan of Compromise and Arrangement of the Applicant dated May 21, 2010, attached as **Schedule "1"** to this Order (as it may be amended, restated or supplemented from time to time, the "Plan").

FILING OF THE PLAN

4. **THIS COURT ORDERS** that the Applicant is hereby authorized and directed to file the Plan, to present the Plan to the Affected Creditors for their consideration in accordance with the terms of this Order and to seek approval of the Plan in the manner set forth herein.

5. **THIS COURT ORDERS** that the Applicant be and is hereby authorized to vary, amend, modify or supplement the Plan by way of a supplementary or amended and restated plan or plans of compromise or arrangement (an "Amended Plan") at any time prior to the Creditors' Meeting, provided that the Plan is amended in accordance with its terms, and the Applicant or the Monitor, as applicable, (i) files the Amended Plan with the Court, (ii) obtains the prior consent from the Monitor, (iii) posts the Amended Plan on the Monitor's website, (iv) serves the Amended Plan on the Service List, (v) provides notice of the Amended Plan to Affected Creditors that have filed proxies with the Monitor, to the extent that such Affected Creditors are not on the Service List, in accordance with section 11.8 of the Plan and (vi) provides notice to those Affected Creditors that have requested such notice pursuant to section 9.1 of the Plan.

6. **THIS COURT ORDERS** that the Applicant is hereby authorized to vary, amend, modify or supplement the Plan, in accordance with its terms, at any time during the Creditors' Meeting, with the prior consent of the Monitor, if such amendment would not be materially prejudicial to the interests of any of the Affected Creditors under the Plan, provided that notice of any such variation, amendment, modification or supplement is given to all Affected Creditors holding a Proven Unsecured Claim or a Disputed Claim (each an "Eligible Voting Creditor") present in person or by proxy (and in such case, notice given to the Eligible Voting Creditor's proxyholder shall be sufficient) at the Creditors' Meeting prior to the vote being taken at the Creditors' Meeting, in which case any such variation, amendment, modification or supplement shall be deemed to be part of and incorporated into the Plan, and such Amended Plan shall be promptly posted on the Monitor's website and filed with the Court as soon as practicable following the Creditors' Meeting.

7. **THIS COURT ORDERS** that the Applicant is hereby authorized to vary, amend, modify or supplement the Plan, in accordance with its terms, at any time and from time to time after the Creditors' Meeting (both prior to and subsequent to the date of the Sanction Order (as defined herein), if granted, without obtaining a further Order of this Court and without notice to any Affected Creditors, if the Applicant and the Monitor, acting reasonably and in good faith, determine that such variation, amendment, modification or supplement is of a technical or administrative nature that would not be materially prejudicial to the interests of any of the

Affected Creditors under the Plan and is necessary in order to give effect to the substance of the Plan or the Sanction Order.

CLASSIFICATION OF AFFECTED CREDITORS

8. **THIS COURT ORDERS** that for the purposes of considering and voting on the Plan and receiving distributions thereunder, the holders of Affected Claims shall be grouped into a single class, being the Unsecured Class.

NOTICE OF CREDITORS' MEETING AND INFORMATION PACKAGE

9. **THIS COURT ORDERS** that the form of notice of the Creditors' Meeting (the "Notice of Creditors' Meeting") and the form of proxy, in substantially the forms attached to this Creditors' Meeting Order as **Schedules "2"** and **"3"**, respectively, are hereby approved.

10. **THIS COURT ORDERS** that the Monitor shall send the following documents (collectively hereinafter referred to as the "Information Package") by no later than Friday, June 4, 2010 to all Eligible Voting Creditors by registered mail, facsimile, courier or e-mail at the last known address (including fax number or email address) for such Eligible Voting Creditor set out in the books and records of the Applicant or, if an Eligible Voting Creditor filed a Proof of Claim, the address specified in the Proof of Claim filed by such Eligible Voting Creditor:

(a) a copy of the Information Circular and all schedules, to be filed with the Court;

(b) the Notice of Creditors' Meeting; and

(c) a copy of the form of proxy to be used by Eligible Voting Creditors.

11. **THIS COURT ORDERS THAT** notwithstanding paragraph 10 above, the Applicant may from time to time, make minor changes to such Information Package as the Applicant and the Monitor consider necessary or desirable to conform the content thereof to the terms of the Plan or this Order or to describe the Plan.

12. **THIS COURT ORDERS** that the Monitor shall cause a copy of the Information Package (and any amendments made thereto in accordance with paragraph 11 hereof), this Creditors' Meeting Order, including all schedules, and the Monitor's Twelfth Report to be

posted on the Monitor's website (www.ey.com/ca/terracebay) as soon as practicable after the granting of this Creditors' Meeting Order.

13. **THIS COURT ORDERS** that the Monitor shall send by registered mail, facsimile, courier or e-mail as soon as practicable following a request therefor, a copy of the Information Package to each Affected Creditor who, no later than five (5) Business Days prior to the Creditors' Meeting (or any adjournment thereof), makes a written request for it.

PUBLICATION OF NEWSPAPER NOTICE

14. **THIS COURT ORDERS** that, as soon as practicable and by no later than Friday, June 11, 2010, a newspaper notice of the Creditors' Meeting, in substantially the form attached to this Creditors' Meeting Order as **Schedule "4"** (the "Newspaper Notice"), shall be published once by the Monitor in the Globe and Mail (National Edition), Thunder Bay Chronicle – Journal and the Terrace Bay/Shreiber News.

NOTICE SUFFICIENT

15. **THIS COURT ORDERS** that the publication of the Newspaper Notice, the sending of a copy of the Information Package to all Eligible Voting Creditors and the posting of the Information Package on the Monitor's website, in the manner set out in paragraphs 10, 12 and 14 above, shall constitute good and sufficient service of this Creditors' Meeting Order, the Plan and the Notice of Creditors' Meeting on all Persons who may be entitled to receive notice thereof in these proceedings, or who may wish to be present in person or by proxy at the Creditors' Meeting or in these proceedings, and no other form of notice or service need be made on such Persons and no other document or material need be served on such Persons in respect of these proceedings. Service shall be effective, in the case of registered mailing, three (3) Business Days after the date of mailing, in the case of service by courier, on the day after the courier was sent and in the case of service by fax or e-mail, on the day the fax or e-mail was transmitted, unless such day is not a Business Day, or the fax or e-mail transmission was made after 5:00 p.m. (Eastern Daylight Time), in which case, on the next Business Day.

DEADLINE FOR NOTICES OF REPUDIATION AND DISCLAIMER

16. **THIS COURT ORDERS** that no further Notices of Repudiation or Disclaimer (as defined in the Claims Process Order) may be delivered by the Applicant after the day which is 20 days preceding the date of the Creditors' Meeting (or any adjournment thereof).

CREDITORS' MEETING

17. **THIS COURT ORDERS** that a representative of the Monitor shall preside as the chair of the Creditors' Meeting (the "Chair") and shall decide all matters relating to the rules and procedures at, and the conduct of, the Creditors' Meeting in accordance with the terms of the Plan, this Creditors' Meeting Order and further Order of this Court. The Chair or the Monitor may adjourn the Creditors' Meeting at their discretion, as provided herein.

18. **THIS COURT ORDERS** that the Applicant shall call, hold and conduct a meeting of Affected Creditors on June 21, 2010 at Valhalla Inn, The Viking Room, 1 Valhalla Inn Road, Thunder Bay, ON, P7E 6J1 at 2:00 p.m. (Eastern Daylight Time), or as adjourned to such places and times as the Chair may determine at the Creditors' Meeting, or as the Monitor may determine prior to the Creditors' Meeting, for the purposes of considering and voting on the Plan and transacting such other business as may be properly brought before the Creditors' Meeting.

ATTENDANCE AT CREDITORS' MEETING

19. **THIS COURT ORDERS** that the only Persons entitled to notice of, attend or speak at the Creditors' Meeting are the Eligible Voting Creditors and their respective proxy holders, representatives of the Applicant and the Monitor, the legal counsel and financial advisors of any of the foregoing, the Chair, Scrutineers and the Secretary (as defined below). Any other Person may be admitted to the Creditors' Meeting only by invitation of the Applicant or the Chair.

20. **THIS COURT ORDERS** that an Eligible Voting Creditor that is not an individual may only attend and vote at the Creditors' Meeting if it has appointed a proxyholder to attend and act on its behalf at the Creditors' Meeting.

DISPUTED CLAIMS

21. **THIS COURT ORDERS** that if the amount of a Disputed Claim has not been determined or resolved prior to the date of the Creditors' Meeting, the holder thereof shall be entitled to vote in accordance with the provisions of this Creditors' Meeting Order, in which case:

(a) the vote of the holder of the Disputed Claim will be separately tabulated by the Monitor in accordance with paragraph 33 of this Order;

(b) the vote of the holder of the Disputed Claim will be recorded as being "for" or "against" the Plan;

(c) if no motion is made to this Court by the Applicant within 7 days following the date of the Creditors' Meeting, or as otherwise ordered by the Court, to determine the amount of such Disputed Claim for voting purposes (a "Voting Determination Motion"), the amount of such Disputed Claim for voting purposes will be the full amount of the Disputed Claim;

(d) if a Voting Determination Motion is made by the Applicant as provided for in (c) above, the amount of such Disputed Claim for voting purposes shall be such amount as is determined by this Court; and

(e) any allowance or determination of the Disputed Claim for voting purposes in accordance with this Order or the Claims Process Order shall be without prejudice to the rights of the Applicant, the Monitor or the holder of the Disputed Claim with respect to the final determination of the Disputed Claim for distribution purposes.

22. **THIS COURT ORDERS** that allowing an Eligible Voting Creditor to vote at the Creditors' Meeting in respect of a Disputed Claim, shall not be construed as an admission that such Eligible Voting Creditor's Claim is a Proven Unsecured Claim for distribution purposes.

VOTING AT THE CREDITORS' MEETING

23. **THIS COURT ORDERS** that any Affected Creditor holding an Affected Claim that has not

(a) been deemed by the Claims Process Order to have been accepted in the amount as set out in the Claim Amount Notice sent to such Affected Creditor; or

(b) submitted a Proof of Claim in respect of its Affected Claim in accordance with the procedure set out in the Claims Process Order prior to the relevant bar date contained therein,

will not be entitled to vote on the Plan at the Creditors' Meeting in respect of its Affected Claim.

24. **THIS COURT ORDERS** that the only Persons entitled to vote at the Creditors' Meeting in person or by proxy, subject to paragraphs 41 and 42 hereof or as otherwise may be determined in connection with this Creditors' Meeting Order, are the Eligible Voting Creditors.

25. **THIS COURT ORDERS** that, subject to paragraphs 21 and 33 hereof, each Eligible Voting Creditor shall have one vote, which vote shall have the value of such Eligible Voting Creditor's Proven Unsecured Claim as determined in accordance with the Claims Process Order, any other order of the CCAA Court and/or the Plan.

26. **THIS COURT ORDERS** that the Chair be and is hereby authorized to accept and rely upon proxies that are substantially in the form attached to this Creditors' Meeting Order as **Schedule "3"** and as permitted by paragraph 38 hereof.

27. **THIS COURT ORDERS** that no Person shall be entitled to vote on the Plan in respect of a Claim that is an Excluded Claim.

28. **THIS COURT ORDERS** that the quorum required at the Creditors' Meeting shall be any three (3) Eligible Voting Creditors present in person or by proxy at the Creditors' Meeting.

