

**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 PROPOSED PLAN OF
COMPROMISE OR ARRANGEMENT WITH RESPECT TO
FRASER PAPERS INC./PAPIERS FRASER INC., FPS
CANADA INC., FRASER PAPERS HOLDINGS INC., FRASER
TIMBER LIMITED, FRASER PAPERS LIMITED and FRASER
N.H. LLC (collectively, the Applicants")

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**MOTION RECORD
(Returnable August 12, 2010)**

July 30, 2010

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(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 PROPOSED PLAN OF
COMPROMISE OR ARRANGEMENT WITH RESPECT TO
FRASER PAPERS INC./PAPIERS FRASER INC., FPS
CANADA INC., FRASER PAPERS HOLDINGS INC., FRASER
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N.H. LLC (collectively, the Applicants")

Applicants

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TAB 1

Court File No. CV-09-8241-00CL

**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

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FRASER PAPERS INC./PAPIERS FRASER INC., FPS
CANADA INC., FRASER PAPERS HOLDINGS INC., FRASER
TIMBER LIMITED, FRASER PAPERS LIMITED and FRASER
N.H. LLC (collectively, the Applicants")

Applicants

NOTICE OF MOTION

The Applicants will make a motion before a Judge of the Ontario Superior Court of Justice (Commercial List) at an appointment in Chambers in the event the motion is unopposed, on Thursday, August 12, 2010 at 9:30 in the morning or as soon thereafter as this motion can be heard at 330 University Avenue, in the City of Toronto, Ontario.

PROPOSED METHOD OF HEARING: The motion is to be heard orally.

THE MOTION IS FOR:

1. an Order approving the terms of a certain settlement agreement (the "Settlement Agreement") and authorizing Fraser Papers Limited ("Fraser US") and Fraser Papers Inc.

(“Fraser Papers”) to complete the closing of the transaction described in the Settlement Agreement (“Closing”);

2. an Order discharging all security interests of Fraser US and any party claiming through Fraser US, in the Boiler (as defined below) upon Closing;
3. an Order releasing Fraser US and Fraser Papers from any further liability in connection with the Landfills (as defined below) upon Closing; and
4. such further and other relief as this Honourable Court may deem just.

THE GROUNDS FOR THE MOTION ARE:

1. Fraser US is responsible for certain long-term care obligations with respect to two solid waste disposal facilities located in the Town of Eisenstein, Price County, Wisconsin (the “Landfills”). Fraser US has posted letters of credit with the Wisconsin Department of Natural Resources (“WDNR”) in the aggregate amount of approximately \$2.7 million to secure its long-term care obligations in respect of the Landfills (the “Landfill LCs”);
2. The Landfill LCs were issued by CIT, now CIBC Asset Based Lending Inc. (“CIBC”) at the request of the Applicants and represent a significant portion of the remaining liability of the Applicants to CIBC under the DIP facility;
3. Pursuant to an Asset Sale Agreement dated June 22, 2006 (the “2006 Sale Agreement”), Fraser US sold a wood refuse burning cogeneration plant and related equipment (the “Boiler”) to Flambeau and was granted a security interest in the Boiler pursuant to a security agreement dated July 27, 2006 (the “2006 Security Agreement”).

Approximately \$2.4 million remains outstanding and owing to Fraser US under the 2006 Sale Agreement;

4. The Applicants have negotiated the terms of the Settlement Agreement whereby Fraser US will obtain a release of the Landfill LCs, a release and indemnity from Flambeau in respect of the Landfills and a cash payment, in exchange for which Fraser US and Fraser Papers will release Flambeau from all amounts owing under the 2006 Sale Agreement, and all security interests granted to Fraser US pursuant to the 2006 Security Agreement;
5. The WDNR has been fully advised of the terms of the Settlement Agreement and related documents and the intended assumption by Park Falls of the long-term care obligations of Fraser US in respect of the Landfills. The WDNR has advised that it does not oppose the relief requested by the Applicants or the form of Order sought by the Applicants;
6. The Applicants have conferred with CIBC and Brookfield Asset Management Inc., in its capacity as administrative agent and collateral agent, both of whom have a security interest in the Boiler pursuant to their respective DIP charges, and both support the relief requested by the Applicants;
7. The Monitor supports the relief requested by the Applicants;
8. Rules 2.03, 3 and 37 of the *Rules of Civil Procedure*, R.R.O. 1994, Reg. 194, as amended; and
9. such further and other grounds as counsel may advise and this Honourable Court may permit.

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

1. the Affidavit of Glen McMillan sworn July 30, 2010 and the exhibits thereto; and
2. such further and other materials as counsel may advise and this Honourable Court may permit.

July 30, 2010

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

AND IN THE MATTER OF A PROPOSED PLAN OF COMPROMISE OR ARRANGEMENT WITH RESPECT TO FRASER PAPERS INC./PAPIERS FRASER INC., FPS CANADA INC., FRASER PAPERS HOLDINGS INC., FRASER TIMBER LIMITED, FRASER PAPERS LIMITED and FRASER N.H. LLC (collectively, the "Applicants")

Court File No.: CV-09-8241-00CL

ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)

Proceedings commenced at **Toronto**

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IN THE MATTER OF THE *COMPANIES' CREDITORS
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TIMBER LIMITED, FRASER PAPERS LIMITED and FRASER
N.H. LLC

Applicants

AFFIDAVIT OF GLEN MCMILLAN
(Sworn July 30, 2010)

I, **GLEN MCMILLAN**, of the City of Toronto, in the Province of Ontario, **MAKE
OATH AND SAY:**

1. I am the Chief Restructuring Officer ("CRO") of Fraser Papers Inc. ("Fraser Papers") and Secretary of the other Applicants, and as such I have personal knowledge of the matters to which I herein depose. Where the source of my information or belief is other than my own personal knowledge, I have identified the source and the basis for my information and believe it to be true.

2. All monetary amounts referred to in this Affidavit are in United States ("U.S.") currency unless otherwise stated, and all capitalized terms used herein and not otherwise defined are as defined in the Initial Order of Mr. Justice Morawetz dated June 18, 2009, as amended, or the settlement agreement (the "Settlement Agreement") between Fraser Papers Limited ("Fraser US") and Fraser Papers Inc. ("Fraser Papers") on the one hand, and Flambeau River Papers LLC

("Flambeau") and Park Falls Operator LLC ("Park Falls"), a copy of which is annexed hereto and marked as Exhibit "A".

3. This Affidavit is sworn in support of a motion brought by the Applicants for the following relief set out in the Notice of Motion dated July 30, 2010:

(i) an Order approving the terms of the Settlement Agreement and authorizing Fraser US and Fraser Papers to complete the closing of the transaction described in the Settlement Agreement ("Closing");

(ii) an Order discharging all security interests of Fraser US and any party claiming through Fraser US, in the Boiler (as defined below) upon Closing; and

(iii) an Order releasing Fraser US and Fraser Papers from any further liability in connection with the Landfills (as defined below) upon Closing.

Wisconsin Landfills and 2006 Sale of Boiler

4. Fraser US is currently responsible for certain long-term care obligations with respect to two non-hazardous solid waste disposal facilities located in the Town of Eisenstein, Price County, Wisconsin (the "Landfills"). The Landfills are identified as nos. 2756 and 3051. A Solid Waste Facility Closure and Long-Term Care License bearing the license number 03051 has been issued to Fraser US, as licensee, by the Wisconsin Department of Natural Resources ("WDNR") in respect of Landfill 3051. No license was issued for Landfill 2756, however, Fraser US is responsible for the long-term care obligations related to Landfill 2756. Annexed hereto and marked as Exhibit "B" is a true copy of the license in respect of Landfill 3051.

5. To secure the long-term care obligations of Fraser US in respect of the Landfills, Fraser Papers had posted three letters of credit in the aggregate amount of \$2,722,475 in favour of WDNR as beneficiary (the "Landfill LCs"). The Landfill LCs were issued by CIBC Asset Based Lending Inc. (formerly CIT Business Credit Canada Inc.) ("CIBC") at the request of the Applicants and represent a significant portion of the Applicants' remaining outstanding indebtedness to CIBC.

6. Approximately four years ago Flambeau purchased a wood refuse burning cogeneration plant and related equipment (the "Boiler") from Fraser US pursuant to a sale agreement dated June 22, 2006 (the "2006 Sale Agreement"). The purchase price included amounts payable over time, with the final payment to be received by Fraser US on the fifth anniversary date of the 2006 Sale Agreement, in 2011. To secure Flambeau's obligations under the 2006 Sale Agreement, Flambeau granted a security interest in the Boiler to Fraser US pursuant to the terms of a security agreement dated July 27, 2006 (the "2006 Security Agreement"). Annexed hereto and marked as Exhibits "C" and "D" are true copies of the 2006 Sale Agreement and the 2006 Security Agreement, respectively.

7. Fraser US registered its security interest in the Boiler with the Wisconsin Department of Financial Institutions pursuant to the *Uniform Commercial Code* ("UCC"). Annexed hereto and marked as Exhibit "E" is a true copy of Fraser US's UCC Financing Statement.

8. Approximately \$2.4 million remains outstanding and owing to Fraser US pursuant to the 2006 Sale Agreement. A payment in the amount of \$1.5 million was due and payable on July 27, 2010 with a final payment in the amount of \$900,000 due on July 27, 2011. Additional consideration is payable if Flambeau achieves certain profitability thresholds in the years 2011-2014.

9. The Settlement Agreement and related documents have been executed by all parties and delivered in escrow, pending court approval. Fraser US has advised Flambeau that it will not immediately enforce its right to receive the payment due on July 27, 2010 pending the return of this motion and a motion to be brought in the United States Bankruptcy Court for the District of Delaware, having jurisdiction over the Chapter 15 proceeding commenced by the Applicants.

Wisconsin Landfill Settlement Agreement

10. Beginning in early 2010, Flambeau, the WDNR and the Applicants entered into discussions regarding Flambeau's assumption of Fraser US's long-term care obligations in respect of the Landfills, and a potential settlement involving the amounts owing by Flambeau to Fraser US under the 2006 Sale Agreement.

11. These discussions led to the negotiation and execution of the Settlement Agreement. The Settlement Agreement provides that Park Falls, a wholly-owned subsidiary of Flambeau, will assume all long-term care obligations relating to the Landfills. In the case of Landfill #3051, Park Falls will assume the existing Landfill license. In the case of Landfill #2756, in respect of which no license has currently been issued, Park Falls will apply to the WDNR for the issuance of a license in respect of Landfill #2756.

12. As security for its assumption of Fraser US's long-term care obligations, Park Falls will post financial assurance satisfactory to the WDNR, such that the WDNR will unconditionally and irrevocably release the Landfill LCs for cancellation. This will allow the Applicants to reduce their outstanding indebtedness to CIBC by approximately \$2.7 million, being the aggregate amount of the Landfill LCs.

13. The Settlement Agreement expressly includes among Fraser US's long-term care obligations all obligations arising from a certain notice of non-compliance letter dated June 16, 2009 from the WDNR to Fraser Papers (the "NON Letter"). A budget was approved by the WDNR for the remediation of those matters listed in the NON Letter. Fraser US has incurred certain costs in the amount of \$16,149 to address, in part, the non-compliant matters listed in the NON Letter. The amount remaining under the approved budget, \$15,581, will be deducted from the cash consideration to be paid by Flambeau to Fraser US on closing of the Settlement Agreement. Annexed hereto and marked as Exhibit "F" is a true copy of the NON Letter.

14. In addition to assuming all liabilities under the Landfill licenses, Flambeau will make a payment in the amount of \$76,204.64 to Fraser US. This amount reflects a gross payment of \$100,000 less a credit to Flambeau for the aforementioned sum of \$15,581 and a further \$7,944.36 credit in respect of certain invoices previously paid by Flambeau related to electricity and snow removal at the Landfills.

15. Pursuant to the terms of the Settlement Agreement, Flambeau and Park Falls have also agreed to provide a release to Fraser US and Fraser Papers in respect of all claims arising from or in relation to Fraser US's long-term care obligations for the Landfills. Flambeau and Park Falls have also agreed to indemnify Fraser US and Fraser Papers for any and all claims, costs, damages, expenses and liabilities whatsoever that may arise or be asserted in relation to the

Landfill licenses for a period of 24 months following Closing. This is reflected in an Assumption Agreement between the parties, a copy of which is annexed hereto and marked as Exhibit "G".

16. In consideration of Park Falls' assumption of all of Fraser US's long-term care obligations relating to the Landfills, the payment of cash by Flambeau to Fraser US, the release of the Wisconsin LCs in the amount of approximately \$2.7 million and the provision of the releases and indemnities in favour of Fraser US and Fraser Papers, the Settlement Agreement provides that Fraser US will release its security interest in the Boiler and forego all outstanding payments due under the 2006 Sale Agreement in the amount of \$2.4 million.

17. The terms of the Settlement Agreement also provide that CIBC and Brookfield Asset Management Inc. ("BAM"), in its capacity as administrative agent and collateral agent, must agree to release any interest in the Boiler pursuant to their respective charges as set out in the Initial Order or otherwise. Both CIBC and BAM support the Closing of the Settlement Agreement and have consented to the release of their respective security interests in the Boiler pursuant to an Order of this Court.

18. I have been advised by Danny Nunes, an associate with ThorntonGroutFinnigan LLP, the Applicants' counsel, that all parties who could assert an interest in the Boiler have received service of the motion materials in respect of which this Affidavit is sworn, including those parties that have registered UCC Financing Statements. I can also confirm that WDNR has received notice of the within motion and service of all materials.

19. I have been advised by Mr. Nunes that the Boiler is presently located on premises owned by Flambeau.

20. The WDNR was an active participant in the negotiation of the Settlement Agreement, particularly with respect to the form of letter to be issued by WDNR to Fraser US and Fraser Papers on Closing. The form of letter agreed upon by the WDNR is attached as Exhibit "D" to the Settlement Agreement.

21. The release of the Landfill LCs represents a net benefit to the Applicants since it will allow the Applicants to reduce the outstanding amount under the CIBC DIP facility. Although

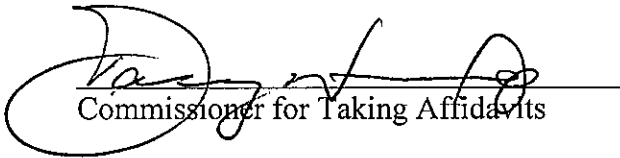
Flambeau's indebtedness to Fraser US under the 2006 Sale Agreement is secured pursuant to the 2006 Security Agreement, the Settlement Agreement alleviates any uncertainty that may arise in the future with respect to the collectability of amounts owing by Flambeau to Fraser US, as well as any actions required to be taken by the Applicants in the State of Wisconsin to enforce the security interest in the Boiler in the event of default by Flambeau.

22. I swear this Affidavit in support of the relief requested in the Applicants' Notice of Motion dated July 30, 2010 and for no other or improper purpose.

SWORN before me at the City of Toronto,
in the Province of Ontario, this 30th day of
July, 2010.



GLEN McMILLAN


Commissioner for Taking Affidavits

DANNY NUNES

EXHIBIT A

EXHIBIT "A"

SETTLEMENT AGREEMENT

This SETTLEMENT AGREEMENT (the "*Settlement Agreement*") is made and entered as of the ___ day of July, 2010, by and among Fraser Papers Limited, a Maine corporation and Fraser Papers Inc., an Ontario corporation (collectively referred to herein as "*Fraser*"), on the one hand, and Flambeau River Papers, LLC, a Wisconsin limited liability company ("*Flambeau*") and Park Falls Operator, LLC, a Wisconsin limited liability company ("*PF Operator*") on the other hand, and DeWitt Ross & Stevens S.C. ("*DRS*"), as escrow agent. Each of Fraser, Flambeau and PF Operator are referred to herein as a "*Party*" and referred to herein collectively as the "*Parties*."

Recitals:

- A. Fraser is the Responsible Party for a landfill site located in or near the Town of Eisenstein, Price County, Wisconsin which contains two landfills herein identified as #2756 and #3051 (collectively the "Landfill") which site is more particularly described on the attached Exhibit A. The Wisconsin Department of Natural Resources ("WDNR") has issued a License (as such term is defined herein) in respect of landfill #3051. No License is currently issued in respect of landfill #2756.
- B. To secure financial assurance for the long term care and maintenance obligations of the Landfill, Fraser has caused certain financial institutions to issue letters of credit S00052592 (\$200,000.00), S00052591 (\$161,600.00), and S00052590 (\$2,360,875) (collectively the "Letters of Credit") for the benefit of the WDNR which are revocable only with the consent of the WDNR.
- C. Flambeau is the owner of a wood refuse burning cogeneration plant and related equipment (collectively the "Boiler") that it acquired from Fraser pursuant to that certain Asset Sale Agreement dated as of June 22, 2006 (the "Sale Agreement").
- D. To secure certain payments due from Flambeau pursuant to the Sale Agreement, Fraser and Flambeau entered into a certain Security Agreement dated as of July 27, 2006 (the "Security Agreement") under which Flambeau granted to Fraser a security interest in the Boiler.
- E. In accordance with the Security Agreement, Fraser filed UCC Financing Statements with the Wisconsin Department of Financial Institutions and the Price County, Wisconsin Register of Deeds (collectively the "Financing Statements").
- F. PF Operator is a wholly-owned subsidiary of Flambeau which has been created to, among other things, hold the Licenses and provide financial assurance for the Long Term Care and maintenance obligations of the Landfill as set forth herein.
- G. The Parties desire to enter into a transaction, upon the terms and conditions set forth herein, whereby Fraser will release its security interests in the Boiler and forego and release all rights to future payments or consideration for the Boiler in exchange for: (i) PF

Operator acquiring the Licenses (including the License to be issued in respect of landfill #2756 as set out herein), assuming all liabilities and obligations of Fraser, as licensee, in connection with the Licenses including but not limited to the Notice of Noncompliance and Long Term Care for the Landfill (collectively, the "Obligations"), PF Operator and Flambeau providing certain releases and indemnifications to Fraser related to the Landfill and Flambeau paying the Settlement Amount (as defined herein) and (ii) WDNR releasing the Letters of Credit and providing certain releases as described herein related to the Landfill and the Licenses.

NOW, THEREFORE, in consideration of the foregoing and the mutual covenants contained herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the undersigned Parties agree as follows:

ARTICLE 1

Definitions

1.1 "Affiliate" means with respect to any Person, any other Person that, directly or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, such Person, and the term "control" (including "controlled by" and "under common control with") means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through ownership of voting securities, contract or otherwise.

1.2 "Boiler" shall have the meaning ascribed to it in Recital C above.

1.3 "Closing Date" shall have the meaning ascribed to it in Section 7.1 below.

1.4 "Financing Statements" shall have the meaning ascribed to it in Recital E above.

1.5 "Flambeau Undertakings" means the covenants and obligations of Flambeau and PF Operator, as the case may be, set forth in Article 2 herein.

1.6 "Fraser Undertakings" means the covenants and obligations of Fraser set forth in Article 3 herein.

1.7 "Landfill" shall have the meaning ascribed to in Recital A above.

1.8 "Letters of Credit" shall have the meaning ascribed to it in Recital B above.

1.9 "Licenses" shall mean the Solid Waste Facility Closure and Long-Term Care License (license no. 03051) in respect of landfill #3051 issued by the WDNR and the Solid Waste Facility Closure and Long-Term Care License to be issued by the WDNR in respect of landfill #2756, as set out herein, including that certain letter dated June 16, 2009 from the

WDNR to Fraser Papers, Inc. with the subject line "PF Papers Landfill, License #2756 Site Compliance Inspection – June 10, 2009 Notice of Non-Compliance" and any and all requirements and obligations thereunder. For purposes of this Settlement Agreement, the Notice of Noncompliance is agreed by the Parties to be an obligation of the License to be issued for landfill #2756;

1.10 "Long Term Care" means the routine care, maintenance and monitoring of a solid or hazardous waste facility following closing of the facility.

1.11 "Obligations" shall have the meaning ascribed to it in Recital G above.

1.12 "Person" means any individual, corporation, partnership, limited liability company, firm, joint venture, association, joint-stock company, trust, unincorporated organization, governmental body or other entity.

1.13 "Responsible Party" means the party who is financially responsible for performing the Long Term Care at the Landfill and who manages, oversees and pays for all of the Long Term Care and all other Obligations relating to the Landfill.

1.14 "Sale Agreement" shall have the meaning ascribed to it in Recital C above.

1.15 "Security Agreement" shall have the meaning ascribed to it in Recital D above.

1.16 "Unpaid Consideration" means the unpaid consideration owed by Flambeau to Fraser under the Sale Agreement including, but not limited to, the unpaid Purchase Price and Earn-out Payments described in Article III of the Sale Agreement.

1.17 "WDNR" shall have the meaning ascribed to it in Recitals A and B above.

ARTICLE 2

Flambeau Undertakings

2.1 Transfer of Landfill License. PF Operator shall promptly make application to the WDNR for the transfer of License No. 03051 and the issuance of the License in respect of Landfill No. 2756 to PF Operator. As of the Closing, PF Operator shall cause WDNR to transfer and issue such Licenses to PF Operator and, thereafter, Fraser shall no longer be a licensee of the Landfill.

2.2 Assumption of Obligations. As of the Closing Date, PF Operator shall assume all of the Obligations associated with the Licenses, and shall execute and deliver to Fraser an Assumption Agreement in the form attached hereto as Exhibit C.

2.3 Release of Letters of Credit. PF Operator shall post financial assurance satisfactory to WDNR in its sole discretion to provide for Long Term Care of the Landfill. Such financial assurance shall be sufficient in all respects such that WDNR unconditionally and irrevocably releases the Letters of Credit as of the Closing Date.

2.4. Settlement Payment. At the Closing Date, Flambeau shall make a payment in certified funds to Fraser in the amount of Seventy-Six Thousand Two Hundred Four Dollars and Sixty Four Cents (\$76,204.64), by wire transfer, to an account designated by Fraser. This amount reflects a base payment of One Hundred Thousand Dollars (\$100,000.00) by Flambeau to Fraser reduced by the sum of: (i) \$15,581.00 for the balance of estimated costs to complete remaining work on landfill #2756 as required by the Notice of Noncompliance; and (ii) \$7,944.36 in respect of certain invoices paid by Flambeau related to electricity and snow removal at the Landfill in prior years.

2.5. Release and Indemnity. At the Closing Date, Flambeau and PF Operator shall execute and deliver to Fraser a Release and Indemnity letter agreement in the form attached hereto as Exhibit B.

ARTICLE 3

Fraser Undertakings

3.1 Transfer of Landfill Licenses. Fraser shall provide reasonable assistance and cooperation to PF Operator with respect to PF Operator's efforts to make application for and/or cause the transfer and issuance of, the Licenses as described in Section 2.1 above, such that upon transfer or issuance of the Licenses, as the case may be, Fraser shall have no further liability or Obligations thereunder.

3.2 Release of Unpaid Consideration. Effective as of the Closing Date, and expressly subject to the Flambeau Undertakings set forth in Article 2 having been fulfilled, Fraser will release Flambeau from all further obligations to pay the Unpaid Consideration.

3.3 Termination of Security Interest. Effective as of the Closing Date, and expressly subject to the Flambeau Undertakings set forth in Article 2 having been fulfilled, Fraser will release its security interest in the Boiler created by the Security Agreement and/or any other instrument. As evidence of such release, Fraser will authorize Flambeau to file UCC Financing Statements – Termination Statements with the Wisconsin Department of Financial Institutions and Price County, Wisconsin Register of Deeds terminating the Financing Statements immediately upon the Closing Date.

ARTICLE 4

Mutual Releases

4.1 From and after the Closing Date, but expressly subject to the satisfaction of the Fraser Undertakings in Article 3 above, Flambeau shall fully, unconditionally, finally and irrevocably release, relinquish and discharge Fraser and its present, former and future directors, partners, managing directors, officers, employees, agents, servants, consultants, attorneys,

representatives, accountants, bankers, insurers, administrators, parents, subsidiaries, shareholders, divisions, subcontractors, affiliates, predecessors, successors and assigns and all other persons or entities acting on its behalf or at its direction or control, from any and all claims, demands, charges, causes of action, or complaints for losses, damages, and liabilities of any kind whatsoever, including, without limitation, legal costs incurred in connection with such claims, whether known, unknown, contingent or unliquidated, arising out of or relating to the Sale Agreement, the Security Agreement, the Licenses, and the Obligations; provided, however, that nothing contained in this Section 4.1 shall be deemed to release Fraser from any of its obligations under this Settlement Agreement, including, without limitation, its obligations to perform the Fraser Undertakings.

