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) there is no impediment on the Effective Date to the payment by the Applicant to Lucky Star Holdings Inc. of the claim referenced in section 3.3(i) of this Plan;

(m) 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

(n) 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.

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

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

ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)

Proceeding commenced at Toronto

SECOND AMENDED AND RESTATED PLAN OF COMPROMISE AND ARRANGEMENT OF TERRACE BAY PULP INC.
(June 25, 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
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Lawyers for the Applicant

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 JULY 27, 2010)

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
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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 July 20, 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 Tuesday, July 27, 2010 for an Order, among other things:

   (a) abridging the time for service of the Notice of Motion, the Sixteenth Report of the Monitor, Ernst & Young Inc. (the "Monitor") dated July 6, 2010 (the "Sixteenth Report"), the Monitor's Seventeenth Report, to be filed (the "Seventeenth Report") and the Motion Record, and declaring that the motion is properly returnable on Tuesday, July 27, 2010;

(b) approving and sanctioning the Applicant's second amended and restated plan of compromise and arrangement dated June 25, 2010 (as amended, restated or replaced from time to time, the "Plan");

(c) authorizing and directing the implementation of the Plan by the Applicant and the Monitor;

(d) declaring that the Applicant has complied with the provisions of the *Companies' Creditors Arrangement Act* (Canada) R.S.C. 1985, c. C-36 (the "CCAA"), the Orders of the Court in these CCAA proceedings (the "CCAA Proceedings") and that the Plan is fair and reasonable;

(e) declaring that the meetings of the creditors of the Applicant held on: (i) June 28, 2010 in respect of the Unsecured Class (as defined in the Plan) (the "Creditors' Meeting"); and (ii) June 30, 2010 in respect of the Township Class (as defined in the Plan) (the "Township Meeting"), were duly called, held and conducted in conformity with the CCAA and in accordance with all other Orders of the Court in these proceedings, including the provisions of the Creditors' Meeting Order dated May 31, 2010 (the "Creditors' Meeting Order") and the Order dated June 29, 2010, as applicable;

(f) approving the activities and conduct of the Monitor in relation to the Applicant, the CCAA Proceedings, and in conducting and administering the Creditors' Meeting and the Township Meeting, and approving the Sixteenth Report, the Seventeenth Report and the activities of the Monitor as described therein;

(g) extending the Stay Period (as defined in the Initial Order of the Honourable Mr. Justice Morawetz dated March 11, 2009) to and including August 31, 2010;

(h) authorizing and empowering, *nunc pro tunc*, the Monitor to act as escrow agent in relation to any escrow arrangements it has agreed to or may agree to in order to facilitate the implementation of the Plan and approving any such escrow agreements entered into by the Monitor; and

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

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 the CCAA Proceedings, Terrace Bay idled the Mill on February 23, 2009.

4. Terrace Bay commenced the CCAA Proceedings pursuant to the Initial Order dated March 11, 2009, 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 July 30, 2010, pursuant to the Stay Extension Order (as defined below).

5. 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 with the belief that the Mill is a viable operation in improved market conditions, particularly now that world pulp markets have improved significantly.

6. 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.

7. On May 31, 2010, Terrace Bay sought and obtained the Creditors' Meeting Order authorizing Terrace Bay to file the Plan and call a meeting of its creditors for the purpose of voting on the Plan. A copy of the Creditors' Meeting Order is attached

hereto as Exhibit "A". In accordance with the Creditors' Meeting Order, the approved Information Package (as defined in the Creditors' Meeting Order) was sent to all known creditors.

8. 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").

9. 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.

AMENDMENTS TO THE PLAN AND CREDITORS' MEETING ORDER

10. By separate Orders of this Court dated June 29, 2010, Terrace Bay obtained, among other things, an extension of the Stay Period (the "Stay Extension Order") to July 31, 2010 and certain amendments to the Creditors' Meeting Order (the "Amendment Order"). Copies of the Stay Extension Order and the Amendment Order are attached hereto as Exhibits "B" and "C", respectively.

11. In support of the motion seeking the Stay Extension Order and the Amendment Order, Terrace Bay filed my Affidavits sworn June 23, 2010 (the "June 23 Affidavit") and June 28, 2010 (the "June 28 Affidavit") copies of which, without Exhibits, are attached hereto as Exhibits "D" and "E", respectively.

12. The Plan, as originally filed, has been amended twice:

(i) in a First Amended and Restated Plan of Compromise and Arrangement that was filed with the Court and notice of which was provided to Affected Creditors (as defined in the Plan) on June 24, 2010 in accordance with the Creditors' Meeting Order; and

(ii) in a Second Amended and Restated Plan of Compromise and Arrangement also filed with the Court and notice of which was provided to Affected Creditors on June 25, 2010 in accordance with the Creditors' Meeting Order, a copy of which is attached hereto as Exhibit "F".