29. **THIS COURT ORDERS** that if:

(a) the requisite quorum is not present at the Creditors' Meeting;

(b) the Creditors' Meeting is postponed by a vote of the majority in value of the Claims of the Eligible Voting Creditors present in person or by proxy; or

(c) the Chair or the Monitor otherwise decides to adjourn the Creditors' Meeting,

then the Creditors' Meeting shall be adjourned to such date, time and place as may be designated by the Chair or the Monitor. The announcement of the adjournment by the Chair at the Creditors' Meeting, or the posting of notice of such adjournment on the Monitor's website and written notice to the Service List shall constitute sufficient notice of the adjournment and the Applicant and the Monitor shall have no obligation to give further notice to any Person of the adjourned Creditors' Meeting.

30. **THIS COURT ORDERS** that every question submitted to the Creditors' Meeting, except to approve the Plan resolution or an adjournment of the Creditors' Meeting, will be decided by a majority of votes given on a show of hands or, if by confidential written ballot, at the discretion of the Chair, by a majority in number of the Eligible Voting Creditors.

31. **THIS COURT ORDERS** that the Chair shall direct a vote by the Eligible Voting Creditors on the resolution (substantially in the form attached to this Creditors' Meeting Order as **Schedule "5"**) to approve the Plan (i) by way of written ballot, or (ii) if the Chair deems it appropriate, by a show of hands.

32. **THIS COURT ORDERS** that the Monitor may appoint scrutineers (the "Scrutineers") for the supervision and tabulation of the attendance at, quorum, and votes cast at the Creditors' Meeting. A Person or Persons designated by the Monitor shall act as secretary (the "Secretary") at the Creditors' Meeting and shall tabulate all Proven Unsecured Claims (and, if applicable, Disputed Claims) voted at the Creditors' Meeting.

33. **THIS COURT ORDERS** that for voting purposes, the Monitor shall keep a separate record and tabulation of any votes cast in respect of Proven Unsecured Claims and Disputed Claims.

34. **THIS COURT ORDERS** that the result of any vote conducted at the Creditors' Meeting shall be binding upon all Affected Creditors, whether or not any such Affected Creditor was present or voted at the Creditors' Meeting, without prejudice to such Affected Creditor's ability to oppose the Plan at the Sanction Hearing (as hereinafter defined).

35. **THIS COURT ORDERS** that following the vote at the Creditors' Meeting, the Monitor shall tally the votes cast and determine whether the Plan has been approved by the majorities of Eligible Voting Creditors required pursuant to section 6 of the CCAA (the "Required Majorities").

36. **THIS COURT ORDERS** that the Monitor shall file its report to this Court by no later than three (3) Business Days after the date of the Creditors' Meeting with respect to the results of the votes cast, including, without limitation, whether:

(a) the Plan has been accepted by the Required Majorities of Affected Creditors; and

(b) the votes cast by Eligible Voting Creditors with Disputed Claims, if any, would affect the result of the vote.

37. **THIS COURT ORDERS** that if the votes cast by the holders of Disputed Claims in relation to which a Voting Determination Motion has been or may be brought would affect whether the Plan has been approved by the Required Majorities of Affected Creditors, the Monitor shall report this to the Court in accordance with paragraph 36 of this Order, in which case the Applicant or the Monitor may request this Court to (i) direct an expedited hearing of any Voting Determination Motion, (ii) defer the date of the hearing of the Sanction Motion, and (iii) defer or extend any other time periods in this Order or the Plan, and/or seek such further advice and direction as may be considered appropriate.

VOTING BY PROXIES

38. **THIS COURT ORDERS** that all proxies submitted in respect of the Creditors' Meeting (or any adjournment thereof) must be in substantially the form attached to this Creditors' Meeting Order as **Schedule "3"** or in such other form acceptable to the Monitor or the Chair. The Monitor is hereby authorized to use reasonable discretion as to the adequacy of compliance with respect to the manner in which any proxy is completed and executed, and may waive strict compliance with the requirements in connection with the deadlines imposed in connection therewith.

39. **THIS COURT ORDERS** that an Eligible Voting Creditor wishing to appoint a proxy to represent such Eligible Voting Creditor at the Creditors' Meeting (or any adjournment thereof) may do so by inserting such Person's name in the blank space provided on the form of proxy, and sending or delivering the completed proxy to the Monitor by email to terracebay@ca.ey.com, or if the completed proxy cannot be sent by email it shall be send by facsimile, registered mail or courier to:

Ernst & Young Inc.
Monitor of Terrace Bay Pulp Inc.
Ernst & Young Tower
222 Bay Street
Toronto, ON
M5K 1J7
Fax: (416) 943-3300
Attention: Franca Mazzulla re Terrace Bay Proxies

A proxy must be received by the Monitor by 1:00 p.m. (Eastern Daylight Time) on the last Business Day preceding the date set for the Creditors' Meeting or any adjournment thereof, or delivered by hand to the Chair prior to the commencement of the Creditors' Meeting. After commencement of the Creditors' Meeting, no proxies can be accepted by the Monitor or the Chair.

40. **THIS COURT ORDERS** that paragraphs 38 and 39 hereof, and the Instructions for Completion of Proxy (which forms part of the proxy attached hereto as **Schedule "3"**) shall govern the submission of proxies and any deficiencies in respect of the form or substance of proxies filed with the Monitor.

TRANSFERS OR ASSIGNMENTS OF AFFECTED CLAIMS

41. **THIS COURT ORDERS** that if an Affected Creditor transfers or assigns an Affected Claim to another Person, such transferee or assignee shall not be entitled to attend and vote the transferred or assigned Affected Claim at the Creditors' Meeting unless (i) the assigned Affected Claim is a Proven Unsecured Claim or Disputed Claim, or a combination thereof, and (ii) a Proof of Assignment has been delivered in accordance with paragraph 13 of the Claims Process Order no later than five (5) calendar days prior to the date of the Creditors' Meeting.

42. **THIS COURT ORDERS** that if an Affected Creditor transfers or assigns (i) the whole of such Affected Claim to more than one Person, or (ii) part of such Affected Claim to another Person or Persons, such transfers or assignments shall not create separate Affected Claims for voting purposes. Only the last Affected Creditor holding the whole of the Affected Claim may attend and vote the transferred or assigned Affected Claim at the Creditors' Meeting (provided such Affected Creditor is an Eligible Voting Creditor), unless such Affected Creditor delivers notice in writing to the relevant Applicant and the Monitor no later than five (5) calendar days prior to the date of the Creditors' Meeting, directing that a specified transferee or assignee may vote the transferred or assigned Affected Claim, but only as a whole, at the Creditors' Meeting if and to the extent such Affected Claim may otherwise be voted at such Creditors' Meeting.

HEARING FOR SANCTION OF THE PLAN

43. **THIS COURT ORDERS** that if the Plan is approved by the Required Majorities of Eligible Voting Creditors at the Creditors' Meeting, the Applicant shall seek Court approval of the Plan at a motion for approval of an Order sanctioning the Plan (the "Sanction Order"), which motion shall be returnable before this Court at 10:00 a.m. (Eastern Daylight Time) on June 29, 2010, or as soon after that date as the matter can be heard (the "Sanction Hearing").

44. **THIS COURT ORDERS** that service of the Information Package pursuant to paragraph 10 hereof, and this Creditors' Meeting Order pursuant to paragraph 12 hereof and the publication of the Newspaper Notice pursuant to paragraph 14 hereof shall constitute good and sufficient service of the notice of the Sanction Hearing on all Persons who may be entitled to

receive notice of the Sanction Hearing, and no other form of notice or service need be made on such Persons, and no such other document or materials need be served on such Persons in respect of the Sanction Hearing unless they have filed and served a Notice of Appearance.

45. **THIS COURT ORDERS** that any Person (other than the Applicant, the Monitor and other Persons already on the Service List) wishing to receive materials and appear at the Sanction Hearing shall serve upon the lawyers for the Applicant and the Monitor, and file with this Court, a Notice of Appearance by not later than 5:00 p.m. (Eastern Daylight Time) on the day that is two days after the Creditors' Meeting, and at the same time shall provide either an e-mail address or facsimile number to the Applicant and the Monitor for service purposes in this proceeding.

46. **THIS COURT ORDERS** that any party who wishes to oppose the motion for approval of the Sanction Order shall serve upon the lawyers for both the Applicant and the Monitor, and upon all other parties on the Service List, by not later than 5:00 p.m. (Eastern Daylight Time) on the day that is four days after the Creditors' Meeting, a copy of the materials to be used to oppose the motion for approval of the Sanction Order, setting out the basis for such opposition.

47. **THIS COURT ORDERS** that, if the Sanction Hearing is adjourned, only those Persons who are listed on the Service List (which shall include those Persons who have complied with paragraph 45 of this Order) shall be served with notice of the adjourned date.

GENERAL

48. **THIS COURT ORDERS** that the Applicant and the Monitor may, in their discretion, generally or in individual circumstances, waive in writing the time limits imposed on any Affected Creditor under this Creditors' Meeting Order if the Applicant and the Monitor deem it advisable to do so, without prejudice to the requirement that all other Affected Creditors must comply with this Creditors' Meeting Order.

49. **THIS COURT ORDERS** that the Monitor may, in its discretion, extend either of the Bar Dates (as defined in the Claims Process Order) in respect of a Person wishing to file a Proof of Claim if the Monitor is satisfied that such Person did not receive a Claims Package or

receive notice of the Claims Process (each as defined in the Claims Process Order) at least 10 days prior to the relevant Bar Date, in which case the relevant Bar Date in relation to any Claim of such Person shall be the date designated by the Monitor, in its discretion (the "Extended Bar Date"), and the Claims Process Order shall be deemed, without further Order of this Court, to be amended to reference the Extended Bar Date in substitution for the Claims Bar Date or the Restructuring Claims Bar Date, as applicable. Where the Monitor agrees to extend a Bar Date pursuant to this paragraph, the Claims Process Order shall otherwise apply and have full force and effect *mutatis mutandis* in relation to the Claim of such Person, including, without limitation, in respect of any Proof of Claim filed or not filed by such Person, in accordance with the Claims Process Order as so amended.

50. **THIS COURT ORDERS** that paragraph 49 of this Order applies to any extension of a Bar Date designated by the Monitor in accordance with paragraph 49 of this Order, whether agreed to prior to or following the date of this Order, and in the case of an Extended Bar Date agreed to by the Monitor prior to the date of this Order, such extension of the Bar Date is hereby ratified with full force and effect *nunc pro tunc* as of the date designated by the Monitor.

51. **THIS COURT ORDERS** that if any deadline set out in this Creditors' Meeting Order falls on a day other than a Business Day, the deadline shall be extended to the next Business Day.

EFFECT, RECOGNITION AND ASSISTANCE OF OTHER COURTS

52. **THIS COURT ORDERS** that this Order and any other Order in this proceeding shall have full force and effect in all provinces and territories in Canada and abroad and as against all Persons against whom they may otherwise be enforceable.

53. **THIS COURT HEREBY REQUESTS** the aid and recognition (including assistance pursuant to section 17 of the CCAA, as applicable) of any court or any judicial, regulatory or administrative body in any province or territory of Canada and any judicial, regulatory or administrative tribunal or other court constituted pursuant to the Parliament of Canada or the legislature of any province or any court or any judicial, regulatory or administrative body of the United States and of any other nation or state to act in aid of and to be complementary to this Court in carrying out the terms of this Creditors' Meeting Order.

Joanne Nicoara
Registrar, Superior Court of Justice

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SCHEDULE "1" TO CREDITORS' MEETING ORDER

PLAN OF COMPROMISE AND ARRANGEMENT

(Attached)

File No. CV-09-8062-OOCL

ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST

IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*, R.S.C. 1985, c.C-36, AS AMENDED

AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF TERRACE BAY PULP INC.

PLAN OF COMPROMISE AND ARRANGEMENT OF TERRACE BAY PULP INC.

