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.

Applicant

MOTION RECORD

(Returnable August 27, 2010)

August 23, 2010

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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.

Applicant

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IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*, R.S.C., 1985 c. C-36
AND IN THE MATTER of a Plan of Compromise or Arrangement of Terrace Bay Pulp Inc.

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

Applicant

ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST

Proceeding commenced at Toronto

MOTION RECORD
(RETURNABLE AUGUST 27, 2010)

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TAB 1

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

ONTARIO
SUPERIOR COURT OF JUSTICE
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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

NOTICE OF MOTION
(Returnable August 27, 2010)

Terrace Bay Pulp Inc. (the "Applicant"), will make a motion to a Judge presiding over the Commercial List on Friday, August 27, 2010, at 10:00 a.m., or as soon after that time as the motion can be heard, at the Court House, 330 University Avenue, 8th Floor, Toronto, Ontario.

PROPOSED METHOD OF HEARING: The motion is to be heard

[ ] in writing under subrule 37.12.1(1)

[ ] in writing as an opposed motion under subrule 37.12.1(4);

[X] orally.

THE MOTION IS FOR an Order substantially in the form as attached hereto as **Schedule "A"**:

(a) abridging the time for service of the Notice of Motion, the Eighteenth Report of the Monitor, Ernst & Young Inc. (the "Monitor") (the "Eighteenth Report") and the Motion Record, and declaring that the motion is properly returnable on Friday, August 27, 2010;

(b) approving the Eighteenth Report and the actions and activities of the Monitor as described therein;

(c) extending the Stay Period (as defined in the Initial Order of the Honourable Mr. Justice Morawetz dated March 11, 2009 (the "Initial Order")) to and including September 17, 2010;

(d) declaring that the stay of proceedings contained in paragraph 11 of the Initial Order and paragraphs 12 and 15 of the Sanction Order of the Honourable Mr. Justice Morawetz dated July 27, 2010, is lifted for the purposes of allowing the Ontario Assessment Review Board to issue final Orders in respect of the proceedings commenced by Terrace Bay pursuant to Section 40 of the *Assessment Act*, R.S.O. 1990, C. A-31 in connection with Roll No. 5854000 001 00401 0000 for the 2005, 2006, 2007 and 2008 taxation years;

(i) approving amendments to the two (2) settlement agreements between:

(i) the United Steel Workers, Local 665 and Terrace Bay, and

(ii) the International Brotherhood of Electrical Workers, Local 1861 and Terrace Bay,

both dated June 11, 2010 (the "Union Agreements") such that all references therein to "August 31, 2010" shall be extended to "September 15, 2010"; and

(e) such further and other relief as the Applicant may request and this Honourable Court shall deem just.

THE GROUNDS FOR THE MOTION ARE:

(a) the reasons described in the Eighteenth Report, and the affidavit of Russell York sworn August 23, 2010 (the "York Affidavit");

(b) Section 11 of the CCAA; and

(c) such further and other grounds as counsel may advise.

THE FOLLOWING DOCUMENTARY EVIDENCE will be used at the hearing of the motion:

(a) The Eighteenth Report;

(b) The York Affidavit; and

(c) such other materials as counsel may advise and this Honourable Court permit.

August 23, 2010

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SCHEDULE "A"

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

ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST

THE HONOURABLE	)	FRIDAY, THE 27TH
	)	
MADAM JUSTICE PEPALL	)	DAY OF AUGUST, 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.

ORDER

THIS MOTION, made by Terrace Bay Pulp Inc. ("Terrace Bay" or the "Applicant"), pursuant to the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the "CCAA") for an Order:

(a) abridging the time for service of the Notice of Motion, the Eighteenth Report of the Monitor, Ernst & Young Inc. (the "Monitor") (the "Eighteenth Report") and the Motion Record, and declaring that the motion is properly returnable on Friday, August 27, 2010;

(b) approving the Eighteenth Report and the actions and activities of the Monitor as described therein;

(c) extending the Stay Period (as defined in the Initial Order of the Honourable Mr. Justice Morawetz dated March 11, 2009 (the "Initial Order")) to and including September 17, 2010; and

(d) declaring that the stay of proceedings contained in paragraph 11 of the Initial Order and paragraphs 12 and 15 of the Sanction Order of the Honourable Mr. Justice Morawetz dated July 27, 2010 (the "Sanction Order"), is lifted for the purposes of allowing the Ontario Assessment Review Board (the "ARB") to issue final Orders in the proceedings commenced by Terrace Bay pursuant to Section 40 of the *Assessment Act*, R.S.O. 1990, C. A-31 in connection with Roll No. 5854000 001 00401 0000 for the 2005, 2006, 2007 and 2008 taxation years (the "ARB Proceedings"); and

(e) authorizing Terrace Bay to agree to amendments to the two (2) settlement agreements between:

(i) the United Steel Workers, Local 665 and Terrace Bay, and

(ii) the International Brotherhood of Electrical Workers, Local 1861 (together with the United Steel Workers, Local 665, the "Unions") and Terrace Bay,

both dated June 11, 2010 (the "Union Agreements"), such that all references therein to "August 31, 2010" shall be extended to "September 15, 2010".

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

ON READING the Eighteenth Report and the affidavit of Russell York sworn August 23, 2010, all filed, and on hearing the submissions of counsel for the Applicant and counsel for the Monitor,

1. **THIS COURT ORDERS** that the time for service of the Notice of Motion and the Motion Record is hereby abridged so that this Motion is properly returnable today and that any requirement for service of the Notice of Motion and the Motion Record on any parties other than the parties actually served with the Notice of Motion and the Motion Record is hereby dispensed with and that service in the manner effected by the Applicant is validated in all respects.

2. **THIS COURT ORDERS** that the Eighteenth Report and the actions and activities of the Monitor as described therein are hereby approved.

3. **THIS COURT ORDERS** that the Stay Period is hereby extended until and including September 17, 2010.

4. **THIS COURT ORDERS AND DECLARES** that the stay of proceedings contained in paragraph 11 of the Initial Order and paragraphs 12 and 15 of the Sanction Order is hereby lifted for the purposes of allowing the ARB to issue final Orders in the ARB Proceedings, and to take any and all necessary steps and actions in connection therewith.

5. **THIS COURT ORDERS** that Terrace bay is hereby authorized and directed to agree to amendments to the Union Agreements such that all references therein to "August 31, 2010" shall be extended to "September 15, 2010".

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

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

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

Applicant

ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST

Proceeding commenced at Toronto

ORDER

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

IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*, R.S.C., 1985 c. C-36
AND IN THE MATTER of a Plan of Compromise or Arrangement of Terrace Bay Pulp Inc.

Applicant

ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST

Proceeding commenced at Toronto

NOTICE OF MOTION
(RETURNABLE AUGUST 27, 2010)

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TAB 2

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.

Applicant

AFFIDAVIT OF RUSSELL YORK
(Sworn August 23, 2010)

I, **RUSSELL YORK**, of the City of Thunder Bay, in the Province of Ontario, **MAKE OATH AND SAY AS FOLLOWS:**

INTRODUCTION

1. I am the Vice President and Treasurer of the Applicant, Terrace Bay Pulp Inc. (the "Applicant" or "Terrace Bay"), and as such have knowledge of the matters deposed to in this Affidavit. Where this Affidavit is not based on my personal knowledge, it is based on information and belief, the source of which I have identified and I verily believe such information to be true.

2. This Affidavit is sworn in support of Terrace Bay's motion returnable Friday, August 27, 2010 for an Order, among other things:

   (a) abridging the time for service of the Notice of Motion, the Eighteenth Report of the Monitor, Ernst & Young Inc. (the "Monitor") (the "Eighteenth Report") and the Motion Record, and declaring that the motion is properly returnable on Friday, August 27, 2010;

   (b) approving the Eighteenth Report and the actions and activities of the Monitor as described therein;

(c) extending the Stay Period (as defined in the Initial Order of the Honourable Mr. Justice Morawetz dated March 11, 2009 (the "Initial Order")) to and including September 17, 2010;

(d) declaring that the stay of proceedings contained in paragraph 11 of the Initial Order and paragraphs 12 and 15 of the Sanction Order of the Honourable Mr. Justice Morawetz dated July 27, 2010 (the "Sanction Order"), be lifted for the purposes of allowing the Ontario Assessment Review Board (the "ARB") to issue final Orders in respect of the proceedings commenced by Terrace Bay pursuant to Section 40 of the *Assessment Act*, R.S.O. 1990, C. A-31 in connection with Roll No. 5854000 001 00401 0000 for the 2005, 2006, 2007 and 2008 taxation years (the "ARB Proceedings"); and

(e) authorizing Terrace Bay to agree to amendments to the two (2) settlement agreements between:

  (i) the United Steel Workers, Local 665 and Terrace Bay, and

  (ii) the International Brotherhood of Electrical Workers, Local 1861 (together with the United Steel Workers, Local 665, the "Unions") and Terrace Bay,

both dated June 11, 2010 (the "Union Agreements"), such that all references therein to "August 31, 2010" shall be extended to "September 15, 2010".