4.2 From and after the Closing Date, but expressly subject to the satisfaction of the Flambeau Undertakings in Article 2 above, Fraser shall fully, unconditionally, finally and irrevocably release, relinquish and discharge Flambeau, and its present, former and future directors, partners, managing directors, officers, employees, agents, servants, consultants, attorneys, representatives, accountants, bankers, insurers, administrators, parents, subsidiaries, shareholders, divisions, subcontractors, affiliates, predecessors, successors and assigns and all other persons or entities acting on its behalf or at its direction or control, from any and all claims, demands, charges, causes of action, or complaints for losses, damages, and liabilities of any kind whatsoever, including, without limitation, legal costs incurred in connection with such claims, whether known, unknown, contingent or unliquidated, arising out of or relating to the Sale Agreement and Security Agreement (including but not limited to the Unpaid Consideration); provided, however, that nothing contained in this Section 4.2 shall be deemed to release Flambeau or PF Operator from any of their obligations under this Settlement Agreement, including, without limitation, their obligations to perform the Flambeau Undertakings.

For greater certainty, from and after Closing by virtue of its release and indemnity in favor of Fraser, Flambeau shall not be entitled to pursue a claim, cross-claim, third-party complaint or other proceeding for indemnity, contribution or subrogation against Fraser, anyone who could claim through Fraser, or its or their insurers in the event that anyone makes a claim against Flambeau arising out of any fact, event or circumstance related to the Obligations in respect of the Licenses.

ARTICLE 5

Confidentiality

5.1 Each of the Parties hereby agrees that the terms of this Settlement Agreement represent a compromise and settlement among the Parties and, accordingly, the Parties shall treat this Settlement Agreement as confidential and will not use, publish, distribute or disclose in any manner the terms of this Settlement Agreement without the other Parties' prior written approval; *provided, however*, that no prior approval shall be required if (i) the terms of this Settlement Agreement are required to be disclosed to the Ontario Superior Court of Justice (Commercial List), the U.S. Bankruptcy Court for the District of Delaware (collectively, the "Courts") or PricewaterhouseCoopers Inc., in its capacity as the Court-appointed monitor of Fraser (the "Monitor"), (ii) the information sought is required to be disclosed by an order, issued by a court or other regulatory authority having competent jurisdiction over a Party, (iii) such

information has otherwise previously been made publicly available through press releases or otherwise, (iv) such information is required to be disclosed in compliance with any Canadian or United States securities laws, (v) such information is disclosed to government officials having the apparent authority to receive such information, including the WDNR if required, or (vi) the Settlement Agreement is disclosed in any legal or arbitration proceeding relating to the Settlement Agreement. Each Party will provide the other Parties with notice of, and an opportunity to respond to, any claimed requirement to disclose the terms of this Settlement Agreement promptly upon receipt of any order or demand for production.

ARTICLE 6

Representations and Warranties

6.1 Each Party represents and warrants that it is validly incorporated/organized and that it has full power and authority and has taken, or will take, all actions necessary to execute, deliver and perform this Settlement Agreement and consummate all of the transactions contemplated hereunder.

6.2 Each of the signatories to this Settlement Agreement represents and warrants that he or she has the full power and authority on whose behalf he or she has signed this Settlement Agreement.

6.3 Each Party acknowledges that it has entered into this Settlement Agreement of its own free will, based upon its independent business judgment, having consulted with their respective counsel, and without any reliance on any representations of or inducements from any other Party other than the representations contained in this Article 6.

6.4 Fraser represents and warrants to Flambeau that, as of the date hereof and as of the Closing Date, that it is the owner of and has not assigned, pledged (other than in the ordinary course as may be covered by security granted in favor of its lenders and for which Flambeau is provided releases or other satisfactory evidence as set forth in Section 7.2(b)(i)), mortgaged or conveyed any of its rights under the Sale Agreement and Security Agreement including, but not limited to, the right to receive the Unpaid Consideration.

6.5 Fraser represents and warrants to Flambeau that, as of the Closing Date, it has paid costs in the amount of not more than \$16,149.00 for work performed prior to the Closing Date on the Landfill by contractors and other service providers in response to the Notice of Noncompliance and Fraser has fully paid those invoices. In addition, Fraser represents and warrants to Flambeau that, as of the Closing Date, Fraser has fully paid or will fully pay all third parties who performed Long Term Care services at the Landfill prior to the Closing Date.

6.6 Each of the representations and warranties set forth in this Settlement Agreement shall survive the Closing Date.

ARTICLE 7

Miscellaneous

7.1 Closing/Closing Date. The closing of the transactions contemplated herein shall take place at the office of DRS located at 2 East Mifflin Street, Suite 600, Madison, Wisconsin, USA, or at such other place as the parties may designate in writing, at 10:00 am (Prevailing Central Time) on August 25, 2010 (the "Closing Date"), or such other time as may be agreed between the Parties.

7.2 Closing Deliveries.

(a) At or prior to the Closing, Flambeau and/or PF Operator, as the case may be, shall deliver, or cause to be delivered to DRS, in escrow, the following:

- (i) the Settlement Payment described in Section 2.4;
- (ii) a letter from the WDNR providing a release in favour of Fraser and releasing the Letters of Credit in the form attached hereto as Exhibit D;
- (iii) a release and indemnity from Flambeau and PF Operator in favor of Fraser in the form attached hereto as Exhibit B;
- (iv) the signed Assumption Agreement in the form attached hereto as Exhibit C.

The foregoing are collectively referred to herein as "Flambeau's Closing Deliveries".

(b) At or prior to the Closing, Fraser shall deliver to DRS, in escrow, the following:

- (i) evidence to the reasonable satisfaction of Flambeau that Fraser has received all required bankruptcy court and lien creditor approvals (including without limitation approval of Fraser's Board of Directors and the Monitor, and lien releases from CIBC Asset Based Lending Inc. (formerly CIT Business Credit Canada Inc.), as agent, and Brookfield Asset Management Inc.) to enter into this Settlement Agreement and to perform the terms hereunder.
- (ii) a written receipt acknowledging payment of the Settlement Amount and confirming that the Unpaid Consideration is no longer due or owing;
- (iii) the executed Assumption Agreement in the form attached hereto as Exhibit C;
- (iv) written authorization by Fraser in favor of Flambeau for the termination of the Financing Statements.

The foregoing are collectively referred to herein as "Fraser's Closing Deliveries".

(c) DRS shall hold the Flambeau Closing Deliveries and the Fraser Closing Deliveries in escrow and shall, upon receipt of all Closing Deliveries and written notice from Flambeau, PF Operator and Fraser that it may release the Closing Deliveries, transmit the Flambeau Closing Deliveries to Fraser and the Fraser Closing Deliveries to Flambeau. DRS shall not be liable as escrow agent for any act hereunder not involving gross negligence or willful misconduct. If DRS fails to receive written notice from each Party that it may deliver the Closing Deliveries on the Closing Date, DRS shall return the Closing Deliveries to the respective party delivering them in escrow.

7.3 Further Conveyances/Assumptions; Consent of Third Parties. From time to time following the Closing Date, Fraser, Flambeau and PF Operator, as the case may be, shall execute, acknowledge and deliver all such further conveyances, notices, assumptions, releases and acquittances and such other instruments, and shall take such further actions, as may be reasonably necessary or appropriate to make effective the transactions contemplated hereby, at the reasonable cost of the requesting party.

7.4 Ownership of Boiler. Nothing contained herein shall be construed to affect or impair Flambeau's sole and exclusive ownership of the Boiler and all such other assets acquired by Flambeau pursuant to the Sale Agreement.

7.5 Fees, Costs, and Expenses. Each Party shall bear its own attorney's fees, costs, and expenses incurred in connection with executing, delivering and performing this Settlement Agreement and consummating all of the transactions contemplated hereunder.

7.6 Headings. The headings used in this Settlement Agreement are for convenience only and do not in any way affect, limit, amplify, or modify the terms and provisions hereof.

7.7 Counterpart Execution. This Settlement Agreement may be executed in counterparts, each of which shall be fully effective as an original and all of which together constitute one and the same instrument but only after all of the Parties have executed counterparts of this Settlement Agreement. Each counterpart may be delivered by facsimile transmission, and a faxed signature shall have the same force and effect as an original signature.

7.8 Notices. All demands, notices, requests or other communications required or permitted hereby shall be in writing and shall be deemed to have been given (i) when hand delivered, (ii) on first attempted delivery at the applicable addresses noted below by express mail or delivery service guaranteeing overnight delivery, or (iii) when a facsimile confirmation receipt is received by the sender, if sent via facsimile, to the applicable addresses or telecopy numbers provided below:

If to Fraser:

Fraser Papers Inc.
 BCE Place - Suite 300
 Attn: Glen McMillan
 181 Bay Street
 Toronto, Ontario M5J 2T3
 Canada
 Telecopy: (416) 359-8606
 Email: gmcmillan@toronto.fraserpapers.com

If to Flambeau:

Flambeau River Papers, LLC
 Attn: William B. Johnson
 9676 Kruger Road
 Hayward, WI 54843
 Telecopy: (715) 634-5755
 Email: wbjohnson@johnsontimber.com

with copies to

John Duncan Varda
 DeWitt Ross & Stevens S.C.
 Two East Mifflin Street, Suite 600
 Madison, WI 53703
 Telecopy: (608) 252-9243
 Email: jdvarda@dewittross.com

or at such different addresses as the Parties shall hereafter specify by written notice as provided herein.

7.9 Successors and Assigns. This Settlement Agreement shall inure to the benefit of and be binding upon the Parties hereto and their permitted legal representatives, successors and assigns. No assignment of this Settlement Agreement or of any rights or obligations hereunder may be made by any Party, directly or indirectly (by operation of law or otherwise), without the prior written consent of the other Parties and any attempted assignment without the required consent shall be void.

7.10 No Intended Third-Party Beneficiaries. This Settlement Agreement is for the sole benefit of the Parties and their successors and assigns and nothing in this Settlement Agreement, express or implied, is intended to or shall confer upon any other person or entity any legal or equitable right, benefit or remedy of any nature whatsoever under or by reason of this Settlement Agreement.

7.11 Severability. If for any reason any provision of this Settlement Agreement shall be held to be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby and the invalid illegal or unenforceable provision or provisions shall be construed in a way so as to accomplish the intentions of the Parties to the greatest extent possible under the law.

7.12 Other Agreements Superseded. Upon the Closing Date and satisfaction of the Flambeau Undertakings and the Fraser Undertakings, this Settlement Agreement shall be taken to supersede all prior agreements or understandings, written or oral, of the Parties with respect to the subject matter of this Settlement Agreement. This Settlement Agreement, the Exhibits and any documents referred to herein or delivered at the Closing Date constitute the entire agreement between the Parties. This Settlement Agreement may be amended or supplemented only by a written instrument signed by the Party against whom the amendment or supplement is sought to be enforced.

7.13 Governing Law, Construction. This Settlement Agreement shall be construed in accordance with, and all disputes hereunder shall be governed by, the laws of the State of Wisconsin (excepting conflicts of laws) regardless of the domicile of any Party, and will be deemed for such purposes to have been made, executed, and performed in the State of Wisconsin. This Settlement Agreement shall be construed as if the Parties jointly prepared it, and any uncertainty or ambiguity shall not be interpreted against any one Party.

7.14 Arbitration. Except as provided in Section 7.15, any controversy or claim arising out of or relating to this Settlement Agreement or its alleged breach shall be settled by arbitration in Wisconsin pursuant to the procedures set forth in Wis. Stat. Chapter 788, and any judgment on the award rendered by the arbitrator may be entered by any court having jurisdiction thereof. The arbitrator may be entered by any court having jurisdiction thereof. The arbitrator shall be selected by mutual agreement of the Parties, if possible. If the Parties fail to reach agreement upon appointment of an arbitrator within 30 days following receipt by a party of the other Party's notice of intent to arbitrate, the arbitrator shall be selected using the procedure set forth in Wis. Stat. § 788.04.

7.15 Waiver of Jury Trial. THE PARTIES HERETO HEREBY KNOWINGLY, VOLUNTARILY AND INTENTIONALLY WAIVE THE RIGHT TO A TRIAL BY JURY IN RESPECT OF ANY LITIGATION BASED HEREON, ARISING OUT OF, UNDER OR IN CONNECTION WITH THIS SETTLEMENT AGREEMENT (INCLUDING, WITHOUT LIMITATION, ANY ACTION TO RESCIND OR CANCEL THIS SETTLEMENT AGREEMENT OR ANY CLAIMS OR DEFENSES ASSERTING THAT THIS SETTLEMENT AGREEMENT WAS FRAUDULENTLY INDUCED OR IS OTHERWISE VOID OR VOIDABLE), THIS WAIVER BEING A MATERIAL INDUCEMENT FOR EACH OF THE PARTIES TO EXECUTE THIS SETTLEMENT AGREEMENT.

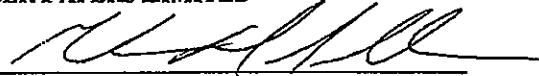
7.16 Email Use. The Parties agree that any signed document transmitted as a PDF file via email to the recipient's address in Section 7.8 of this Agreement shall be treated in all manner and respects as an original document and the signature of any party upon a document transmitted as a PDF file shall be considered an original signature; any document transmitted as

a PDF file in accordance with this Section 7.16 shall have the binding legal effect of an original document.

[Signatures on following page]

IN WITNESS WHEREOF, the undersigned have executed, or have caused to be executed, this Settlement Agreement on the date first written above.

FRASER PAPERS LIMITED

By: 

Printed Name: Glen McMillan

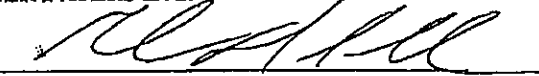
Title: Secretary

By: 

Printed Name: Peter Gordon

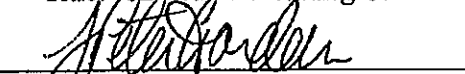
Title: Director

FRASER PAPERS INC.

By: 

Printed Name: Glen McMillan

Title: Chief Restructuring Officer

By: 

Printed Name: Peter Gordon

Title: Director

FLAMBEAU RIVER PAPERS, LLC

By: Summit Lake Management, LLC,
Managing Member

By: _____
William B. Johnson, Authorized Member

PARK FALLS OPERATOR, LLC

BY: FLAMBEAU RIVERS PAPERS, LLC, SOLE MEMBER

By: _____
Thomas Steiner, Authorized Member

DEWITT ROSS & STEVENS S.C., as escrow agent

By: _____

IN WITNESS WHEREOF, the undersigned have executed, or have caused to be executed, this Settlement Agreement on the date first written above.

FRASER PAPERS LIMITED

By: _____
 Printed Name: Glen McMillan
 Title: Secretary

By: _____
 Printed Name: Peter Gordon
 Title: Director

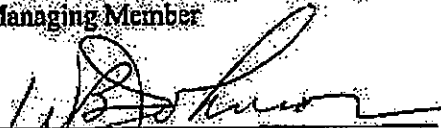
FRASER PAPERS INC.

By: _____
 Printed Name: Glen McMillan
 Title: Chief Restructuring Officer

By: _____
 Printed Name: Peter Gordon
 Title: Director

FLAMBEAU RIVER PAPERS, LLC

By: Summit Lake Management, LLC,
 Managing Member

By: 
 William B. Johnson, Authorized Member

PARK FALLS OPERATOR, LLC

BY: FLAMBEAU RIVERS PAPERS, LLC, SOLE MEMBER

By: 
 Thomas Steiner, Authorized Member

DEWITT ROSS & STEVENS S.C., as escrow agent

By: _____

IN WITNESS WHEREOF, the undersigned have executed, or have caused to be executed, this Settlement Agreement on the date first written above.

FRASER PAPERS LIMITED

By: _____
 Printed Name: Glen McMillan
 Title: Secretary

By: _____
 Printed Name: Peter Gordon
 Title: Director

FRASER PAPERS INC.

By: _____
 Printed Name: Glen McMillan
 Title: Chief Restructuring Officer

By: _____
 Printed Name: Peter Gordon
 Title: Director

FLAMBEAU RIVER PAPERS, LLC

By: Summit Lake Management, LLC,
 Managing Member

By: _____
 William B. Johnson, Authorized Member

PARK FALLS OPERATOR, LLC

BY: FLAMBEAU RIVERS PAPERS, LLC, SOLE MEMBER

By: _____
 Thomas Steiner, Authorized Member

DEWITT ROSS & STEVENS S.C., as escrow agent

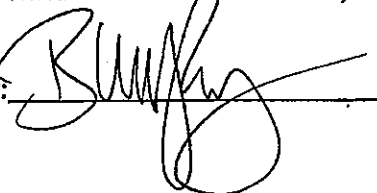
By:  _____

EXHIBIT A**Legal Description of Landfill Site**

Government Lots 3, 4 and 5, the Northwest Quarter of the Southeast Quarter and the Southeast Quarter of the Northeast Quarter, Section 35, Township 40 North, Range 1 West, Price County, Wisconsin.

EXHIBIT B

[On the letterhead of Flambeau River Papers, LLC]

[Date]

RELEASE AND INDEMNITY

**Fraser Papers Limited,
Fraser Papers Inc.,**
and their affiliates
Suite 200, Brookfield Place
181 Bay Street
Toronto, ON M5J 2T3

Attention: Glen McMillan

Dear Sir:

Re: Landfill site #2756 and landfill site #3051 in Park Falls, Wisconsin (the "Wisconsin Landfill")

We refer to certain obligations of Fraser Papers Limited relating to the Wisconsin Landfill in respect of which Fraser Papers Inc. had posted three Letters of Credit in the total aggregate principal amount of \$2,722,475.00 in favour of the Wisconsin Department of Natural Resources ("WDNR"). Fraser Papers Limited and Fraser Papers Inc. are collectively referred to in this release and indemnity as "Fraser Papers". We also refer to a certain Settlement Agreement dated July __, 2010, between Fraser Papers and Flambeau River Papers, LLC ("Flambeau River") and Park Falls Operator, LLC ("Park Falls") (Flambeau River and Park Falls collectively referred to hereinafter as "Flambeau"), and a certain Assumption Agreement between Fraser Papers and Park Falls Operator, LLC dated July ►, 2010 (collectively referred to herein as the "Agreement").

For consideration received, the receipt and sufficiency of which is hereby irrevocably acknowledged and confirmed, and in accordance with the terms and conditions of the Agreement, Flambeau, on its own behalf and on behalf of all parties who could claim through it, hereby confirms to and in favour of Fraser Papers as follows:

1. Flambeau confirms the terms of the Agreement and Flambeau's assumption of all obligations and liabilities of Fraser Papers pursuant to the Wisconsin Landfill Licenses for landfill #2756 (which License shall be issued in accordance with the Agreement and which assumption by Flambeau shall include the obligations and requirements of the Notice of Noncompliance regarding landfill #2756 issued by the WDNR dated June 16, 2009) and landfill #3051 (which License shall be transferred in accordance with the Agreement) from the effective dates of said Licenses.
2. Flambeau hereby irrevocably and unconditionally, fully and finally releases, remises and forever discharges Fraser Papers and its respective past, present and future directors, officers, shareholders, agents, lawyers, contractors, employees, partners, legal representatives, employees, and delegates of the parties listed above (collectively the

“Releasees”) of and from any and all actions, causes of action, suits, debts, dues, accounts, bonds, covenants, applications, complaints, obligations, duties, breaches of contract, breaches of duty or any relationship, act, omissions, misfeasance, compensations, controversies, promises, damages, costs, losses, expenses, remedies for losses, choses in action, entitlements, rights of indemnity, liabilities, claims, obligations, demands and any and all other claims and rights whatsoever (collectively, the “Claims”) whether known or unknown, and whether contingent, matured or otherwise, that Flambeau ever had, now has or may hereafter have against the Releasees, arising in respect of any event, fact, matter or circumstance occurring or existing relating to or in connection with Fraser Papers’ obligations pursuant to the Wisconsin Landfill Licenses. For greater certainty, Flambeau agrees and confirms that it will not make any claim or commence any action or proceeding against any Releasee in any jurisdiction worldwide arising out of any cause, matter or thing connected with or arising out of any and all facts and circumstances in respect of the Wisconsin Landfill Licenses. Nothing contained in this Letter shall be deemed to release Fraser Papers from any of the Fraser Undertakings under the Agreement. Nothing contained in this letter shall be deemed to release Flambeau from any of the Flambeau Undertakings under the Agreement.

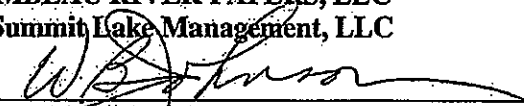
3. Flambeau further agrees, now and forever, not to make or continue any claim or complaint (including to any regulatory authority or governmental body in any jurisdiction) or commence or continue any proceeding involving any entity, or any entity claiming through or under such entity, which might claim any relief, contribution or indemnity or other relief over or against the Releasees, or any one of them, in respect of any fact, matter or circumstance that is the subject matter of this Release.
4. Commencing on the date of this letter and continuing for a period of 24 months thereafter, Flambeau hereby indemnifies and saves harmless Fraser Papers of and from any and all claims, costs, expenses, damages or liabilities of any kind whatsoever in relation to the Wisconsin Landfill Licenses and the obligations thereunder, including without limitations those which may arise out of or are incurred as a result of any action, suit or proceeding commenced against Fraser Papers which Fraser Papers may suffer or incur.
5. This release and indemnity shall be governed and construed in accordance with the laws of the State of Wisconsin. All capitalized terms used herein and not otherwise defined are as defined in the Settlement Agreement.
6. This release and indemnity will be effective and binding upon Flambeau and its successors, assigns and affiliates, and shall enure to the benefit of the Releasees and their respective heirs, executors, administrators, successors and assigns.

- 3 -

Yours truly,

FLAMBEAU RIVER PAPERS, LLC

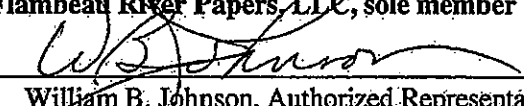
By: Summit Lake Management, LLC

Per: 

William B. Johnson, Authorized Representative

PARK FALLS OPERATOR, LLC

By: Flambeau River Papers, LLC, sole member

Per: 

William B. Johnson, Authorized Representative

EXHIBIT C**ASSUMPTION AGREEMENT**

THIS ASSUMPTION AGREEMENT is made as of the ____ day of July, 2010,

B E T W E E N:

Fraser Papers Limited, a corporation incorporated under the laws of the State of Maine,

Fraser Papers Inc., a corporation incorporated under the laws of the Province of Ontario,

(collectively, "**Fraser**")

- and -

Park Falls Operator, LLC., a Wisconsin limited liability company

(collectively, "**Park Falls**")

RECITALS:

- A. Fraser and Park Falls, among others, are party to a Settlement Agreement dated as of July ___, 2010 (the "**Settlement Agreement**");
- B. All capitalized terms used herein and not otherwise defined are as defined in the Settlement Agreement;
- C. The Settlement Agreement provides that Park Falls shall, as of the Closing Date, acquire the Licenses (as defined below) for two landfills located in or near the Town of Eisenstein, Price County, Wisconsin and identified as #2756 and #3051 (collectively, the "**Landfill**") and assume and perform as and from the date thereof all obligations of the licensee thereunder;
- D. The Licenses shall be taken to mean the Solid Waste Facility Closure and Long-Term Care License (license no. 03051) in respect of landfill #3051 issued by the Wisconsin Department of Natural Resources ("**WDNR**") and the Solid Waste Facility Closure and Long-Term Care License to be issued by the WDNR in respect of landfill #2756, including that certain letter dated June 16, 2009 from the WDNR to Fraser Papers, Inc. with the subject line "PF Papers Landfill, License

#2756 Site Compliance Inspection – June 10, 2009 Notice of Non-Compliance” and any and all requirements and obligations thereunder;

NOW THEREFORE in consideration of the mutual covenants contained in the Settlement Agreement and in this Assumption Agreement and other good and valuable consideration (the receipt and sufficiency of which are hereby acknowledged), the parties hereto agree as follows:

1. **Assumption**

Park Falls hereby irrevocably assumes and agrees to observe and perform all of the obligations of the licensee under the Landfill Licenses (the “Obligations”) which are to be observed or performed thereunder as and from the date hereof. For greater certainty, but without limiting in any way the Obligations assumed by Park Falls hereunder, Park Falls acknowledges and confirms that its assumption of the Obligations relating to the Landfill Licenses shall include (but not be limited to) all items set forth in the currently approved plans of operation for the Landfill, the requirements of the Notice of Noncompliance regarding landfill #2756 issued by the WDNR dated June 16, 2009 and all other applicable Long Term Care requirements that may be imposed at any time by WDNR.