May 21, 2010

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PLAN OF COMPROMISE AND ARRANGEMENT OF TERRACE BAY PULP INC. PURSUANT TO THE *COMPANIES' CREDITORS ARRANGEMENT ACT* (CANADA)

DATED FOR REFERENCE MAY 21, 2010

ARTICLE 1
DEFINITIONS AND INTERPRETATION

1.1 Definitions

In this Plan (including the Schedules hereto), unless otherwise stated or the context should otherwise require, the capitalized terms and phrases used but not defined herein have the following meanings:

"**ABL Loan Agreement**" means the loan agreement to be entered into by the Applicant for operating financing of up to $40 million on terms and conditions satisfactory to the Applicant;

"**Administration Charge**" means the Administration Charge granted under the Initial Order;

"**Affected Claim**" means all Claims other than Excluded Claims;

"**Affected Creditor**" means any Person who has a Pre-Filing Claim or Restructuring Claim against the Applicant, as more particularly set out in the Claims Process Order, and may include any transferee or assignee of an Affected Claim;

"**Applicable Law**" means, at any time, in respect of any Person, property, transaction, event or other matter, as applicable, all laws, rules, statutes, regulations, treaties, orders, judgments and decrees, and all official requests, directives, rules, guidelines, orders, policies, practices and other requirements of any Authorized Authority;

"**Applicant**" means Terrace Bay Pulp Inc.;

"**Authorized Authority**" means, in relation to any Person, transaction or event, any:

(a) federal, provincial, territorial, state, municipal or local governmental body (whether administrative, legislative, executive or otherwise), both domestic and foreign;

(b) agency, authority, commission, instrumentality, regulatory body, court, or other entity exercising executive, legislative, judicial, taxing, regulatory or administrative powers or functions of or pertaining to government, including any Taxing Authority;

(c) court, arbitrator, commission or body exercising judicial, quasi-judicial, administrative or similar functions; or

(d) other body or entity created under the authority of or otherwise subject to the jurisdiction of any of the foregoing, including any stock or other securities exchange, in each case having jurisdiction over such Person, transaction or event;

"**Bar Date**" means the Claims Bar Date or the Restructuring Claims Bar Date;

"**BIA**" means the *Bankruptcy and Insolvency Act*, R.S.C. 1985, c. B-3;

"**Buchanan Group**" means the Applicant, Great West Timber Limited, Northern Sawmills Inc., Dubreuil Forest Products Limited, Long Lake Forest Products Inc., MacKenzie Forest Products Inc., Buchanan Northern Hardwoods Inc., Atikokan Forest Products Inc., 686860 Ontario Limited, Lucky Star Holdings Inc.;

"**Business Day**" means, with respect to any action to be taken, any day, other than Saturday, Sunday or a statutory holiday, on which banks are generally open for business in Toronto, Ontario, Canada;

"**CCAA**" means the *Companies' Creditors Arrangement Act*, as applicable to the CCAA Proceedings, which for greater certainty does not include the amendments proclaimed into force on September 18, 2009;

"**CCAA Proceedings**" means the proceedings commenced by the Applicant in the Court under the CCAA;

"**Charges**" means the Administration Charge and the Directors' Charge;

"**Claim**" means any right or claim of any Person that may be asserted or made in whole or in part against the Applicant, whether or not asserted or made, in connection with any indebtedness, liability or obligation of any kind whatsoever, and any interest accrued thereon or costs payable in respect thereof, including without limitation, by reason of the commission of a tort (intentional or unintentional), by reason of any breach of contract or other agreement (oral or written), by reason of any breach of duty (including, without limitation, any legal, statutory, equitable or fiduciary duty) or by reason of any right of ownership of or title to property or assets or right to a trust or deemed trust (statutory, express, implied, resulting, constructive or otherwise), and whether or not any indebtedness, liability or obligation is reduced to judgment, liquidated, unliquidated, fixed, contingent, matured, unmatured, disputed, undisputed, legal, equitable, secured, unsecured, present, future, known or unknown, by guarantee, surety or otherwise, and whether or not any right or claim is executory or anticipatory in nature including, without limitation, any right or ability of any Person to advance a claim for contribution or indemnity or otherwise with respect to any matter, action, cause or chose in action whether existing at present or commenced in the future, including, without limiting the foregoing, any Tax Claim, provided however, that a "Claim" shall not include an Excluded Claim;

"**Claim Amount Notice**" means the notice to Affected Creditors setting out Pre-Filing Claims delivered by the Applicant in accordance with the Claims Process Order;

"**Claims Bar Date**" means 5:00 p.m. (Eastern Time) on February 8, 2010, or such other date as may be ordered by the Court;

"**Claims Officer**" means any individual appointed by the Applicant, under such terms as are approved by the Monitor or further Order of the Court, to act as a claims officer for purposes of and in accordance with the Claims Process Order;

"**Claims Process Order**" means the Order granted by the Court dated December 18, 2009, as amended, restated or varied by subsequent Order of the Court;

"**Court**" means the Ontario Superior Court of Justice (Commercial List), or any Canadian court with appellate jurisdiction over the CCAA Proceedings;

"**Creditors' Meeting**" means the meeting of Affected Creditors called for the purposes of considering and voting in respect of this Plan, which has been set by the Creditors' Meeting Order to take place for the Unsecured Class at 10:00 a.m.(Eastern time) on June 21, 2010, and any postponements, adjournments or amendments thereof;

"**Creditors' Meeting Order**" means the Order of the Court made May **[26]**, 2010 which, among other things, sets the date of the Creditors' Meeting and establishes meeting procedures for the

Creditors' Meeting, as such Order may be amended or varied from time to time by subsequent Order of the Court;

"**Crown**" means Her Majesty in right of Canada or a province of Canada;

"**Crown Claims**" means Claims of the Crown, for all amounts that were outstanding at the Filing Date and are of a kind that could be subject to a demand under:

(a) subsection 224(1.2) of the ITA;

(b) any provision of the *Canada Pension Plan* or of the *Employment Insurance Act* that refers to subsection 224(1.2) of the ITA and provides for the collection of a contribution, as defined in the *Canada Pension Plan*, or an employee's premium, or employer's premium, as defined in the *Employment Insurance Act*, and of any related interest, penalties or other amounts; or

(c) any provision of provincial legislation that has a similar purpose to subsection 224(1.2) of the ITA, or that refers to that subsection, to the extent that it provides for the collection of a sum, and of any related interest, penalties or other amounts, where the sum

    (i) has been withheld or deducted by a Person from a payment to another Person and is in respect of a tax similar in nature to the income tax imposed on individuals under the ITA, or

    (ii) is of the same nature as a contribution under the *Canada Pension Plan* if the province is a "province providing a comprehensive pension plan" as defined in subsection 3(1) of the *Canada Pension Plan* and the provincial legislation establishes a "provincial pension plan" as defined in that subsection;

"**Directors' Charge**" means the Directors' Charge granted under the Initial Order;

"**Disallowed Claim**" means a Disputed Claim (or any portion thereof) which has been finally disallowed in accordance with the Claims Process Order;

"**Disputed Claim**" means an Affected Claim or any portion thereof, which has not been allowed or accepted as proven by the Monitor, which is the subject of a Notice of Dispute, and which has not been resolved by the Claims Officer, if applicable, by agreement or by further Order of the Court. For greater certainty, once a Disputed Claim is finally determined, it shall become a Proven Unsecured Claim or Disallowed Claim;

"**Effective Date**" means a day as determined by the Applicant that is the Business Day as soon as reasonably practicable after all conditions precedent to implementation of this Plan set out in Section 8.2 have been satisfied or (to the extent legally permissible) waived and the Monitor has filed the Monitor's Certificate confirming the foregoing;

"**Excluded Claim**" has the meaning set forth in Section 3.3 of this Plan;

"**Filing Date**" means March 11, 2009, being the date of the Initial Order;

"**Information Circular**" means the information circular relating to this Plan, including any Schedules attached thereto, as it may be restated, supplemented or amended from time to time;

"**Initial Order**" means the Order granted by the Court in the CCAA Proceedings on March 11, 2009, as amended, restated, varied or extended from time to time by subsequent Orders of the Court;

"**ITA**" means the *Income Tax Act* (Canada), as amended;

"**Lien**" means any mortgage, charge, pledge, assignment by way of security, lien, hypothec, security interest, deemed trust or other encumbrance granted or arising pursuant to a written agreement or statute or otherwise created by law;

"**Monitor**" means Ernst & Young Inc., in its capacity as Court-appointed monitor of the Applicant in the CCAA Proceedings;

"**Monitor's Certificate**" has the meaning given to it in Section 8.3 of this Plan;

"**Note Indenture**" means the note indenture to be established in respect of the Plan Note;

"**Notice of Dispute**" means a notice delivered by an Affected Creditor who has received a Notice of Revision or Disallowance with respect to an Affected Claim disputing such Notice of Revision or Disallowance pursuant to the Claims Process Order or this Plan;

"**Notice of Revision or Disallowance**" means a notice delivered to an Affected Creditor pursuant to the Claims Process Order revising or rejecting such Affected Creditor's Pre-Filing Claim or Restructuring Claim in whole or in part;

"**Order**" means any order of the Court in the CCAA Proceedings;

"**Person**" shall be broadly interpreted and includes, without limitation, an individual, firm, partnership, joint venture, venture capital fund, limited liability company, unlimited liability company, association, trust, corporation, unincorporated association or organization, syndicate, committee, the government of a country or any political subdivision thereof, or any agency, board, tribunal, commission, bureau, instrumentality or department of such government or political subdivision, or any other entity, howsoever designated or constituted, including any Taxing Authority, and the trustees, executors, administrators, or other legal representatives of an individual, and, for greater certainty, shall include any Authorized Authority;

"**Plan**" means this Plan of Compromise and Arrangement, as it may be amended, restated, or supplemented from time to time in accordance with the provisions hereof;

"**Plan Note**" means the promissory note to be issued by the Applicant to the Trustee on the Effective Date in the principal amount of $30,000,000 with the terms and conditions set out in Schedule "B" hereto;

"**Pre-Filing Claim**" means any Claim (i) based in whole or in part on facts which existed prior to the Filing Date, (ii) related to a time period prior to the Filing Date or (iii) which would have been a claim provable in bankruptcy within the meaning of the BIA had the Applicant become bankrupt on the Filing Date. An Affected Creditor entitled to claim for interest under its applicable agreement with the Applicant may claim for interest that has accrued on its Pre-Filing Claim as of the Filing Date, but no claim for interest shall be allowed for interest accruing after that date;

"**Proof of Claim**" means a proof of claim, in substantially the form attached as Schedule "C" to the Claims Process Order, as submitted to the Monitor by an Affected Creditor in accordance with the Claims Process Order;

"**Pro Rata Share**" means, at any time, a proportionate share, so that the ratio of the consideration distributed on account of a Proven Unsecured Claim is the same as the ratio of the amount of that Proven Unsecured Claim to the amount of all Proven Unsecured Claims receiving such distribution;

"**Proven Unsecured Claim**" means the Affected Claim of an Affected Creditor, as finally determined in accordance with the Claims Process Order any other Order of the Court and/or this Plan;

"**Province**" means Her Majesty the Queen in Right of Ontario, as represented by the Minister of Northern Development, Mines and Forestry;

"**Province Loan Agreement**" means the loan agreement to be entered into by the Applicant and the Province for term financing of $25 million to assist in funding the restart of the Terrace Bay mill, on terms and conditions satisfactory to the Applicant;

"**Restructuring Claim**" means any Claim arising as a result of the restructuring, termination, disclaimer or repudiation by the Applicant of any contract, lease, agreement, or other arrangement or agreements of any nature whatsoever, whether oral or written, and any amending agreement related thereto on or after the Filing Date and whether such restructuring, termination, disclaimer or repudiation took place or takes place before or after the date of the Claims Process Order.

"**Restructuring Claims Bar Date**" means the later of (i) the Claims Bar Date; and (ii) 5:00 p.m. (Eastern Time) on the day which is 15 days after the date of the notice of repudiation or disclaimer delivered in accordance with the Claims Process Order.