BACKGROUND

3. Terrace Bay operates a pulp mill (the "Mill") in the Town of Terrace Bay, Ontario (the "Town"). Terrace Bay is the primary employer for the Town and the nearby community of Schreiber, Ontario. Prior to commencing these proceedings under the *Companies' Creditors Arrangement Act* (the "CCAA Proceedings"), Terrace Bay idled the Mill on February 23, 2009.

4. Terrace Bay commenced the CCAA Proceedings pursuant to the Initial Order and Ernst & Young Inc. was appointed as Monitor. The Stay Period has been extended from time to time since the issuance of the Initial Order and most recently until August 31, 2010 pursuant to the Sanction Order.

5. On December 18, 2009, Terrace Bay sought and obtained an Order approving a claims process for the purposes of calling for and determining creditor claims (the "Claims Process"). This Order was subsequently amended to exclude claims of employees in their capacity as employees. The Applicant and the Monitor continue to administer the Claims Process in connection with certain remaining disputed claims.

6. On May 31, 2010, Terrace Bay sought and obtained the Creditors' Meeting Order authorizing Terrace Bay to file its plan of arrangement and compromise (as amended, the "Plan") and call a meeting of its creditors for the purpose of voting on the Plan. The Creditors' Meeting Order was amended by Order of this Court dated June 29, 2010 to provide for, among other things, a separate class for the Corporation of the Township of Terrace Bay (the "Township").

7. The Plan was approved by the requisite majorities of creditors in each class and, on July 27, 2010, this Court approved and sanctioned the Plan pursuant to the Sanction Order. A copy of the Sanction Order is attached hereto as **Exhibit "A"**.

CONDITIONS TO PLAN IMPLEMENTATION

8. There are certain conditions that must be satisfied prior to implementation of the Plan which include, but are not limited to the following (all capitalized terms used below are as defined in the Plan, a copy of which is attached to the Sanction Order):

   (i) 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 the Plan;

   (ii) 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 the Plan;

(iii) 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 transactions contemplated under the Plan;

(iv) 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 transactions contemplated under the Plan;

(v) 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;

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

(vii) the Applicant shall have entered into agreements with Persons who have filed Claims secured by a Lien under the *Construction Lien Act* (Ontario) or taken other steps satisfactory to the Applicant to resolve such Claims.

9. Terrace Bay has made substantial progress toward satisfying the conditions for Plan implementation:

(i) The Township Agreement has been approved by the Township's council and the Township Class voted in favour of the Plan, as described above;

(ii) Terrace Bay has reached agreements with Persons who have filed construction lien claims; and

(iii) Terrace Bay is working to finalize an agreement to purchase certain fibre located at the Mill and elsewhere with the parties who have claimed an interest in that fibre.

10. With respect to certain other outstanding conditions of Plan implementation, Terrace Bay has engaged and continues to engage in extensive discussions with the Province on various issues and conditions, including the wood supply for the Mill and the financing to be provided by the Province.

11. At the end of July, Terrace Bay and the Province reached an agreement in principle which provided for a secure, sustainable and economical wood supply for the Mill. The terms of this agreement, as well as other key issues which have been resolved, are to be finalized and documented prior to the Effective Date. Terrace Bay and the Province had also resolved key issues relating to the Stumpage Agreement, in particular, issues regarding the allocation of amounts payable thereunder. However, final documentation with respect to both these matters has not yet been settled amongst the parties.

12. Terrace Bay and the Province have resolved outstanding matters with respect to the purchase of fibre located at the Mill and elsewhere. Final documentation with respect to the purchase of fibre has not yet been settled amongst the parties. Progress continues to be made in this regard.

13. A term sheet with an ABL Lender was executed on July 2, 2010. Notwithstanding substantial efforts made by the Applicant, the proposed ABL lender, its financial advisor and the Monitor to reach mutually acceptable terms with the proposed ABL lender on the timeline required by the Applicant, the Applicant has concluded that this is not possible. Terrace Bay therefore considered it prudent to approach another lender who has confirmed that it is able to pursue the transaction on a basis that is consistent with closing prior to the mid-September extensions agreed to by the Province, the Township and the Unions in connection with their respective agreements with Terrace Bay. Terrace Bay today executed a term sheet with the new proposed ABL lender.

14. At the time of the Sanction Order, it was expected that the conditions would be met to permit Plan implementation by August 17, 2010. As described above, despite the best efforts of the Applicant, the conditions will not be met by the end of August.

TOWNSHIP AGREEMENT AND ARB PROCEEDINGS

15. The Township Agreement requires that Terrace Bay consent to the lifting of the stay of proceedings for the purposes of reconvening the ARB hearing relating to the ARB Proceedings to allow for the issuance of final ARB Orders in connection therewith as soon as possible on the terms agreed to in the Minutes of Settlement, copies of which are attached hereto as **Exhibit "B"**. Accordingly, Terrace Bay respectfully requests that the Court lift the stay of proceedings contained in the Initial Order for such purposes. In the event such ARB Orders are not issued by the Effective Date, then Terrace Bay requests that the Court lift the stay of proceedings contained in the Sanction Order as of the Effective Date for such purposes. Terrace Bay has been advised that the Monitor supports the lifting of the stay of proceedings.

UNION AGREEMENTS

16. As more fully described in my affidavit sworn June 23, 2010, a copy of which, without Exhibits, is attached hereto as **Exhibit "C".** Terrace Bay successfully negotiated agreements with the Unions with respect to the resolution of claims with Terrace Bay's unionized employees. The Union Agreements were approved by this Court on June 29, 2010. Copies of the Union Agreements are attached hereto as **Exhibits "D"** and **"E"**.

17. The Union Agreements contemplate that unionized employees would be recalled in between June 30, 2010 and August 31, 2010. While some unionized employees have already been recalled, there remain approximately 350 unionized employees who will be recalled after August 31, 2010, given the delays in Plan implementation.

18. The Union Agreements provide that in the event that Terrace Bay's operations do not re-commence (resulting in unionized employees who have elected to accept recall not being recalled on or before August 31, 2010), those unionized employees' recall and other rights will remain unaffected by the Union Agreements. The Unions have agreed to extend this date to September 15, 2010 (the "Extension Date"), and have agreed that employees may be recalled until and including the Extension Date.

STAY EXTENSION

19. As described above, there continue to be a number of outstanding conditions regarding implementation of the Plan. Terrace Bay continues to work diligently with the assistance of the Monitor in order to resolve all outstanding issues related to these conditions with a view to implementing the Plan on or about September 10, 2010.

20. In order to provide sufficient time for Plan implementation, Terrace Bay believes that it is appropriate to extend the Stay Period to September 17, 2010.

21. This Affidavit is therefore made in support of Terrace Bay's motion for the relief described above, and for no other or improper purpose.

SWORN BEFORE ME at the City of Thunder Bay, in the Province of Ontario this 23rd day of August, 2010	)))))	
N.A. MELCHIORRE		**RUSSELL YORK**

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

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

Applicant

ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST

Proceeding commenced at Toronto

AFFIDAVIT OF RUSSELL YORK
(Sworn August 23, 2010)

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EXHIBIT "A"

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

ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST

THE HONOURABLE	)	TUESDAY, THE 27TH
	)	
MR. JUSTICE MORAWETZ	)	DAY OF JULY, 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.

SANCTION ORDER

THIS MOTION made by Terrace Bay Pulp Inc. (the "Applicant") for an Order approving and sanctioning the second amended and restated plan of compromise and arrangement dated June 25, 2010 (as may be amended, restated, modified or supplemented in accordance with its terms from time to time, the "Plan"), as approved by the Applicant's creditors, and which Plan is attached as **Schedule "A"** to this Order, was heard this day at 330 University Avenue, Toronto, Ontario.

UPON READING the within Notice of Motion, the Twelfth Report of the Monitor, Ernst & Young Inc. (the "Monitor") dated May 24, 2010, the Thirteenth Report of the Monitor dated June 17, 2010, the Fourteenth Report of the Monitor dated June 23, 2010, the Fifteenth Report of the Monitor dated June 27, 2010, the Sixteenth Report of the Monitor dated July 6, 2010 (the "Sixteenth Report"), the Seventeenth Report of the Monitor dated July 23, 2010 (the "Seventeenth Report"), and the Affidavit of Russell York sworn July 20, 2010, all filed, and upon hearing the submissions of counsel for the Applicant and the Monitor and such other interested parties as were present; upon being advised that all persons received notice of this hearing in accordance with the Order of this Court dated May 31, 2010 (the "Creditors' Meeting

Order"), as amended by the Order of this Court made June 29, 2010 (the "Amendment Order") and that no person has filed a Notice of Appearance in accordance with the Creditors' Meeting Order seeking to object to the Plan, and that no other person who might be interested in these proceedings other than as named on the Service List attached to the Notice of Motion, were served with the Notice of Motion or the Motion Record herein;

DEFINITIONS

1. **THIS COURT ORDERS** that all capitalized terms in this Order not otherwise defined herein shall have the meaning ascribed to them in the Plan.

SERVICE

2. **THIS COURT ORDERS** that the time for service of the Notice of Motion, the Sixteenth Report, the Seventeenth Report and the Motion Record in support of this Motion be and is hereby abridged, such that this Motion is properly returnable today and that any further service of the Notice of Motion and the Motion Record is hereby dispensed with and that service in the manner effected by the Applicant is validated in all respects.