2. **Further Assurances**

Each of the parties hereto shall promptly do, make, execute or deliver, or cause to be done, made, executed or delivered, all such further acts, documents and things as the other party hereto may reasonably require from time to time for the purpose of giving effect to this assignment and shall use its best efforts and take all such steps as may be reasonably within its power to implement to their full extent the provisions of this assignment, all at the cost of the requesting party.

3. **Enurement**

This assignment and assumption agreement shall enure to the benefit of and be binding upon the parties hereto and their successors and assigns, respectively.

4. Governing Law

This assignment and assumption agreement shall be governed by and construed in accordance with the laws of the State of Wisconsin and the federal laws applicable therein.

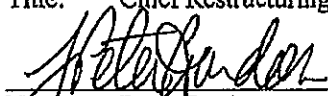
5. Paramountcy

In the event of any conflict or inconsistency between the provisions of this agreement and the Settlement Agreement, the provisions of the Settlement Agreement shall prevail to the extent of such inconsistency.

IN WITNESS WHEREOF the parties hereto have executed this Assignment and Assumption Agreement.

FRASER PAPERS INC.

by: 
 Name: Glen McMillan
 Title: Chief Restructuring Officer

by: 
 Name: Peter Gordon
 Title: Director

FRASER PAPERS LIMITED

by: 
 Name: Glen McMillan
 Title: Secretary

by: 
 Name: Peter Gordon
 Title: Director

PARK FALLS OPERATOR, LLC
by: Flambeau River Papers, LLC, Sole Member

by: Thomas Steiner
Thomas Steiner, Authorized Representative



State of Wisconsin \ DEPARTMENT OF NATURAL RESOURCES

Jim Doyle, Governor
Matthew J. Frank, Secretary

101 S. Webster St.
Box 7921
Madison, Wisconsin 53707-7921
Telephone 608-266-2621
FAX 608-267-3579
TTY Access via relay - 711

Fill in Date

FID# 851032930
FID# 851029850

Mr. Glen McMillan, Chief Financial Officer
Fraser Papers
BCE Place
181 Bay Street, Suite 200 (Box 762)
Toronto, Ontario, Canada M5J2T3

Subject: Release and Replacement of Financial Responsibility Proof Mechanisms
PF Papers, LLC Landfills – License No. 2756 and No. 3051

Dear Mr. McMillan:

The Department has transferred Closure and Long-Term Care License No. 3051 from Fraser Papers Limited to Park Falls Operator, LLC and issued Closure and Long-Term Care License No. 2756 to Park Falls Operator, LLC. We have received acceptable replacement proof of financial responsibility for long-term care from Park Falls Operator, LLC. Park Falls Operator, LLC, as the license holder, is now responsible for meeting the requirements of the licenses. Accordingly, Fraser Papers Limited has no liability under the licenses for events occurring after the license transfers.

Therefore, the Department hereby recognizes the terms of the Assumption Agreement dated [date] between Fraser Papers and Park Falls Operator and releases its rights and interests in the following letters of credit and amendments issued by The Bank of New York Mellon:

<u>Landfill License No.</u>	<u>LoC Type</u>	<u>LoC No.</u>	<u>Current Value</u>
2756	Long-Term Care	S00052591	\$161,600
3051	Long-Term Care	S00052592	\$200,000
3051	Long-Term Care	S00052590	\$2,360,875

Under the State of Wisconsin Public Records law (Subch. II of Chap. 19, Wis. Stats.), the letters of credit are considered a part of the public record this agency is required to maintain, and therefore the original letters of credit cannot be returned. Copies of the letters of credit marked "Released" are attached for your records.

If you have any questions regarding this matter, please contact Colleen Storck at 608-267-7515 or via e-mail at Colleen.Storck@wisconsin.gov.

Sincerely,

[place for Ann Coakley's signature when required actions have taken place]

Ann Coakley, Director
Bureau of Waste & Materials Management

Enclosures

EXHIBIT B



State of Wisconsin
Department of Natural Resources
PO Box 7921, Madison WI 53707-7921

Solid Waste Facility Closure and Long-Term Care License

Form 4400-118 (R 5/01)

Authorized Contact:

GLENN MCMILLAN, CHIEF FINANCIAL OFFICER
FRASER PAPERS
BCE PLACE 181 BAY STREET, SUITE 200 (BOX 762)
TORONTO, ONTARIO, CANADA M5J2T3

License Number	03051
Facility Identification Number	851029850
Type of Facility	Landfill
Effective Date	10/01/2008
Date of Expiration	Does Not Expire

Licensee

Fraser Papers Limited

Name of Facility

PF Papers, LLC Landfill

Location of Facility:	Legal Description
	NE 1/4 of Section 35, Town 40N, Range 1W
	Address
	3625 Highway 13, Park Falls, WI 54552
	Town / Municipality
	Town of Eisenstein
	County
	Price

This license is required under s. NR 520.04(3), Wis. Adm. Code, during the period when the owner is required to provide proof of financial responsibility for long-term care of the facility as provided in s. 289.41, Wis. Stats.

Pursuant to s. 289.46, Wis. Stats., any person acquiring rights of ownership, possession, or operation of the facility is subject to all requirements of the license approved for the facility, including requirements relating to the long-term care of the facility, and is subject to any negotiated agreement or arbitration award related to the facility under s. 289.33, Wis. Stats.

This license does not authorize disposal of solid or hazardous waste at this facility.

This license is subject to and conditioned upon compliance with the provisions of Chapter 289, Wis. Stats., and Chapters NR 500 - 590, Wis. Adm. Code, any plan approval and modifications thereof, and any special order and modifications thereof issued by the Department.

Copies to: Licensee
Region
Bureau

EXHIBIT C

•
:

Execution Copy

ASSET SALE AGREEMENT

between

FRASER PAPERS LIMITED

and

FLAMBEAU RIVER PAPERS, LLC

Dated as of June 22, 2006

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ASSET SALE AGREEMENT

This ASSET SALE AGREEMENT (the "Agreement"), dated as of June 22, 2006, between FRASER PAPERS LIMITED, a Maine corporation ("Seller"), and FLAMBEAU RIVER PAPERS, LLC, a Wisconsin limited liability company ("Purchaser").

WITNESSETH:

WHEREAS, Seller desires to sell, transfer and assign to Purchaser, and Purchaser desires to acquire and assume from Seller, the Purchased Assets as more specifically provided herein; and

WHEREAS, certain terms used in this Agreement are defined in Section 1.1;

NOW, THEREFORE, in consideration of the premises and the mutual covenants and agreements hereinafter contained, the parties hereby agree as follows:

ARTICLE I

DEFINITIONS

1.1 Certain Definitions.

For purposes of this Agreement, the following terms shall have the meanings specified in this Section 1.1:

"2005 Agreement" means the Asset Purchase Agreement, dated as of January 5, 2005, by and among Premium Paper Holdco, LLC, Smart Papers, LLC, PF Papers, Sun Paper Holdco, LLC and Seller.

"Accountant" means PricewaterhouseCoopers LLP or such other firm of independent public accountants selected by Seller and Purchaser.

"Affiliate" means, with respect to any Person, any other Person that, directly or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, such Person, and the term "control" (including the terms "controlled by" and "under common control with") means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through ownership of voting securities, by contract or otherwise.

"Bankruptcy Code" means title 11 of the United States Code.

"Bankruptcy Court" means the United States Bankruptcy Court for the District of Delaware.

"Bankruptcy Court Order" means the order entered by the Bankruptcy Court, and any modification, amendment or supplement thereto, that authorizes and approves the PF Papers Transaction.

"Business" means the business of operating certain pulp and paper mill assets purchased by Purchaser under the Flambeau-PF Papers APA utilizing the Equipment purchased hereunder.

"Business Day" means any day of the year on which national banking institutions in New York are open to the public for conducting business and are not required or authorized to close.

"Change of Control" means the occurrence of either of the following:

(i) Any Person becomes the beneficial owner, directly or indirectly, of securities of the Purchaser representing 50% or more of the total voting power represented by the Purchaser's then outstanding voting securities; or

(ii) Any merger or consolidation of the Purchaser with any other entity, other than a merger or consolidation that would result in the voting securities of the Purchaser outstanding immediately prior thereto continuing to representing 50% or more of the total voting power represented by the Purchasers outstanding voting securities (either by remaining outstanding or by being converted into voting securities of the Company or such other surviving entity outstanding immediately after such merger or consolidation).

"Chapter 11 Case" means the case under Chapter 11 of the Bankruptcy Code in which PF Papers is a debtor that is pending before the Bankruptcy Court.

"Danisco" means Danisco USA Inc. (Sweeteners Division).

"Documents" means all files, documents, instruments, papers, books, reports, records, tapes, microfilms, photographs, letters, budgets, forecasts, ledgers, journals, title policies, customer and supplier lists, regulatory filings, operating data and plans, technical documentation (design specifications, functional requirements, operating instructions, logic manuals, flow charts, etc.), user documentation (installation guides, user manuals, training materials, release notes, working papers, etc.), marketing documentation (sales brochures, flyers, pamphlets, web pages, etc.), and other similar materials related primarily to the Purchased Assets or Assumed Liabilities in each case whether or not in electronic form; provided that **"Documents"** shall not include duplicate copies of such Documents retained by Seller or its Affiliates subject to the obligations relating to the use and disclosure thereof set forth in this Agreement.

"Earn-Out Year" means Earn-Out Year Four, Earn-Out Year Five, Earn-Out Year Six and Earn-Out Year Seven.

"Earn-Out Year Four" means the twelve (12) month period beginning January 1 following the three (3) year anniversary of the Closing.

"Earn-Out Year Five" means the twelve (12) month period beginning January 1 following the four (4) year anniversary of the Closing.

"Earn-Out Year Six" means the twelve (12) month period beginning January 1 following the five (5) year anniversary of the Closing.

"Earn-Out Year Seven" means the twelve (12) month period beginning January 1 following the six (6) year anniversary of the Closing.

"EBITDA" means, with respect to Purchaser for any Earn-Out Year an amount equal to: (i) the net income of the Purchaser for such Earn-Out Year, determined in accordance with GAAP; plus (ii) the sum of, in each case to the extent included in such calculation of net income but without duplication, (a) any provision for income tax, (b) interest expense and other financing costs including any cost associated with the factoring or sale of accounts receivable, (c) depreciation, depletion and amortization of intangibles or acquisition costs, (d) any loss from extraordinary items or the sale, exchange or other disposition of capital assets, (e) any charge or expense not directly related to the operation of the Business or losses in subsidiaries or other investments not directly related to the operation of the Business, except for customary donations to organizations identified by the IRS as Section 501(c)(3) organizations, (f) any amounts paid to any equity holder of Purchaser or any of its Affiliates or employees of Affiliates, other than (a) compensation not in excess of market terms based on time and work actually performed for the Business (whether for management, consulting or other fees, or interest) and (b) Permitted Chipping Payments and (g) all other non-cash charges and non-cash losses, other than normal accruals in the Ordinary Course of Business; minus (iii) the sum of, in each case to the extent included in such calculation of net income but without duplication, (a) any credit for income tax, (b) interest income, (c) any gains from extraordinary items or from the sale, exchange or other disposition of capital assets and (d) any other non-cash gains.

"Environmental Law" means any applicable Law currently in effect relating to the protection of the environment or natural resources, including the Comprehensive Environmental Response, Compensation and Liability Act (42 U.S.C. § 9601 et seq.), the Hazardous Materials Transportation Act (49 U.S.C. App. § 1801 et seq.), the Resource Conservation and Recovery Act (42 U.S.C. § 6901 et seq.), the Clean Water Act (33 U.S.C. § 1251 et seq.), the Clean Air Act (42 U.S.C. § 7401 et seq.), the Toxic Substances Control Act (15 U.S.C. § 2601 et seq.), and the Federal Insecticide, Fungicide, and Rodenticide Act (7 U.S.C. § 136 et seq.), as each has been amended and the regulations promulgated pursuant thereto.

"Equipment" means equipment purchased by Seller pursuant to that Equipment Sale and Purchase and Lease Termination Agreement dated as of February 8, 2005 with Wells Fargo Bank, Northwest, as trustee for the benefit of SC Asset Management II, LLC.

"Flambeau-PF Papers APA" means the Asset Purchase Agreement, dated as of June 20, 2006, between Purchaser and PF Papers.

"GAAP" means generally accepted accounting principles in the United States as of the date hereof.

"General Release Agreement" means that certain General Release Agreement, by and between Danisco and Fraser Papers Inc., a corporation organized under the laws of Canada.

"Governmental Body" means any government or governmental or regulatory body thereof, or political subdivision thereof, whether foreign, federal, state, or local, or any agency, instrumentality or authority thereof, or any court or arbitrator (public or private).

"Hazardous Material" means any substance, material or waste which is regulated by any Government Body including petroleum and its by-products, asbestos, and any material or substance which is defined as a "hazardous waste," "hazardous substance," "hazardous material," "restricted hazardous waste," "industrial waste," "solid waste," "contaminant," "pollutant," "toxic waste" or "toxic substance" under any provision of Environmental Law.

"IRS" means the United States Internal Revenue Service and, to the extent relevant, the United States Department of Treasury.

"Law" means any foreign, federal, state, local law, statute, code, ordinance, rule or regulation.

"Lease Agreement" means the Sublease Agreement, dated as of February 18, 2005, between Seller and PF Papers relating to the Equipment.

"Legal Proceeding" means any judicial, administrative or arbitral actions, suits or proceedings (public or private) by or before a Governmental Body.

"Liability" means any debt, liability or obligation (whether direct or indirect, absolute or contingent, accrued or unaccrued, liquidated or unliquidated, or due or to become due), and including all costs and expenses relating thereto.

"Lien" means any lien, encumbrance, pledge, mortgage, deed of trust, security interest, claim, lease, charge, option, right of first refusal, easement, servitude or transfer restriction.

"Material Adverse Effect" means a material adverse effect on the ability of Seller to consummate the transactions contemplated by this Agreement.

"Order" means any order, injunction, judgment, decree, ruling, writ, assessment or arbitration award of a Governmental Body.

"Ordinary Course of Business" means the ordinary and usual course of normal day-to-day operations of the Business.

"Permits" means any approvals, authorizations, consents, licenses, permits or certificates of a Governmental Body.

"Permitted Chipping Payments" means any payments for chipping services that are demonstratively not above market rates (i) as evidenced by three (3) comparable arms-length transactions identified by Purchaser (or such lesser number as agreed to by Seller) or (ii) as

Purchaser demonstrates to the reasonable satisfaction of Seller which would not result in an unreasonably return to the recipient of such payments.

"Person" means any individual, corporation, partnership, limited liability company, firm, joint venture, association, joint-stock company, trust, unincorporated organization, Governmental Body or other entity.

"PF Papers" means PF Papers, LLC, a Delaware limited liability company.

"PF Papers Boiler Claims" means any and all claims, rights or interests that Seller has against or with respect to PF Papers, a debtor in the Chapter 11 Case, for accrued and unpaid rental obligations arising under the Lease Agreement.

"PF Papers Transaction" means the transactions contemplated by the Flambeau-PF Papers APA.

"Seller Liens" means any Liens on or relating to or affecting any of the Equipment arising as a result of claims against Seller or any predecessor owner of the Equipment.

"Subsidiary" means any Person of which a majority of the outstanding share capital, voting securities or other voting equity interests are owned, directly or indirectly, by Seller.

"Tax" or "Taxes" means (i) any and all federal, state, local or foreign taxes, charges, fees, imposts, levies or other assessments, including all net income, gross receipts, capital, sales, use, ad valorem, value added, transfer, franchise, profits, inventory, capital stock, license, withholding, payroll, employment, social security, unemployment, excise, severance, stamp, occupation, property and estimated taxes, customs duties, fees, assessments and charges of any kind whatsoever; and (ii) all interest, penalties, fines, additions to tax or additional amounts imposed by any Taxing Authority in connection with any item described in clause (i).

"Taxing Authority" means the IRS and any other Governmental Body responsible for the administration of any Tax.

"Tax Return" means any return, report or statement required to be filed with respect to any Tax (including any attachments thereto, and any amendment thereof), including any information return, claim for refund, amended return or declaration of estimated Tax, and including, where permitted or required, combined, consolidated or unitary returns for any group of entities that includes Seller, any of the Subsidiaries, or any of their Affiliates.

"Transfer Documents" means the Bill of Sale, the Assignment of Claims and the Assignment of Lease Agreement, each dated as of the Closing Date, by Seller for the benefit of or in favor of Purchaser, attached hereto as Exhibit A, Exhibit B and Exhibit D, respectively.

1.2 **Terms Defined Elsewhere in this Agreement.** For purposes of this Agreement, the following terms have meanings set forth in the sections indicated:

Term

Section

<u>Term</u>	<u>Section</u>
Agreement	Preamble
Assumed Liabilities	2.2
Cap	9.5(a)
Closing	4.1
Closing Date	4.1
Commissions	7.4(b)
Competing Business	7.5(c)
Dispute Notice	3.3(b)
Earn-Out Payment	3.3(a)
Earn-Out Statement	3.3(b)
Environmental Permits	5.17
Final Purchase Price	3.1
Indemnification Claim	10.4(b)
Initial Purchase Price	3.1
Losses	10.2(a)(i)
Non-Competition Period	7.5(a)
Post-Closing Covenants	9.1(a)
Post-Closing Covenant Survival Period	10.1(a)
Pre-Closing Covenants	9.1(a)
Purchased Assets	2.1
Purchaser	Preamble
Purchaser Documents	6.2
Purchaser Indemnified Parties	10.2(a)
Restricted Party	7.5
Review Period	3.3(b)
Sale	3.2(c)
Seller	Preamble
Seller Documents	5.2
Seller Indemnified Parties	10.3(a)
Survival Period	10.1(a)
Termination Date	4.2
Total Consideration	3.1

1.3 Other Definitional and Interpretive Matters

(a) Unless otherwise expressly provided, for purposes of this Agreement, the following rules of interpretation shall apply:

Calculation of Time Period. When calculating the period of time before which, within which or following which, any act is to be done or step taken pursuant to this Agreement, the date that is the reference date in calculating such period shall be excluded. If the last day of such period is a non-Business Day, the period in question shall end on the next succeeding Business Day.

Dollars. Any reference in this Agreement to \$ shall mean U.S. dollars.

Exhibits/Schedules. The Exhibits and Schedules to this Agreement are hereby incorporated and made a part hereof and are an integral part of this Agreement. All Exhibits and Schedules annexed hereto or referred to herein are hereby incorporated in and made a part of this Agreement as if set forth in full herein. Any capitalized terms used in any Schedule or Exhibit but not otherwise defined therein shall be defined as set forth in this Agreement.

Gender and Number. Any reference in this Agreement to gender shall include all genders, and words imparting the singular number only shall include the plural and vice versa.

Headings. The provision of a Table of Contents, the division of this Agreement into Articles, Sections and other subdivisions and the insertion of headings are for convenience of reference only and shall not affect or be utilized in construing or interpreting this Agreement. All references in this Agreement to any "Section" are to the corresponding Section of this Agreement unless otherwise specified.

Herein. The words such as "herein," "hereinafter," "hereof," and "hereunder" refer to this Agreement as a whole and not merely to a subdivision in which such words appear unless the context otherwise requires.

Including. The word "including" or any variation thereof means (unless the context of its usage otherwise requires) "including, without limitation" and shall not be construed to limit any general statement that it follows to the specific or similar items or matters immediately following it.

(b) The parties hereto have participated jointly in the negotiation and drafting of this Agreement and, in the event an ambiguity or question of intent or interpretation arises, this Agreement shall be construed as jointly drafted by the parties hereto and no presumption or burden of proof shall arise favoring or disfavoring any party by virtue of the authorship of any provision of this Agreement.

ARTICLE II

PURCHASE AND SALE OF ASSETS; ASSUMPTION OF LIABILITIES

2.1 Purchase and Sale of Assets. On the terms and subject to the conditions set forth in this Agreement, at the Closing Purchaser shall purchase, acquire and accept from Seller, and Seller shall sell, transfer, assign, convey and deliver to Purchaser all of Seller's right, title and interest in, to and under the Purchased Assets. "Purchased Assets" means (a) the Equipment, (b) the PF Papers Boiler Claims and (c) the Lease Agreement (other than rights to indemnification under Section 25 of the Lease Agreement). The Equipment is and has been at all relevant times personal property.

2.2 Assumption of Liabilities. On the terms and subject to the conditions set forth in this Agreement, at the Closing Purchaser shall assume, effective as of the Closing, and shall timely perform, pay and discharge in accordance with their respective terms, all Liabilities of Seller (collectively, the "Assumed Liabilities");

(a) for all sales, use, stamp, transfer and other similar Taxes applicable to the transfer of the Purchased Assets pursuant to this Agreement;

(b) with respect to the Purchased Assets from acts or omissions occurring after the Closing and with respect to the Lease Agreement arising after the Closing, including those Liabilities arising under Environmental Laws; and

(c) for Taxes accruing with respect to the Purchased Assets for all Taxable Periods (or portions thereof) beginning after the Closing Date.

2.3 Further Conveyances and Assumptions; Consent of Third Parties.

(a) From time to time following the Closing, Seller and Purchaser shall execute, acknowledge and deliver all such further conveyances, notices, assumptions, releases and acquittances and such other instruments, and shall take such further actions, as may be reasonably necessary or appropriate to assure fully to Purchaser and its successors or assigns, all of the rights, titles and interests intended to be conveyed to Purchaser under this Agreement and the Transfer Documents and to assure fully to Seller and its Affiliates and their successors and assigns, the assumption of the liabilities and obligations intended to be assumed by Purchaser under this Agreement and the Transfer Documents, and to otherwise make effective the transactions contemplated hereby and thereby.

2.4 Excluded Liabilities. Except for the Assumed Liabilities, Purchaser shall not assume any Liabilities or other obligations of Seller with respect to the Purchased Assets, including without limitation, any Liability under Environmental Laws arising from acts or omissions prior to the Closing.

ARTICLE III

CONSIDERATION

3.1 Consideration. The aggregate consideration for the Purchased Assets shall be (a) an amount in cash equal to \$3,000,000 (the "Initial Purchase Price"), subject to adjustment as provided in Section 3.3 and (b) the assumption of the Assumed Liabilities (together with the Purchase Price, the "Total Consideration"). Following the Closing Date, Purchaser shall pay to Seller as additional purchase price for the Purchased Assets the amounts specified in Section 3.3, (the Initial Purchase Price as so adjusted, the "Final Purchase Price").

3.2 Payment of Purchase Price.

(a) Purchaser shall pay the Initial Purchase Price to Seller, which shall be paid by wire transfer of immediately available funds into an account designated by Seller, in accordance with this Section 3.2 below:

(i) On the Closing Date, Purchaser shall pay two hundred thousand dollars (\$200,000) to Seller;

(ii) On the one (1) year anniversary of the Closing, Purchaser shall pay two hundred thousand dollars (\$200,000) to Seller;

(iii) On the two (2) year anniversary of the Closing, Purchaser shall pay two hundred thousand dollars (\$200,000) to Seller;

(iv) On the four (4) year anniversary of the Closing, Purchaser shall pay one million five hundred thousand dollars (\$1,500,000); and

(v) On the five (5) year anniversary of the Closing, Purchaser shall pay nine hundred thousand dollars (\$900,000).

(b) Purchaser shall pay the Earn-Out Payments to Seller, which shall be paid by wire transfer of immediately available funds into an account designated by Seller, in accordance with Section 3.3.