"**Sanction Order**" means an Order sanctioning this Plan and giving all necessary directions regarding its implementation, which shall include the provisions set forth in Section 8.1 of this Plan;

"**Stumpage Agreement**" means the agreement to be entered into between the Buchanan Group and the Province with respect to unpaid stumpage fees payable by the Buchanan Group on terms and conditions satisfactory to the Applicant;

"**Tax**" or "**Taxes**" means any and all amounts subject to a withholding or remitting obligation and any and all taxes, duties, fees, and other governmental charges, duties, impositions and liabilities of any kind whatsoever whether or not assessed by the Taxing Authorities (including any Claims by any of the Taxing Authorities), including all interest, penalties, fines, fees, other charges and additions with respect to such amount;

"**Tax Claim**" means any Claim against the Applicant for any Taxes in respect of any taxation year or period ending on or prior to the Filing Date, and in any case where a taxation year or period commences on or prior to the Filing Date, for any Taxes in respect of or attributable to the portion of the taxation period commencing prior to the Filing Date and up to and including the Filing Date. For greater certainty, a "Tax Claim" shall include, without limitation, any and all Claims of any Taxing Authority in respect of transfer pricing adjustments and any Canadian or non-resident Tax related thereto;

"**Taxing Authorities**" means Her Majesty the Queen, Her Majesty the Queen in right of Canada, Her Majesty the Queen in right of any province or territory of Canada, the Canada Revenue Agency, any similar revenue or taxing authority of each and every province or territory of Canada and any political subdivision thereof, and any Canadian or foreign governmental authority exercising taxing powers in administering and/or collecting Taxes;

"**Trustee**" means the trustee to be appointed by the Applicant under the Note Indenture;

"**Unsecured Claims**" means all Affected Claims that are Pre-Filing Claims or Restructuring Claims, including all Affected Claims secured by a Lien to the extent that the value of the property securing the Lien is less than the amount of the Lien;

"**Unsecured Class**" means the holders of Unsecured Claims.

1.2 Article and Section Reference

The terms "**this Plan**", "**hereof**", "**hereunder**", "**herein**", and similar expressions refer to this Plan, and not to any particular article, section, subsection, paragraph or clause of this Plan and include any variations, amendments, modifications or supplements hereto. In this Plan, a reference to an article, section, subsection, clause or paragraph shall, unless otherwise stated, refer to an article, section, subsection, paragraph or clause of this Plan.

1.3 Extended Meanings

In this Plan, where the context so requires, any word importing the singular number shall include the plural and vice versa, and any word or words importing gender shall include all genders.

1.4 Interpretation Not Affected by Headings

The division of this Plan into articles, sections, subsections, paragraphs and clauses and the insertion of a table of contents and headings are for convenience of reference and shall not affect the construction or interpretation of this Plan.

1.5 Inclusive Meaning

As used in this Plan, the words "**include**", "**includes**", "**including**" or similar words of inclusion mean, in any case, those words as modified by the words "**without limitation**" and "**including without limitation**"; so that references to included matters shall be regarded as illustrative rather than exhaustive.

1.6 Currency

Unless otherwise stated herein, all references to currency in this Plan are to lawful money of Canada. For the purposes of voting or distribution, all Claims shall be denominated in Canadian Dollars and all cash distributions under this Plan shall be paid in Canadian Dollars. Any Claim in a currency other than Canadian Dollars will be deemed to have been converted to Canadian Dollars at the spot rate of exchange quoted by the Bank of Canada for exchanging such currency to Canadian Dollars as at noon on the Filing Date.

1.7 Statutory References

Unless otherwise stated herein, any reference in this Plan to a statute includes all regulations made thereunder, all amendments to such statute or regulations in force from time to time to the date of this Plan and any statute or regulation that supplements or supersedes such statute or regulation to the date of this Plan.

1.8 Successors and Assigns

The rights, benefits and obligations of any Person named or referenced in this Plan shall be binding on and shall inure to the benefit of any heir, administrator, executor, legal personal representative, successor or assign, as the case may be, or a trustee, receiver, interim receiver, receiver and manager, liquidator or other Person acting on behalf of such Person, as permitted hereunder.

1.9 Governing Law

This Plan shall be governed by and construed and interpreted in accordance with the laws of the Province of Ontario and the federal laws of Canada applicable therein, without regard to any conflict of law provision that would require the application of the law of any other jurisdiction. Any dispute or issue in connection with, or related to the interpretation, application or effect of this Plan and all proceedings taken in connection with this Plan and its revisions shall be subject to the exclusive jurisdiction of the Court.

1.10 Severability of Plan Provisions

If any provision of this Plan is or becomes illegal, invalid or unenforceable on or following the Effective Date in any jurisdiction, the illegality, invalidity or unenforceability of that provision will not affect the legality, validity or enforceability of the remaining provisions of this Plan, or the legality, validity or enforceability of that provision in any other jurisdiction.

1.11 Timing Generally

Unless otherwise specified, all references to time herein, and in any document issued pursuant hereto, shall mean local time in Thunder Bay, Ontario and any reference to an event occurring on a Business Day shall mean prior to 5:00 p.m. (Eastern Time) on such Business Day.

1.12 Time of Payments and Other Actions

Unless otherwise specified, time periods within or following which any payment is to be made or act is to be done shall be calculated by excluding the day on which the period commences and including the day on which the period ends and by extending the payment to the next succeeding Business Day if the last day of the period is not a Business Day. Wherever any payment to be made or action to be taken under this Plan is required to be made or to be taken on a day other than a Business Day, such payment shall be made or action taken on the next succeeding Business Day.

1.13 Schedules

The following are the Schedules to this Plan, which are incorporated by reference into this Plan and form an integral part hereof:

Schedule "A" -	Form of Monitor's Certificate
Schedule "B" -	Plan Note Term Sheet

ARTICLE 2
PURPOSE AND EFFECT OF PLAN

2.1 Purpose

The purpose of this Plan is to effect a compromise and arrangement of all Affected Claims against the Applicant in order to enable the business of the Applicant to continue, in the expectation that a greater benefit will be derived from the continued operation of the business of the Applicant than would result from the immediate sale or forced liquidation of its assets. This Plan will become effective on the Effective Date in accordance with its terms. Each Affected Claim against the Applicant will be fully and finally compromised in accordance with the terms of this Plan, as more particularly set out in Section 10.2.

ARTICLE 3
CLASSIFICATION OF CLAIMS

3.1 Classification of Claims

For the purposes of considering and voting on this Plan and receiving a distribution hereunder, the Affected Claims of the Affected Creditors are grouped into a single class, being the Unsecured Class.

3.2 Affected Persons

On the Effective Date, this Plan shall be binding upon the Applicant and the Affected Creditors and their respective heirs, executors, administrators, legal representatives, successors and assigns in accordance with its terms, but shall not affect Excluded Claims.

3.3 Claims Unaffected by the Plan

This Plan does not compromise, release or otherwise affect the following Claims (collectively, "**Excluded Claims**"):

(a) any Claim secured by the Administration Charge or the Directors' Charge;

(b) any Claim with respect to goods and/or services provided to the Applicant on or after the Filing Date;

(c) the portion of a Claim arising from a cause of action for which the Applicant is covered by insurance, but only to extent of such coverage;

(d) any Claim by a current or former employee of the Applicant in his or her capacity as an employee;

(e) Crown Claims;

(f) the Claim of the Province for unpaid stumpage fees;

(g) Claims that the Applicant is required to pay pursuant to Section 7(c) of the Initial Order; and

(h) the Claim of Lucky Star Holdings Inc. secured by a Lien against the assets, properties or undertaking of the Applicant, which Claim will be paid in full on the Effective Date.

Affected Creditors with Excluded Claims will not be entitled to vote at the Creditors' Meeting or receive any distributions under this Plan in respect of any portion of their Claim which is an Excluded Claim.

3.4 Defences to Unaffected Claims

Nothing in this Plan shall affect the Applicant's rights and defences, both legal and equitable, with respect to any Excluded Claims or any rights with respect to legal and equitable defences or entitlements to set-offs or recoupments against such Excluded Claims.

3.5 Claim of the Province

The Claim of the Province referred to in section 3.3(f) shall be paid in accordance with the Stumpage Agreement.

3.6 Crown Claims

All Crown Claims in respect of amounts that were outstanding at the Filing Date or related to the period ending on the Filing Date shall be paid in full to the Crown within six months of the Sanction Order as required by section 18.2(1) of the CCAA.

ARTICLE 4
TREATMENT OF UNSECURED CLAIMS

4.1 Voting by the Unsecured Class

Each holder of a Proven Unsecured Claim or a Disputed Claim shall be entitled to vote on this Plan at the Creditors' Meeting for the Unsecured Class to the extent of the amount of its Proven Unsecured Claim or Disputed Claim allowed for voting purposes. A Disputed Claim is allowed for voting purposes only and, following the Creditors' Meeting, will be finally determined to be a Proven Unsecured Claim or a Disallowed Claim, as provided in the Creditors' Meeting Order.

4.2 Treatment of Unsecured Claims

On the Effective Date, the Applicant shall issue to the Trustee, for and on behalf of each holder of a Proven Unsecured Claim, the Plan Note. On the Effective Date, each holder of a Proven Unsecured Claim will exchange its Proven Unsecured Claim for a Pro Rata Share of the Plan Note.

ARTICLE 5
IMPLEMENTATION OF THE PLAN

5.1 Issuance of Plan Note

On the Effective Date, the Applicant will issue the Plan Note to the Trustee, to be held by the Trustee for and on behalf of the holders of Proven Unsecured Claims, as more particularly set out in the Note Indenture.

5.2 Charges

On the Effective Date, all outstanding obligations, liabilities, fees and disbursements secured by the Administration Charge shall be fully paid or, in the alternative, a cash reserve in an amount sufficient to pay the Claims secured by the Administration Charge, as determined by the Monitor, will be established by the Applicant and administered by the Monitor. Upon payment of all outstanding obligations, liabilities, fees and disbursements secured by the Administration Charge, the Administration Charge shall be and be deemed to be discharged from the assets of the Applicant or, in the event of payment to the cash reserve, shall attach to the cash reserve. Any amount in the cash reserve in excess of the amount necessary to pay all outstanding obligations, liabilities, fees and disbursements secured by the Administration Charge shall be released to the Applicant by the Monitor upon payment of such obligations in full.

5.3 Effectuating Documents

The Vice-President and Treasurer of the Applicant shall be authorized to execute, deliver, file, or record such contracts, instruments, releases, indentures and other agreements or documents, and take such other actions, as may be necessary or appropriate, to effectuate and further evidence the terms and conditions of this Plan. The secretary or assistant secretary of the Applicant shall be authorized to certify or attest to any of the foregoing actions.

ARTICLE 6
PROVISIONS GOVERNING DISTRIBUTIONS

6.1 Voting and Distributions on Proven Unsecured Claims

Any Affected Creditor (i) that has not disputed the nature or amount of its Unsecured Claim as set out in the Claim Amount Notice, or (ii) has submitted a Proof of Claim in respect of its Unsecured Claim in accordance with the procedure set out in the Claims Process Order prior to the applicable Bar Date and has not been sent a Notice of Disallowance prior to the Creditors' Meeting, will be entitled to vote and receive distributions based on its Proven Unsecured Claim.

With respect to any Unsecured Claim not set out in a Claims Amount Notice, any Affected Creditor that has not submitted a Proof of Claim in respect of such Unsecured Claim in accordance with the procedure set out in the Claims Process Order prior to the applicable Bar Date will not be entitled to vote or receive distributions under this Plan in respect of such Unsecured Claim, unless otherwise ordered by the Court or agreed to by the Applicant and the Monitor in writing.