3. **THIS COURT ORDERS AND DECLARES** that there has been good and sufficient service and delivery of the Creditors' Meeting Order, and all documents referred to in the Creditors' Meeting Order, including the Information Package, the Notice of Creditors' Meeting and the Plan, to all Eligible Voting Creditors (each term as defined in the Creditors' Meeting Order).

4. **THIS COURT ORDERS AND DECLARES** that the Creditors' Meetings were duly convened and held, all in conformity with the CCAA and the Orders of the Court made in these proceedings, including the Creditors' Meeting Order and the Amendment Order.

SANCTION OF THE PLAN

5. **THIS COURT ORDERS AND DECLARES** that:

   (a) the Plan has been approved by the required majority of Affected Creditors in each Class entitled to vote at the Creditors' Meetings in conformity with the CCAA;

(b) the Applicant has acted and is acting in good faith and with due diligence, and has complied with the provisions of the CCAA and the Orders of this Court made in the CCAA Proceedings in all respects;

(c) the Court is satisfied that the Applicant has not done nor has it purported to do anything that is not authorized by the CCAA; and

(d) the Plan and the transactions contemplated by it are fair and reasonable.

6. **THIS COURT ORDERS AND DECLARES** that the Plan (including, without limitation, the compromises, arrangements and releases set out therein) is hereby sanctioned and approved pursuant to Section 6 of the CCAA and, on the Effective Date, shall be effective and all associated steps, compromises, transactions, arrangements, releases and reorganizations effected thereby are hereby approved, binding and effective in accordance with the provisions of the Plan, and shall enure to the benefit of and will be binding on the Applicant, all Affected Creditors and all other Persons and parties named or referred to in, affected by, or subject to the Plan, including their respective heirs, administrators, executors, legal representatives, successors and assigns, as provided for in the Plan and this Order.

PLAN IMPLEMENTATION

7. **THIS COURT ORDERS** that the Applicant, and the Monitor, as the case may be, are hereby authorized and directed to take all steps and actions necessary or appropriate (as determined by the Applicant or the Monitor, as applicable) to implement the Plan in accordance with and subject to its terms, and enter into, execute, deliver, implement and consummate all of the transactions and agreements contemplated pursuant to the Plan, and such steps and actions are hereby approved.

8. **THIS COURT ORDERS** that upon the filing with this Court by the Monitor of a certificate, substantially in the form attached as Schedule "A" to the Plan (the "Monitor's Certificate"), signed by the Monitor, certifying that it has been advised by the Applicant that all of the conditions precedent set out in Sections 5.2 and 8.2 of the Plan, or as set out in paragraph 18 of this Order, have been satisfied or (to the extent legally permissible) waived, the

Plan shall become immediately effective and the Effective Date shall be the date as set out in such certificate.

EFFECT OF PLAN IMPLEMENTATION

9. **THIS COURT ORDERS** that subject to the performance by the Applicant of its obligations under the Plan and except to the extent expressly contemplated by the Plan or this Order, all obligations or agreements to which the Applicant is a party, other than agreements which were terminated, disclaimed or repudiated by the Applicant in accordance with the Initial Order prior to the deadline specified in the Creditors' Meeting 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, 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:

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

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

(c) any compromises or arrangements effected pursuant to the Plan; or

(d) 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.

10. **THIS COURT ORDERS** that from and after the Effective Date, 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, real property 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.

11. **THIS COURT ORDERS** that, as of the Effective Date, each Affected Creditor is hereby deemed to have consented and agreed to all of the provisions of the Plan in their entirety and, in particular, each Affected Creditor is hereby deemed:

(a) to have granted, executed and delivered to the Monitor and the Applicant all consents, releases, assignments, waivers or agreements required to implement and carry out the Plan in its entirety; and

(b) to have agreed that if there is any conflict between the provisions, express or implied, of any agreement or other arrangement, written or oral, existing between such Affected Creditor and the Applicant as of the Effective Date (other than those entered into by the Applicant on or after the Filing Date) and the provisions of the Plan, the provisions of the Plan take precedence and priority and the provisions of such agreement or other arrangements shall be deemed to be amended accordingly.

12. **THIS COURT ORDERS** that on the Effective Date, pursuant to and in accordance with the Plan, any and all Affected Claims of Affected Creditors of any nature against the Applicant shall be forever compromised, discharged and released, and the ability of any Affected Creditor to proceed against the Applicant in respect of or relating to any Affected Claims shall be forever discharged and restrained, and all proceedings with respect to, in

connection with or relating to such Affected Claims are hereby permanently stayed subject only to the rights of Affected Creditors to receive distributions pursuant to the Plan and this Order in respect of their Affected Claims, in the manner and to the extent provided for in the Plan. All proceedings with respect to any Claims not finally resolved and determined pursuant to the Claims Process Order shall remain stayed, and shall be resolved and determined in accordance with the Claims Process Order.

RELEASES

13. **THIS COURT ORDERS** that the releases and exculpations effected by the Plan are hereby 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 the Plan and shall enure to the benefit of all Persons released under the Plan, including, without limitation: (a) the Applicant and its present and former directors, officers, employees, agents, affiliates, professional advisors (including legal counsel) and associates; (b) the Monitor and its present and former partners, directors, officers, employees, agents, affiliates, professional advisors (including legal counsel) and associates; and (c) any Person who may claim contribution or indemnification against or from the Applicant (collectively, the "Released Parties").

14. **THIS COURT ORDERS** that effective on the Effective Date:

(a) The Applicant shall be forever released and discharged from all Unsecured Claims;

(b) Except as otherwise provided in the Plan or this 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 the 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, the Plan or the CCAA Proceedings, other than Excluded Claims and the Proven Township Claim and the right to enforce the Applicants' obligations under the Plan; and

(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, the Plan or the CCAA Proceedings, that could be asserted by or on behalf of the Applicant.

15. **THIS COURT ORDERS** that any and all Persons shall be and are hereby stayed from commencing, taking, applying for or issuing or continuing any and all steps or proceedings, including without limitation, administrative hearings and orders, declarations or assessments, commenced, taken or proceeded with or that may be commenced, taken or proceeded with against any Released Party in respect of all Claims and any other claims or matters which are released pursuant to paragraphs 13 and 14 of this Order and sections 10.5 and 10.7 of the Plan.

THE CHARGES AND ADMINISTRATION COSTS

16. **THIS COURT ORDERS** that all Charges established by the Initial Order or any other Order of the CCAA Court, shall be terminated, released and discharged effective on the Effective Date.

17. **THIS COURT ORDERS AND DECLARES** that, notwithstanding any of the terms of the Plan or this Order, the Applicant shall not be released or discharged from: (i) any Excluded Claims; and (ii) its obligation to pay the liabilities, costs, charges, fees, disbursements and expenses (including legal costs) of the Monitor, the Monitor's counsel or the Applicant's counsel in respect of the CCAA Proceedings and the implementation of the Plan, including the liabilities, costs, charges, fees, disbursements and expenses (including legal costs) of the Monitor with respect to the administration of the claims process under the Claims Process Order, and as escrow agent in relation to any escrow arrangements agreed to, or which may be hereafter agreed to, by the Monitor to facilitate the implementation of the Plan.

18. **THIS COURT ORDERS** that on or before the Effective Date, the Applicant shall fully pay all amounts secured by the Administration Charge that are required to be paid under section 5.2 of the Plan (the "**Administration Charge Payments**"), and that on or before the Effective Date, the Applicant shall have paid retainers (the "**Retainers**") to the Applicant's counsel, and to the Monitor and to its counsel, in such amounts, and on such terms, as are acceptable to each of the Applicant's counsel, the Monitor and its counsel, with respect to the liabilities, costs, charges, fees, disbursements and expenses of the Applicant's counsel, the Monitor, and its counsel, in relation to the CCAA Proceedings and the implementation of the Plan, including with respect to the administration of the claims process under the Claims Process Order, and as escrow agent in relation to any escrow arrangements agreed to, or which may be

hereafter agreed to, by the Monitor to facilitate the implementation of the Plan and in furtherance of any Order of this Court, including, without limitation, this Order and the duties of the Monitor described in paragraph 23 hereof.

INITIAL CCAA ORDER AND OTHER ORDERS

19. **THIS COURT ORDERS** that:

(a) other than as expressly set out herein or other Orders of the Court in the CCAA Proceedings, the provisions of the Initial Order shall terminate, including the Stay Period (as defined in the Initial Order) on the Effective Date except to the extent of the protections granted therein in favour of the Monitor, and specifically described in paragraphs 11, 12, 22, 23, and 25 therein, which shall continue in full force and effect and extend to the continuing actions and activities of the Monitor in the CCAA Proceedings as provided for herein, or any Order of this Court, and as specifically described in paragraph 23, which protections shall not terminate as of the date of filing of the Discharge Certificate (as hereinafter defined); and

(b) all other Orders made in the CCAA Proceedings, including, without limitation, the Claims Process Order, shall continue in full force and effect in accordance with their respective terms, except to the extent that such Orders are varied by or are inconsistent with this Order or any further Order of this Court made in the CCAA Proceedings.