(c) If prior to the end of Earn-Out Year Five, (i) Purchaser or its Affiliates sell or otherwise dispose of the Business or all or a substantial part of the assets of the Business or a Default shall have occurred under and as defined in the Security Agreement or Purchaser shall have exercised its remedies with respect to the Equipment (any thereof, a "Sale"); or (ii) a Change of Control occurs; then, within three (3) Business Days after the occurrence of such Sale, Purchaser shall pay to Seller, three million dollars (\$3,000,000) less the aggregate sum of any payments previously made under Section 3.2(a).

(d) Purchaser's obligations to deliver to Seller the Initial Purchase Price and Earn-Out Payments as provided in Sections 3.2 and 3.3, respectively, shall be unconditional and shall not be subject to offset, except for Liabilities of Seller relating to its breach of representations, warranties, covenants, obligations or undertakings herein, but only to the extent that such Liabilities have been determined by a final non-appealable Order of a Government Body

3.3 Earn-Out Payment.

(a) For each Earn-Out Year, the amount of the earn-out (the "Earn-Out Payment") under this Agreement shall be equal to (i) the excess of the actual Purchaser's consolidated EBITDA for such Earn-Out Year over one million three hundred thousand dollars \$1,300,000 multiplied by (ii) 40%; provided, that the Earn-Out Payment for (i) Earn-Out Year Four or Earn-Out Year Five shall not exceed two hundred fifty thousand dollars (\$250,000) each, (ii) Earn-Out Year Six shall not exceed two hundred seventy five thousand dollars (\$275,000), and (iii) Earn-Out Year Seven shall not exceed three hundred thousand dollars (\$300,000),

(b) As soon as practicable, but in any event no later than ninety (90) days following the last day of Earn-Out Year Four, Earn-Out Year Five, Earn-Out Year Six and Earn-Out Year Seven, Purchaser shall deliver to Seller its audited financial statements for such Earn-Out Year accompanied by a statement setting forth in reasonable detail the calculation of Purchaser's EBITDA for such Earn-Out Year, as calculated in accordance with Section 3.3(a), for such Earn-Out Year (each such statement, an "Earn-Out Statement"). Each Earn-Out Statement shall have been audited by Purchaser's auditors. The Seller shall have sixty (60) days

after receipt of any Earn-Out Statement (the "Review Period") to review and dispute any and all amounts set forth in such Earn-Out Statement. In connection with such review, Purchaser shall, and shall cause its representatives to, provide Seller with access to such of the books, records, work papers and personnel as are reasonably necessary to verify the calculations set forth in the Earn-Out Statement. Prior to the end of the Review Period, Seller may provide to Purchaser written notice of any dispute (a "Dispute Notice"), setting forth in reasonable detail the amounts subject to dispute and the basis for the dispute, together with any necessary supporting documentation. If Seller does not deliver a Dispute Notice to Purchaser prior to the end of such Review Period, such Earn-Out Statement shall be final and binding on the parties hereto.

(c) If Seller delivers to Purchaser a Dispute Notice in accordance with Section 3.3(b), Seller and Purchaser shall attempt to resolve the dispute with respect to such Earn-Out Statement and to agree in writing upon the final content of such Earn-Out Statement within thirty (30) days following the delivery by the Seller of the Dispute Notice to Purchaser. If Seller and Purchaser are unable to resolve the dispute within such thirty (30) day period, then either Seller or Purchaser shall have the right to submit such dispute for resolution to the Accountant, for review and resolution of any and all matters that remain in dispute and that were set forth in the Dispute Notice. In connection with the resolution of any dispute: (i) Seller and Purchaser shall each, and shall cause their representatives to, provide to the Accountant such access as reasonably required by the Accountant to resolve the matter in dispute in accordance with this Section 3.3(c); (ii) the Accountant shall be bound by the terms of this Agreement and may not assign a value to any item greater than the greatest value for such item claimed by either party or less than the smallest value for such item claimed by either party; (iii) the Accountant shall make all determinations in accordance with GAAP; and (iv) the Accountant shall revise the Earn-Out Statement, if required, in order to conform with the Accountant's resolution of the dispute. In rendering its decision, the Accountant shall, in its sole discretion, apportion its fees and expenses incurred in connection with resolving the dispute based on its views as to the relative merit of the positions of each of Seller and Purchaser. All determinations by the Accountant made in accordance with the terms of this Agreement, including any revisions to the Earn-Out Statement, if required, and any apportionment of its fees and expenses shall be final and binding on Seller and Purchaser and neither Seller nor Purchaser shall have the right to appeal such determinations. Seller and Purchaser shall cooperate fully and expeditiously with the Accountant to facilitate the receipt of the final determinations of the Accountant within thirty (30) days following submission of the Dispute Notice to the Accountant.

(d) No later than five (5) Business Days following the final determination of an Earn-Out Statement (whether as a result of (i) the Seller not delivering a Dispute Notice to Purchaser during the Review Period, (ii) agreement by Purchaser and the Seller of the final content of the Earn-Out Statement or (iii) the final determination of the Accountant), Purchaser shall make the Earn-Out Payment for such Earn-Out Year to the Seller by wire transfer of immediately available funds to an account designated in writing by the Seller.

(e) If prior to the end of Earn-Out Year Seven, a Sale or Change of Control has occurred, then, within three (3) Business Days after the occurrence of such Sale, Purchaser shall pay to Seller, one million seventy five thousand dollars (\$1,075,000) less the aggregate sum of any payments previously made under Section 3.3.

ARTICLE IV

CLOSING AND TERMINATION

4.1 Closing Date. The consummation of the purchase and sale of the Purchased Assets and the assumption of the Assumed Liabilities provided for in Article II hereof (the "Closing") shall take place at the offices of Weil, Gotshal & Manges LLP located at 767 Fifth Avenue, New York, NY 10153 (or at such other place as the parties may designate in writing) at 10:00 a.m. (New York City time) on a date to be specified by the parties (the "Closing Date"), which date shall be the Business Day after satisfaction or waiver of the conditions set forth in Article VIII (other than conditions that by their nature are to be satisfied at the Closing, but subject to the satisfaction or waiver of those conditions at such time), unless another time, date or place is agreed to in writing by the parties hereto.

4.2 Termination of Agreement. This Agreement may be terminated prior to the Closing as follows:

(a) At the election of Seller or Purchaser on or after July 31, 2006, (such date, as it may be extended under Section 4.1, the "Termination Date"), if the Closing shall not have occurred by the close of business on such date, provided that the terminating party is not in breach in any material respect of any of its obligations hereunder;

(b) At the election of Seller or Purchaser on or after the date the Flambeau-PF Papers APA is terminated;

(c) by mutual written consent of Seller and Purchaser; or

(d) by Seller or Purchaser if there shall be in effect a final nonappealable Order of a Governmental Body of competent jurisdiction restraining, enjoining or otherwise prohibiting the consummation of the transactions contemplated hereby.

4.3 Effect of Termination.

(a) In the event that this Agreement is validly terminated in accordance with Sections 4.2, then each of the parties shall be relieved of their duties and obligations arising under this Agreement after the date of such termination and such termination shall be without liability to Purchaser or Seller.

(b) Nothing in this Section 4.3 shall relieve Purchaser or Seller of any liability for a breach of any of its covenants or agreements or willful breach of its representations and warranties contained in this Agreement prior to the date of termination. The damages recoverable by the non-breaching party shall include all attorneys' fees reasonably incurred by such party in connection with the transactions contemplated hereby.

ARTICLE V

REPRESENTATIONS AND WARRANTIES OF SELLER

Seller hereby represents and warrants to Purchaser that:

5.1 Organization and Good Standing. Seller is a corporation duly organized, validly existing and in good standing under the laws of the State of Maine and has all requisite corporate power and authority to own, lease and operate its properties and to carry on its business as now conducted.

5.2 Authorization of Agreement. Seller has all requisite power and authority to execute and deliver this Agreement and Seller, has all requisite power, authority and legal capacity to execute and deliver each other agreement, document, or instrument or certificate contemplated by this Agreement or to be executed by Seller in connection with the consummation of the transactions contemplated by this Agreement (the "Seller Documents"), to perform its obligations hereunder and thereunder and to consummate the transactions contemplated hereby and thereby. The execution, delivery and performance of this Agreement and each of the Seller Documents and the consummation of the transactions contemplated hereby and thereby have been duly authorized and approved by all requisite corporate action on the part of Seller. This Agreement has been, and each of the Seller Documents will be at or prior to the Closing, duly and validly executed and delivered by Seller (assuming the due authorization, execution and delivery by the other parties hereto and thereto) this Agreement constitutes, and each of the Seller Documents when so executed and delivered will constitute, legal, valid and binding obligations of Seller enforceable against Seller in accordance with their respective terms, subject to applicable bankruptcy, insolvency, reorganization, moratorium and similar laws affecting creditors' rights and remedies generally, and subject, as to enforceability, to general principles of equity, including principles of commercial reasonableness, good faith and fair dealing (regardless of whether enforcement is sought in a proceeding at law or in equity).

5.3 Conflicts; Consents of Third Parties.

None of the execution and delivery by Seller of this Agreement, the consummation of the transactions contemplated hereby, or compliance by Seller with any of the provisions hereof or thereof will conflict with, or result in any violation of or default (with or without notice or lapse of time, or both) under, or give rise to a right of termination or cancellation under, any provision of (i) the certificate of incorporation and by-laws or comparable organizational documents of Seller; (ii) any contract or Permit to which Seller or any Subsidiary is a party or by which any of the properties or assets of Seller or any Subsidiary are bound; (iii) any Order of any Governmental Body applicable to Seller or any Subsidiary or by which any of the properties or assets of Seller or any Subsidiary are bound; or (iv) any applicable Law, other than, in the case of clauses (ii), (iii) and (iv), such conflicts, violations, defaults, terminations or cancellations that would not have a Material Adverse Effect.

5.4 Title to Purchased Assets; Sufficiency. Seller owns and has good title to each of the Purchased Assets, free and clear of all Seller Liens. Upon consummation of the transactions

contemplated hereby, Seller will convey to Purchaser good title in and to each of the Purchased Assets, free and clear of all Seller Liens.

5.5 No Other Representations or Warranties; Schedules. Except for the representations and warranties contained in this Article V, Seller makes no representation or warranty (express or implied) with respect to Seller, the Purchased Assets, the Assumed Liabilities or the transactions contemplated by this Agreement, and Seller expressly disclaims all other representations or warranties, whether made by Seller, any Affiliate of Seller or any of their respective officers, directors, employees, agents or representatives. Except for the representations and warranties contained in this Article V hereof, Seller (i) EXPRESSLY DISCLAIMS ANY REPRESENTATION OR WARRANTY, EXPRESSED OR IMPLIED, AT COMMON LAW, BY STATUTE, OR OTHERWISE, RELATING TO THE CONDITION OF THE PURCHASED ASSETS (INCLUDING ANY IMPLIED OR EXPRESSED WARRANTY OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE, OR OF CONFORMITY TO MODELS OR SAMPLES OF MATERIALS) and (ii) hereby disclaims all liability and responsibility for any representation, warranty, projection, forecast, statement, or information made, communicated, or furnished (orally or in writing) to Purchaser or its Affiliates or representatives (including any opinion, information, projection, or advice that may have been or may be provided to Purchaser by any director, officer, employee, agent, consultant, or representative of Seller or any of its Affiliates). Seller makes no representations or warranties to Purchaser regarding the appropriateness of the Equipment for the Business or any probable success or profitability of the Business.

ARTICLE VI

REPRESENTATIONS AND WARRANTIES OF PURCHASER

Purchaser hereby represents and warrants to Seller that:

6.1 Organization and Good Standing. Purchaser is a limited liability company duly organized, validly existing and in good standing under the laws of the State of Wisconsin and has all requisite limited liability company power and authority to own, lease and operate its properties and to carry on its business.

6.2 Authorization of Agreement. Purchaser has full limited liability company power and authority to execute and deliver this Agreement and each other agreement, document, instrument or certificate contemplated by this Agreement or to be executed by Purchaser in connection with the consummation of the transactions contemplated hereby and thereby (the "Purchaser Documents"), and to consummate the transactions contemplated hereby and thereby. The execution, delivery and performance by Purchaser of this Agreement and each Purchaser Document have been duly authorized by all necessary limited liability company action on behalf of Purchaser. This Agreement has been, and each Purchaser Document will be at or prior to the Closing, duly executed and delivered by Purchaser and (assuming the due authorization, execution and delivery by the other parties hereto and thereto) this Agreement constitutes, and each Purchaser Document when so executed and delivered will constitute, the legal, valid and binding obligation of Purchaser, enforceable against Purchaser in accordance with its terms, subject to applicable bankruptcy, insolvency, reorganization, moratorium and

similar laws affecting creditors' rights and remedies generally, and subject, as to enforceability, to general principles of equity, including principles of commercial reasonableness, good faith and fair dealing (regardless of whether enforcement is sought in a proceeding at law or in equity).

6.3 Conflicts; Consents of Third Parties.

None of the execution and delivery by Purchaser of this Agreement, the consummation of the transactions contemplated hereby, or the compliance by Purchaser with any of the provisions hereof will conflict with, or result in any violation of or default (with or without notice or lapse of time, or both) under, or give rise to a right of termination or cancellation under, any provision of (i) the certificate of formation and by-laws (or other organizational and governing documents) of Purchaser, (ii) any contract or Permit to which Purchaser is a party or by which Purchaser or its properties or assets are bound, (iii) any Order of any Governmental Body applicable to Purchaser or by which any of the properties or assets of Purchaser are bound or (iv) any applicable Law.

6.4 Litigation. There are no Legal Proceedings pending or, to the knowledge of Purchaser, threatened against Purchaser, or to which Purchaser is otherwise a party before any Governmental Body, which, if adversely determined, would reasonably be expected to have a material adverse effect on the ability of Purchaser to perform its obligations under this Agreement or to consummate the transactions hereby. Purchaser is not subject to any Order of any Governmental Body except to the extent the same would not reasonably be expected to have a material adverse effect on the ability of Purchaser to perform its obligations under this Agreement or to consummate the transactions contemplated hereby.

6.5 Financial Advisors. No Person has acted, directly or indirectly, as a broker, finder or financial advisor for Purchaser in connection with the transactions contemplated by this Agreement and no Person is entitled to any fee or commission or like payment in respect thereof.

6.6 Financial Capability. Purchaser (i) at the Closing will have, sufficient internal funds (without giving effect to any unfunded financing regardless of whether any such financing is committed) available to pay the Purchase Price and any expenses incurred by Purchaser in connection with the transactions contemplated by this Agreement, (ii) at the Closing will have, the resources and capabilities (financial or otherwise) to perform its obligations hereunder, and (iii) has not incurred any obligation, commitment, restriction or Liability of any kind, which would impair or adversely affect such resources and capabilities.

6.7 Solvency.

(a) Immediately after giving effect to the consummation of the transactions contemplated by this Agreement (including the debt and equity financings being entered into in connection therewith), to the knowledge of the Purchaser:

(i) the fair saleable value (determined on a going concern basis) of the assets of Purchaser shall be greater than the total amount of their liabilities (including all liabilities, whether or not reflected in a balance sheet prepared in accordance with GAAP,

and whether direct or indirect, fixed or contingent, secured or unsecured, disputed or undisputed);

(ii) Purchaser shall be able to pay its debts and obligations in the Ordinary Course of Business as they become due; and

(iii) Purchaser shall have adequate capital to carry on its businesses and all businesses in which it is about to engage.

(b) In completing the transactions contemplated by this Agreement, Purchaser does not intend to hinder, delay or defraud any present or future creditors of Purchaser or Seller.

6.8 Condition of the Purchased Assets. Notwithstanding anything contained in this Agreement to the contrary, Purchaser acknowledges and agrees that Seller is not making any representations or warranties whatsoever, express or implied, beyond those expressly given by Seller in Article V, and Purchaser acknowledges and agrees that, except for the representations and warranties contained therein, the Purchased Assets are being transferred on a "where is" and, as to condition, "as is" basis. Any claims Purchaser may have for breach of representation or warranty shall be based solely on the representations and warranties of Seller set forth in Article V. Purchaser further represents that neither Seller nor any of its Affiliates nor any other Person has made any representation or warranty, express or implied, as to the accuracy or completeness of any information regarding Seller or any of the Affiliates, or the transactions contemplated by this Agreement not expressly set forth in this Agreement, and none of Seller, any of its Affiliates or any other Person will have or be subject to any liability to Purchaser or any other Person resulting from the distribution to Purchaser or its representatives or Purchaser's use of, any such information, including any confidential memoranda distributed on behalf of Seller or other publications or data room information provided to Purchaser or its representatives, or any other document or information in any form provided to Purchaser or its representatives in connection with the sale of the Business and the transactions contemplated hereby. Purchaser acknowledges that it has conducted to its satisfaction, its own independent investigation of the Purchased Assets and, in making the determination to proceed with the transactions contemplated by this Agreement, Purchaser has relied on the results of its own independent investigation. As of the date hereof, Purchaser is not aware of any facts, events or circumstances that would cause any of the representations or warranties of Seller set forth in Article V hereof to be untrue or incorrect in any respect.

ARTICLE VII

COVENANTS

7.1 Access to Information. (a) Seller agrees that, prior to the Closing, Purchaser shall be entitled, through its officers, employees and representatives (including its legal advisors and accountants), to make such investigation of the properties, businesses and operations of the Purchased Assets and such examination of the Documents as it reasonably requests and to make extracts and copies of the Documents. Any such investigation and examination shall be conducted during regular business hours upon reasonable advance notice and under reasonable circumstances and shall be subject to restrictions under applicable Law. Seller shall cause the

officers, employees, consultants, agents, accountants, attorneys and other representatives of Seller to cooperate with Purchaser and Purchaser's representatives in connection with such investigation and examination, and Purchaser and its representatives shall cooperate with Seller and its representatives and shall use their reasonable efforts to minimize any disruption to the Purchased Assets. Notwithstanding anything herein to the contrary, no such investigation or examination shall be permitted to the extent that it would require Seller to disclose information subject to attorney-client privilege or conflict with any confidentiality obligations to which Seller or any of its Affiliates is bound.

(b) Until all payments owing under this Agreement are paid in full to Seller, Purchaser will give Seller reasonable access during Purchaser's regular business hours upon reasonable advance notice and under reasonable circumstances and shall be subject to restrictions under applicable Law to books and records of the Purchaser to the extent necessary for the preparation of financial statements, regulatory filings or Tax Returns of Seller or Purchaser or their Affiliates, or in connection with any Legal Proceedings or Section 3.3. Seller and its Affiliates shall be entitled, at their sole cost and expense, and subject to Seller keeping all information obtained confidential, to make copies of the books and records to which they are entitled to access pursuant to this Section 7.1(b).

7.2 Further Assurances. Subject to, and not in limitation of, Sections 7.3 and 7.4, each of Seller and Purchaser shall use its reasonable efforts to (i) take all actions necessary or appropriate to consummate the transactions contemplated by this Agreement and (ii) cause the fulfillment at the earliest practicable date of all of the conditions to their respective obligations to consummate the transactions contemplated by this Agreement.

7.3 Preservation of Books and Records. Seller and Purchaser agree that each of them shall preserve and keep the records held by it or their Affiliates relating to the Purchased Assets and Business for a period of seven years from the Closing Date and shall make such records and personnel available to the other as may be reasonably required by such party in connection with, among other things, any insurance claims by, Legal Proceedings or tax audits against or governmental investigations of Seller or Purchaser or any of their Affiliates or in order to enable Seller or Purchaser to comply with their respective obligations under this Agreement and each other agreement, document or instrument contemplated hereby or thereby. In the event Seller or Purchaser wishes to destroy such records after that time, such party shall first give 90 days prior written notice to the other and such other party shall have the right at its option and expense, upon prior written notice given to such party within that 90 day period, to take possession of the records within 180 days after the date of such notice.

7.4 Publicity.

(a) Neither Seller nor Purchaser shall issue any press release or public announcement concerning this Agreement or the transactions contemplated hereby without obtaining the prior written approval of the other party hereto, which approval will not be unreasonably withheld or delayed, unless, in the sole judgment of Purchaser or Seller, as applicable, disclosure is otherwise required by applicable Law or by the applicable rules of any stock exchange on which Purchaser or Seller lists securities, or any securities commission rules, provided that, to the extent required by applicable Law, the party intending to make such release

shall use its reasonable efforts consistent with such applicable Law to consult with the other party with respect to the timing and content thereof.

(b) Each of Purchaser and Seller agrees that the terms of this Agreement shall not be disclosed or otherwise made available to the public and that copies of this Agreement shall not be publicly filed or otherwise made available to the public, except where such disclosure, availability or filing is required by applicable Law or by the applicable rules of any stock exchange on which Purchaser or Seller lists securities, or any securities commission rules, and only to the extent required by such Law or rules, as applicable. In the event that such disclosure, availability or filing is required by applicable Law, each of Purchaser and Seller (as applicable) agrees to use its reasonable efforts to obtain "confidential treatment" of this Agreement with the U.S. Securities and Exchange Commission and any Canadian securities commission (collectively, the "Commissions") (or the equivalent treatment by any other Governmental Body) and to redact such terms of this Agreement as the other party shall request as permitted by Law or the rules of the Commissions, as applicable.

7.5 Non-Competition.

(a) During the period from the Closing Date through the date that is the four (4) year anniversary of the Closing Date (the "Non-Competition Period"), neither the Seller nor any of its Affiliates (each, a "Restricted Party") shall, within North America, directly manufacture, market or sell the product categories set forth on Schedule 7.5.

(b) During the Non-Competition Period, no Restricted Party shall (i) hire or solicit any employee of the Seller Business (as defined in the 2005 Agreement) or the Smart Business (as defined in the 2005 Agreement) for the purposes of having such employee terminate his or her employment with the Seller Business or the Smart Business, as applicable (other than inquiries received from or subsequent hiring of an employee of the Seller Business or Smart Business as a result of a general notice or advertisement placed by a Restricted Party that was not intended to target the employees of the Smart Business or the Seller Business), provided that nothing in this Section 7.6(b)(i) shall apply to the hiring of Willis Blevins.

7.6 Environmental Insurance Policies. Seller has obtained certain premises pollution liability insurance covering environmental conditions at, on, under, or migrating from, among other parcels, the site in which the Equipment is located. Seller shall provide reasonable assistance necessary to facilitate obtaining endorsements to such policies to add Purchaser as a "named insured" under such policies, provided that in no event shall Seller's coverage under the policies be adversely affected in any way and Seller shall not be required to expend any amount of money to obtain such endorsements and provided, further, that Purchaser shall be exclusively responsible for any and all increases in premiums associated with obtaining any such endorsements to the policies.

7.7 Landfill Credit Support Arrangement. Pursuant to section 6.11 of the 2005 Agreement, Seller is required to cause certain Landfill Credit Support Arrangements, in effect as of the Closing Date of that agreement, to remain in effect for a period of not less than 17 years after the closing of transactions contemplated by the 2005 Agreement (*i.e.*, February 17, 2022). Seller agrees that it shall provide adequate assurance that such Landfill Credit Support

Arrangements shall remain in full force and effect until February 17, 2022; provided that Seller's obligation shall be limited lesser of: (i) the value of the Landfill Credit Support Arrangements necessary to satisfy financial assurance obligations required pursuant to Environmental Laws and that were required to be in place as of February 17, 2005 and (ii) such amount as determined from time to time after the closing date as required by Environmental Law, and provided, further that in the event the amount of financial assurance required pursuant to Environmental Laws increases as a result of Purchaser's use of the Landfill, or for any other reason after the Closing Date, then Seller shall not be responsible for posting any additional financial assurance in such amount and form as required by Environmental Law.

7.8 Landfill Costs. Section 7.7 shall in no way be interpreted as an obligation of the Seller to perform such tasks as are required of an owner of the Landfill by Environmental Law, including all costs of operation of the Landfill and all closure and post closure costs.