6.2 Voting and Distributions on Disputed Claims

(a) Any Affected Creditor holding a Disputed Claim as of the date of the Creditors' Meeting will be entitled to vote based on the amount of its Disputed Claim, subject to the terms of the Creditors' Meeting Order.

(b) The fact that a Disputed Claim is allowed for voting purposes shall not preclude the Applicant and the Monitor from disputing the Disputed Claim.

(c) To the extent that any Disputed Claim becomes a Proven Unsecured Claim in accordance with the Claims Process Order and this Plan from and after the Effective Date, the holder of such a Proven Unsecured Claim will exchange its Proven Unsecured Claim for a Pro Rata Share of the Plan Note, and, from and after the exchange, such holder will have the rights and obligations of a holder under the Note Indenture.

(d) The Monitor will finalize the allocation of each Affected Creditor's Pro Rata Share once all Disputed Claims have been finally determined to be either Proven Unsecured Claims or Disallowed Claims in accordance with the Creditors' Meeting Order.

6.3 Interest on Affected Claims

No interest or penalties shall accrue or be paid on an Affected Claim from and after or in respect of the period following the Filing Date and no holder of an Affected Claim will be entitled to any interest in respect of such Affected Claim accruing on or after or in respect of the period following the Filing Date. All interest accruing on any Affected Claim after or in respect of the period following the Filing Date shall be forever extinguished and released under this Plan.

6.4 Distributions in respect of Transferred or Assigned Claims

The Applicant and the Monitor shall not be obligated to give notice to or otherwise deal with any transferee or assignee of an Affected Claim as the holder of an Affected Claim unless actual notice of transfer or assignment, together with satisfactory evidence of such transfer and assignment has been delivered to the Applicant and the Monitor in accordance with the procedure set out in the Claims Process Order.

6.5 Tax Matters

(a) **Tax on Distributions**. Notwithstanding any other provision of this Plan, including subsection (b) below, each Affected Creditor that is to receive a distribution pursuant to this Plan shall have sole and exclusive responsibility for the satisfaction and payment of any Tax obligations imposed by any Authorized Authority on account of such distribution.

(b) **Withholding Rights**. All distributions under the Plan Note shall be subject to any withholding and reporting requirements imposed by any Applicable Law or any Taxing Authority, and such other restrictions as may be set out in the Note Indenture.

ARTICLE 7
CREDITORS' MEETING

7.1 Creditors' Meeting and Conduct

The Creditors' Meeting to consider and vote on this Plan shall be held and conducted by the Applicant and the Monitor in accordance with the terms of the Creditors' Meeting Order.

7.2 Acceptance of Plan

If the Plan is approved by the required majority of Affected Creditors entitled to vote at the Creditors' Meeting, this Plan shall be approved and shall be deemed to have been agreed to, accepted and approved by the Affected Creditors and shall be binding upon all Affected Creditors.

ARTICLE 8
CONDITIONS OF PLAN IMPLEMENTATION

8.1 Sanction Order

If this Plan is approved by the required majority of Affected Creditors entitled to vote at the Creditors' Meeting, the Applicant shall bring a motion before the Court for the Sanction Order, which Sanction Order shall provide, among other things, that:

(a) (i) this Plan has been approved by the required majority of Affected Creditors entitled to vote at the Creditors' Meeting in conformity with the CCAA; (ii) the Applicant acted in good faith and has complied with the provisions of the CCAA and the Orders made in the CCAA Proceedings in all respects; (iii) the Court is satisfied that the Applicant has not done nor purported to do anything that is not authorized by the CCAA; and (iv) this Plan and the transactions contemplated by it are fair and reasonable;

(b) this Plan (including the compromises, arrangements and releases set out herein) shall be sanctioned and approved pursuant to Section 6 of the CCAA and will be binding and effective as herein set out on the Applicant, all Affected Creditors and all other Persons as provided for in this Plan or in the Sanction Order;

(c) subject to the performance by the Applicant of its obligations under this Plan, and except to the extent expressly contemplated by this Plan or the Sanction Order, all obligations or agreements to which the Applicant is a party, other than agreements which were restructured, terminated, disclaimed or repudiated by the Applicant prior to the deadline specified in the Creditors' Meeting Order in accordance with the Initial Order, will be and shall remain in full force and effect as at the Effective Date, unamended except as they may have been amended by agreement of the parties subsequent to the Filing Date in accordance with the Plan, and no Person who is a party to any such obligations or agreements shall, following the Effective Date, accelerate, terminate, rescind, refuse to perform or otherwise repudiate its obligations thereunder, or enforce or exercise any right (including any right of set-off, option, dilution or other remedy) or make any demand under or in respect of any such obligation or agreement, by reason of:

(i) any defaults or events of default arising as a result of the insolvency of the Applicant prior to the Effective Date;

(ii) the fact that the Applicant has sought or obtained relief under the CCAA or that this Plan has been implemented by the Applicant;

(iii) any compromises or arrangements effected pursuant to this Plan; or

(iv) any other event(s) which occurred on or prior to the Effective Date which would have entitled any Person to enforce those rights and remedies, subject to any express provisions to the contrary in any agreements entered into with the Applicant after the Filing Date. For greater certainty, nothing in this paragraph shall waive any obligations of the Applicant in respect of any Excluded Claim;

(d) the appointment of the Claims Officer, if applicable, shall cease on the Effective Date, except with respect to matters to be determined or completed pursuant to the Claims Process Order and this Plan or further Order of the Court after the Effective Date (including, the resolution of the Disputed Claims), unless otherwise agreed with the Applicant and the Monitor;

(e) the commencement or prosecution, whether directly, indirectly, derivatively or otherwise, of any demands, claims, actions, counterclaims, suits, judgment, or other remedy or recovery with respect to any Claim released, discharged or terminated pursuant to this Plan shall be permanently enjoined;

(f) the releases effected by this Plan shall be approved, and declared to be binding and effective as of the Effective Date upon all Affected Creditors, the Monitor and all other Persons affected by this Plan and shall enure to the benefit of all such Persons; and

(g) all Charges established by the Initial Order or any other Order of the Court, shall be terminated, released and discharged effective on the Effective Date, save and except insofar as the Charges have attached to the reserve established by the Monitor pursuant to Section 5.2 herein.

8.2 Conditions of Plan Implementation

The implementation of this Plan shall be conditional upon the fulfillment or waiver, where applicable, of the following conditions on or before the Effective Date:

(a) this Plan shall have been approved by the required majority of Affected Creditors entitled to vote at the Creditors' Meeting;

(b) the Sanction Order shall have been granted by the Court and shall be in full force and effect and not reversed, stayed, varied, modified or amended;

(c) all applicable appeal periods in respect of the Sanction Order shall have expired and in the event of an appeal or application for leave to appeal, final determination shall have been made by the applicable appellate court;

(d) all approvals, orders, determinations or consents required pursuant to Applicable Law, if applicable, shall have been obtained on terms and conditions satisfactory to the Applicant and the Monitor, acting reasonably, and shall remain in full force and effect on the Effective Date;

(e) all necessary corporate action and proceedings of the Applicant shall have been taken to approve this Plan and to enable each Applicant to execute, deliver and perform its obligations under the agreements, documents and other instructions to be executed and delivered by it pursuant to this Plan;

(f) all agreements, resolutions, documents and other instruments, which are necessary to be executed and delivered by the Applicant, or any director or officer of the Applicant in order to implement this Plan and perform its obligations under this Plan (including the Note Indenture), shall have been executed and delivered;

(g) the Applicant shall have entered into the ABL Loan Agreement, and all conditions precedent to be completed under the ABL Loan Agreement shall have been satisfied or waived, subject only to the completion of the transactions contemplated under this Plan;

(h) the Applicant shall have entered into the Province Loan Agreement, and all conditions precedent to be completed under the Province Loan Agreement shall have been satisfied or waived, subject only to the completion of the transactions contemplated under this Plan;

(i) the Applicant shall have entered into the Stumpage Agreement, and all conditions precedent to be completed under the Stumpage Agreement shall have been satisfied or waived, subject only to the completion of the transaction contemplated under this Plan;

(j) the Applicant shall have entered into an agreement for the purchase of fibre located at the Applicant's premises and elsewhere on terms and conditions satisfactory to the Applicant, and all conditions precedent to be completed under such agreement shall have been satisfied or waived, subject only to the completion of the transaction contemplated under this Plan; and

(k) the Applicant shall have obtained a commitment from the Province with respect to the supply of fibre on terms and conditions satisfactory to the Applicant.

Except for the conditions set out in 8.2(a) and (b), each of the conditions set out in this Section 8.2 may be waived in whole or in part by the Applicant by written notice to the Monitor. If a condition set out above has not been satisfied or waived in accordance with this Section 8.2, this Plan shall automatically terminate, in which case the Applicant shall not be under any further obligation to implement this Plan.

8.3 Monitor's Certificate

Upon written notice from the Applicant to the Monitor that the conditions set out in Section 8.2 have been satisfied or waived, the Monitor shall, as soon as possible following receipt of such written notice, file with the Court a cértificate which states that all conditions precedent set out in Section 8.2 hereof have been satisfied or waived, in substantially the form as the certificate attached as Schedule "A" to this Plan (the "**Monitor's Certificate**").

ARTICLE 9
AMENDMENTS TO THE PLAN

9.1 Amendments to Plan Prior to Approval

The Applicant reserves the right to file any variation or modification of, or amendment or supplement to, this Plan by way of a supplementary or amended and restated plan or plans of compromise or arrangement or both filed with the Court at any time or from time to time prior to the commencement of the Creditors' Meeting, with the prior consent of the Monitor. **Affected Creditors who wish to receive written notice of any variation, modification, amendment or supplement to the Plan should contact the Monitor in the manner set out in Section 11.8 of this Plan.** Any such supplementary or amended and restated plan or plans of compromise or arrangement or both shall, for all purposes, be deemed to be a part of and incorporated into this Plan. Any such variation, modification, amendment or supplement shall be posted on the Monitor's website (www.ey.com/ca/terracebay) on the day on which it is filed with the Court, served on the CCAA Proceedings service list, and notice will be given to all Affected Creditors who have filed proxies with the Monitor, to the extent that such Affected Creditors are not on the service list or have requested written notice in accordance with this Section. Affected Creditors are advised to check the Monitor's website regularly. Affected Creditors in attendance at the Creditors' Meeting will also be advised of any amendment made to the Plan.

In addition, the Applicant may propose a variation, modification of or amendment or supplement to this Plan during the Creditors' Meeting with the consent of the Monitor if such amendment would not be materially prejudicial to the interests of any of the Affected Creditors under the Plan, provided that notice of such variation, modification, amendment or supplement is given to all Affected Creditors entitled to vote present in person or by proxy at the applicable Creditors' Meeting prior to the vote being taken at such Creditors' Meeting, in which case any such variation, modification, amendment or supplement shall, for all purposes, be deemed to be part of the Plan. Any variation, amendment, modification or supplement at a Creditors' Meeting will be promptly posted on the Monitor's website (www.ey.com/ca/terracebay) and filed with the Court as soon as practicable following the applicable Creditors' Meeting.

9.2 Non-material Amendments to Plan

The Applicant may vary, amend, modify or supplement this Plan at any time and from time to time after the Creditors' Meeting (and both prior to and subsequent to the obtaining of the Sanction Order), without the need for obtaining an Order of the Court or providing notice to the Affected Creditors, if the Applicant and the Monitor, acting reasonably and in good faith, determine that such variation, amendment, modification or supplement is of a technical or administrative nature that would not be materially prejudicial to the interests of any of the Affected Creditors under this Plan and is necessary in order to give effect to the substance of this Plan or the Sanction Order.