THE MONITOR

20. **THIS COURT ORDERS** that the activities and conduct of the Monitor in relation to the Applicant, the CCAA Proceedings, the requirements of the Creditors' Meeting Order and the Amendment Order, and in conducting and administering the Creditors' Meetings on June 28, 2010 and June 30, 2010, respectively (as more particularly described in the Sixteenth Report and Seventeenth Report), be and are hereby ratified and approved.

21. **THIS COURT ORDERS** that the Sixteenth Report and the Seventeenth Report, and the actions and activities of the Monitor and its legal counsel as described therein, are hereby approved.

22. **THIS COURT ORDERS** that, effective upon the filing of the Discharge Certificate, all claims of any Person, whether such claims are direct, indirect, derivative or otherwise, against the Monitor, as well as its present and former partners, directors, officers, employees, agents, affiliates, professional advisors (including legal counsel) and associates, arising from or relating to the Monitor's capacity, conduct or the services provided by the Monitor to the Applicant in the CCAA Proceedings, including by acting as escrow agent, shall be and are hereby stayed, extinguished and forever barred from enforcement and the Monitor shall have no liability in respect thereof, save and except for any claim against the Monitor for gross negligence or wilful misconduct on its part.

23. **THIS COURT ORDERS** that, until its discharge as provided for in this Order, the appointment of Ernst & Young Inc. as Monitor pursuant to the Initial Order shall not expire or terminate on the Effective Date and shall continue, unless otherwise ordered by this Court, for the purposes of allowing, and shall be effective until, the completion by the Monitor of all its duties in relation to the claims process and all matters relating thereto as set out in the Claims Process Order and the completion by the Monitor of all other matters for which it is responsible in connection with the Plan, in its capacity as escrow agent, or pursuant to the Orders of this Court made in the CCAA Proceedings. The Monitor shall have a full right of payment and indemnity from the Applicant for all costs, charges, expenses (including legal costs), and any all liabilities and obligations it shall suffer or incur or be under, in carrying out its continuing responsibilities and duties in relation to the CCAA Proceedings, any Order made in these proceedings, as escrow agent, or otherwise, other than for gross negligence or wilful misconduct on its part.

24. **THIS COURT ORDERS** that the Monitor shall be discharged of its duties and obligations pursuant to the Plan and all Orders made in the CCAA Proceedings, upon the filing with this Court of a certificate (the "Discharge Certificate") of the Monitor certifying that the matters set out in paragraph 23 above are completed to the best of the Monitor's knowledge. The

Monitor shall have no powers or duties pursuant to the Initial Order from and after the date of filing of the Discharge Certificate, and all such powers and duties of the Monitor shall terminate as of the date of filing of the Discharge Certificate, but the protections of the Monitor as described in paragraph 19 herein shall not terminate.

25. **THIS COURT ORDERS AND DECLARES** that the Monitor is authorized and empowered, *nunc pro tunc*, to act as escrow agent in relation to any escrow arrangements it has or may agree to in order to facilitate the implementation of the Plan and any such escrow agreements entered into by the Monitor, in its sole discretion, are hereby approved.

STAY EXTENSION

26. **THIS COURT ORDERS** that the Stay Period (as defined in paragraph 11 of the Initial Order of the Honourable Justice Morawetz, dated March 11, 2010) is hereby extended until and including August 31, 2010.

GENERAL PROVISIONS

27. **THIS COURT ORDERS** that the Applicant and the Monitor are hereby granted leave to apply to this Court for such further advice, directions or assistance as may be necessary to give effect to the terms of the Plan.

EFFECT, RECOGNITION AND ASSISTANCE

28. **THIS COURT ORDERS** that this Order shall have full force and effect in all provinces and territories in Canada and abroad and as against all Persons against whom it may apply.

29. **THIS COURT ORDERS AND REQUESTS** the aid and recognition of any court or any judicial, regulatory or administrative body in any province or territory of Canada (including the assistance of any court in Canada pursuant to Section 17 of the CCAA) and the Federal Court 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 and any court or any judicial, regulatory or administrative body of the United States and the states or other subdivisions of the United States, including without limitation the United States Bankruptcy

Court, 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 Order.

30. **THIS COURT ORDERS** that this Order shall be posted on the website maintained by the Monitor (www.ey.com/ca/terracebay) and shall only be required to be served upon those parties who either have formally entered an appearance in these proceedings or those parties who appeared at the hearing of the motion for this Order.

Joanne Nicoara
Registrar, Superior Court of Justice

ENTERED AT / INSCRIT À TORONTO
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PER / PAR: JSN

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.

SECOND AMENDED AND RESTATED PLAN OF COMPROMISE AND ARRANGEMENT OF

TERRACE BAY PULP INC.

June 25, 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 JUNE 25, 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, and 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;

"**Class**" means each of the classes of Affected Creditors grouped for the purpose of considering and voting on this Plan and receiving distributions hereunder, being the Unsecured Class and the Township Class;

"**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 2:00 p.m.(Eastern time) on June 21, 2010, and any postponements, adjournments or amendments thereof, and for the Township Class on June 30, 2010 at 2:00 p.m. (Eastern Time), or at such other time as may be ordered by the Court, and any postponements, adjournments or amendments thereof;

"**Creditors' Meeting Order**" means the Order of the Court made May 31, 2010 which, among other things, sets the date of the Creditors' Meeting and establishes meeting procedures for the Creditors' Meetings, 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;

"**Matawa First Nations Litigation**" means the application brought by Aroland First Nation, Constance Lake First Nation, Eabametoong First Nation et. al. in the Ontario Superior Court of Justice (Divisional Court) in Court File no. DC-07-00000096-0000.

"**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 Township Claim**" means the Claim of the Township in the amount of **[$618,304.04]**;

"**Proven Unsecured Claim**" means Unsecured Claims, 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;

"**Township**" means The Corporation of the Township of Terrace Bay;

"**Township Agreement**" means the agreement dated as of June 25, 2010 entered into between the Applicant and the Township with respect to the deferral of municipal realty taxes payable by the Applicant, providing for, among other things, the amendment of this Plan to (i) establish a separate class for voting and distribution purposes to be comprised of the Township in respect of the Proven Township Claim; and (ii) provide for tax relief in the amount of $618,304.04.

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

"**Unsecured Claims**" means all Affected Claims (other than the Proven Township Claim) 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 the following Classes:

(a) the Unsecured Class – comprised of holders of Proven Unsecured Claims; and

(b) the Township Class – comprised of the Township.

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 (other than as set out in Section 10.5).

3.3 Claims Unaffected by the Plan

This following are excluded claims under the Plan (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) any Claim relating to the Matawa First Nations Litigation;

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

(i) 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' Meetings or receive any distributions under this Plan in respect of any portion of their Claim which is an Excluded Claim.

For greater certainty, the Proven Township Claim is not 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 AFFECTED 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 for the Unsecured Class, 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.

4.3 Voting by the Township Class

The Township shall be entitled to vote on this Plan at the Creditors' Meeting for the Township Class in the amount of the Proven Township Claim.

4.4 Township Agreement and Treatment of Township Class

Pursuant to the Township Agreement, the Applicant will repay the tax arrears owing to the Township (other than the Proven Township Claim) by December 31, 2012 in equal instalments on each regular tax instalment date, commencing with the first instalment date after execution of the Township Agreement. The Proven Township Claim will be cancelled on the date the last instalment under this tax deferral arrangement is paid, provided that the Applicant has complied with its obligations under the Township Agreement. If the Applicant is in default of its obligation under the Township Agreement, the Proven Township Claim and the balance of the Deferred Post-Filing Tax Amount (as defined in the Township Agreement) will become immediately payable and all rights and remedies of the Township, including under the *Municipal Act*, may be exercised by the Township.

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 holder of an Unsecured Claim (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 for the Unsecured Class, 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 holder of an Unsecured Claim 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 for the Unsecured Class 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 the Pro Rata Shares of the Plan Note 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 Unsecured Claims

No interest or penalties shall accrue or be paid on an Unsecured Claim from and after or in respect of the period following the Filing Date and no holder of an Unsecured Claim will be entitled to any interest in respect of such Unsecured Claim accruing on or after or in respect of the period following the Filing Date. All interest accruing on any Unsecured 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' MEETINGS

7.1 Creditors' Meetings and Conduct

The Creditors' Meetings 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 in each Class entitled to vote at the Creditors' Meetings, 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 in each class entitled to vote at the Creditors' Meetings, 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 in each Class entitled to vote at the Creditors' Meetings 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 in each Class entitled to vote at the Creditors' Meetings;

(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 transactions 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 transactions contemplated under this Plan;

(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;

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

(m) The Applicant shall have entered into agreements with Persons who have filed Claims secured by a Lien under the *Construction Lien Act* (Ontario)or taken other steps satisfactory to the Applicant to resolve such Claims.

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 certificate 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 for the Unsecured Class, 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' Meetings 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 for the Unsecured Class 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.