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Complete details of the amendments to the Plan and the steps taken to give notice to creditors of the amendments are set out in the Monitor's Fifteenth Report.

13. The Creditors' Meeting Order originally contemplated that all Affected Creditors would be grouped into a single class of creditors, being the Unsecured Class. However, as a result of Terrace Bay entering into an agreement with the Township (the "Township Agreement"), Terrace Bay sought and obtained the Amendment Order which among other things, authorizes the inclusion of the Township in a separate class of creditors, being the "Township Class" and the holding of a meeting for the "Township Class". A summary of the Township Agreement and the treatment of the Township under the Plan is included in the Fifteenth Report.

14. As a result of the amendments to the Creditors' Meeting Order, the procedures contained therein applied to the conduct of the meeting of the Unsecured Class, and the Amendment Order governed the procedures and conduct of the Township Meeting.

OUTCOME OF CREDITORS' MEETINGS

15. The Creditors' Meeting for the Unsecured Class was held on June 28, 2010 in accordance with the Creditors' Meeting Order. The requisite majorities of Eligible Voting Creditors (as defined in the Creditors' Meeting Order) voted in favour of the Plan. The results of the vote are more particularly described in the Sixteenth Report and the June 28 Affidavit.[1]

16. The Township Meeting was held on June 30, 2010 in accordance with the Amendment Order. The Township voted its Proven Township Claim (as defined in the Plan) in favour of the Plan.

[1] In the June 28 Affidavit I advised the Court that the number of Eligible Voting Creditors with Proven Unsecured Claims was 158, when in fact it was 159, and the number of Creditors with Disputed Claims was 9 and not 10.

CONDITIONS TO PLAN IMPLEMENTATION

17. As set out in the June 23 Affidavit and the Thirteenth Report, there are several 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):

(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 this 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 this 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 this 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 this 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 this 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.

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

(i) A term sheet with an ABL Lender was executed on July 2, 2010 and the ABL Lender is conducting due diligence;

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

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

(iv) 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.

19. Terrace Bay has engaged and continues to engage in extensive discussions with the Province on various issues and conditions for Plan implementation, including the wood supply for the Mill and the financing to be provided by the Province.

20. Terrace Bay and the Province have come to an agreement in principle, which provides 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, will be finalized and documented prior to the Effective Date, assuming Plan sanction by the Court. Terrace Bay and the Province have also resolved key issues relating to the Stumpage Agreement, in particular, issues regarding the allocation of amounts payable thereunder.

21. Terrace Bay and the Province have resolved outstanding matters with respect to the purchase of fibre located at the Mill and elsewhere. Remaining issues with

the Province will be finalized prior to the Effective Date, assuming Plan sanction by the Court. Progress is being made in this regard.

IMPORTANCE OF PLAN SANCTION

22. Sanction of the Plan is a significant step towards a successful going concern restructuring of Terrace Bay's business. Assuming that the Plan is sanctioned and all conditions are satisfied, the full resumption of Mill operations would produce economic benefits from the local economy by, among things, preserving approximately 350 jobs and creating opportunities for local contractors. This represents the best available outcome for Terrace Bay and its stakeholders.

23. If the Plan is not sanctioned, the Mill will not restart. This result would devastate the local economy and unsecured creditors would receive little to no recovery in a bankruptcy or liquidation scenario. To my knowledge, no stakeholders have indicated an intention to oppose the sanction of the Plan.

24. It is important that the Plan be approved and sanctioned as soon as possible to ensure that Terrace Bay retains its skilled workforce. Terrace Bay has received the Monitor's approval to initiate some pre-start activities in connection with the re-opening of the Mill, which will include placing orders for various materials associated with production, and recalling employees. All of this will be done with a view to recommencing production approximately 2-3 weeks following the date of the sanction hearing, assuming the Court sanctions the Plan.

25. For the reasons set out in this affidavit, I believe that the Plan is fair and reasonable, and the Monitor has indicated that it agrees that the Plan is fair and reasonable. Accordingly, Terrace Bay respectfully requests that the Court approve and sanction the Plan.

STAY EXTENSION

26. 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 the issues related to these conditions with a view to implementing the Plan on or before August 17, 2010.

27. In order to provide sufficient time for Plan implementation and to allow for the expiry of the appeal period if the Sanction Order is granted on July 27, 2010, Terrace Bay believes that extending the Stay Period to August 31, 2010 would be appropriate.

28. 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 20th day of July, 2010	)))))	
N.A. MELCHIORRE		**RUSSELL YORK**