ARTICLE VIII

CONDITIONS TO CLOSING

8.1 Conditions Precedent to Obligations of Purchaser. The obligation of Purchaser to consummate the transactions contemplated by this Agreement is subject to the fulfillment, on or prior to the Closing Date, of each of the following conditions (any or all of which may be waived by Purchaser in whole or in part to the extent permitted by applicable Law):

(a) the representations and warranties of Seller set forth in this Agreement shall be true and correct at and as of the Closing and Purchaser shall have received a certificate signed by an authorized officer of Seller, dated the Closing Date, to the foregoing effect;

(b) there shall not be in effect any Order by a Governmental Body of competent jurisdiction restraining, enjoining or otherwise prohibiting the consummation of the transactions contemplated hereby;

(c) Seller shall have delivered to Purchaser a duly executed bill of sale in the form of Exhibit A hereto;

(d) Seller shall have delivered to Purchaser a duly executed assignment of claims in the form of Exhibit B hereto;

(e) Seller shall have delivered to Purchaser a duly executed assignment of the Lease Agreement in the form of Exhibit D hereto; and

(f) The PF Papers Transaction shall have closed unless such closing shall not have occurred by reason of Purchaser's breach of its obligations thereunder.

8.2 Conditions Precedent to Obligations of Seller. The obligations of Seller to consummate the transactions contemplated by this Agreement are subject to the fulfillment, prior to or on the Closing Date, of each of the following conditions (any or all of which may be waived by Seller in whole or in part to the extent permitted by applicable Law):

(a) the representations and warranties of Purchaser set forth in this Agreement shall be true and correct, at and as of the Closing Date and Seller shall have received a certificate signed by an authorized officer of Purchaser, dated the Closing Date, to the foregoing effect;

(b) there shall not be in effect any Order by a Governmental Body of competent jurisdiction restraining, enjoining or otherwise prohibiting the consummation of the transactions contemplated hereby;

(c) Purchaser shall have delivered, or caused to be delivered, to Seller evidence of the wire transfer referred to in Section 3.2;

(d) Purchaser shall have delivered, or caused to be delivered, to Seller a duly executed security agreement in the form attached hereto as Exhibit C hereto;

(e) Seller shall have received the General Release Agreement duly executed by Danisco in the form previously agreed; and

(f) the Bankruptcy Court Order shall include a provision, in form and substance acceptable to Seller in its sole discretion, that reserves and preserves (i) any and all rights, claims, counterclaims, defenses, challenges, setoff claims and recoupments (collectively "Defenses"), if any, that Seller or any of its Affiliates has or might have in response to any indemnity claims that PF Papers might assert under the 2005 Agreement, and (ii) the right of Seller or any of its affiliates to assert the Defenses in response to such asserted indemnity claims, notwithstanding any provision to the contrary that may be construed in any other order of the Bankruptcy Court or in any plan that may be confirmed in the Chapter 11 Case or in any case under Chapter 11 of the Bankruptcy Code in which any Affiliate of PF Paper is a debtor.

8.3 Frustration of Closing Conditions. Neither Seller nor Purchaser may rely on the failure of any condition set forth in Section 9.1 or 9.2, as the case may be, if such failure was caused by such party's failure to comply with any provision of this Agreement.

ARTICLE IX

INDEMNIFICATION

9.1 Survival of Representations and Warranties. (a) The representations and warranties of the parties contained in this Agreement shall survive the Closing and claims may be asserted with respect thereto to the extent permitted by this Article IX. Purchaser must give notice to Seller of any claim for indemnification under this Article IX in writing setting forth the specific claim and the basis therefor in reasonable detail prior to the expiration of the Earn-Out Year Seven (the "Survival Period"). Any claim for indemnification not made by Purchaser on or prior to that date will be irrevocably and unconditionally released and waived.

(b) All of the covenants or other agreements of the parties contained in this Agreement shall survive until fully performed or fulfilled, unless and to the extent only that non-compliance with such covenants or agreements is waived in writing by the party entitled to such performance. No claim for a breach of a covenant or other agreement set forth in this Agreement that (i) by its nature is required to be performed by or prior to Closing (the "Pre-Closing

Covenants”) may be made or brought by any party hereto after the Survival Period and (ii) by their nature are required to be performed after Closing (the “Post-Closing Covenants”) may be made or brought by any party hereto after the seven (7) year anniversary of the last date on which each such Post-Closing Covenant was required to be performed (in each case, a “Post-Closing Covenant Survival Period”); provided, that any obligation to indemnify and hold harmless shall not terminate with respect to any Losses to which the Person to be indemnified shall have given notice in writing setting forth the specific claim and the basis therefor in reasonable detail to the indemnifying party in accordance with Section 9.4 before the termination of the applicable Survival Period or Post-Closing Covenant Survival Period.

9.2 Indemnification by Seller.

(a) Subject to Section 9.5, Seller hereby agrees to indemnify and hold Purchaser and its directors, officers, employees, Affiliates, stockholders, agents, attorneys, representatives, successors and permitted assigns (collectively, the “Purchaser Indemnified Parties”) harmless from and against any and all losses, liabilities, claims, demands, judgments, damages (excluding incidental and consequential damages), fines, suits, actions, costs and expenses (individually, a “Loss” and, collectively, “Losses”):

(i) based upon or resulting from the failure of any of the representations or warranties made by Seller in this Agreement to be true and correct in all respects at and as of the date hereof;

(ii) based upon or resulting from the breach of any Pre-Closing Covenant on the part of Seller; and

(iii) based upon or resulting from the breach of any Post-Closing Covenant on the part of Seller.

(b) Purchaser acknowledges and agrees that Seller shall not have any liability under any provision of this Agreement for any Loss to the extent that such Loss relates to action taken after the Closing Date by Purchaser or any other Person (other than Seller in breach of this Agreement). Purchaser shall take and shall cause its Affiliates to take all reasonable steps to mitigate any Loss upon becoming aware of any event which would reasonably be expected to, or does, give rise thereto.

9.3 Indemnification by Purchaser.

(a) Subject to Sections 9.1 and 9.5, Purchaser hereby agrees to indemnify and hold Seller and its directors, officers, employees, Affiliates, agents, attorneys, representatives, successors and permitted assigns (collectively, the “Seller Indemnified Parties”) harmless from and against, and pay to the applicable Seller Indemnified Parties the amount of, any and all Losses:

(i) based upon or resulting from the failure of any of the representations or warranties made by Purchaser in this Agreement to be true and correct in all respects at the date hereof and as of the Closing Date;

(ii) based upon or resulting from the breach of any Pre-Closing Covenant on the part of Purchaser;

(iii) based upon or resulting from the breach of any Post-Closing Covenant on the part of Purchaser; and

(iv) based upon or arising directly from any Assumed Liability.

(b) Seller shall take and cause its Affiliates to take all reasonable steps to mitigate any Loss upon becoming aware of any event which would reasonably be expected to, or does, give rise thereto.

9.4 Indemnification Procedures.

(a) A claim for indemnification for any matter not involving a third-party claim may be asserted by notice to the party from whom indemnification is sought.

(b) In the event that any Legal Proceedings shall be instituted or that any claim or demand shall be asserted by any third party in respect of which payment may be sought under Sections 9.2 or 9.3 (regardless of the limitations set forth in Section 9.5) (an "Indemnification Claim"), the indemnified party shall promptly cause written notice of the assertion of any Indemnification Claim of which it has knowledge which is covered by this indemnity to be forwarded to the indemnifying party. The failure of the indemnified party to give reasonably prompt notice of any Indemnification Claim shall not release, waive or otherwise affect the indemnifying party's obligations with respect thereto except to the extent that the indemnifying party is prejudiced as a result of such failure. The indemnifying party shall have the right, at its sole option and expense, to be represented by counsel of its choice, which must be reasonably satisfactory to the indemnified party, and to defend against, negotiate, settle or otherwise deal with any Indemnification Claim which relates to any Losses indemnified against by it hereunder. If the indemnifying party elects to defend against, negotiate, settle or otherwise deal with any Indemnification Claim which relates to any Losses indemnified against by it hereunder, it shall within thirty (30) days (or sooner, if the nature of the Indemnification Claim so requires) notify the indemnified party of its intent to do so; provided that if Seller is the indemnifying party that defends against, negotiates, settles or otherwise deals with such Indemnification Claim, the attorneys' fees and other Losses incurred by Seller in connection with such defense, negotiation, settlement or other dealings shall reduce (by the amount thereof) the amount recoverable by Purchaser from Seller. If the indemnifying party elects not to defend against, negotiate, settle or otherwise deal with any Indemnification Claim which relates to any Losses indemnified against hereunder, the indemnified party may defend against, negotiate, settle or otherwise deal with such Indemnification Claim. If the indemnifying party shall assume the defense of any Indemnification Claim, the indemnified party may participate, at his or its own expense, in the defense of such Indemnification Claim; provided that such indemnified party shall be entitled to participate in any such defense with separate counsel at the expense of the indemnifying party if (i) so requested by the indemnifying party to participate or (ii) in the reasonable opinion of counsel to the indemnified party a conflict or potential conflict exists between the indemnified party and the indemnifying party that would make such separate representation advisable; and provided, further, that the indemnifying party shall not be required

to pay for more than one such counsel (plus any appropriate local counsel) for all indemnified parties in connection with any Indemnification Claim. The parties hereto agree to cooperate fully with each other in connection with the defense, negotiation or settlement of any such Indemnification Claim. Notwithstanding anything in this Section 9.4 to the contrary, neither the indemnifying party nor the indemnified party shall, without the written consent of the other party, settle or compromise any Indemnification Claim or permit a default or consent to entry of any judgment unless the claimant and such party provide to such other party an unqualified release from all liability in respect of the Indemnification Claim. Notwithstanding the foregoing, if a settlement offer solely for money damages is made by the applicable third party claimant, and the indemnifying party notifies the indemnified party in writing of the indemnifying party's willingness to accept the settlement offer and, subject to the applicable limitations of Sections 9.5 and 9.6, pay the amount called for by such offer, and the indemnified party declines to accept such offer, the indemnified party may continue to contest such Indemnification Claim, free of any participation by the indemnifying party, and the amount of any ultimate liability with respect to such Indemnification Claim that the indemnifying party has an obligation to pay hereunder shall be limited to the lesser of (A) the amount of the settlement offer that the indemnified party declined to accept plus the Losses of the indemnified party relating to such Indemnification Claim through the date of its rejection of the settlement offer or (B) the aggregate Losses of the indemnified party with respect to such Indemnification Claim. If the indemnifying party makes any payment on any Indemnification Claim, the indemnifying party shall be subrogated, to the extent of such payment, to all rights and remedies of the indemnified party to any insurance benefits or other claims of the indemnified party with respect to such Indemnification Claim.

(c) After any final decision, judgment or award shall have been rendered by a Governmental Body of competent jurisdiction and the expiration of the time in which to appeal therefrom, or a settlement shall have been consummated, or the indemnified party and the indemnifying party shall have arrived at a mutually binding agreement with respect to an Indemnification Claim hereunder, the indemnified party shall forward to the indemnifying party notice of any sums due and owing by the indemnifying party pursuant to this Agreement with respect to such matter.

9.5 Certain Limitations on Indemnification.

(a) Subject to Section 9.5(b), in no event shall the aggregate indemnification to be paid by Seller under this Article IX exceed the amount of the Final Purchase Price actually received in immediately available funds by Seller (the "Cap").

(b) Notwithstanding anything in this Article IX, the limitation requiring notice of any indemnification claim within a specific time period set forth in Section 9.1(a) shall not apply to claims for indemnification in respect of Losses related to or arising out of the matters set forth in Sections 9.3(a)(iv) and (v).

(c) Neither a Purchaser Indemnified Party nor a Seller Indemnified Party shall be entitled to indemnification pursuant to Section 9.2(a)(i) or (ii) or Section 9.3(a)(i) with respect to any matter of which Purchaser or Seller, respectively, had knowledge or waived prior to the Closing. Seller shall not be required to indemnify any Purchaser Indemnified Party and Purchaser shall not be required to indemnify any Seller Indemnified Party to the extent of any

Losses that a court of competent jurisdiction shall have determined by final judgment to have resulted from the bad faith, gross negligence or willful misconduct of the party seeking indemnification.

(d) Purchaser shall not make any claim for indemnification under this Article IX to the extent that the Earn-Out Payment was reduced as a result of such claim.

9.6 Calculation of Losses.

(a) The amount of any Losses for which indemnification is provided under this Article IX shall be net of any amounts actually recovered or recoverable by the indemnified party under insurance policies or otherwise with respect to such Losses (net of any Tax or expenses incurred in connection with such recovery). Purchaser shall use its reasonable efforts to recover under insurance policies for any Losses prior to seeking indemnification under this Agreement.

(b) Notwithstanding anything to the contrary elsewhere in this Agreement, no party shall, in any event, be liable to any other Person for any consequential, incidental, indirect, special or punitive damages of such other Person, including loss of revenue, income or profits, diminution of value or loss of business reputation or opportunity relating to the breach or alleged breach hereof (provided that such limitation with respect to lost profits shall not limit Seller's right to recover contract damages in connection with Purchaser's failure to close in violation of this Agreement).

9.7 Tax Treatment of Indemnity Payments. Seller and Purchaser agree to treat any indemnity payment made pursuant to this Article IX as an adjustment to the Purchase Price for federal, state, local and foreign income tax purposes.

9.8 Exclusive Remedy. From and after the Closing, the sole and exclusive remedy for any breach or failure to be true and correct, or alleged breach or failure to be true and correct, of any representation or warranty or any covenant or agreement in this Agreement, shall be indemnification in accordance with this Article IX. In furtherance of the foregoing, each of the parties hereby waive, to the fullest extent permitted by applicable Law, any and all other rights, claims and causes of action (including rights of contributions, if any) known or unknown, foreseen or unforeseen, which exist or may arise in the future, that it may have against Seller or Purchaser, as the case may be, arising under or based upon any federal, state or local Law (including any such Law relating to environmental matters or arising under or based upon any securities Law, common Law or otherwise). Notwithstanding the foregoing, this Section 9.8 shall not operate to (i) interfere with or impede the operation of the provisions of Article III providing for the resolution of certain disputes relating to the Purchase Price between the parties and/or by the Accountant or (ii) limit the rights of the parties to seek equitable remedies (including specific performance or injunctive relief).

ARTICLE X

MISCELLANEOUS

10.1 Payment of Sales, Use or Similar Taxes. Purchaser shall be responsible for (and shall indemnify and hold harmless Seller and its directors, officers, employees, Affiliates, agents, successors and permitted assigns against) any sales taxes applicable to the Purchased Assets and for all other applicable sales, use, stamp, documentary, filing, recording, transfer or similar fees or taxes or governmental charges (including real property transfer gains taxes, UCC-3 filing fees, real estate and motor vehicle registration, title recording or filing fees and other amounts payable in respect of transfer filings) in connection with the transactions contemplated by this Agreement (other than taxes measured by or with respect to income imposed on Seller or its Affiliates). Seller shall file all necessary documents (including all Tax Returns) with respect to all such amounts in a timely manner.

10.2 Expenses. Except as otherwise provided in this Agreement, each of Seller and Purchaser shall bear its own expenses incurred in connection with the negotiation and execution of this Agreement and each other agreement, document and instrument contemplated by this Agreement and the consummation of the transactions contemplated hereby and thereby. Notwithstanding the foregoing, Purchaser shall be responsible for, and shall pay directly or promptly reimburse Seller for amounts paid by or on behalf of Seller, all filing fees lawfully payable to or at the request of any Governmental Body in connection with this Agreement, the Seller Documents, the Purchaser Documents and the consummation of the transactions contemplated hereby and thereby.

10.3 Submission to Jurisdiction; Consent to Service of Process.

(a) The parties hereto hereby irrevocably submit to the non-exclusive jurisdiction of any federal or state court located within the borough of Manhattan of the City, County and State of New York over any dispute arising out of or relating to this Agreement or any of the transactions contemplated hereby and each party hereby irrevocably agrees that all claims in respect of such dispute or any suit, action proceeding related thereto may be heard and determined in such courts. The parties hereby irrevocably waive, to the fullest extent permitted by applicable law, any objection which they may now or hereafter have to the laying of venue of any such dispute brought in such court or any defense of inconvenient forum for the maintenance of such dispute. Each of the parties hereto agrees that a judgment in any such dispute may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law.

(b) Each of the parties hereto hereby consents to process being served by any party to this Agreement in any suit, action or proceeding by the delivery of a copy thereof in accordance with the provisions of Section 10.6.

10.4 Entire Agreement; Amendments and Waivers. This Agreement (including the Schedules and Exhibits hereto) and the Security Agreement represent the entire understanding and agreement between the parties hereto with respect to the subject matter hereof and thereof. This Agreement can be amended, supplemented or changed, and any provision hereof can be waived, only by written instrument making specific reference to this Agreement signed by the

party against whom enforcement of any such amendment, supplement, modification or waiver is sought. No action taken pursuant to this Agreement, including any investigation by or on behalf of any party, shall be deemed to constitute a waiver by the party taking such action of compliance with any representation, warranty, covenant or agreement contained herein. The waiver by any party hereto of a breach of any provision of this Agreement shall not operate or be construed as a further or continuing waiver of such breach or as a waiver of any other or subsequent breach. No failure on the part of any party to exercise, and no delay in exercising, any right, power or remedy hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of such right, power or remedy by such party preclude any other or further exercise thereof or the exercise of any other right, power or remedy.

10.5 Governing Law. This Agreement shall be governed by and construed in accordance with the law of the State of New York applicable to contracts made and performed in such State without giving effect to the choice of law principles of such State that would require or permit the application of the law of another jurisdiction.

10.6 Notices. All notices and other communications under this Agreement shall be in writing and shall be deemed given (i) when delivered personally by hand (with written confirmation of receipt), (ii) when sent by facsimile or other means of electronic communication (with written confirmation of transmission of receipt) or (iii) one business day following the day sent by overnight courier (with written confirmation of receipt), in each case at the following addresses and facsimile numbers (or to such other address or facsimile number as a party may have specified by notice given to the other party pursuant to this provision):

If to Seller, to:

Fraser Papers Limited
c/o Fraser Papers Inc.
Suite 200, P.O. Box 762
BCE Place, 181 Bay Street
Toronto, Ontario M5J 2T3
CANADA
Facsimile: (416) 359-8606
Attention: Chief Administrative Officer

With copies (which shall not constitute notice) to:

Fraser Papers Limited
82 Bridge Avenue
Madawaska, ME 04756
Facsimile: (207) 728-8701
Attention: General Counsel

and

Weil, Gotshal & Manges LLP
767 Fifth Avenue
New York, NY 10153
Facsimile: (212) 310-8007
Attention: Richard P. Krasnow, Esq.

If to Purchaser, to:

Flambeau River Papers, LLC
c/o Summit Lake Management, LLC
9675 N. Kruger Road
Hayward, WI 54843
Facsimile: (715) 634-5755

With a copy to:

Dewitt Ross & Stevens
Two East Mifflin Street
Madison, WI 53703
Facsimile: (608) 252-9243
Attention: John Duncan Varda, Esq.

10.7 Severability. If any term or other provision of this Agreement is invalid, illegal, or incapable of being enforced by any law or public policy, all other terms or provisions of this Agreement shall nevertheless remain in full force and effect so long as the economic or legal substance of the transactions contemplated hereby is not affected in any manner materially adverse to any party. Upon such determination that any term or other provision is invalid, illegal, or incapable of being enforced, the parties hereto shall negotiate in good faith to modify this Agreement so as to effect the original intent of the parties as closely as possible in an acceptable manner in order that the transactions contemplated hereby are consummated as originally contemplated to the greatest extent possible.

10.8 Binding Effect; Assignment. This Agreement shall be binding upon and inure to the benefit of the parties and their respective successors and permitted assigns. Nothing in this Agreement shall create or be deemed to create any third party beneficiary rights in any person or entity not a party to this Agreement except as provided below. No assignment of this Agreement or of any rights or obligations hereunder may be made by Purchaser, directly or indirectly (by

operation of law or otherwise), without the prior written consent of Seller hereto and any attempted assignment without the required consent shall be void. Seller may assign any of its rights or obligation hereunder. No assignment of any obligations hereunder shall relieve the assigning party hereto of any such obligations. Upon any such permitted assignment, the references in this Agreement to Purchaser shall also apply to any such assignee unless the context otherwise requires.

10.9 Non-Recourse. No past, present or future director, officer, employee, incorporator, member, partner, stockholder, Affiliate, agent, attorney or representative of Seller or its Affiliates shall have any liability for any obligations or liabilities of Seller under this Agreement or the Seller Documents of or for any claim based on, in respect of, or by reason of, the transactions contemplated hereby and thereby.

10.10 Counterparts. This Agreement may be executed in one or more counterparts, each of which will be deemed to be an original copy of this Agreement and all of which, when taken together, will be deemed to constitute one and the same agreement.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their respective authorized officers as of the date first written above.

FRASER PAPERS LIMITED

By: 
Name: PETER GORDON
Title: VIC PRESIDENT, FINANCE

By: 
Name: GLEN McMILLAN
Title: SECRETARY

FLAMBEAU RIVER PAPERS, LLC

By: **Summit Lake Management, LLC**

By: _____
William B. Johnson, Authorized
Representative

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their respective authorized officers as of the date first written above.

FRASER PAPERS LIMITED

By: _____
Name:
Title:

By: _____
Name:
Title:

FLAMBEAU RIVER PAPERS, LLC

By: Summit Lake Management, LLC

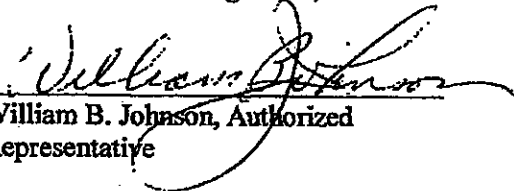
By: 
William B. Johnson, Authorized
Representative

Exhibit ABILL OF SALE

THIS BILL OF SALE (this "**Bill of Sale**") is made and delivered this [●] day of June, 2006, by FRASER PAPERS LIMITED, a Maine corporation ("**Seller**") for the benefit of FLAMBEAU RIVER PAPERS, LLC, a Wisconsin limited liability company ("**Purchaser**"). Capitalized terms used but not defined herein have the meanings ascribed to such terms in the Agreement (as hereinafter defined).

WHEREAS, Seller and Purchaser have entered into that certain Asset Sale Agreement dated as of June 22, 2006 (the "**Agreement**"), the terms of which are incorporated herein by reference, which provides, among other things, for the sale and assignment by Seller to Purchaser of the Equipment.

NOW, THEREFORE, in consideration of the mutual promises contained in the Agreement, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged by Seller, and subject to the terms and conditions of the Agreement:

1. Seller does hereby bargain, sell, grant, assign, transfer, convey and deliver unto Purchaser, and its successors and assigns, forever, all of Seller's right, title and interest in and to the Equipment **TO HAVE AND TO HOLD** such Equipment with all appurtenances thereto, unto Purchaser, and its successors and assigns, for its use forever.
2. This Bill of Sale shall inure to the benefit of and be binding upon the parties thereto and their respective successors and assigns.
3. Nothing in this Bill of Sale, express or implied, is intended to or shall be construed to modify, expand or limit in any way the terms of the Agreement. To the extent that any provision of this Bill of Sale conflicts or is inconsistent with the terms of the terms of the Agreement, the Agreement shall govern.
4. This Bill of Sale is executed and delivered pursuant to the Agreement.
5. This Bill of Sale shall be governed by, and construed in accordance with, the law of the State of New York, as applied to contracts made and performed entirely in such State without giving effect to the choice of law principles of such State that would require or permit the application of the law of another jurisdiction.

IN WITNESS WHEREOF, and intending to be legally bound hereby,
Seller has caused this Bill of Sale to be executed and delivered as of the day and year first
above written.

FRASER PAPERS LIMITED

By: _____
Name:
Title:

By: _____
Name:
Title:

Exhibit BASSIGNMENT OF CLAIMS

ARTICLE I

Assignment

1.1 The undersigned, Fraser Papers Limited, a Maine Corporation ("**Assignor**"), for good and valuable consideration, the receipt of which is hereby acknowledged, hereby transfers and assigns to Flambeau River Papers, LLC, a Wisconsin limited liability company whose address is Flambeau River Papers, LLC, c/o Summit Lake Management, LLC, 9675 N. Kruger Road, Hayward, WI 54843 ("**Assignee**"), any and all claims, rights or interests that Assignor has against or with respect to PF Papers, LLC ("**PF Papers**" or the "**Debtor**"), a debtor in Case No. 06-10269 (CCS), administratively consolidated with chapter 11 cases commenced by affiliates of the Debtor (collectively, the "**Chapter 11 Cases**") pending in the United States Bankruptcy Court for the District of Delaware (the "**Court**") for accrued and unpaid rental obligations arising under that certain Sublease Agreement, dated as of February 18, 2005, between Assignor as sublessor, and PF Papers as sublessee (the "**Lease Agreement**"), relating to certain equipment all as more fully described in the Lease Agreement (the "**Claims**").