Notwithstanding the foregoing, the Applicant may vary, amend, modify or supplement this Plan at any time after the Creditors' Meeting for the Unsecured Class (but prior to obtaining the Sanction Order) in order to give effect to the terms of the Township Agreement, provided that such amendments are approved by the Court, are not materially prejudicial to the interests of any of the other Affected Creditors, and are necessary in order to give effect to the Township Agreement.

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' Meetings (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 or personal representatives, successors and assigns, as the case may be, and 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 Unsecured Claims; and (b) an absolute release and discharge of all indebtedness, liabilities and obligations of or in respect of the Unsecured 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 Unsecured 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

Proven Township Claim 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 (as it may be amended, restated, or supplemented from time to time in accordance with the provisions thereof, 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

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

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

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

Applicant

ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST

Proceeding commenced at Toronto

SANCTION ORDER

Blake, Cassels & Graydon LLP
Box 25, Commerce Court West
Toronto, Ontario M5L 1A9

Pamela Huff LSUC#: 27344V
Tel: (416) 863-2958

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

Jackie Moher LSUC#: 53166V
Tel: (416) 863-3174
Fax: (416) 863-2653

Lawyers for the Applicant

EXHIBIT "B"

ASSESSMENT REVIEW BOARD

IN THE MATTER OF SECTION 40 OF THE *Assessment Act*, R.S.0. 1990, C. A.31 as amended

AND IN THE MATTER OF complaint number 1775761 assigned with respect to assessment for taxation in **2005** with respect to the premises known municipally as 21 Mill Rd. JK304 315 to 317 Pt JK300; Roll No. 5854 000 001 00401 0000

BETWEEN:

MUNICIPAL PROPERTY ASSESSMENT CORPORATION
AND THE TOWNSHIP OF TERRACE BAY

RESPONDENTS

and

TERRACE BAY PULP INC.

COMPLAINANT

MINUTES OF SETTLEMENT

WHEREAS Terrace Bay Pulp Inc. purchased the subject property from NEENAH PAPER COMPANY OF CANADA (incorrectly described as NEEWAH PAPER COMPANY OF CANADA) and is currently the owner of the subject property;

AND WHEREAS Terrace Bay Pulp Inc. represents and warrants that it has carriage of the above noted complaint and has the authority to settle and execute minutes of settlement;

Now therefore:

1. The parties, the Complainant by its authorized representative, have agreed to settle complaint 1775761 on the following basis:

ROLL NUMBER	TAX YEAR	ASSESSMENT FROM	ASSESSMENT TO	RTC / RQT
5854 000 001 00401 0000	2005	32,544,000	23,500,000	
		29,817,600	20,819,170	LT
		2,580,900	2,537,760	LU
		145,500	143,070	CT

2. The parties certify that the Minutes of Settlement herein refer only to matters that are properly before the Board and that same contains all information which the parties wish the Board to incorporate into its order.

July 20, 2009
DATED

SIGNED: [signature]
MUNICIPAL PROPERTY ASSESSMENT CORPORATION

July 28, 2009
DATED

SIGNED: [signature]
TOWNSHIP OF TERRACE BAY

August 12, 2009
DATED

SIGNED: R.B. [signature] (Agent)
Terrace Bay Pulp Inc.
NEENAH PAPER INC.

ASSESSMENT REVIEW BOARD

IN THE MATTER OF SECTION 40 OF THE *Assessment Act*, R.S.0. 1990, C. A.31 as amended

AND IN THE MATTER OF complaint number 1827869 assigned with respect to assessment for taxation in **2006** with respect to the premises known municipally as 21 Mill Rd. JK304 315 to 317 Pt JK300; Roll No. 5854 000 001 00401 0000

BETWEEN:

MUNICIPAL PROPERTY ASSESSMENT CORPORATION AND THE TOWNSHIP OF TERRACE BAY

RESPONDENTS

and

KIMBERLEY-CLARK INC.

COMPLAINANT

MINUTES OF SETTLEMENT

1. The parties, the Complainant by its authorized representative, have agreed to settle complaint 1827869 on the following basis:

ROLL NUMBER	TAX YEAR	ASSESSMENT FROM	ASSESSMENT TO	RTC / RQT
5854 000 001 00401 0000	2006	32,000,000	23,500,000	
		29,319,170	20,819,170	LT
		2,537,760	2,537,760	LU
		143,070	143,070	CT

2. The parties certify that the Minutes of Settlement herein refer only to matters that are properly before the Board and that same contains all information which the parties wish the Board to incorporate into its order.

July 20, 2009
DATED

SIGNED:
MUNICIPAL PROPERTY ASSESSMENT CORPORATION

July 28, 2009
DATED

SIGNED: John Cremwell
TOWNSHIP OF TERRACE BAY

August 12, 2009
DATED

SIGNED: R.B. (Agent)
COMPLAINANT by its authorized representative
P.S. Johnson Legal Services Professional Corporation
NEENAH PAPER Inc.

ASSESSMENT REVIEW BOARD

IN THE MATTER OF SECTION 40 OF THE *Assessment Act,* R.S.0. 1990, C. A.31 as amended

AND IN THE MATTER OF complaint numbers 1903999 and 1930827 assigned with respect to assessment for taxation in **2007** with respect to the premises known municipally as 21 Mill Rd. JK304 315 to 317 Pt JK300; Roll No. 5854 000 001 00401 0000

BETWEEN:

MUNICIPAL PROPERTY ASSESSMENT CORPORATION AND THE TOWNSHIP OF TERRACE BAY

RESPONDENTS

and

TERRACE BAY PULP INC. and KIMBERLEY-CLARK INC.

COMPLAINANTS

MINUTES OF SETTLEMENT

1. The parties, the Complainant by its authorized representative, have agreed to settle complaint 1903999 on the following basis:

ROLL NUMBER	TAX YEAR	ASSESSMENT FROM	ASSESSMENT TO	RTC / RQT
5854 000 001 00401 0000	2007	32,000,000	23,500,000	
		29,319,170	20,819,170	LT
		2,537,760	2,537,760	LU
		143,070	143,070	CT

2. Complaint 1930827 is withdrawn.

3. The parties certify that the Minutes of Settlement herein refer only to matters that are properly before the Board and that same contains all information which the parties wish the Board to incorporate into its order.

July 20, 2009
DATED

SIGNED:
MUNICIPAL PROPERTY ASSESSMENT CORPORATION

July 28, 2009
DATED

SIGNED:
TOWNSHIP OF TERRACE BAY

August 12, 2009
DATED

SIGNED:
COMPLAINANTS by their authorized representative
P.S. Johnson Legal Services Professional Corporation

ASSESSMENT REVIEW BOARD

IN THE MATTER OF SECTION 40 OF THE *Assessment Act,* R.S.O. 1990, C. A.31 as amended

AND IN THE MATTER OF complaint numbers 1987062 and 1987071 assigned with respect to assessment for taxation in **2008** with respect to the premises known municipally as 21 Mill Rd. JK304 315 to 317 Pt JK300; Roll No. 5854 000 001 00401 0000

BETWEEN:

MUNICIPAL PROPERTY ASSESSMENT CORPORATION AND THE TOWNSHIP OF TERRACE BAY

RESPONDENTS

and

TERRACE BAY PULP INC. and KIMBERLEY-CLARK INC.

COMPLAINANTS

MINUTES OF SETTLEMENT

1. The parties, the Complainant by its authorized representative, have agreed to settle complaint 1987062 on the following basis:

ROLL NUMBER	TAX YEAR	ASSESSMENT FROM	ASSESSMENT TO	RTC / RQT
5854 000 001 00401 0000	2008	32,000,000	23,500,000	
		29,319,170	20,819,170	LT
		2,537,760	2,537,760	LU
		143,070	143,070	CT

2. Complaint 1987071 is withdrawn.

3. The Complaints acknowledge that MPAC has advised that land liable to assessment has been omitted in part from the tax roll for the 2008 taxation year, that the assessment will be corrected, and that a notice of omitted assessment for part of the 2008 taxation year is to be issued. The parties acknowledge that the within settlement does not limit the right of MPAC to correct the assessment in respect of land omitted from the tax roll for the 2008 taxation year or to issue notices of omitted assessments for the 2008 taxation year, and does not limit the right of the Complainants to appeal such assessment.

4. The parties certify that the Minutes of Settlement herein refer only to matters that are properly before the Board and that same contains all information which the parties wish the Board to incorporate into its order.

July 20, 2009
DATED

SIGNED:
MUNICIPAL PROPERTY ASSESSMENT CORPORATION

DATED	July 28, 2009	SIGNED:	TOWNSHIP OF TERRACE BAY
DATED	AUGUST 12 2009	SIGNED:	COMPLAINANTS by their authorized representative P.S. Johnson Legal Services Professional Corporation

EXHIBIT "C"

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.

Applicant

AFFIDAVIT OF RUSSELL YORK
(Sworn June 23, 2010)

I, **RUSSELL YORK**, of the City of Thunder Bay, in the Province of Ontario, **MAKE OATH AND SAY AS FOLLOWS:**

INTRODUCTION

1. I am the Vice President and Treasurer of the Applicant, Terrace Bay Pulp Inc. ("Terrace Bay"), and as such have knowledge of the matters deposed to in this Affidavit. Where this Affidavit is not based on my personal knowledge, it is based on information and belief, the source of which I have identified and I verily believe such information to be true.