ARTICLE 10
PLAN IMPLEMENTATION AND EFFECT OF THE PLAN

10.1 Implementation

On the Effective Date, subject to the satisfaction or waiver of the conditions contained in Section 8.2 of this Plan, this Plan shall be implemented by the Applicant and shall be binding upon all Affected Creditors in accordance with the terms of this Plan and the Sanction Order.

10.2 Effect of the Plan Generally

The payment, compromise or satisfaction of any Affected Claims under this Plan, if sanctioned and approved by the Court, shall be binding upon each Affected Creditor, his, her or its heirs, executors, administrators, legal personal representatives, successors and assigns, as the case may be, for all purposes and this Plan will constitute: (a) full, final and absolute settlement of all rights of any Affected Creditor against the Applicant in respect of the Affected Claims; and (b) an absolute release and discharge of all indebtedness, liabilities and obligations of or in respect of the Affected Claims against the Applicant and all Liens granted by the Applicant in respect thereof, including any interest or costs accruing thereon whether before or after the Filing Date.

10.3 Compromise Effective for All Purposes

No Person who has a Claim as a guarantor, surety, indemnitor or similar covenant in respect of any Claim which is compromised under this Plan or who has any right to claim over in respect of or to be subrogated to the rights of any Person in respect of a Claim which is compromised under this Plan shall be entitled to any greater rights than the Affected Creditor whose Claim was compromised under this Plan. Accordingly, the payment, compromise or other satisfaction of any Claim under this Plan, if sanctioned and approved by the Court, shall be binding upon such Affected Creditor, his, her or its heirs, executors, administrators, legal and personal representatives, and successors and assigns, as the case may be, for all purposes and, to such extent, shall also be effective to relieve any third party directly or indirectly liable for such indebtedness, whether as guarantor, surety, indemnitor, director, joint covenantor, principal or otherwise.

10.4 Contracts

As of the Effective Date, each contract to which the Applicant is a party as at the Filing Date, as it may have been modified, amended or varied after the Filing Date, remains in full force and effect as at the Effective Date (other than in respect of Claims arising thereunder which have been affected or compromised by this Plan) unless such contract: (a) is the subject of a notice of repudiation or disclaimer delivered prior to the deadline specified in the Creditors' Meeting Order in accordance with the Claims Process Order; or (b) has expired or terminated pursuant to its terms.

10.5 Plan Releases

Effective on the Effective Date:

(a) The Applicant shall be forever released and discharged from all Affected Claims.

(b) Except as otherwise provided in this Plan or the Sanction Order, and subject to the provisions of Section 5.1(2) of the CCAA, each Affected Creditor or other Person in consideration of the distributions made under this Plan will be deemed to have forever released and discharged (i) the Applicant and its present and former directors, officers, employees, agents, affiliates, professional advisors (including legal counsel) and associates (ii) the Monitor and its present and former partners, directors, officers, employees, agents, affiliates, professional advisors (including legal counsel) and associates, and (iii) any Person who may claim contribution or indemnification against or from the Applicant, from any and all demands, Claims, including Claims of any past and present officers, directors or employees for contribution and indemnity, actions, causes of action, counterclaims, suits, debts, sums of money, accounts, covenants, damages, judgments, expenses, executions, charges and other recoveries on account of any liability, obligation, demand or cause of action of whatever nature which any Affected Creditor or other Person may be entitled to assert, including, without limitation, any and all Tax Claims, whether known or unknown, matured or unmatured, foreseen or unforeseen, existing or hereafter arising, based in whole or in part on any act, omission, transaction, dealing, event or other occurrence existing or taking place on or prior to the Effective Date in any way relating to, arising out of or in connection with the Applicant, its assets or property, the business or affairs of the Applicant (whenever and however conducted), the transactions and events giving rise to any Claims, this Plan or the CCAA Proceedings, other than Excluded Claims and the right to enforce the Applicants' obligations under this Plan.

(c) The Applicant shall be deemed to have forever released and discharged each of its (i) present and former directors, officers and employees, and (ii) the Monitor and its present and former partners, directors, officers, employees, agents, affiliates, professional advisors (including legal counsel) and associates, from any and all demands, claims, actions, causes of action, counterclaims, suits, debts, sums of money, accounts, covenants, damages, judgments, expenses, executions, charges and other recoveries on account of any liability, obligation, demand or cause of action of whatever nature, whether known or unknown, matured or unmatured, foreseen or unforeseen, existing or hereafter arising, based in whole or in part on any act, omission, transaction, dealing, event or other occurrence existing or taking place on or prior to the Effective Date in any way relating to, arising out of or in connection with the Applicant, its assets or property, the business or affairs of the Applicant (whenever and however conducted), the transactions and events giving rise to any Claims, this Plan or the CCAA Proceedings, that could be asserted by or on behalf of the Applicant.

10.6 Knowledge of Claims

Each Person to which Section 10.5 applies shall be deemed to have granted the releases set forth in Section 10.5 notwithstanding that it may hereafter discover facts in addition to, or different from, those which it now knows or believes to be true, and without regard to the subsequent discovery or existence of such different or additional facts, and such party expressly waives any and all rights that it may have under any Applicable Law which would limit the effect of such releases to those Claims or causes of action known or suspected to exist at the time of the granting of the release.

10.7 Exculpation

Neither the Applicant, the Monitor nor any of their respective present or former partners, directors, officers, employees, agents, affiliates, professional advisors (including legal counsel) and associates shall have or incur any liability to any holder of a Claim or equity interest in the Applicants, or other party in interest, or any of their respective members, officers, directors, employees, professional advisors (including legal counsel) or agents or any of their successors and assigns, for any act or omission in connection with, related to, or arising out of the CCAA Proceedings, the pursuit of sanction of the Plan, the consummation of the Plan or the administration of the Plan or the property to be distributed under the Plan, including the negotiation and solicitation of the Plan, except for wilful misconduct or gross negligence, and subject to the provisions of Section 5.1(2) of the CCAA. In all respects, the Applicant, the Monitor and each of their present and former partners, directors, officers, employees, agents, affiliates, professional advisors (including legal counsel) and associates shall be entitled to rely upon the advice of counsel with respect to their duties and responsibilities under the Plan.

10.8 Waiver of Defaults

From and after the Effective Date, and subject to any express provisions to the contrary in any amending agreement entered into with the Applicant after the Filing Date, all Persons shall be deemed to have waived any and all defaults of the Applicant then existing or previously committed by the Applicant or caused by the Applicant or any of the provisions hereof or non-compliance with any covenant, warranty, representation, term, provision, condition or obligation, express or implied, in every contract, agreement, mortgage, security agreement, indenture, trust indenture, loan agreement, commitment letter, agreement for sale, lease, personal property lease or other agreement, written or oral, any amendments or supplements thereto, existing between such Person and the Applicant. Any and all notices of default, acceleration of payments and demands for payments under any instrument, or other notices, including without limitation, any notices of intention to proceed to enforce security, arising from any of such aforesaid defaults shall be deemed to have been rescinded and withdrawn. For greater certainty, nothing in this paragraph shall waive any obligations of the Applicant in respect of any Excluded Claim.

10.9 Consents and Releases

From and after the Effective Date, all Affected Creditors shall be deemed to have consented and to have agreed to all of the provisions of this Plan as an entirety. In particular, each Affected Creditor shall be deemed to have granted, and executed and delivered to the Applicant all consents, releases, assignments and waivers, statutory or otherwise, required to implement and carry out this Plan in its entirety.

10.10 Deeming Provisions

In this Plan, the deeming provisions are not rebuttable and are conclusive and irrevocable.

ARTICLE 11
GENERAL PROVISIONS

11.1 Different Capacities

Affected Creditors whose Claims are affected by this Plan may be affected in more than one capacity. Unless expressly provided herein to the contrary, each such Affected Creditor shall be entitled to participate hereunder in each such capacity. Any action taken by an Affected Creditor in any one capacity shall not affect the Affected Creditor in any other capacity, unless expressly agreed by the Affected Creditor in writing or unless the Claims overlap or are otherwise duplicative.

11.2 Further Assurances

Notwithstanding that the transactions and events set out in this Plan may be deemed to occur without any additional act or formality other than as may be expressly set out herein, each of the Persons affected hereto shall make, do, and execute or cause to be made, done or executed all such further acts, deeds, agreements, assignments, transfers, conveyances, discharges, assurances, instruments, documents, elections, consents or filings as may be reasonably required by the Applicant in order to implement this Plan.

11.3 Set-Off

The law of set-off applies to all Claims made against the Applicant and to all actions instituted by it for the recovery of debts due to the Applicant in the same manner and to the same extent as if the applicable Applicant was plaintiff or defendant, as the case may be.

11.4 Paramountcy

Without limiting any other provision hereof, from and after the Effective Date, in the event of any conflict between this Plan and the covenants, warranties, representations, terms, conditions, provisions or obligations, expressed, or implied, of any contract, mortgage, security agreement, indenture, trust indenture, loan agreement, commitment letter, agreement for sale, lease, personal property lease or other agreement, written or oral and any and all amendments or supplements thereto existing between the Applicant and any other Persons affected by this Plan, the terms, conditions and provisions of this Plan shall govern and shall take precedence and priority.

To the extent the Plan is inconsistent with the Information Circular filed in connection with the Plan, the provisions of the Plan shall govern and shall take precedence and priority.

11.5 Revocation, Withdrawal, or Non-Consummation

The Applicant reserves the right to revoke or withdraw this Plan at any time prior to the Effective Date and to file subsequent plans of compromises or arrangement. If the Applicant revokes or withdraws this Plan, or if the Sanction Order is not issued, (a) this Plan shall be null and void in all respects, (b) any Affected Claim, any settlement or compromise embodied in this Plan (including the fixing or limiting of any Affected Claim to an amount certain), assumption or termination, repudiation of contracts or leases effected by this Plan, any document or agreement executed pursuant to this Plan shall be deemed null and void, and (c) nothing contained in this Plan, and no action taken in preparation for consummation of this Plan, shall (i) constitute or be deemed to constitute a waiver or release of any Affected Claims by or against the Applicant or any Person; (ii) prejudice in any manner the rights of the Applicant or any Person in any further proceedings involving the Applicant, or (iii) constitute an admission of any sort by the Applicant or any Person.

11.6 Preservation of Rights of Action

Except as otherwise provided in this Plan or in the Sanction Order, or in any contract, instrument, release, indenture or other agreement entered into in connection with the Plan, following the Effective Date, the Applicant will retain and may enforce, sue on, settle, or compromise (or decline to do any of the foregoing) all claims, rights or causes of action, suits and proceedings, whether in law or in equity, whether known or unknown, that the Applicant may hold against any Person or entity without further approval of the Court.

11.7 Responsibilities of the Monitor

The Monitor is acting solely in its capacity as Monitor in the CCAA Proceedings with respect to the Applicant and is not responsible or liable for any obligations of the Applicant. The Monitor will have the powers granted to it by this Plan, by the CCAA and by any Order, including the Initial Order.

11.8 Notices

Any notice or communication to be delivered hereunder will be in writing and will reference this Plan and may, subject to as hereinafter provided, be made or given by mail, personal delivery or by facsimile or e-mail transmission addressed to the respective parties as follows:

(a) if to the Applicant:

Terrace Bay Pulp Inc.
1120 Premier Way
Thunder Bay, ON P7B 0A3

Attention: Vice President and Treasurer
Fax: 807-346-5424

with a copy to:

Blake, Cassels & Graydon LLP
199 Bay Street, Suite 2800
Commerce Court West
Toronto, ON M5L 1A9

Attention: Pamela L.J. Huff
Fax: 416.863.2958
E-mail: pamela.huff@blakes.com

(b) if to an Affected Creditor:

To the last known address (including fax number or email address) for such Affected Creditor set out in the books and records of the Applicant or, if an Affected Creditor filed a Proof of Claim, the address specified in the Proof of Claim filed by such Affected Creditor or such other address as the Affected Creditor may from time to time notify the Monitor in accordance with this Section.