1.2 This Assignment of Claims (the "**Agreement**") is an assignment of all of Assignor's rights to receive any cash or other property that may be paid, distributed or issued by the Debtor or any other party in satisfaction of the Claims, including all cash, securities, instruments and other property, and any right in respect of the Claims to participate in the Chapter 11 Cases, the administration thereof or to vote on any matter therein, including, without limitation, with respect to any plan of reorganization. This assignment is an absolute and unconditional assignment of the Claims and shall not be deemed to create a security interest.

ARTICLE II

Representations and Warranties

2.1 Assignor represents and warrants that it has neither filed any proof of claim in the Chapter 11 Cases nor waived or given its consent to change any provision of the Lease Agreement, including, without limitation, with respect to the amount or time of payment of amounts due under the Lease Agreement.

2.2 Assignor further represents and warrants that (i) except for consideration to be paid and/or provided to Assignor by Assignee, no payment has been received by Assignor, or by any third party claiming through Assignor, in full or partial satisfaction of the Claims, and (ii) Assignor has not previously assigned, sold or pledged the Claims to any third party, in whole or in part.

2.3 Assignor represents and warrants that it has ownership to the Claims released or transferred, as applicable, hereunder.

2.4 Assignor makes no representations or warranties of any kind to Assignee or any other person or entity with respect to the amount, merit or viability of the Claims.

ARTICLE III

Further Agreements

3.1 Assignor hereby irrevocably appoints Assignee as its true and lawful attorney in fact, and authorizes Assignee to act in Assignor's stead for the sole purpose of enabling Assignee to demand, sue or file proofs of claim for, compromise and recover all such amounts as now are, or may hereafter become, due and payable on account of the Claims herein assigned. Assignor grants unto Assignee (i) full authority to do all things necessary to enforce the Claims and Assignee's rights thereunder pursuant to this Agreement and (ii) full power and authority to demand, sue for, compromise and recover all such amounts as now are, or may hereafter become, due and payable for or on account of the Claims herein assigned. Assignor agrees that the power granted by this paragraph is discretionary in nature and that Assignee may exercise, decline to exercise, or terminate such powers at Assignee's sole option.

3.2 Assignor agrees to provide Assignee any documentation in its possession or that it is able to obtain in a commercially reasonable manner that is reasonably necessary to (i) file proofs of claim in the Chapter 11 Cases on account of the Claims or (ii) otherwise assert or seek to enforce the Claims in any jurisdiction or forum, including, without limitation, the Court. Assignor agrees to take such further action as may be reasonably necessary or desirable to assist Assignee in such filing of proofs of claim or assertion or enforcement of the Claims. Nothing in this Agreement shall require Assignor to retain or pay for attorneys or experts; nor shall Assignor be required to incur out-of-pocket disbursements unless Assignee reimburses Assignor for such expenses, including, but not limited to, travel expenses. Notwithstanding the foregoing, in no event shall Assignee be required to pay or reimburse Assignor for fees and other charges of any attorneys or experts retained by Assignor.

3.3 Assignor agrees to (i) provide Assignee such further documentation in its possession or prepared by Assignee as may be reasonably necessary to confirm its assignment of the Claims to Assignee, including, without limitation, the "Evidence of Transfer of Claim" substantially in the form of Exhibit 1 hereto, and (ii) sign any notice of the assignment of the Claims requested by the Assignee.

3.4 Assignor acknowledges and consents to the terms of this Agreement and hereby waives its rights (i) to raise any objection to the assignment of the Claims and (ii) to receive notice of the assignment of the Claims under Rule 3001(e)(2) of the Federal Rules of Bankruptcy Procedure.

3.5 Assignor agrees (i) to advise Assignee and its counsel promptly of all notices received from the Debtors and the Court or any third party with respect to the Claims and to forward same to Assignee and its counsel within five (5) business days of the receipt thereof by Assignor and (ii) to take such other action with respect to the Claims as Assignee from time to time reasonably requests in writing. Assignor agrees

that it shall take no action with respect to the Claims unless authorized in writing by Assignee or its counsel. Assignor shall forward all notices to Assignee and its counsel by overnight mail or any telecommunication device capable of transmitting a copy to the following addresses and parties:

Flambeau River Papers, LLC
c/o Summit Lake Management, LLC
9675 N. Kruger Road
Hayward, WI 54843
Facsimile: (715) 634-5755

and

DEWITT ROSS & STEVENS S.C.
Two East Mifflin Street, Suite 600
Madison, WI 53703
Attention: Jon P. Axelrod and John Duncan Varda
Telecopy: (608) 252-9243
Email Addresses: jpaxelrod@dewittross.com and jdvarda@dewittross.com

3.6 Assignor waives the right to receive any and all distributions with respect to the Claims and further agrees that (i) any distribution received by Assignor on account of the Claims, whether in the form of cash, securities, instruments or any other property, shall constitute property of Assignee to which Assignee shall have an absolute right and (ii) Assignor will hold such property in trust and will promptly deliver to Assignee any such property in the same form received, together with any endorsement or documents necessary to transfer such property to Assignee.

3.7 The terms of this Agreement shall be binding upon, and shall inure to the benefit of and be enforceable by each of the Assignor and Assignee and their respective successors and assigns.

3.8 Assignor acknowledges that Assignee may at any time re-assign the Claims, together with all right, title and interest of and in this Agreement. All representations and warranties made herein as of the date hereof shall survive the execution and delivery of this Agreement and any such re-assignments.

3.9 No amendment of any provision of this Agreement shall be effective unless it is in writing and signed by each of Assignor and Assignee. No waiver of, or consent to depart from, any provision of this Agreement shall be effective unless it is in writing and signed by the Assignee, and such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given.

3.10 No failure on the part of the Assignee to exercise, and no delay in exercising, any right or remedy under this Agreement shall operate as a waiver hereof by Assignee, nor shall any single or partial exercise of any right under this Agreement preclude any other or further exercise hereof or the exercise of any other right or remedy. The rights and remedies of the Assignee provided hereunder (i) are cumulative and are in addition to, and are not exclusive of, any rights or remedies provided by law (except as

otherwise expressly set forth in this Agreement) and (ii) are not conditional or contingent on any attempt by the Assignee to exercise any of its rights against Assignor under any related document.

3.11 This Agreement may be executed in counterparts and all such counterparts taken together shall be deemed to constitute a single agreement. Facsimile signatures may be accepted in lieu of original signatures.

IN WITNESS WHEREOF, the undersigned ASSIGNOR hereunto sets
its hand as of this ____ day of June 2006.

FRASER PAPERS LIMITED

By: _____

Name:

Title:

By: _____

Name:

Title:

IN WITNESS WHEREOF, the undersigned **ASSIGNEE** accepts this Assignment of Claim and hereunto sets its hand as of this ____ day of June 2006.

FLAMBEAU RIVER PAPERS, LLC

By: Summit Lake Management, LLC

By: _____
William B. Johnson, Authorized
Representative

EVIDENCE OF TRANSFER OF CLAIM

TO: Clerk, United States Bankruptcy Court for the District of Delaware

Fraser Papers Limited ("**Assignor**"), for good and valuable consideration, does hereby acknowledge that it has unconditionally and irrevocably sold, transferred and assigned unto Flambeau River Papers, LLC, a Wisconsin limited liability corporation, with offices at _____, its successors and assigns ("**Assignee**"), all rights, title and interest in and to any claims, proofs of claim or requests for payment of Assignor against PF Papers LLC ("**PF Papers**") arising out of or in relation to that certain Sublease Agreement, dated as of February 18, 2005, between Assignor as sublessor, and PF Papers as sublessee (the "**Lease Agreement**"), relating to certain equipment all as more fully described in the Lease Agreement (the "**Claims**").

Assignor hereby waives any notice or hearing requirements imposed by Rule 3001 of the Federal Rules of Bankruptcy Procedure, and stipulates that an order may be entered recognizing the assignment of the Claims as an unconditional assignment and the Assignee herein as the valid owner of the Claims. You are hereby requested to make all future payments and distributions, and to give all notices and other communications, in respect of the Claims to Assignee.

IN WITNESS WHEREOF, dated the ____ day of June, 2006.

FRASER PAPERS LIMITED

By: _____
Name:
Title:

By: _____
Name:
Title:

SECURITY AGREEMENT

Dated as of June [], 2006

among

FLAMBEAU RIVER PAPER, LLC
as Purchaser

and

FRASER PAPERS LIMITED
as Seller

WEIL, GOTSHAL & MANGES LLP
767 FIFTH AVENUE
NEW YORK, NEW YORK 10153-0119

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SECURITY AGREEMENT, dated as of June [], 2006, by Flambeau River Papers, LLC, a Wisconsin limited liability company ("*Purchaser*") in favor of Fraser Papers Limited, a Maine corporation ("*Seller*").

WITNESSETH:

WHEREAS, pursuant to an Asset Sale Agreement, dated as of June [], 2006 (as the same may be amended, restated, supplemented or otherwise modified from time to time, the "*Asset Sale Agreement*"), among Seller and Purchaser, Purchaser has agreed to make future payments to Seller upon the terms and subject to the conditions set forth therein; and

WHEREAS, it is a condition precedent to the obligation of Seller to effect the sale to Purchaser under the Asset Sale Agreement that Purchaser shall have executed and delivered this Agreement to Seller;

NOW, THEREFORE, in consideration of the premises Purchaser hereby agrees with Seller as follows:

ARTICLE I DEFINED TERMS

Section 1.1 Definitions

(a) Unless otherwise defined herein, terms defined in the Asset Sale Agreement and used herein have the meanings given to them in the Asset Sale Agreement.

(b) The following terms shall have the following meanings:

"*Agreement*" means this Security Agreement.

"*Collateral*" has the meaning specified in *Section 2.1 (Collateral)*.

"*Default*" means any default in the payment or performance of any of the Secured Obligations.

"*Domestic Person*" means any "United States person" under and as defined in Section 7701(a)(30) of the Code.

"*Parts*" has the meaning specified in *Section 4.3(b)*.

"*Proceeds*" has the meaning ascribed to it in the UCC.

"*Secured Obligations*" means the unpaid portion of the Final Purchase Price to Seller pursuant to *Section 3* of the Asset Sale Agreement and all other obligations of Purchaser under the Asset Sale Agreement and hereunder.

"*UCC*" means the Uniform Commercial Code as from time to time in effect in the State of New York; *provided, however*, that, in the event that, by reason of mandatory provisions of law, any of the attachment, perfection or priority of the Administrative Agent's and the Secured Parties' security interest in any Collateral is governed by the Uniform Commercial Code as in effect in a jurisdiction other than the State of New York, the term "*UCC*" shall mean

the Uniform Commercial Code as in effect in such other jurisdiction for purposes of the provisions hereof relating to such attachment, perfection or priority and for purposes of definitions related to such provisions.

Section 1.2 Certain Other Terms

(a) In this Agreement, in the computation of periods of time from a specified date to a later specified date, the word "*from*" means "from and including" and the words "*to*" and "*until*" each mean "to but excluding" and the word "*through*" means "to and including."

(b) The terms "*herein*," "*hereof*," "*hereto*" and "*hereunder*" and similar terms refer to this Agreement as a whole and not to any particular Article, Section, subsection or clause in this Agreement.

(c) References herein to a Schedule, Article, Section, subsection or clause refer to the appropriate Schedule to, or Article, Section, subsection or clause in this Agreement.

(d) The meanings given to terms defined herein shall be equally applicable to both the singular and plural forms of such terms.

(e) Any reference in this Agreement to the Asset Sale Agreement shall include, unless specifically stated otherwise, all amendments, restatements, supplements or other modifications thereto, and as the same may be in effect at any time such reference becomes operative.

(f) The term "*including*" means "including without limitation" except when used in the computation of time periods.

(g) References in this Agreement to any statute shall be to such statute as amended or modified and in effect from time to time.

ARTICLE II GRANT OF SECURITY INTEREST

Section 2.1 Collateral

For the purposes of this Agreement, all of the following property is collectively referred to as the "*Collateral*":

- (a) the Equipment;
- (b) the Parts; and
- (c) all Proceeds of the Equipment and the Parts.

Section 2.2 Grant of Security Interest in Collateral

Purchaser, as collateral security for the full, prompt and complete payment and performance when due (whether at stated maturity, by acceleration or otherwise) of the Secured Obligations, hereby mortgages, pledges and hypothecates to Seller, and grants to Seller a lien on and security interest in, all of its right, title and interest in, to and under all the Collateral.

ARTICLE III REPRESENTATIONS AND WARRANTIES

Purchaser hereby represents and warrants each of the following to Seller:

Section 3.1 Title; No Other Liens

Except for the Lien granted to Seller pursuant to this Agreement, Purchaser has rights in or the power to transfer each item of Collateral in which a Lien is granted by it hereunder, free and clear of any other Lien.

Section 3.2 Perfection and Priority

The security interest granted pursuant to this Agreement shall constitute a valid and continuing perfected security interest in favor of Seller in the Collateral, upon completion of the filings and other actions specified on Schedule 2 (Filings) (which, in the case of all filings and other documents referred to on such schedule, have been delivered to Seller in completed and duly executed form). Such security interest shall be prior to all other Liens on the Collateral.

Section 3.3 Jurisdiction of Organization; Chief Executive Office

Purchaser's jurisdiction of organization, legal name, organizational identification number, if any, and the location of Purchaser's chief executive office or sole place of business, as of the date hereof, is specified on *Schedule 1 (Jurisdiction of Organization)* and such *Schedule 1 (Jurisdiction of Organization)* also lists all jurisdictions of incorporation, legal names and locations of Purchaser's chief executive office or sole place of business for the five years preceding the date hereof.

Section 3.4 Equipment

The Equipment is kept at the location listed on *Schedule 3 (Location of Equipment)*

ARTICLE IV COVENANTS

Purchaser agrees with Seller to the following, as long as any Secured Obligation remains outstanding and, in each case, unless Seller otherwise consents in writing:

Section 4.1 Generally

Purchaser shall (a) except for the security interest created by this Agreement, not create or suffer to exist any Lien upon or with respect to any Collateral, except Liens permitted under *Section 4.5* which in no event are senior to or *pari passu* with the Lien granted to Seller hereby, (b) not use or permit any Collateral to be used unlawfully or in violation of any provision of this Agreement, any law or any policy of insurance covering the Collateral, (c) not sell, transfer or assign (by operation of law or otherwise) any of the Collateral, and (d) not enter into any agreement or undertaking restricting the right or ability of Seller to sell, assign or transfer any Collateral.

Section 4.2 *Maintenance of Perfected Security Interest; Further Documentation*

(a) Purchaser shall maintain the security interest created by this Agreement as a perfected security interest having at least the priority described in *Section 3.2 (Perfection and Priority)* and *Section 2.2* and shall defend such security interest and such priority against the claims and demands of all Persons.

(b) Purchaser shall furnish to Seller from time to time statements and schedules further identifying and describing the Collateral and such other reports in connection with the Collateral as Seller may reasonably request, all in reasonable detail and in form and substance satisfactory to Seller.

(c) At any time and from time to time, upon the written request of Seller, and at the sole expense of Purchaser, Purchaser shall promptly and duly execute and deliver, and have recorded, such further instruments and documents and take such further action as Seller may reasonably request for the purpose of obtaining or preserving the full benefits of this Agreement and of the rights and powers herein granted, including the filing of any financing or continuation statement under the UCC (or other similar laws) in effect in any jurisdiction with respect to the security interest created hereby.

Section 4.3 *Maintenance of the Equipment*

(a) Purchaser, at its sole expense, shall maintain, service and repair the Collateral to the same extent as other corporations of established reputations engaged in the same or a similar business maintain, service and repair similar equipment owned or leased by such corporations and in any event at least to the same extent as Purchaser maintains similar equipment owned or leased by it and to the extent required to maintain the Collateral in good operating condition and in compliance in all material respects with all applicable requirements of law or of the federal, state or local governmental authorities having jurisdiction. Purchaser shall comply with such operating or repair standards and periodic maintenance inspections as are required to enforce warranty claims or which are otherwise normal operating procedures in the industry for the Collateral. Purchaser shall keep accurate and detailed logs and other inspection, modification, operating and overhaul records relating to the Collateral and shall periodically, but not less frequently than every third anniversary of the date hereof, transmit to Seller copies or originals of all logs and other such records kept during the preceding period. Purchaser will not permit the Collateral or any part thereof to be used or operated in violation of any law or any rule, regulation or order of any such governmental authority having jurisdiction, unless the validity thereof is being contested in good faith and by appropriate proceedings, but only so long as such proceedings do not involve any danger of the sale, forfeiture or loss of the Collateral or any part thereof or interest therein. Purchaser shall permit the Collateral to be used or operated only for the purposes for which the Collateral was designed, by qualified personnel, in accordance with good industry practice and in compliance with all applicable requirements of the insurance policies maintained pursuant to *Section 4.5* hereof.

(b) Purchaser, at its sole expense, will as promptly as practicable replace all appliances, parts, instruments, appurtenances, accessories, furnishings and other equipment of whatever nature (herein collectively referred to as "Parts") which may from time to time be incorporated or installed in or attached to the Collateral and which may from time to time become worn out, lost, stolen, destroyed, seized, confiscated, damaged beyond repair or permanently

rendered unfit for use. Purchaser shall not remove any Parts from the Collateral or the location of the Equipment provided that nothing herein shall prevent Purchaser from removing any Parts from the Collateral (and, if necessary, from such location) for reasonable periods of time in the ordinary course of maintenance, service, repair or testing. All replacement Parts shall be free and clear of all Liens and rights of others except Liens permitted by *Section 4.5*, and shall be in as good operating conditions as, and shall have a value and utility at least equal to, the Parts replaced, assuming such replaced Parts were in the condition and repair required to be maintained by the terms hereof. All Parts at any time removed from the Collateral shall remain subject to the Lien granted to Seller hereby, no matter where located, until such time as such Parts shall be replaced by Parts which have been incorporated or installed in or attached to the Collateral and which meet the requirements for replacement Parts specified above. Immediately upon any replacement Part becoming incorporated or installed in or attached to the Collateral as above provided, without further act, (i) title to the removed Part shall vest in such person, other than Seller, as shall be designated by Purchaser, free and clear of all rights of Seller, (ii) title to such replacement Part shall vest in Purchaser and (iii) such replacement Part shall become and be deemed part of the Collateral for all purposes hereof to the same extent as the Parts originally incorporated or installed in or attached to the Equipment.

(c) Purchaser, at its sole expense, shall make such alterations, modifications, substitutions and additions (herein collectively called "Alterations") to the Collateral as may be required from time to time to meet the requirements of law or of the federal, state or local governmental authorities having jurisdiction. In addition, Purchaser, at its sole express, may from time to time make Alterations to the Collateral as Purchaser may deem desirable in the proper conduct of its business, provided that no such Alteration shall diminish the value, utility or condition of the Collateral below the value, utility and condition thereof immediately prior to such Alteration, assuming the Collateral was then in the condition and repair required to be maintained by the terms of this Agreement. All Alterations required or permitted by this *Section 4.3(c)* shall be completed in good and workmanlike manner, with reasonable dispatch and in compliance with *Section 4.3(c)* hereof. In the event that any Alteration permitted by the second sentence of this *Section 4.3(c)* involves an improvement or addition to the Collateral and not a replacement or substitutions of any Part or Parts originally constituting part of the Collateral, such Alteration shall be readily removable without causing material damage to the Collateral. No material Alteration, whether pursuant to the first or second sentence of this *Section 4.3(c)*, not readily removable without causing material damage to the Collateral, shall be made without the prior written approval of Seller which approval shall not be unreasonably withheld. Immediately upon any Part becoming incorporated or installed in or attached to the Collateral as the result of Alterations required or permitted by this *Section 4.3(c)*, without further act, title to such Part shall vest in Seller and such Part shall become subject to this Agreement and be deemed part of the Collateral and for all purposes hereof to the same extent as the Parts originally incorporated or installed in or attached to the Collateral, (i) if such Part is in replacement of or in substitution for, and not in addition to, any Part originally incorporated or installed in or attached to the Collateral at the time of the acceptance thereof hereunder or any Part in replacement of, or substitution for, any such original Part, or (ii) if such Part is required to be incorporated or installed in or attached to the Collateral pursuant to the requirements of law or of any federal, state or local governmental authority having jurisdiction. Title to all other Parts attached to the Collateral as the result of Alterations permitted by this *Section 4.3(c)* shall remain in Purchaser and such Parts shall not be deemed part of the Collateral and may be removed by Purchaser at any time prior to disposition of the Collateral pursuant to *Section 5.1*. Any Part

which is not so removed by Purchaser shall become, without further act, part of the Collateral for all purposes of this Agreement.

Section 4.4 *Changes in Locations, Name, Etc.*

(a) Except upon 15 days prior written notice to Seller and delivery to Seller of all additional financing statements and other documents reasonably requested by Seller to maintain the validity, perfection and priority of the security interests provided for herein Purchaser shall not do any of the following:

(i) permit Collateral to be kept at a location other than that listed on *Schedule 3 (Location of Equipment)*

(ii) change its jurisdiction of organization or its location, in each case from that referred to in *Section 3.3 (Jurisdiction of Organization; Chief Executive Office)*; or

(iii) change its legal name or any trade name used to identify it in the conduct of its business or ownership of its properties or organizational identification number, if any, or corporation, limited liability company or other organizational structure to such an extent that any financing statement filed in connection with this Agreement would become misleading.

(b) Purchaser shall keep and maintain at its own cost and expense satisfactory and complete records of the Collateral, including a record of all other dealings with the Collateral.

(c) Purchaser shall ensure that at all times the Equipment remains personal property under the law of the jurisdiction in which it is located.

Section 4.5 *Payment of Obligations*

Purchaser shall pay and discharge or otherwise satisfy at or before maturity or before they become delinquent, as the case may be, all taxes, assessments and governmental charges or levies imposed upon the Collateral or in respect of income or profits therefrom, as well as all claims of any kind (including claims for labor, materials and supplies) against or with respect to the Collateral, except that no such charge need be paid if the amount or validity thereof is currently being contested in good faith by appropriate proceedings, reserves in conformity with GAAP with respect thereto have been provided on the books of Purchaser and such proceedings could not reasonably be expected to result in the sale, forfeiture or loss of any material portion of the Collateral or any interest therein.

Section 4.6 *Insurance*

Purchaser shall (i) maintain, and cause to be maintained insurance with responsible and reputable insurance companies or associations in an amount equal to the replacement value of the Collateral and covering such risks as is usually carried by companies engaged in similar businesses and owning similar properties in the same general areas in which Purchaser operates, and such other insurance as may be reasonably requested by Seller, and (ii) cause all such insurance to name Seller as additional insured or loss payee, as appropriate, and

to provide that no cancellation, material addition in amount or material change in coverage shall be effective until after 30 days' written notice thereof to Seller.

Section 4.7 Inspections; Reports

At all reasonable times Seller and its authorized representatives (which shall include any employee of Seller and any other representative of any of such parties who is not engaged, directly or indirectly, in competition with Purchaser in the pulp and paper manufacturing business) may, upon 3 days prior written notice to Purchaser, inspect the Collateral and the books and records of Purchaser relating thereto for all proper purposes hereunder, including without limitation the exercise of any remedies under *Section 5.1*. At any time when a Default shall have occurred and be continuing, Seller, may, upon 3 days prior written notice to Purchaser, demonstrate the Collateral to any bona fide prospective Purchaser or lessee. At such times as Seller, upon 3 days written prior notice to Purchaser, reasonably request, Purchaser shall furnish Seller such other books and records as are in Purchaser's possession regarding the Collateral as may be reasonably requested by Seller. Seller shall have no duty to make such inspection or inquiry. Except during the continuance of a Default, Seller shall pay its own expenses in connection with any such inspection or inquiry; otherwise, Purchaser shall pay same.