2. This Affidavit is sworn in support of Terrace Bay's motion returnable Tuesday, June 29, 2010 for an Order, among other things:

   (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 Tuesday, June 29, 2010;

(b) approving settlement agreements between:

(i) the United Steel Workers, Local 665 (the "USW") and Terrace Bay (the "USW Agreement"), and

(ii) the International Brotherhood of Electrical Workers, Local 1861 (the "IBEW" and together with the USW, the "Unions") and Terrace Bay (the "IBEW Agreement"),

both dated June 11, 2010 (collectively, the "Union Agreements");

(c) declaring that the Crown Environmental Claim (as defined below) is a Proven Unsecured Claim (as defined in the Plan) in the amount of $187,515 as set out in the Monitor's Notice of Revision dated June 11, 2010 (the "Notice of Revision") which is subject to compromise pursuant to the terms of the Plan (as defined below);

(d) declaring that, upon execution of an agreement between Terrace Bay and Praxair Canada Inc. ("Praxair") with respect to Praxair's claims in the Claims Process and post-CCAA arrangements between Terrace Bay and Praxair, the Notice of Repudiation issued by Terrace Bay (the "Praxair Repudiation Notice") with respect to the VPSA Oxygen Supply Agreement dated March 31, 2003 between Terrace Bay and Praxair (the "Praxair Agreement") shall be withdrawn, shall be deemed not to have been issued and shall be of no force and effect, *nunc pro tunc*, to the date of delivery by Terrace Bay; and

(e) extending the Stay (as defined below) until July 30, 2010;

BACKGROUND

3. Terrace Bay operates a pulp mill (the "Mill") in the Town of Terrace Bay, Ontario (the "Town"). Terrace Bay is the primary employer for the Town and the nearby community of Schreiber, Ontario. Prior to commencing these CCAA proceedings (the "CCAA Proceedings"), Terrace Bay idled the Mill on February 23, 2009.

4. The Mill has operated in the Town since 1948, and when fully operational provides employment for 425 employees (375 unionized, 50 non-unionized) and operates 3 shifts, 7 days per week.

5. Terrace Bay commenced these CCAA Proceedings pursuant to the Initial Order of this Honourable Court dated March 11, 2009 (the "Initial Order") and Ernst & Young Inc. was appointed as Monitor (the "Monitor"). The stay of proceedings pursuant to the Initial Order (the "Stay") has been extended from time to time since the issuance of the Initial Order and most recently until June 30, 2010, pursuant to the Order of the Honourable Mr. Justice Morawetz dated April 30, 2010.

6. During the CCAA Proceedings, Terrace Bay has worked diligently with the Monitor to maximize realizations for all of its stakeholders while continuing to explore options which would allow it to exit the CCAA Proceedings and restart the Mill. Terrace Bay has proceeded with a view to preserving its business as a going concern and the belief that the Mill is a viable operation in improved market conditions, particularly now that world pulp markets have improved significantly.

7. On December 18, 2009, Terrace Bay sought and obtained an Order approving a claims process for the purposes of calling for and determining creditor claims (the "Claims Process"). This Order was subsequently amended to exclude claims of employees in their capacity as employees. The Applicant and the Monitor continue to administer the Claims Process.

8. Terrace Bay prepared a plan of arrangement and compromise (as may be amended from time to time, the "Plan"). Pursuant to the Creditors' Meeting Order, a copy of which is attached hereto as **Exhibit "A"**, this Court authorized Terrace Bay to file the Plan and call a meeting of its creditors (the "Creditors' Meeting") for the purpose of voting on the Plan. In accordance with the Creditors' Meeting Order, the approved Information Package (as defined in the Meeting Order) was sent to all known creditors. The Information Circular (which was included in the Information Package sent to known creditors) included disclosure of the Union Agreements and Terrace Bay's intention to seek Court approval of same.

9. The Creditors' Meeting was originally scheduled for Monday, June 21, 2010 in Thunder Bay. In preparation for the Creditors' Meeting, the Monitor served its Thirteenth Report dated June 17, 2010 (the "Thirteenth Report"), a copy of which is attached hereto as **Exhibit "B"**.

10. As a result of certain outstanding conditions with respect to the implementation of the Plan, as set out at paragraphs 21-22 of the Thirteenth Report, the Creditors' Meeting was adjourned from June 21, 2010 until June 28, 2010. Copies of the Notice to Creditors Regarding the Adjournment of the Creditors' Meeting dated June 18, 2010 and the Notice to Creditors Regarding the Rescheduling, Location and Time of the Creditors' Meeting, dated June 21, 2010, are attached hereto as **Exhibits "C" and "D"**, respectively.

THE UNION AGREEMENTS

11. As described above, claims of employees (in their capacity as employees) are excluded from the Claims Process. Rather, Terrace Bay has successfully negotiated agreements with the Unions with respect to the resolution of claims with Terrace Bay's unionized employees. The Union Agreements were ratified by the Unions in March, 2010, but are both subject to Court approval. The USW Agreement and the IBEW Agreement are attached hereto as **Exhibits "E"** and **"F"**, respectively, without the schedules thereto which identify the individual employees and quantum of their individual claims. These schedules have not been

made public to protect the privacy rights of individual employees, but can be made available to the Court on a confidentially basis, if necessary.

12. Terrace Bay determined that it was able to allocate $400,000 for the settlement of severance and termination pay claims based on anticipated cash needs post-CCAA emergence. These claims, if required to be paid in full, would be in excess of $2.8 million. Of this $400,000, $30,000 was allocated to funding the obligations under the IBEW Agreement and the balance was allocated to funding the obligations under the USW Agreement.

i. **The USW Agreement**

13. The USW Agreement divides the employees represented by the USW into two categories. The employees listed on Schedule "A" will all be recalled on a date between June 30, 2010 and August 31, 2010, depending upon the timing of the implementation of the Plan and reopening of the Mill. In consideration of the length of time that the Mill has been idled, they will however be given the option to elect not to return to work. The employees listed on Schedule "B" are those who lost their employment status when their recall rights expired in the spring of this year. Their employment was terminated at that time.

14. Schedule "A" employees who elect not to return to work between June 30, 2010 and August 31, 2010 in accordance with the USW Agreement will be deemed to have terminated their employment and renounced all recall rights effective June 29, 2010. The USW Agreement provides for $113,000 to fund claims of termination and/or severance pay to such employees. Employees who elect not to return to work in accordance with the USW Agreement will receive an amount equal to their claim as set out in Schedule "A" to the USW Agreement, provided that if the total amount paid out to such employees exceeds $113,000, then this amount will be shared pro rata among such employees. Schedule A has not been made public to protect the privacy rights of employees.

15. The Schedule "B" employees will be paid termination pay and/or severance pay in the amounts set out in Schedule "B". Schedule B has not been made public to protect the privacy rights of employees. Total amounts payable to Schedule "B" employees for termination pay and/or severance total $257,000.

ii. **The IBEW Agreement**

16. Under the IBEW Agreement, all employees will be recalled on a date between June 30, 2010 and August 31, 2010, depending upon the timing of implementation of the Plan and the reopening of the Mill. Pursuant to the IBEW Agreement, if the employee's recall rights have expired, they will be offered recall with full rights of seniority. For those employees who refuse recall, a total amount of $30,000 will be made available on a pro rata basis on account of their severance and termination pay claims.

iii. **Benefits of Union Agreements**

17. The Union Agreements are mutually beneficial to the Unions and Terrace Bay. The Union Agreements provide the following benefits to Terrace Bay:

- the capping of liability for severance and termination claims
- the waiver of claims relating to mass termination
- the establishment of a smooth system for recall
- a cap on drug coverage claims where there was no previous limitation on liability so that Terrace Bay will now be in a position obtain insurance
- significant savings on vacation pay claims
- final resolution of outstanding union grievances
- the reduction of floating holiday rights

18. The Union Agreements will provide the following benefits to the USW and the IBEW:

- the prospect of the return to work for the majority of the bargaining unit employees
- the extension of recall rights with full seniority for many employees
- payment in full of severance and termination pay for those employees not offered extension of recall rights
- funding for termination and severance claims for those employees offered recall rights but who elect not to return to work

THE CROWN ENVIRONMENTAL CLAIM

19. Her Majesty the Queen in Right of Ontario (the "Crown") filed a Proof of Claim dated February 8, 2010 (the "Crown Environmental Claim") in the Claims Process with respect to certain offences under the *Environmental Protection Act* (Ontario) that occurred in February and May, 2008, which were the subject of a Summons and Information (the "Summons") issued to Terrace Bay on November 2, 2009, by the Ontario Court of Justice (Provincial Offences) sitting in Thunder Bay (the "Provincial Offences Court"). Based on an agreement between the Crown and Terrace Bay, on June 7, 2010, the Provincial Offences Court ordered payment by Terrace Bay in the amount of $187,515, representing the fine, surcharge and costs with respect to Terrace Bay's conviction for three of the offences under the Summons. Terrace Bay and the Crown further agreed that the Crown Environmental Claim would be subject to compromise pursuant to the terms of the Plan.

