TAB 1-A

SCHEDULE "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 June 6, 2010 (the "Sixteenth Report"), the Seventeenth Report of the Monitor dated July •, 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") in these proceedings and that none of the persons who might be interested in these proceedings, other than those who have filed a Notice of Appearance in accordance with the Creditors' Meeting Order or are otherwise 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' Meeting was 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 been 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 any nature against the Applicant shall

be forever compromised, discharged and released, and the ability of any Person 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 certificate provided in paragraph 24 below, 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.

Subject to paragraph 19, 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.

Schedule "1"

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

TABLE OF CONTENTS

TABLE OF CONTENTS
(continued)

Page

TABLE OF CONTENTS
(continued)

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 to be entered into between the Applicant and the Township, as it may be amended, restated, or supplemented from time to time, 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, and any proceeds paid pursuant to 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 obligations 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.