ARTICLE V REMEDIAL PROVISIONS

Section 5.1 Code and Other Remedies

During the continuance of a Default, Seller may exercise, in addition to all other rights and remedies granted to it in this Agreement and in any other instrument or agreement securing, evidencing or relating to the Collateral, all rights and remedies of a secured party under the UCC or any other applicable law. Without limiting the generality of the foregoing, Seller, without demand of performance or other demand, presentment, protest, advertisement or notice of any kind (except any notice required by law referred to below) to or upon Purchaser or any other Person (all and each of which demands, defenses, advertisements and notices are hereby waived), may in such circumstances forthwith collect, receive, appropriate and realize upon any Collateral, and may forthwith sell, lease, assign, give option or options to purchase, or otherwise dispose of and deliver any Collateral (or contract to do any of the foregoing), in one or more parcels at public or private sale or sales, at any exchange, broker's board or office of Seller or elsewhere upon such terms and conditions as it may deem advisable and at such prices as it may deem best, for cash or on credit or for future delivery without assumption of any credit risk. Seller shall have the right upon any such public sale or sales, and, to the extent permitted by the UCC and other applicable law, upon any such private sale or sales, to purchase the whole or any part of the Collateral so sold, free of any right or equity of redemption of Purchaser, which right or equity is hereby waived and released. Purchaser further agrees, at Seller's request, to assemble the Collateral and make it available to Seller at places that Seller shall reasonably select, whether at Purchaser's premises or elsewhere. Seller shall apply the net proceeds of any action taken by it pursuant to this *Section 5.1*, after deducting all reasonable costs and expenses of every kind incurred in connection therewith or incidental to the care or safekeeping of any Collateral or in any way relating to the Collateral or the rights of Seller, including reasonable attorneys' fees and disbursements, to the payment in whole or in part of the Secured Obligations, in such order as Seller in its sole discretion shall prescribe, and only after such application and after the payment by Seller of any other amount required by any provision of law, need Seller account for the

surplus, if any, to Purchaser. To the extent permitted by applicable law, Purchaser waives all claims, damages and demands it may acquire against Seller arising out of the exercise by them of any rights hereunder. If any notice of a proposed sale or other disposition of the Collateral shall be required by law, such notice shall be deemed reasonable and proper if given at least 10 days before such sale or other disposition.

Section 5.2 Deficiency

Purchaser shall remain liable for any deficiency if the proceeds of any sale or other disposition of the Collateral are insufficient to pay the Secured Obligations and the fees and disbursements of any attorney employed by Seller to collect such deficiency.

Section 5.3 Delivery of the Collateral for Sale

(a) During the continuance of an Event of Default, upon written notice from Seller directing Purchaser to dismantle the Collateral and deliver it to the nearest railroad loading point, on trucks at the site where the Collateral is located or to the nearest barge loading point, Purchaser will promptly dismantle the Collateral, prepare the resulting components for shipment in a good workmanlike manner selected by Seller and deliver all or part of such components to Seller or Seller's designee as specified in such notice, for sale pursuant to *Section 5.1*.

Section 5.4 Seller's Appointment as Attorney-in-Fact

(a) Purchaser hereby irrevocably constitutes and appoints the Seller and any officer or agent thereof, with full power of substitution, as its true and lawful attorney-in-fact with full irrevocable power and authority in the place and stead of Purchaser and in the name of Purchaser or in its own name, for the purpose of carrying out the terms of this Agreement, to take any appropriate action and to execute any document or instrument that may be necessary or desirable to accomplish the purposes of this Agreement, and, without limiting the generality of the foregoing, Purchaser hereby gives Seller the power and right, on behalf of Purchaser, without notice to or assent by Purchaser, to do any of the following:

(i) in the name of Purchaser or its own name, or otherwise, take possession of and indorse and collect any check, draft, note, acceptance or other instrument for the payment of moneys due with respect to the Collateral and file any claim or take any other action or proceeding in any court of law or equity or otherwise deemed appropriate by Seller for the purpose of collecting any such moneys due with respect to the Collateral whenever payable;

(ii) pay or discharge taxes and Liens levied or placed on or threatened against the Collateral, effect any repair or pay any insurance called for by the terms of this Agreement (including all or any part of the premiums therefor and the costs thereof);

(iii) execute, in connection with any sale provided for in *Section 5.1 (Code and Other Remedies)*, any endorsement, assignment or other instrument of conveyance or transfer with respect to the Collateral; and

(iv) (A) direct any party liable for any payment under any Collateral to make payment of any moneys due or to become due thereunder directly to Seller or as Seller shall direct, (B) ask or demand for, collect, and receive payment of and receipt for, any

moneys, claims and other amounts due or to become due at any time in respect of or arising out of the Collateral, (C) sign and indorse any invoice, freight or express bill, bill of lading, storage or warehouse receipt, draft against debtors, assignment, verification, notice and other document in connection with the Collateral, (D) commence and prosecute any suit, action or proceeding at law or in equity in any court of competent jurisdiction to collect any Collateral and to enforce any other right in respect of the Collateral, (E) defend any suit, action or proceeding brought against Purchaser with respect to the Collateral, (F) settle, compromise or adjust any such suit, action or proceeding and, in connection therewith, give such discharges or releases as Seller may deem appropriate, and (G) generally, sell, transfer, pledge and make any agreement with respect to or otherwise deal with the Collateral as fully and completely as though Seller were the absolute owner thereof for all purposes, and do, at Seller's option and Purchaser's expense, at any time, or from time to time, all acts and things that Seller deems necessary to protect, preserve or realize upon the Collateral and Seller's security interests therein and to effect the intent of this Agreement, all as fully and effectively as Purchaser might do.

Anything in this *clause (a)* to the contrary notwithstanding, the Seller agrees that it shall not exercise any right under the power of attorney provided for in this *clause (a)* unless a Default shall be continuing.

(b) If Purchaser fails to perform or comply with any of its agreements contained herein, Seller, at its option, but without any obligation so to do, may perform or comply, or otherwise cause performance or compliance, with such agreement.

(c) The expenses of Seller incurred in connection with actions undertaken as provided in this *Section 5.4*, together with interest thereon at a rate equal to 9% per annum from the date of payment by Seller to the date reimbursed by Purchaser, shall be payable by Purchaser to Seller on demand.

(d) Purchaser hereby ratifies all that said attorneys shall lawfully do or cause to be done by virtue hereof. All powers, authorizations and agencies contained in this Agreement are coupled with an interest and are irrevocable until this Agreement is terminated and the security interests created hereby are released.

Section 5.5 Duty of Seller

The Seller's sole duty with respect to the custody, safekeeping and physical preservation of the Collateral in its possession shall be to deal with it in the same manner as Seller deals with similar property for its own account. Neither Seller, nor any of its respective officers, directors, employees or agents shall be liable for failure to demand, collect or realize upon any Collateral or for any delay in doing so or shall be under any obligation to sell or otherwise dispose of any Collateral upon the request of Purchaser or any other Person or to take any other action whatsoever with regard to any Collateral. The powers conferred on Seller hereunder are solely to protect Seller's interest in the Collateral and shall not impose any duty upon Seller to exercise any such powers. Seller shall be accountable only for amounts that it actually receives as a result of the exercise of such powers, and neither it nor any of its respective officers, directors, employees or agents shall be responsible to Purchaser for any act or failure to act hereunder, except for itsd own gross negligence or willful misconduct.

Section 5.6 Authority of Seller

Purchaser acknowledges that the rights and responsibilities of Seller under this Agreement with respect to any action taken by Seller or the exercise or non-exercise by Seller of any option, voting right, request, judgment or other right or remedy provided for herein or resulting or arising out of this Agreement shall be governed by the Asset Sale Agreement and by such other agreements with respect thereto as may exist from time to time among them, but, the Seller shall be conclusively presumed to be acting with full and valid authority so to act or refrain from acting, and Purchaser shall not be under any obligation, or entitlement, to make any inquiry respecting such authority.

ARTICLE VI MISCELLANEOUS

Section 6.1 Authorization of Financing Statements

Purchaser authorizes Seller and its Affiliates, counsel and other representatives, at any time and from time to time, to file or record financing statements, amendments to financing statements, and other filing or recording documents or instruments with respect to the Collateral in such form and in such offices as Seller reasonably determines appropriate to perfect the security interests of Seller under this Agreement. Purchaser hereby also authorizes Seller and its Affiliates, counsel and other representatives, at any time and from time to time, to file continuation statements with respect to previously filed financing statements. A photographic or other reproduction of this Agreement shall be sufficient as a financing statement or other filing or recording document or instrument for filing or recording in any jurisdiction.

Section 6.2 Amendments in Writing

None of the terms or provisions of this Agreement may be waived, amended, supplemented or otherwise modified except in accordance with *Section 10.4 (Amendments and Entire Agreement)* of the Asset Sale Agreement.

Section 6.3 Notices

All notices, requests and demands to or upon Seller or Purchaser hereunder shall be effected in the manner provided for in *Section 10.6 (Notices)* of the Asset Sale Agreement.

Section 6.4 No Waiver by Course of Conduct; Cumulative Remedies

Seller shall not by any act (except by a written instrument pursuant to *Section 6.2 Amendments in Writing*), delay, indulgence, omission or otherwise be deemed to have waived any right or remedy hereunder or to have acquiesced in any Default. No failure to exercise, nor any delay in exercising, on the part of Seller, any right, power or privilege hereunder shall operate as a waiver thereof. No single or partial exercise of any right, power or privilege hereunder shall preclude any other or further exercise thereof or the exercise of any other right, power or privilege. A waiver by Seller of any right or remedy hereunder on any one occasion shall not be construed as a bar to any right or remedy that Seller would otherwise have on any future occasion. The rights and remedies herein provided are cumulative, may be exercised singly or concurrently and are not exclusive of any other rights or remedies provided by law.

Section 6.5 Not Part of Realty; Easements

(a) The parties hereto intend that the Collateral is and shall at all times be and remain personal property under Wisconsin law and the law of any other state wherein the Collateral may be located from time to time and each of them agrees that it will not take any action which would cause the Collateral or any part thereof to be, or to be deemed to be, real property or an accession to real property under Wisconsin law (or the laws of the state wherein the Collateral may be located from time to time) or real estate under the federal bankruptcy laws.

(b) Purchaser shall procure and maintain in full force and effect all easements and other rights as may reasonably be necessary to permit Seller to obtain access to the Collateral in accordance with the provisions of *Section 4.7* hereof.

Section 6.6 Successors and Assigns

This Agreement shall be binding upon the successors and assigns of Purchaser and shall inure to the benefit of Seller and its successors and assigns; *provided, however*, that Purchaser may not assign, transfer or delegate any of its rights or obligations under this Agreement without the prior written consent of Seller.

Section 6.7 Counterparts

This Agreement may be executed by one or more of the parties to this Agreement on any number of separate counterparts (including by telecopy), each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same agreement. Signature pages may be detached from multiple counterparts and attached to a single counterpart so that all signature pages are attached to the same document. Delivery of an executed counterpart by telecopy shall be effective as delivery of a manually executed counterpart.

Section 6.8 Severability

Any provision of this Agreement that is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

Section 6.9 Section Headings

The Article and Section titles contained in this Agreement are, and shall be, without substantive meaning or content of any kind whatsoever and are not part of the agreement of the parties hereto.

Section 6.10 Entire Agreement

This Agreement together with the Asset Sale Agreement represents the entire agreement of the parties and supersedes all prior agreements and understandings relating to the subject matter hereof.

Section 6.11 Governing Law

This Agreement and the rights and obligations of the parties hereto shall be governed by, and construed and interpreted in accordance with, the law of the State of New York.

Section 6.12 Release of Collateral

Upon payment in full of the Final Purchase Price, the Collateral shall be released from the Lien created hereby and this Agreement and all obligations (other than those expressly stated to survive such termination) of Seller and Purchaser hereunder shall terminate, all without delivery of any instrument or performance of any act by any party, and all rights to the Collateral shall revert to Purchaser. At the request and sole expense of Purchaser following any such termination, Seller shall deliver any Collateral held by Seller hereunder and execute and deliver to Purchaser such documents including UCC termination statements as Purchaser shall reasonably request to evidence such termination.

Section 6.13 Reinstatement

If any payment made by Purchaser or other Person and applied to the Secured Obligations is at any time annulled, avoided, set aside, rescinded, invalidated, declared to be fraudulent or preferential or otherwise required to be refunded or repaid, or the proceeds of the Collateral are required to be returned by Seller to Purchaser, its estate, trustee, receiver or any other party under any bankruptcy law, state or federal law, common law or equitable cause, then, to the extent of such payment or repayment, any Lien or other Collateral securing such liability shall be and remain in full force and effect, as fully as if such payment had never been made or, if prior thereto the Lien granted hereby or other Collateral securing such liability hereunder shall have been released or terminated by virtue of such cancellation or surrender), such Lien or other Collateral shall be reinstated in full force and effect, and such prior cancellation or surrender shall not diminish, release, discharge, impair or otherwise affect any Lien or other Collateral securing the Secured Obligations in respect of the amount of such payment.

[SIGNATURE PAGES FOLLOW]

IN WITNESS WHEREOF, each of the undersigned has caused this Security Agreement to be duly executed and delivered as of the date first above written.

FLAMBEAU RIVER PAPER, LLC,
as Purchaser

By: Summit Lake Management, LLC

By: _____
William B. Johnson, Authorized
Representative

FRASER PAPERS LIMITED,
as Seller

By: _____
Name:
Title:

By: _____
Name:
Title:

Exhibit D**ASSIGNMENT OF LEASE AGREEMENT**

For value received, Fraser Papers Limited ("Assignor") assigns to Flambeau River Papers, LLC ("Assignee") all right, title and interest of Assignor in and to, and delegates to Assignee all duties and obligations arising after the date hereof of Assignor under, the Sublease Agreement between the Assignor and the PF Papers, LLC dated February 18, 2005 ("Agreement"), except for Assignor's rights of indemnification from PF Papers, LLC provided for in Section 25 of the Agreement, which rights shall be retained by Assignor.

Assignee expressly agrees to assume and faithfully perform and discharge all of the terms, covenants and obligations owing after the date hereof assumed or to be performed or discharged by the Assignor under the Agreement.

IN WITNESS WHEREOF, the Assignor and Assignee have duly executed this Assignment on this day of , 2006.

FRASER PAPERS LIMITED
as ASSIGNOR:

By: _____
NAME: _____
TITLE: _____

By: _____
NAME: _____
TITLE: _____

FLAMBEAU RIVER PAPERS, LLC
as ASSIGNEE:

By: _____
NAME: _____
TITLE: _____

EXHIBIT D

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:

SECURITY AGREEMENT

Dated as of July 27, 2006

among

FLAMBEAU RIVER PAPER, LLC
as Purchaser

and

FRASER PAPERS LIMITED
as Seller

WEIL, GOTSHAL & MANGES LLP
767 FIFTH AVENUE
NEW YORK, NEW YORK 10153-0119

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EXHIBITS AND SCHEDULES

Exhibit A (Description of Equipment)

Schedule 1 (Jurisdiction of Organization)

Schedule 2 (Filings)

Schedule 3 (Location of Equipment)

SECURITY AGREEMENT, dated as of July 26, 2006, by Flambeau River Papers, LLC, a Wisconsin limited liability company ("*Purchaser*") in favor of Fraser Papers Limited, a Maine corporation ("*Seller*").

WITNESSETH:

WHEREAS, pursuant to an Asset Sale Agreement, dated as of June 22, 2006 (as the same may be amended, restated, supplemented or otherwise modified from time to time, the "*Asset Sale Agreement*"), among Seller and Purchaser, Purchaser has agreed to make future payments to Seller upon the terms and subject to the conditions set forth therein; and

WHEREAS, it is a condition precedent to the obligation of Seller to effect the sale to Purchaser under the Asset Sale Agreement that Purchaser shall have executed and delivered this Agreement to Seller;

NOW, THEREFORE, in consideration of the premises Purchaser hereby agrees with Seller as follows:

ARTICLE I DEFINED TERMS

Section 1.1 Definitions

(a) Unless otherwise defined herein, terms defined in the Asset Sale Agreement and used herein have the meanings given to them in the Asset Sale Agreement.

(b) The following terms shall have the following meanings:

"*Agreement*" means this Security Agreement.

"*Collateral*" has the meaning specified in *Section 2.1 (Collateral)*.

"*Default*" means any default in the payment or performance of any of the Secured Obligations.

"*Domestic Person*" means any "United States person" under and as defined in Section 7701(a)(30) of the Code.

"*Equipment*" means equipment (as defined in the UCC) identified on Exhibit A to this Agreement comprising the Wood Refuse Burning Cogeneration Plant sold by Seller to Purchaser on the date hereof pursuant to the Asset Sale Agreement dated as of June 22, 2006

"*Parts*" has the meaning specified in *Section 4.3(b)*.

"*Proceeds*" has the meaning ascribed to it in the UCC.

"*Secured Obligations*" means the unpaid portion of the Final Purchase Price to Seller pursuant to *Section 3* of the Asset Sale Agreement and all other obligations of Purchaser under the Asset Sale Agreement and hereunder.

"UCC" means the Uniform Commercial Code as from time to time in effect in the State of New York; *provided, however*, that, in the event that, by reason of mandatory provisions of law, any of the attachment, perfection or priority of the Administrative Agent's and the Secured Parties' security interest in any Collateral is governed by the Uniform Commercial Code as in effect in a jurisdiction other than the State of New York, the term "UCC" shall mean the Uniform Commercial Code as in effect in such other jurisdiction for purposes of the provisions hereof relating to such attachment, perfection or priority and for purposes of definitions related to such provisions.

Section 1.2 Certain Other Terms

(a) In this Agreement, in the computation of periods of time from a specified date to a later specified date, the word "*from*" means "from and including" and the words "*to*" and "*until*" each mean "to but excluding" and the word "*through*" means "to and including."

(b) The terms "*herein*," "*hereof*," "*hereto*" and "*hereunder*" and similar terms refer to this Agreement as a whole and not to any particular Article, Section, subsection or clause in this Agreement.

(c) References herein to a Schedule, Article, Section, subsection or clause refer to the appropriate Schedule to, or Article, Section, subsection or clause in this Agreement.

(d) The meanings given to terms defined herein shall be equally applicable to both the singular and plural forms of such terms.

(e) Any reference in this Agreement to the Asset Sale Agreement shall include, unless specifically stated otherwise, all amendments, restatements, supplements or other modifications thereto, and as the same may be in effect at any time such reference becomes operative.

(f) The term "*including*" means "including without limitation" except when used in the computation of time periods.

(g) References in this Agreement to any statute shall be to such statute as amended or modified and in effect from time to time.

ARTICLE II GRANT OF SECURITY INTEREST

Section 2.1 Collateral

For the purposes of this Agreement, all of the following property is collectively referred to as the "*Collateral*":

- (a) the Equipment;
- (b) the Parts; and
- (c) all Proceeds of the Equipment and the Parts.

Section 2.2 Grant of Security Interest in Collateral

Purchaser, as collateral security for the full, prompt and complete payment and performance when due (whether at stated maturity, by acceleration or otherwise) of the Secured Obligations, hereby mortgages, pledges and hypothecates to Seller, and grants to Seller a lien on and security interest in, all of its right, title and interest in, to and under all the Collateral.

ARTICLE III REPRESENTATIONS AND WARRANTIES

Purchaser hereby represents and warrants each of the following to Seller:

Section 3.1 Title; No Other Liens

Except for the Lien granted to Seller pursuant to this Agreement, Purchaser has rights in or the power to transfer each item of Collateral in which a Lien is granted by it hereunder, free and clear of any other Lien.

Section 3.2 Perfection and Priority

The security interest granted pursuant to this Agreement shall constitute a valid and continuing perfected security interest in favor of Seller in the Collateral, upon completion of the filings and other actions specified on Schedule 2 (Filings) (which, in the case of all filings and other documents referred to on such schedule, have been delivered to Seller in completed and duly executed form). Such security interest shall be prior to all other Liens on the Collateral.

Section 3.3 Jurisdiction of Organization; Chief Executive Office

Purchaser's jurisdiction of organization, legal name, organizational identification number, if any, and the location of Purchaser's chief executive office or sole place of business, as of the date hereof, is specified on *Schedule 1 (Jurisdiction of Organization)* and such *Schedule 1 (Jurisdiction of Organization)* also lists all jurisdictions of incorporation, legal names and locations of Purchaser's chief executive office or sole place of business for the five years preceding the date hereof.

Section 3.4 Equipment

The Equipment is kept at the location listed on *Schedule 3 (Location of Equipment)*

ARTICLE IV COVENANTS

Purchaser agrees with Seller to the following, as long as any Secured Obligation remains outstanding and, in each case, unless Seller otherwise consents in writing:

Section 4.1 Generally

Purchaser shall (a) except for the security interest created by this Agreement, not create or suffer to exist any Lien upon or with respect to any Collateral, except Liens permitted

under Section 4.5 which in no event are senior to or *pari passu* with the Lien granted to Seller hereby, (b) not use or permit any Collateral to be used unlawfully or in violation of any provision of this Agreement, any law or any policy of insurance covering the Collateral, (c) not sell, transfer or assign (by operation of law or otherwise) any of the Collateral, and (d) not enter into any agreement or undertaking restricting the right or ability of Seller to sell, assign or transfer any Collateral.

Section 4.2 *Maintenance of Perfected Security Interest; Further Documentation*

(a) Purchaser shall maintain the security interest created by this Agreement as a perfected security interest having at least the priority described in Section 3.2 (*Perfection and Priority*) and Section 2.2 and shall defend such security interest and such priority against the claims and demands of all Persons.

(b) Purchaser shall furnish to Seller from time to time statements and schedules further identifying and describing the Collateral and such other reports in connection with the Collateral as Seller may reasonably request, all in reasonable detail and in form and substance satisfactory to Seller.

(c) At any time and from time to time, upon the written request of Seller, and at the sole expense of Purchaser, Purchaser shall promptly and duly execute and deliver, and have recorded, such further instruments and documents and take such further action as Seller may reasonably request for the purpose of obtaining or preserving the full benefits of this Agreement and of the rights and powers herein granted, including the filing of any financing or continuation statement under the UCC (or other similar laws) in effect in any jurisdiction with respect to the security interest created hereby.

Section 4.3 *Maintenance of the Equipment*

(a) Purchaser, at its sole expense, shall maintain, service and repair the Collateral to the same extent as other corporations of established reputations engaged in the same or a similar business maintain, service and repair similar equipment owned or leased by such corporations and in any event at least to the same extent as Purchaser maintains similar equipment owned or leased by it and to the extent required to maintain the Collateral in good operating condition and in compliance in all material respects with all applicable requirements of law or of the federal, state or local governmental authorities having jurisdiction. Purchaser shall comply with such operating or repair standards and periodic maintenance inspections as are required to enforce warranty claims or which are otherwise normal operating procedures in the industry for the Collateral. Purchaser shall keep accurate and detailed logs and other inspection, modification, operating and overhaul records relating to the Collateral and shall periodically, but not less frequently than every third anniversary of the date hereof, transmit to Seller copies or originals of all logs and other such records kept during the preceding period. Purchaser will not permit the Collateral or any part thereof to be used or operated in violation of any law or any rule, regulation or order of any such governmental authority having jurisdiction, unless the validity thereof is being contested in good faith and by appropriate proceedings, but only so long as such proceedings do not involve any danger of the sale, forfeiture or loss of the Collateral or any part thereof or interest therein. Purchaser shall permit the Collateral to be used or operated only for the purposes for which the Collateral was designed, by qualified personnel, in accordance with

good industry practice and in compliance with all applicable requirements of the insurance policies maintained pursuant to *Section 4.5* hereof.