20. Accordingly, the Monitor delivered the Notice of Revision, reducing the amount claimed by the Crown in its Proof of Claim to $187,515. Copies of the Notice of

Revision and the accompanying letter from Terrace Bay's counsel dated June 11, 2010 are attached hereto as **Exhibit "G"**.

21. Accordingly, on this motion, Terrace Bay seeks a declaration of this Court that the Crown Environmental Claim, as revised by the Notice of Revision, is a Proven Unsecured Claim which is subject to compromise pursuant to the terms of the Plan.

THE PRAXAIR REPUDIATION NOTICE

22. Praxair filed a Proof of Claim in the Claims Process with respect to both pre-filing and post-filing amounts which it claimed were due and owing pursuant to the Praxair Agreement.

23. On June 1, 2010, Terrace Bay's counsel sent the Praxair Repudiation Notice to counsel for Praxair, a copy of which is attached hereto as **Exhibit "H"**.

24. Terrace Bay and Praxair have subsequently reached an agreement in principle which will address Praxair's Proof of Claim and establish post-CCAA supply arrangements between Praxair and Terrace Bay. One of the terms of this agreement is the withdrawal of the Praxair Repudiation Notice such that it be deemed not to have been issued and to be of no force and effect.

25. Terrace Bay believes that the terms of its proposed agreement with Praxair are reasonable and advantageous to Terrace Bay, and as such, on this motion, Terrace Bay seeks a declaration that upon execution of this proposed agreement, the Praxair Repudiation Notice shall be withdrawn, deemed not to have been issued

and to be of no force and effect, *nunc pro tunc*, to the date of delivery by Terrace Bay.

STAY EXTENSION

26. As described above, the Creditors' Meeting was adjourned from June 21, 2010 to June 28, 2010 in order to permit Terrace Bay to address a number of outstanding conditions regarding implementation of the Plan. These conditions are described in the Thirteenth Report. The date for the Sanction Hearing has been scheduled for July 13, 2010. Terrace Bay continues to work diligently with the assistance of the Monitor in order to resolve the issues related to these conditions with a view to bringing the Plan forward for approval and sanction by this Court after approval by Terrace Bay's creditors. If the Plan is sanctioned on July 13, 2010 by this Honourable Court, Terrace Bay anticipates the immediate commencement of pre-production activities, subject to the consent of the Monitor, pending full resumption of Mill operations on Plan implementation and exit from CCAA.

27. In order to provide sufficient time for sanction and Plan implementation, Terrace Bay believes that extending the Stay Period for an additional time period of 30 days would be appropriate.

28. This Affidavit is therefore made in support of Terrace Bay's motion for, among other things, approval of the Union Agreements, declarations with respect to the Crown Environmental Claim and the Praxair Repudiation Notice and an extension of the Stay Period until July 30, 2010, and for no other or improper purpose.

SWORN BEFORE ME at the City of Thunder Bay, in the Province of Ontario this 23rd day of June, 2010	)))))	
A Commissioner, etc.		**RUSSELL YORK**

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

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

Applicant

ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST

Proceeding commenced at Toronto

AFFIDAVIT OF RUSSELL YORK
(Sworn June 23, 2010)

BLAKE, CASSELS & GRAYDON LLP
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Lawyers for the Applicant

EXHIBIT “D”

MEMORANDUM OF SETTLEMENT

Between:

TERRACE BAY PULP INC.
("TBPI")

-and-

UNITED STEELWORKERS, LOCAL 665
(the "Union")

WHEREAS pursuant to the Order of the Honourable Mr. Justice Morawetz of the Ontario Superior Court of Justice (the "CCAA Court") dated March 11, 2009, TBPI was granted protection under the *Companies' Creditors Arrangement Act* (the "CCAA Proceedings") and Ernst & Young Inc. was appointed Monitor of TBPI;

AND WHEREAS TBPI's operations have been shut down since February 23, 2009;

AND WHEREAS the Union is a party to a collective agreement effective August 29. 2006 (the "Collective Agreement") with TBPI;

AND WHEREAS TBPI and the Union (collectively "the Parties") wish to amend the Collective Agreement and settle certain issues to facilitate the restructuring of TBPI, its emergence from the CCAA Proceedings, the sanction and successful implementation of a Plan of Compromise and Arrangement (a "Plan") and the re-commencement of TBPI's operations,

THE PARTIES hereby agree as set out herein:

1. This Memorandum of Settlement and the Schedules attached hereto are subject to and conditional upon the approval of the CCAA Court and the approval and sanction by the CCAA Court of the Plan.

2. (a) The amounts of the claims of employees represented by the Union (collectively the "Employees" and individually an "Employee") for termination pay and/or severance pay set out in Schedules A and B have been calculated in accordance with the Collective Agreement.

   (b) The amounts payable on termination pay and/or severance pay claims to Employees listed in Schedule A, if any, shall be determined in accordance with paragraph 4 of this Memorandum of Settlement.

(c) The amounts payable on termination pay and/or severance pay claims to Employees listed in Schedule B is as set out in paragraph 10 of this Memorandum of Settlement.

(d) The total amounts of termination pay and/or severance pay payable to Employees under paragraphs 4 and 10 shall remain the same irrespective of the total number of employees of TPBI whose employment terminates.

(e) The Union agrees to the enforcement and compromise of termination pay and severance pay claims of Employees represented by the Union arising under the Collective Agreement and under the *Employment Standards Act, 2000* in accordance with the terms of this Memorandum of Settlement and the Union agrees that its decision not to seek enforcement of the same other than in accordance with this Memorandum of Settlement shall be binding on the Employees and that the Union has the authority and jurisdiction to bind the Employees to the terms set out and in the manner contemplated herein.

Schedule A Employees

3. In contemplation of the implementation of a Plan and the re-commencement of TBPI's operations, the Employees listed in Schedule A will all be recalled between June 30, 2010 and August 31, 2010. The Parties agree that the letter, a copy of which is attached at Schedule AL, constitutes valid and effective notice of recall under the Collective Agreement for any return to work between June 30, 2010 and August 31, 2010. The Parties further agree that Schedule A Employees, other than those who elect not to return to work, will receive further written notification of their report to work date at least 10 days in advance thereof.

4. Schedule A Employees who elect not to return to work between June 30, 2010 and August 31, 2010 are required to notify TBPI in writing on or before June 29, 2010 that the Employee elects to refuse recall. All Schedule A Employees who so notify TBPI will be deemed to have terminated their employment and renounced all recall rights effective June 29, 2010 and shall be paid termination and/or severance pay in an amount calculated in the following manner:
   (a) $113,000.00 shall be made available by TBPI to be used to pay termination and/or severance pay claims of Schedule A Employees who elect not to return to work and refuse recall. The amount to be paid to each such Schedule A Employee will be the amount set out in Schedule A unless the total to be paid to all such Schedule A Employees exceeds the balance of the $113,000.00, in which case the $113,000.00 will be distributed on a pro rata basis (based on the amounts referred to in Schedule A) to the Schedule A Employees who elected not to return to work and refuse recall in accordance with the terms of the Memorandum of Settlement.

(b) Any of the $113,000.00 remaining after all payments outlined in (a) have been made shall be returned to TBPI

5. Any Schedule A Employee who does not notify TBPI in writing on or before June 29, 2010 that the Employee elects to refuse recall shall be deemed to accept recall between June 30, 2010 and August 31, 2010. A Schedule A Employee who accepts recall or is deemed to accept recall under paragraph 3 will not have any claims for termination and/or severance pay.

6. In the event that a Schedule A Employee who is deemed to have accepted recall in accordance with paragraph 5 fails to return to work when recalled, that Employee will be deemed to have terminated his/her employment on the date the Employee fails to return to work and that Employee's recall rights shall be extinguished and his/her claim to any and all entitlement, including claims against TBPI for termination pay and/or severance pay, shall all be released and forever barred and extinguished

7. The Union agrees that it will not file a grievance or otherwise take any steps to enforce a claim for termination pay and/or severance pay under the Collective Agreement or under the *Employment Standards Act, 2000* with respect to any Employee who is recalled under paragraph 3 or any Employee who is deemed to have terminated their employment under paragraphs 4 or 6 and all such claims are released, and forever barred and extinguished.

8. In the event that TBPI's operations do not re-commence resulting in Schedule A Employees who have elected to accept recall not being recalled on or before August 31, 2010, those Schedule A Employees' recall and other rights remain unaffected by this Memorandum of Settlement.

Schedule B Employees

9. The parties agree that the Employees listed in Schedule B have lost their employment status and recall rights and that their employment terminated on the date they lost their recall rights.

10. The Employees listed in Schedule B shall be paid termination pay and/or severance pay in the amounts set out in Schedule B.

11. In the event that any Employee listed in Schedule B is subsequently rehired by TBPI, that Employee shall commence employment as a new employee.

12. The Union agrees that it will not file a grievance or otherwise take any steps to enforce a claim for termination pay and/or severance pay under the Collective Agreement or under the *Employment Standards Act, 2000* with respect to any Employees who have lost their employment status and recall rights and whose

employment has been terminated and all such claims are released and forever barred and extinguished.