(c) if to the Monitor:

Ernst & Young Inc.
Court-appointed Monitor of
Terrace Bay Pulp Inc.
Ernst & Young Tower
222 Bay Street
Toronto, ON M5K 1J7

Attention:	Alex Morrison/Franca Mazzulla
Telephone	866.986.9676
Fax:	416.943.3300
E-mail:	terracebay@ca.ey.com

with a copy to:

Lang Michener
Brookfield Place
Suite 2500, 181 Bay Street
Toronto, ON M5J 2T7

Attention:	Sheryl Seigel
Fax:	416-365-1719
email:	sseigel@langmichener.ca

or to such other address as any party may from time to time notify the others in accordance with this Section. All such notices and communications which are delivered will be deemed to have been received on the date of delivery. All such notices and communications which are faxed or emailed will be deemed to be received on the date faxed or e-mailed if sent before 5:00 p.m. (Eastern Time) on a Business Day and otherwise will be deemed to be received on the Business Day next following the day upon which such fax or email was sent. Any notice or other communication sent by mail will be deemed to have been received on the third Business Day after the date of mailing.

SCHEDULE "A"

FORM OF MONITOR'S CERTIFICATE

Court File No. CV-09-8062-00CL

ONTARIO

SUPERIOR COURT OF JUSTICE

COMMERCIAL LIST

IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*, R.S.C. 1985, c.C-36, AS AMENDED

AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF TERRACE BAY PULP INC.

MONITOR'S CERTIFICATE

RECITALS

A. Pursuant to the Order of this Honourable Court dated March 11, 2009 (the "Initial Order") Terrace Bay Pulp Inc. (the "Applicant") filed for and obtained protection from its creditors under the *Companies' Creditors Arrangement Act* R.S.C. 1985, c. C-36, as amended (the "CCAA").

B. Pursuant to the Initial Order, Ernst & Young Inc. was appointed the Monitor of the Applicant (the "Monitor") with the powers, duties and obligations set out in the Initial Order;

C. The Applicant has filed a Plan of Compromise and Arrangement under the CCAA dated May 21, 2010 (the "Plan"), which Plan has been approved by the Affected Creditors in accordance with the CCAA and sanctioned by Order of the Court; and

D. Unless otherwise indicated herein, initially capitalized terms used herein have the meaning set out in the Plan.

* * * * *

THE MONITOR HEREBY CERTIFIES that it has been advised by the Applicant in accordance with Section 8.3 of the Plan that the conditions precedent set out in Section 8.2 of the Plan have been satisfied or waived in accordance with the Plan on __________, 2010 and that accordingly, the Effective Date is __________, 2010.

DATED at Toronto, Ontario, this _______ day of ________________, 2010.

ERNST & YOUNG INC., solely in its capacity as Monitor of Applicant and not in its personal or corporate capacity

By: ____________________________________
Name:
Title:

SCHEDULE "B"

PLAN NOTE TERM SHEET

On the Effective Date, the Applicant shall issue to the Trustee a non-interest bearing subordinated secured promissory note having the following characteristics:

Principal Amount: Cdn. $30,000,000

Term: The earlier of (the occurrence of either event set out below being the "Maturity Date"):

(a) six (6) years from the effective date of the Plan, or

(b) the day which is one (1) year following repayment in full of all amounts owing by the Applicant to the Province under the Province Loan Agreement and the Stumpage Agreement,

provided that, in both cases, no payment shall be made under or pursuant to the Plan Note until all obligations under the ABL Loan Agreement, the Province Loan Agreement, and the Stumpage Agreement have been paid in full and all commitments by the lenders under the ABL Loan Agreement and the Province Loan Agreement have been terminated.

Payment on Maturity Date: On the Maturity Date, in full and final satisfaction of its obligations under the Plan Note, the Applicant shall pay the amount set forth below based on its total cumulative net income, calculated in accordance with GAAP for the period from the effective date of the Plan until the Maturity Date ("Total Net Income"):

(a) if Total Net Income is equal to or greater than $80,000,000, $30,000,000;

(b) if Total Net Income is equal to or less than $40,000,000, $10,000,000; or

(c) if Total Net Income is less than $80,000,000 and more than $40,000,000, the amount payable under the Plan Note will be $30,000,000 less 1/2 of the amount by which Total Net Income is less than $80,000,000 (such that, for example, if Total Net Income is $60,000,000, the amount payable by Terrace Bay shall be $20,000,000).

Security: The Plan Note shall be secured by all assets, property and undertaking of Terrace Bay, subordinate in all respects to the ABL Loan Agreement, the Province Loan Agreement (including any replacement or refinancing of the ABL Loan Agreement or the Province Loan Agreement), and any other secured financing obtained by the Applicant from time to time, under a silent subordination agreement in form satisfactory to the lenders under the ABL Loan Agreement and the Province Loan Agreement.

Optional Prepayment: The Plan Note may be prepaid in whole or in part at any time at the option of the Applicant.

**IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*,
R.S.C. 1985, c. C-36, AS AMENDED
AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF
TERRACE BAY PULP INC.**

Court File No: CV-09-8062-00CL

ONTARIO
**SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)**

Proceeding commenced at Toronto

**PLAN OF COMPROMISE AND
ARRANGEMENT OF
TERRACE BAY PULP INC.**
(May 21, 2010)

BLAKE, CASSELS & GRAYDON LLP
Barristers & Solicitors
Box 25, Commerce Court West
199 Bay Street, Suite 2800
Toronto, Ontario M5L 1A9

Pamela L.J. Huff, LSUC #27344V
Tel: (416) 863-2958

Michael McGraw, LSUC #46679C
Tel: (416) 863-4247
Fax: (416) 863-2653

Lawyers for the Applicant

SCHEDULE "2" TO CREDITORS' MEETING ORDER

FORM OF NOTICE OF CREDITORS' MEETING

(Attached)

ERNST & YOUNG

Ernst & Young Inc.
Ernst & Young Tower
222 Bay Street, P.O. Box 251
Toronto, Ontario M5K 1J7

Tel: 416 864 1234
Fax: 416 943 3300
ey.com/ca

NOTICE OF THE CREDITORS' MEETING OF TERRACE BAY PULP INC.
(hereinafter referred to as the "Applicant")

NOTICE IS HEREBY GIVEN that the Plan of Compromise and Arrangement of the Applicant dated May 21, 2010 (as may be amended from time to time, the "Plan") was filed pursuant to the Companies' Creditors Arrangement Act (the "CCAA") with the Ontario Superior Court of Justice (the "Court") on or about May 31, 2010. The Plan contemplates the compromise of the rights and claims of certain creditors of the Applicant. A copy of the Plan is attached to the enclosed Information Circular.

Capitalized terms used and not otherwise defined in this Notice are as defined in the Creditors' Meeting Order.

NOTICE IS ALSO HEREBY GIVEN that the Applicant may vary, amend, modify or supplement the Plan with the consent of the Monitor (as defined in the Plan):

(i) at any time prior to the Creditors' Meeting (as defined hereafter), provided that the Applicant files the amended Plan with the Court, arranges to have the amended Plan posted on the Monitor's website, serves the amended Plan on the parties listed on the service list to these CCAA proceedings and on any other party requesting a copy of such amendments, and provides notice of the amended Plan to Affected Creditors that have filed proxies with the Monitor to the extent that such Affected Creditors are not on the Applicant's Service List. Eligible Voting Creditors (as defined hereafter) present at the Creditors' Meeting will also be advised of any such amendments made to the Plan;

(ii) at any time during the Creditors' Meeting, provided that the amendment would not materially prejudice the interests of any of the creditors under the Plan and that the Applicant gives notice to all Eligible Voting Creditors present at the Creditors' Meeting prior to the vote being taken, files the amended Plan with the Court as soon as practically possible following the Creditors' Meeting and arranges to have the amended Plan promptly posted on the Monitor's website; or

(iii) at any time and from time to time after the Creditors' Meeting and without further order of the Court or notice to any creditor, provided that the Applicant and the Monitor, acting reasonably and in good faith, determine the variation, amendment, modification or supplement in the amended Plan to be of a technical or administrative nature that would not materially prejudice the interests of any of the creditors under the Plan and necessary in order to give effect to the substance of the Plan or the Sanction Order (as defined hereafter).

Affected Creditors who wish to receive written notice of any variation, modification, amendment or supplement to the Plan should contact the Monitor at the following address:

Ernst & Young Inc.
Court-appointed Monitor of
Terrace Bay Pulp Inc.
Ernst & Young Tower
222 Bay Street
Toronto, ON M5K 1J7

Attention:	Alex Morrison/Franca Mazzulla
Telephone	866.986.9676
Fax:	416.943.3300
E-mail:	terracebay@ca.ey.com

NOTICE IS ALSO HEREBY GIVEN that the order of the Court dated May 31, 2010 (the "Creditors' Meeting Order") established the procedures for the Applicant to call, hold and conduct a meeting of holders of Affected Claims (the "Creditors' Meeting") to consider and pass resolution, if thought advisable, approving the Plan and to transact such other business as may be properly brought before the Creditors' Meeting. For the purpose of voting on and receiving

distributions pursuant to the Plan, the holders of Affected Claims will be grouped into a single class, being the Unsecured Class.

NOTICE IS ALSO HEREBY GIVEN that the Creditors' Meeting will be held at the following date, times and location:

Date:	June 21, 2010
Time:	2:00 p.m (Eastern Daylight Time)
Location:	Valhalla Inn, The Viking Room, 1 Valhalla Inn Road, Thunder Bay, ON, P7E 6J1

Only those creditors with Proven Unsecured Claims or Disputed Claims (each such creditor, an "Eligible Voting Creditor") will be eligible to attend the Creditors' Meeting and vote on the resolution to approve the Plan. The votes of creditors holding Disputed Claims will be separately tabulated, and Disputed Claims will be resolved for voting purposes in accordance with the Claims Process Order, the Creditors' Meeting Order and the Plan. A holder of an Excluded Claim, as defined by the Plan, will not be entitled to attend and vote at the Creditors' Meeting in respect of such Excluded Claim.

Any Eligible Voting Creditor who is unable to attend the Creditors' Meeting may vote by proxy. Further, any Eligible Voting Creditor who is not an individual may only attend and vote at the

Creditors' Meeting if a proxyholder has been appointed to act on its behalf at the Creditors' Meeting.

Proxies, once duly completed, dated and signed, must be received by the Monitor by mail, delivery, courier, e-mail or facsimile at the address of the Monitor set out on the Proxy by no later than 1:00 p.m. (Eastern Daylight Time) on the last Business Day preceding the date set for the Creditors' Meeting, or any adjournment thereof, in order to be acted upon at the Creditors' Meeting. Proxies may also be hand delivered to the Chair of the Creditors' Meeting prior to the commencement of the Creditors' Meeting. After the commencement of the Creditors' Meeting, no Proxies can be accepted by the Monitor.

NOTICE IS ALSO HEREBY GIVEN that if the Plan is approved at the Creditors' Meeting by the Affected Creditors and all other necessary conditions are met, the Applicant intends to make a motion before the Court on June 29, 2010 seeking an order sanctioning the Plan pursuant to the CCAA (the "Sanction Order"). Any person wishing to oppose the motion for the Sanction Order must serve a copy of the materials to be used to oppose the motion and setting out the basis for such opposition upon the lawyers for both the Applicant and the Monitor as well as those parties listed on the Service List posted on the Monitor's website. Such materials must be served by not later than 5:00 p.m. (Eastern Daylight Time) on the day that is 4 days after the Creditors' Meeting.