Other Matters

13. This Agreement shall be effective on the effective date of the Plan.

14. The Parties agree that drug coverage shall be capped at a maximum of $7,500.00 per family per calendar year for any individual who is both an Employee and who receives LTD benefits.

15. The Union agrees to withdraw its Group and Policy grievances dated February 9, 2010 on a with prejudice basis and further agrees that it will not file any individual or other grievances or commence or continue any proceeding in any other forum relating directly or indirectly to the issues raised in the Group and Policy grievances dated February 9, 2010.

16. The Parties agree that there shall be no entitlement to Floating Holidays under the Collective Agreement for 2009.

17. TBPI agrees that the Collective Agreement provisions relating to Floating Holidays shall apply in 2010 and 2011.

18. TBPI agrees that the Clothing Allowance for 2010 provided for in the Collective Agreement shall be paid after 2 months of operation.

19. The Union agrees to withdraw all existing vacation pay grievances and undertakes not to file any other grievances relating directly or indirectly to the subject matter of the grievances that are withdrawn.

20. The Union on behalf of the Employees, except as provided herein, hereby releases any and all other claims against TBPI arising out of the Collective Agreement and/or the *Employment Standards Act* which are based on circumstances that exist or are alleged to exist as of the date of this Memorandum of Settlement and all such claims are hereby forever barred and extinguished.

21. The Parties agree that TBPI's system relating to the calculation of vacation pay shall remain in effect for the balance of the term of the Collective Agreement and may be brought forward as a proposed amendment by the Union at the next round of bargaining.

22. The Parties agree to review the Oulette Grievance following the issuance of the WSIB Decision that is expected this spring.

23. The Parties agree to the resolution of the Gerlach and Commisso Discipline Grievances through the removal of the infractions from the Employee's records.

SIGNED AT ~~TERRACE~~ Thunder BAY, ONTARIO THIS 11 DAY OF June , 2010.

FOR TBPI	**FOR THE UNION**
[signature]	Herbert [signature]

EXHIBIT "E"

MEMORANDUM OF SETTLEMENT

Between:

TERRACE BAY PULP INC.
("TBPI")

-and-

INTERNATIONAL BROTHERHOOD OF ELECTRICAL WORKERS, LOCAL 1861
(the "Union")

WHEREAS pursuant to the Order of the Honourable Mr. Justice Morawetz of the Ontario Superior Court of Justice (the "CCAA Court") dated March 11, 2009, TBPI was granted protection under the *Companies' Creditors Arrangement Act* (the "CCAA Proceedings") and Ernst & Young Inc. was appointed Monitor of TBPI;

AND WHEREAS TBPI's operations have been shut down since February 23, 2009;

AND WHEREAS the Union is a party to a collective agreement effective August 29, 2006 (the "Collective Agreement") with TBPI;

AND WHEREAS TBPI and the Union (collectively "the Parties") wish to amend the Collective Agreement and settle certain issues to facilitate the restructuring of TBPI, its emergence from the CCAA Proceedings, the sanction and successful implementation of a Plan of Compromise and Arrangement (a "Plan") and the re-commencement of TBPI's operations,

THE PARTIES hereby agree as set out herein:

1. This Memorandum of Settlement and the Schedules attached hereto are subject to and conditional upon the approval of the CCAA Court, and the approval and sanction by the CCAA Court of the Plan.

2. (a) The amounts of the claims of employees represented by the Union (collectively the "Employees" and individually an "Employee") for termination pay and/or severance pay set out in Schedules A and B have been calculated in accordance with the Collective Agreement.

   (b) The amounts payable on termination pay and/or severance pay claims to Employees listed in Schedules A and B, if any, shall be determined in accordance with paragraph 4 of this Memorandum of Settlement.

(c) The total amounts payable on termination pay and/or severance pay claims to Employees under paragraph 4 shall remain the same irrespective of the total number of employees of TBPI whose employment terminates.

(d) The Union agrees to the enforcement and compromise of termination pay and severance pay claims of Employees represented by the Union arising under the Collective Agreement and under the *Employment Standards Act, 2000* in accordance with the terms of this Memorandum of Settlement and the Union agrees that its decision not to seek enforcement of the same other than in accordance with this Memorandum of Settlement shall be binding on the Employees and that the Union has the authority and jurisdiction to bind the Employees to the terms set out and in the manner contemplated herein.

3. In contemplation of the implementation of a Plan and the re-commencement of TBPI's operations, the Employees listed in Schedules A and B will all be recalled between June 30, 2010 and August 31, 2010. The Parties agree that the letter, a copy of which is attached at Schedule C, constitutes valid and effective notice of recall under the Collective Agreement for any return to work between June 30, 2010 and August 31, 2010. The Parties further agree that Schedules A and B Employees, other than those who elect not to return to work, will receive further written notification of their report to work date at least 10 days in advance thereof.

4. Schedules A and B Employees who elect not to return to work between June 30, 2010 and August 31, 2010 are required to notify TBPI in writing on or before June 29, 2010 that the Employee elects to refuse recall. All Schedules A and B Employees who so notify TBPI will be deemed to have terminated their employment and renounced all recall rights effective June 29, 2010 or on the date the Employee's recall rights expired, whichever is earlier, and shall be paid termination and/or severance pay in an amount calculated in the following manner:
    - **a.** $30,000.00 shall be made available by TBPI to settle the claims of Schedules A and B Employees who elect not to return to work and refuse recall. The amount to be paid to each such Schedule A and B Employee will be the amount set out in Schedules A and B unless the total to be paid to all such Schedule A and B Employees exceeds $30,000.00, in which case the $30,000.00 will be distributed on a pro rata basis (based on the amounts referred to in Schedules A and B) to the Schedule A and B Employees who elected not to return to work and refuse recall in accordance with the terms of the Memorandum of Settlement.
    - **b.** Any of the $30,000.00 remaining after all payments outlined in (a) have been made shall be returned to TBPI

5. Any Schedule A or B Employee who does not notify TBPI in writing on or before June 29, 2010 that the Employee elects to refuse recall shall be deemed to accept recall between June 30, 2010 and August 31, 2010. A Schedule A Employee who accepts recall or is deemed to accept recall under paragraph 3 will not have any claim for termination and/or severance pay.

6. In the event that a Schedule A or B Employee who is deemed to have accepted recall in accordance with paragraph 5 subsequently fails to return to work when recalled, that Employee will be deemed to have terminated his/her employment on the date the Employee fails to return to work or on the date the Employee's recall rights expired, whichever is earlier, and that Employee's recall rights shall be extinguished and his/her claim to any and all entitlement, including claims against TBPI for termination pay and/or severance pay, shall all be released and forever barred and extinguished.

7. The Union agrees that it will not file a grievance or otherwise take any steps to enforce a claim for termination pay and/or severance pay under the Collective Agreement or under the *Employment Standards Act, 2000* with respect to any Employee who is recalled under paragraph 3 or any Employee who is deemed to have terminated their employment under paragraphs 4 or 6 and all such claims are released, and forever barred and extinguished.

8. In the event that TBPI's operations do not re-commence resulting in Schedule A or B Employees who have elected to accept recall not being recalled on or before August 31, 2010, those Schedule A and B Employees' recall, if any, and other rights remain unaffected by this Memorandum of Settlement.

9. The Employees listed in Schedule B are Employees whose recall rights expired on or before February 23, 2010 and whose employment would have terminated but for this Memorandum of Settlement. These Employees will have their employment continued and will be offered recall in accordance with and subject to the terms set out in paragraphs 3 to 8 hereof.

Other Matters

10. This Agreement shall become effective on the effective date of the Plan.

11. The Parties agree that drug coverage shall be capped at a maximum of $7,500.00 per family per calendar year for any individual who is both an Employee and who receives LTD benefits.

12. The Parties agree that there shall be no entitlement to Floating Holidays under the Collective Agreement for 2009.

13. TBPI agrees that the Collective Agreement provisions relating to Floating Holidays shall apply in 2010 and 2011. The parties have reviewed Schedules A and B and confirm that all of the individuals listed on both Schedules will, following their return to work, be entitled to 60 hours floating holidays in each of 2010 and 2011.

14. TBPI agrees that the Clothing Allowance for 2010 provided for in the Collective Agreement shall be paid after 2 months of operation.

15. The Union agrees to withdraw all existing vacation pay grievances and undertakes not to file any other grievances relating directly or indirectly to the subject matter of the grievances that are withdrawn.

16. The Union on behalf of the Employees, except as provided herein, hereby releases any and all other claims against TBPI arising out of the Collective Agreement and/or the *Employment Standards Act* which are based on circumstances that exist or are alleged to exist as of the date of this Memorandum of Settlement and all such claims are hereby forever barred and extinguished.

17. The Parties agree that TBPI's system relating to the calculation of vacation pay shall remain in effect for the balance of the term of the Collective Agreement and may be brought forward as a proposed amendment by the Union at the next round of bargaining.

SIGNED AT TERRACE BAY, ONTARIO THIS 11 **DAY OF** JUNE **, 2010.**

FOR TBPI	**FOR THE UNION**
[signature]	[signature]
[signature]	[signature]
	[signature]