NOTICE IS ALSO HEREBY GIVEN that in order for the Plan to become effective:

(i) the Plan must be approved at the Creditors' Meeting by the required majority of Affected Creditors entitled to vote at the Creditors' Meeting;

(ii) the Plan must be sanctioned by the Court; and

(iii) the conditions to the implementation and effectiveness of the Plan as set out in the Plan and described in the Information Circular must be satisfied or waived.

Additional copies of the Information Package, including the Information Circular and the Plan, may be obtained from the Monitor's website (www.ey.com/ca/terracebay) or by contacting the Monitor by telephone at 1-866-986-9676 or by email at terracebay@ca.ey.com

SCHEDULE "3" TO CREDITORS' MEETING ORDER

FORM OF PROXY

(Attached)

IN THE MATTER OF THE COMPANIES' CREDITORS ARRANGEMENT ACT, R.S.C. 1985, c. C-36, AS AMENDED

AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF TERRACE BAY PULP INC.

PROXY

Before completing this proxy, please read carefully the accompanying instructions for the proper completion and return of the form.

Capitalized terms used and not otherwise defined herein have the meanings ascribed to them in the Plan of Compromise and Arrangement of the Applicant dated May 21, 2010 (as may be amended from time to time, the "Plan") filed pursuant to the *Companies' Creditors Arrangement Act* (the "CCAA") with the Ontario Superior Court of Justice (the "Court") on May 31, 2010.

In accordance with the Plan, proxies may only be filed by Affected Creditors having a Proven Unsecured Claim or Disputed Claim ("Eligible Voting Creditors").

THE UNDERSIGNED ELIGIBLE VOTING CREDITOR hereby revokes all Proxies previously given and nominates, constitutes, and appoints:

____
Print Name of proxy

or, instead of the foregoing, Todd Ambachtsheer of Ernst & Young Inc., in its capacity as Monitor or such other Person as he, in his sole discretion, may designate, to attend on behalf of and act for the Eligible Voting Creditor at the Creditors' Meeting to be held in connection with the Plan and at any and all adjournments, postponements or other rescheduling of the Creditors' Meeting, and to vote the amount of the Eligible Voting Creditor's claim(s) for voting purposes as determined by and accepted for voting purposes in accordance with the Creditors' Meeting Order and as set out in the Plan as follows:

A. (mark one only):

☐ Vote **FOR** approval of the Plan; or

☐ Vote **AGAINST** approval of the Plan.

If a box is not marked as a vote for or against approval of the Plan, this proxy shall be voted <u>for</u> approval of the Plan.

- and -

B. Vote at the nominee's discretion and otherwise act for and on behalf of the undersigned Eligible Voting Creditor with respect to any amendments, modifications, variations or supplements to the Plan and to any other matters that may come before the Creditors' Meeting or any adjournment, postponement or other rescheduling of the Creditors' Meeting.

Dated this _______ day of __________________, 2010.

Print Name of Eligible Voting Creditor	Title of the authorized signing officer of the corporation, partnership or trust, if applicable
Signature of Eligible Voting Creditor or, if the Eligible Voting Creditor is a corporation, partnership or trust, signature of an authorized signing officer of the corporation, partnership or trust	Telephone number of Eligible Voting Creditor or authorized signing officer
Mailing Address of Eligible Voting Creditor	E-mail address of Eligible Voting Creditor
Print Name of Witness, if Eligible Voting Creditor is an individual	
Signature of Witness	

INSTRUCTIONS FOR COMPLETION OF PROXY

1. This proxy should be read in conjunction with the Plan of Compromise and Arrangement of the Applicant dated May 21, 2010 (as may be amended from time to time, the "Plan") filed pursuant to the *Companies' Creditors Arrangement Act* (the "CCAA") with the Ontario Superior Court of Justice (the "Court") on May 31, 2010, the Information Circular and the Creditors' Meeting Order.

2. Each Eligible Voting Creditor has the right to appoint a person (who need not be a Creditor) to attend, act and vote for and on behalf of the Eligible Voting Creditor and such right may be exercised by inserting the name of the person to be appointed in the space provided on the proxy.

3. If no name has been inserted in the space provided, the Eligible Voting Creditor will be deemed to have appointed Todd Ambachtsheer of Ernst & Young Inc., in its capacity as Monitor or such other Person as he, in his sole discretion, may designate to attend on behalf of and act for the Eligible Voting Creditor at the Creditors' Meeting to be held in connection with the Plan and at any and all adjournments, postponements or other rescheduling of the Creditors' Meeting.

4. An Eligible Voting Creditor who has given a proxy may revoke it unless such Eligible Voting Creditor has agreed otherwise (as to any matter on which a vote has not already been cast pursuant to its authority) by delivering written notice to the Monitor.

5. If this proxy is not dated in the space provided, it shall be deemed to be dated as of the date on which it is received by the Monitor.

6. A valid proxy from the same Eligible Voting Creditor bearing or deemed to bear a later date shall revoke this proxy. If more than one valid proxy from the same Eligible Voting Creditor and bearing or deemed to bear the same date are received with conflicting instructions, such Proxies will not be counted for the purposes of the vote.

7. This proxy confers discretionary authority upon the persons named herein in respect of amendments, variations or supplements to the Plan or other matters that may properly come before the Creditors' Meeting or any adjournment, postponement or other rescheduling of the Creditors' Meeting.

8. The Person named in the proxy shall vote the Proven Unsecured Claim or Disputed Claim, as applicable, of the Eligible Voting Creditor in accordance with the direction of the Eligible Voting Creditor appointing them on any ballot that may be called for at the Creditors' Meeting. **IF AN ELIGIBLE VOTING CREDITOR FAILS TO INDICATE ON THIS PROXY A VOTE FOR OR AGAINST APPROVAL OF THE PLAN, THIS PROXY WILL BE VOTED FOR APPROVAL OF THE PLAN, INCLUDING ANY AMENDMENTS, VARIATIONS OR SUPPLEMENTS THERETO.**

9. This proxy must be signed by the Eligible Voting Creditor or by a person duly authorized (by power of attorney) to sign on the Eligible Voting Creditor's behalf or, if the Eligible Voting Creditor is a corporation, partnership or trust, by a duly authorized officer or attorney of the corporation, partnership or trust. If you are voting on behalf of a corporation, partnership or trust, you may be required to provide documentation evidencing your power and authority to sign this proxy.

10. **A PROXY, ONCE DULY COMPLETED, DATED AND SIGNED, MUST BE RECEIVED BY THE MONITOR BY EMAIL TO terracebay@ca.ey.com, OR IF THE COMPLETED PROXY CANNOT BE SENT BY EMAIL IT SHALL BE SENT BY FACSIMILE, REGISTERED MAIL OR COURIER TO:**

By mail or courier:	Ernst & Young Inc. Monitor of Terrace Bay Pulp Inc. P.O. Box 251 Ernst & Young Tower Toronto-Dominion Centre 222 Bay Street Toronto, Ontario, Canada M5K 1J7 Attention: Franca Mazzulla re Terrace Bay Proxies
By facsimile:	(416) 943-3300

THIS PROXY MUST BE RECEIVED BY THE MONITOR BY NO LATER THAN 1:00 P.M. (EASTERN DAYLIGHT TIME) ON THE LAST BUSINESS DAY PRECEDING THE DATE SET FOR THE CREDITORS MEETING OR ANY ADJOURNMENT THEREOF, OR DELIVERED BY HAND TO THE CHAIR PRIOR TO THE COMMENCEMENT OF THE CREDITORS' MEETING. AFTER COMMENCEMENT OF THE CREDITORS' MEETING, NO PROXIES CAN BE ACCEPTED BY THE MONITOR.

11. The Applicant and the Monitor are authorized to use reasonable discretion as to the adequacy of compliance with respect to the manner in which any proxy is completed and executed and may waive strict compliance with the requirements in connection with the deadlines imposed by the Creditors' Meeting Order.

SCHEDULE "4" TO CREDITORS' MEETING ORDER

FORM OF NEWSPAPER NOTICE

(Attached)

NOTICE OF THE CREDITORS' MEETING OF TERRACE BAY PULP INC.

(hereinafter referred to as the "Applicant")

This notice is being published pursuant to the order of the Ontario Superior Court of Justice (the "Court") dated May 31, 2010 (the "Creditors' Meeting Order") which established the procedures for the Applicant to call, hold and conduct a meeting of certain of its unsecured creditors (the "Creditors' Meeting") to consider and pass a resolution, if thought advisable, approving the Plan of Compromise and Arrangement of the Applicant dated May 21, 2010 (as may be amended from time to time, the "Plan") and to transact such other business as may be properly brought before the Creditors' Meeting. The Creditors' Meeting will be held at the following time and location:

Date: June 21, 2010

Time: 2:00 p.m (Eastern Daylight Time)

Location: Valhalla Inn, The Viking Room, 1 Valhalla Inn Road, Thunder Bay, ON, P7E 6J1

ONLY THOSE CREDITORS:

(I) WHO HAVE SUBMITTED A PROOF OF CLAIM IN ACCORDANCE WITH THE TERMS OF THE CLAIMS PROCESS ORDER DATED DECEMBER 18, 2009 (AS AMENDED); OR

(II) WHO HAVE RECEIVED A CLAIM AMOUNT NOTICE FROM THE MONITOR

AND WHO HAVE PROVEN THEIR CLAIM OR ARE IN THE PROCESS OF DISPUTING THEIR CLAIM IN ACCORDANCE WITH THE CLAIMS PROCESS ORDER, SHALL BE ENTITLED TO ATTEND AND VOTE ON THE RESOLUTION TO APPROVE THE PLAN AT THE CREDITORS' MEETING.

Creditors may obtain copies of the Plan and more information about the Plan, any amendments that may be made to the Plan and the Creditors' Meeting on the Monitor's website (www.ey.com/ca/terracebay) or by contacting the Monitor by telephone at 1-866-986-9676 or by email at terracebay@ca.ey.com.

If the Plan is approved by the required majority of the Applicant's creditors voting in person or by proxy at the Creditors' Meeting in accordance with the *Companies' Creditors Arrangement Act*, the Applicant intends to bring a motion to the Court on June 29, 2010 for approval of an Order sanctioning the Plan.

SCHEDULE "5" TO CREDITORS' MEETING ORDER

PLAN RESOLUTION

(Attached)

PLAN RESOLUTION FOR THE UNSECURED CLASS OF

TERRACE BAY PULP INC.

(the "Applicant")

Plan of Compromise and Arrangement
under the *Companies' Creditors Arrangement Act*

BE IT RESOLVED THAT:

1. the Plan of Compromise and Arrangement dated May 21, 2010 filed by the Applicant under the *Companies' Creditors Arrangement Act,* as may be amended, varied, restated or supplemented (the "Plan"), presented to the Creditors' Meeting be and is hereby authorized and approved;

2. Notwithstanding that this resolution has been passed and the Plan approved by the Unsecured Class of Affected Creditors, or the Plan has been approved by the Court, the directors of Terrace Bay Pulp Inc. be and are hereby authorized and empowered to amend or not proceed with this resolution in accordance with the Plan; and

3. the Vice-President and Treasurer of the Applicant be and are hereby authorized, empowered and instructed, acting for, and in the name of and on behalf of the Applicant (but not the creditors), to execute, or cause to be executed under the seal of the Applicant or otherwise, and to deliver or cause to be delivered for, on behalf of and in the name of the Applicant, all such documents, agreements and instruments and to do or cause to be done all such other acts and things as the Vice-President and Treasurer determine to be necessary or desirable in order to carry out the Plan, such determination to be conclusively evidenced by the execution and delivery by such Vice-President and Treasurer of such documents, agreements or instruments or the doing of any such act or thing.

Court File No. CV-09-8062-00CL

**IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*, R.S.C. 1985, c. C-36, AS AMENDED
AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF TERRACE BAY PULP INC.**

ONTARIO
**SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)**

Proceeding Commenced at Toronto

CREDITORS' MEETING ORDER

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