(b) Purchaser, at its sole expense, will as promptly as practicable replace all appliances, parts, instruments, appurtenances, accessories, furnishings and other equipment of whatever nature (herein collectively referred to as "Parts") which may from time to time be incorporated or installed in or attached to the Collateral and which may from time to time become worn out, lost, stolen, destroyed, seized, confiscated, damaged beyond repair or permanently rendered unfit for use. Purchaser shall not remove any Parts from the Collateral or the location of the Equipment provided that nothing herein shall prevent Purchaser from removing any Parts from the Collateral (and, if necessary, from such location) for reasonable periods of time in the ordinary course of maintenance, service, repair or testing. All replacement Parts shall be free and clear of all Liens and rights of others except Liens permitted by *Section 4.5*, and shall be in as good operating conditions as, and shall have a value and utility at least equal to, the Parts replaced, assuming such replaced Parts were in the condition and repair required to be maintained by the terms hereof. All Parts at any time removed from the Collateral shall remain subject to the Lien granted to Seller hereby, no matter where located, until such time as such Parts shall be replaced by Parts which have been incorporated or installed in or attached to the Collateral and which meet the requirements for replacement Parts specified above. Immediately upon any replacement Part becoming incorporated or installed in or attached to the Collateral as above provided, without further act, (i) title to the removed Part shall vest in such person, other than Seller, as shall be designated by Purchaser, free and clear of all rights of Seller, (ii) title to such replacement Part shall vest in Purchaser and (iii) such replacement Part shall become and be deemed part of the Collateral for all purposes hereof to the same extent as the Parts originally incorporated or installed in or attached to the Equipment.

(c) Purchaser, at its sole expense, shall make such alterations, modifications, substitutions and additions (herein collectively called "Alterations") to the Collateral as may be required from time to time to meet the requirements of law or of the federal, state or local governmental authorities having jurisdiction. In addition, Purchaser, at its sole express, may from time to time make Alterations to the Collateral as Purchaser may deem desirable in the proper conduct of its business, provided that no such Alteration shall diminish the value, utility or condition of the Collateral below the value, utility and condition thereof immediately prior to such Alteration, assuming the Collateral was then in the condition and repair required to be maintained by the terms of this Agreement. All Alterations required or permitted by this *Section 4.3(c)* shall be completed in good and workmanlike manner, with reasonable dispatch and in compliance with *Section 4.3(c)* hereof. In the event that any Alteration permitted by the second sentence of this *Section 4.3(c)* involves an improvement or addition to the Collateral and not a replacement or substitutions of any Part or Parts originally constituting part of the Collateral, such Alteration shall be readily removable without causing material damage to the Collateral. No material Alteration, whether pursuant to the first or second sentence of this *Section 4.3(c)*, not readily removable without causing material damage to the Collateral, shall be made without the prior written approval of Seller which approval shall not be unreasonably withheld. Immediately upon any Part becoming incorporated or installed in or attached to the Collateral as the result of Alterations required or permitted by this *Section 4.3(c)*, without further act, title to such Part shall vest in Seller and such Part shall become subject to this Agreement and be deemed part of the Collateral and for all purposes hereof to the same extent as the Parts originally incorporated or installed in or attached to the Collateral, (i) if such Part is in replacement of or in substitution for, and not in addition to, any Part originally incorporated or

installed in or attached to the Collateral at the time of the acceptance thereof hereunder or any Part in replacement of, or substitution for, any such original Part, or (ii) if such Part is required to be incorporated or installed in or attached to the Collateral pursuant to the requirements of law or of any federal, state or local governmental authority having jurisdiction. Title to all other Parts attached to the Collateral as the result of Alterations permitted by this *Section 4.3(c)* shall remain in Purchaser and such Parts shall not be deemed part of the Collateral and may be removed by Purchaser at any time prior to disposition of the Collateral pursuant to *Section 5.1*. Any Part which is not so removed by Purchaser shall become, without further act, part of the Collateral for all purposes of this Agreement.

Section 4.4 Changes in Locations, Name, Etc.

(a) Except upon 15 days prior written notice to Seller and delivery to Seller of all additional financing statements and other documents reasonably requested by Seller to maintain the validity, perfection and priority of the security interests provided for herein Purchaser shall not do any of the following:

(i) permit Collateral to be kept at a location other than that listed on *Schedule 3 (Location of Equipment)*

(ii) change its jurisdiction of organization or its location, in each case from that referred to in *Section 3.3 (Jurisdiction of Organization; Chief Executive Office)*; or

(iii) change its legal name or any trade name used to identify it in the conduct of its business or ownership of its properties or organizational identification number, if any, or corporation, limited liability company or other organizational structure to such an extent that any financing statement filed in connection with this Agreement would become misleading.

(b) Purchaser shall keep and maintain at its own cost and expense satisfactory and complete records of the Collateral, including a record of all other dealings with the Collateral.

(c) Purchaser shall ensure that at all times the Equipment remains personal property under the law of the jurisdiction in which it is located.

Section 4.5 Payment of Obligations

Purchaser shall pay and discharge or otherwise satisfy at or before maturity or before they become delinquent, as the case may be, all taxes, assessments and governmental charges or levies imposed upon the Collateral or in respect of income or profits therefrom, as well as all claims of any kind (including claims for labor, materials and supplies) against or with respect to the Collateral, except that no such charge need be paid if the amount or validity thereof is currently being contested in good faith by appropriate proceedings, reserves in conformity with GAAP with respect thereto have been provided on the books of Purchaser and such proceedings could not reasonably be expected to result in the sale, forfeiture or loss of any material portion of the Collateral or any interest therein.

Section 4.6 Insurance

Purchaser shall (i) maintain, and cause to be maintained, insurance with responsible and reputable insurance companies or associations in an amount equal to the replacement value of the Collateral and covering such risks as is usually carried by companies engaged in similar businesses and owning similar properties in the same general areas in which Purchaser operates, and such other insurance as may be reasonably requested by Seller, and (ii) cause all such insurance to name Seller as additional insured or loss payee, as appropriate, and to provide that no cancellation, material addition in amount or material change in coverage shall be effective until after 30 days' written notice thereof to Seller.

Section 4.7 Inspections; Reports

At all reasonable times Seller and its authorized representatives (which shall include any employee of Seller and any other representative of any of such parties who is not engaged, directly or indirectly, in competition with Purchaser in the pulp and paper manufacturing business) may, upon 3 days prior written notice to Purchaser, inspect the Collateral and the books and records of Purchaser relating thereto for all proper purposes hereunder, including without limitation the exercise of any remedies under Section 5.1. At any time when a Default shall have occurred and be continuing, Seller, may, upon 3 days prior written notice to Purchaser, demonstrate the Collateral to any bona fide prospective Purchaser or lessee. At such times as Seller, upon 3 days written prior notice to Purchaser, reasonably request, Purchaser shall furnish Seller such other books and records as are in Purchaser's possession regarding the Collateral as may be reasonably requested by Seller. Seller shall have no duty to make such inspection or inquiry. Except during the continuance of a Default, Seller shall pay its own expenses in connection with any such inspection or inquiry; otherwise, Purchaser shall pay same.

ARTICLE V REMEDIAL PROVISIONS

Section 5.1 Code and Other Remedies

During the continuance of a Default, Seller may exercise, in addition to all other rights and remedies granted to it in this Agreement and in any other instrument or agreement securing, evidencing or relating to the Collateral, all rights and remedies of a secured party under the UCC or any other applicable law. Without limiting the generality of the foregoing, Seller, without demand of performance or other demand, presentment, protest, advertisement or notice of any kind (except any notice required by law referred to below) to or upon Purchaser or any other Person (all and each of which demands, defenses, advertisements and notices are hereby waived), may in such circumstances forthwith collect, receive, appropriate and realize upon any Collateral, and may forthwith sell, lease, assign, give option or options to purchase, or otherwise dispose of and deliver any Collateral (or contract to do any of the foregoing), in one or more parcels at public or private sale or sales, at any exchange, broker's board or office of Seller or elsewhere upon such terms and conditions as it may deem advisable and at such prices as it may deem best, for cash or on credit or for future delivery without assumption of any credit risk. Seller shall have the right upon any such public sale or sales, and, to the extent permitted by the UCC and other applicable law, upon any such private sale or sales, to purchase the whole or any part of the Collateral so sold, free of any right or equity of redemption of Purchaser, which right or equity is hereby waived and released. Purchaser further agrees, at Seller's request, to assemble the Collateral and make it available to Seller at places that Seller shall reasonably select, whether at

Purchaser's premises or elsewhere. Seller shall apply the net proceeds of any action taken by it pursuant to this *Section 5.1*, after deducting all reasonable costs and expenses of every kind incurred in connection therewith or incidental to the care or safekeeping of any Collateral or in any way relating to the Collateral or the rights of Seller, including reasonable attorneys' fees and disbursements, to the payment in whole or in part of the Secured Obligations, in such order as Seller in its sole discretion shall prescribe, and only after such application and after the payment by Seller of any other amount required by any provision of law, need Seller account for the surplus, if any, to Purchaser. To the extent permitted by applicable law, Purchaser waives all claims, damages and demands it may acquire against Seller arising out of the exercise by them of any rights hereunder. If any notice of a proposed sale or other disposition of the Collateral shall be required by law, such notice shall be deemed reasonable and proper if given at least 10 days before such sale or other disposition.

Section 5.2 Deficiency

Purchaser shall remain liable for any deficiency if the proceeds of any sale or other disposition of the Collateral are insufficient to pay the Secured Obligations and the fees and disbursements of any attorney employed by Seller to collect such deficiency.

Section 5.3 Delivery of the Collateral for Sale

(a) During the continuance of an Event of Default, upon written notice from Seller directing Purchaser to dismantle the Collateral and deliver it to the nearest railroad loading point, on trucks at the site where the Collateral is located or to the nearest barge loading point, Purchaser will promptly dismantle the Collateral, prepare the resulting components for shipment in a good workmanlike manner selected by Seller and deliver all or part of such components to Seller or Seller's designee as specified in such notice, for sale pursuant to *Section 5.1*.

Section 5.4 Seller's Appointment as Attorney-in-Fact

(a) Purchaser hereby irrevocably constitutes and appoints the Seller and any officer or agent thereof, with full power of substitution, as its true and lawful attorney-in-fact with full irrevocable power and authority in the place and stead of Purchaser and in the name of Purchaser or in its own name, for the purpose of carrying out the terms of this Agreement, to take any appropriate action and to execute any document or instrument that may be necessary or desirable to accomplish the purposes of this Agreement, and, without limiting the generality of the foregoing, Purchaser hereby gives Seller the power and right, on behalf of Purchaser, without notice to or assent by Purchaser, to do any of the following:

(i) in the name of Purchaser or its own name, or otherwise, take possession of and indorse and collect any check, draft, note, acceptance or other instrument for the payment of moneys due with respect to the Collateral and file any claim or take any other action or proceeding in any court of law or equity or otherwise deemed appropriate by Seller for the purpose of collecting any such moneys due with respect to the Collateral whenever payable;

(ii) pay or discharge taxes and Liens levied or placed on or threatened against the Collateral, effect any repair or pay any insurance called for by the terms of this Agreement (including all or any part of the premiums therefor and the costs thereof);

(iii) execute, in connection with any sale provided for in *Section 5.1 (Code and Other Remedies)*, any endorsement, assignment or other instrument of conveyance or transfer with respect to the Collateral; and

(iv) (A) direct any party liable for any payment under any Collateral to make payment of any moneys due or to become due thereunder directly to Seller or as Seller shall direct, (B) ask or demand for, collect, and receive payment of and receipt for, any moneys, claims and other amounts due or to become due at any time in respect of or arising out of the Collateral, (C) sign and indorse any invoice, freight or express bill, bill of lading, storage or warehouse receipt, draft against debtors, assignment, verification, notice and other document in connection with the Collateral, (D) commence and prosecute any suit, action or proceeding at law or in equity in any court of competent jurisdiction to collect any Collateral and to enforce any other right in respect of the Collateral, (E) defend any suit, action or proceeding brought against Purchaser with respect to the Collateral, (F) settle, compromise or adjust any such suit, action or proceeding and, in connection therewith, give such discharges or releases as Seller may deem appropriate, and (G) generally, sell, transfer, pledge and make any agreement with respect to or otherwise deal with the Collateral as fully and completely as though Seller were the absolute owner thereof for all purposes, and do, at Seller's option and Purchaser's expense, at any time, or from time to time, all acts and things that Seller deems necessary to protect, preserve or realize upon the Collateral and Seller's security interests therein and to effect the intent of this Agreement, all as fully and effectively as Purchaser might do.

Anything in this *clause (a)* to the contrary notwithstanding, the Seller agrees that it shall not exercise any right under the power of attorney provided for in this *clause (a)* unless a Default shall be continuing.

(b) If Purchaser fails to perform or comply with any of its agreements contained herein, Seller, at its option, but without any obligation so to do, may perform or comply, or otherwise cause performance or compliance, with such agreement.

(c) The expenses of Seller incurred in connection with actions undertaken as provided in this *Section 5.4*, together with interest thereon at a rate equal to 9% per annum from the date of payment by Seller to the date reimbursed by Purchaser, shall be payable by Purchaser to Seller on demand.

(d) Purchaser hereby ratifies all that said attorneys shall lawfully do or cause to be done by virtue hereof. All powers, authorizations and agencies contained in this Agreement are coupled with an interest and are irrevocable until this Agreement is terminated and the security interests created hereby are released.

Section 5.5 Duty of Seller

The Seller's sole duty with respect to the custody, safekeeping and physical preservation of the Collateral in its possession shall be to deal with it in the same manner as Seller deals with similar property for its own account. Neither Seller, nor any of its respective officers, directors, employees or agents shall be liable for failure to demand, collect or realize upon any Collateral or for any delay in doing so or shall be under any obligation to sell or otherwise dispose of any Collateral upon the request of Purchaser or any other Person or to take any other

action whatsoever with regard to any Collateral. The powers conferred on Seller hereunder are solely to protect Seller's interest in the Collateral and shall not impose any duty upon Seller to exercise any such powers. Seller shall be accountable only for amounts that it actually receives as a result of the exercise of such powers, and neither it nor any of its respective officers, directors, employees or agents shall be responsible to Purchaser for any act or failure to act hereunder, except for its own gross negligence or willful misconduct.

Section 5.6 Authority of Seller

Purchaser acknowledges that the rights and responsibilities of Seller under this Agreement with respect to any action taken by Seller or the exercise or non-exercise by Seller of any option, voting right, request, judgment or other right or remedy provided for herein or resulting or arising out of this Agreement shall be governed by the Asset Sale Agreement and by such other agreements with respect thereto as may exist from time to time among them, but, the Seller shall be conclusively presumed to be acting with full and valid authority so to act or refrain from acting, and Purchaser shall not be under any obligation, or entitlement, to make any inquiry respecting such authority.

ARTICLE VI MISCELLANEOUS

Section 6.1 Authorization of Financing Statements

Purchaser authorizes Seller and its Affiliates, counsel and other representatives, at any time and from time to time, to file or record financing statements, amendments to financing statements, and other filing or recording documents or instruments with respect to the Collateral in such form and in such offices as Seller reasonably determines appropriate to perfect the security interests of Seller under this Agreement. Purchaser hereby also authorizes Seller and its Affiliates, counsel and other representatives, at any time and from time to time, to file continuation statements with respect to previously filed financing statements. A photographic or other reproduction of this Agreement shall be sufficient as a financing statement or other filing or recording document or instrument for filing or recording in any jurisdiction.

Section 6.2 Amendments in Writing

None of the terms or provisions of this Agreement may be waived, amended, supplemented or otherwise modified except in accordance with *Section 10.4 (Amendments and Entire Agreement)* of the Asset Sale Agreement.

Section 6.3 Notices

All notices, requests and demands to or upon Seller or Purchaser hereunder shall be effected in the manner provided for in *Section 10.6 (Notices)* of the Asset Sale Agreement.

Section 6.4 No Waiver by Course of Conduct; Cumulative Remedies

Seller shall not by any act (except by a written instrument pursuant to *Section 6.2 Amendments in Writing*), delay, indulgence, omission or otherwise be deemed to have waived any right or remedy hereunder or to have acquiesced in any Default. No failure to exercise, nor any

delay in exercising, on the part of Seller, any right, power or privilege hereunder shall operate as a waiver thereof. No single or partial exercise of any right, power or privilege hereunder shall preclude any other or further exercise thereof or the exercise of any other right, power or privilege. A waiver by Seller of any right or remedy hereunder on any one occasion shall not be construed as a bar to any right or remedy that Seller would otherwise have on any future occasion. The rights and remedies herein provided are cumulative, may be exercised singly or concurrently and are not exclusive of any other rights or remedies provided by law.

Section 6.5 Not Part of Realty; Easements

(a) The parties hereto intend that the Collateral is and shall at all times be and remain personal property under Wisconsin law and the law of any other state wherein the Collateral may be located from time to time and each of them agrees that it will not take any action which would cause the Collateral or any part thereof to be, or to be deemed to be, real property or an accession to real property under Wisconsin law (or the laws of the state wherein the Collateral may be located from time to time) or real estate under the federal bankruptcy laws.

(b) Purchaser shall procure and maintain in full force and effect all easements and other rights as may reasonably be necessary to permit Seller to obtain access to the Collateral in accordance with the provisions of *Section 4.7* hereof.

Section 6.6 Successors and Assigns

This Agreement shall be binding upon the successors and assigns of Purchaser and shall inure to the benefit of Seller and its successors and assigns; *provided, however*, that Purchaser may not assign, transfer or delegate any of its rights or obligations under this Agreement without the prior written consent of Seller.

Section 6.7 Counterparts

This Agreement may be executed by one or more of the parties to this Agreement on any number of separate counterparts (including by telecopy), each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same agreement. Signature pages may be detached from multiple counterparts and attached to a single counterpart so that all signature pages are attached to the same document. Delivery of an executed counterpart by telecopy shall be effective as delivery of a manually executed counterpart.

Section 6.8 Severability

Any provision of this Agreement that is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

Section 6.9 Section Headings

The Article and Section titles contained in this Agreement are, and shall be, without substantive meaning or content of any kind whatsoever and are not part of the agreement of the parties hereto.

Section 6.10 Entire Agreement

This Agreement together with the Asset Sale Agreement represents the entire agreement of the parties and supersedes all prior agreements and understandings relating to the subject matter hereof.

Section 6.11 Governing Law

This Agreement and the rights and obligations of the parties hereto shall be governed by, and construed and interpreted in accordance with, the law of the State of New York.

Section 6.12 Release of Collateral

Upon payment in full of the Final Purchase Price, the Collateral shall be released from the Lien created hereby and this Agreement and all obligations (other than those expressly stated to survive such termination) of Seller and Purchaser hereunder shall terminate, all without delivery of any instrument or performance of any act by any party, and all rights to the Collateral shall revert to Purchaser. At the request and sole expense of Purchaser following any such termination, Seller shall deliver any Collateral held by Seller hereunder and execute and deliver to Purchaser such documents including UCC termination statements as Purchaser shall reasonably request to evidence such termination.

Section 6.13 Reinstatement

If any payment made by Purchaser or other Person and applied to the Secured Obligations is at any time annulled, avoided, set aside, rescinded, invalidated, declared to be fraudulent or preferential or otherwise required to be refunded or repaid, or the proceeds of the Collateral are required to be returned by Seller to Purchaser, its estate, trustee, receiver or any other party under any bankruptcy law, state or federal law, common law or equitable cause, then, to the extent of such payment or repayment, any Lien or other Collateral securing such liability shall be and remain in full force and effect, as fully as if such payment had never been made or, if prior thereto the Lien granted hereby or other Collateral securing such liability hereunder shall have been released or terminated by virtue of such cancellation or surrender, such Lien or other Collateral shall be reinstated in full force and effect, and such prior cancellation or surrender shall not diminish, release, discharge, impair or otherwise affect any Lien or other Collateral securing the Secured Obligations in respect of the amount of such payment.

[SIGNATURE PAGES FOLLOW]

Jul 26 06 03:01p

p. 2

IN WITNESS WHEREOF, each of the undersigned has caused this Security Agreement to be duly executed and delivered as of the date first above written.

FLAMBEAU RIVER PAPER, LLC,
as Purchaser

By: Summit Lake Management, LLC

By: 
William B. Johnson, Authorized
Representative

FRASER PAPERS LIMITED,
as Seller

By: _____
Name: _____
Title: _____

By: _____
Name: _____
Title: _____

[SIGNATURE PAGE TO SECURITY AGREEMENT]

IN WITNESS WHEREOF, each of the undersigned has caused this Security Agreement to be duly executed and delivered as of the date first above written.

FLAMBEAU RIVER PAPER, LLC,
as Purchaser

By: Summit Lake Management, LLC

By: _____
William B. Johnson, Authorized
Representative

FRASER PAPERS LIMITED,
as Seller

By: 
Name: Glen McMillan
Title: Secretary

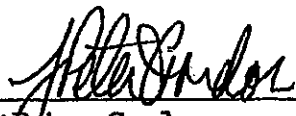
By: 
Name: Peter Gordon
Title: Vice President, Finance

EXHIBIT E

Filing # - 060011516923

Filed - 07/28/2006 10:35 AM

Page 1 of 5

Wisconsin Department of
Financial Institutions

UCC FINANCING STATEMENT

FOLLOW INSTRUCTIONS (front and back) CAREFULLY

A. NAME & PHONE OF CONTACT AT FILER (optional)

Brent A. Stork, Esq. 414-271-6560

B. SEND ACKNOWLEDGMENT TO: (Name and Address)

Brent A. Stork, Esq.
Michael Best & Friedrich LLP
100 E. Wisconsin Ave., #3300
Milwaukee, WI 53202

THE ABOVE SPACE IS FOR FILING OFFICE USE ONLY

1. DEBTOR'S EXACT FULL LEGAL NAME - Insert only one debtor name (1a or 1b) - do not abbreviate or combine names

1a. ORGANIZATION'S NAME

Flambeau River Papers LLC

OR 1b. INDIVIDUAL'S LAST NAME

FIRST NAME

MIDDLE NAME

SUFFIX

1c. MAILING ADDRESS

9676 N. Kruger Road

CITY Hayward

STATE WI

POSTAL CODE 54843

COUNTRY USA

1d. TAX ID # SSN OR EIN
NOT REQUIRED IN WIADDL. INFO RE
ORGANIZATION
DEBTOR1e. TYPE OF ORGANIZATION
LLC1f. JURISDICTION OF ORGANIZATION
Wisconsin1g. ORGANIZATIONAL ID #, if any
F039049☐ NONE

2. ADDITIONAL DEBTOR'S EXACT FULL LEGAL NAME - Insert only one debtor name (2a or 2b) - do not abbreviate or combine names

2a. ORGANIZATION'S NAME

OR 2b. INDIVIDUAL'S LAST NAME

FIRST NAME

MIDDLE NAME

SUFFIX

2c. MAILING ADDRESS

CITY

STATE

POSTAL CODE

COUNTRY

2d. TAX ID # SSN OR EIN
NOT REQUIRED IN WIADDL. INFO RE
ORGANIZATION
DEBTOR

2e. TYPE OF ORGANIZATION

2f. JURISDICTION OF ORGANIZATION

2g. ORGANIZATIONAL ID #, if any

☐ NONE

3. SECURED PARTY'S NAME (or NAME of TOTAL ASSIGNEE of ASSIGNOR S/P) - Insert only one secured party name (3a or 3b)

3a. ORGANIZATION'S NAME

Fraser Papers Limited

OR 3b. INDIVIDUAL'S LAST NAME

FIRST NAME

MIDDLE NAME

SUFFIX

3c. MAILING ADDRESS

c/o Fraser Papers Inc/ Bridge St

CITY

Madawaska

STATE

POSTAL CODE

COUNTRY

ME

04756

USA

4. This FINANCING STATEMENT covers the following collateral:

The equipment detailed on attached Exhibit A ("Equipment") comprising the Wood Refuse Burning Cogeneration Plant sold by Secured Party to Debtor pursuant to an Asset Sale Agreement dated as of June 22, 2006; and all appliances, parts, instruments, appurtenances, accessories, furnishings, and other equipment ("Parts as defined in the Security Agreement"); which Parts may from time to time be incorporated or installed in or attached to the Equipment; and all proceeds of the Equipment and Parts.

5. ALTERNATIVE DESIGNATION (if applicable)	LESSEE/LESSOR	CONSIGNEE/CONSIGNOR	BAILEE/BAILOER	SELLER/BUYER	ALL LIEN	NON-UCC FILING
6. THIS FINANCING STATEMENT IS TO BE FILED (or recorded) (or recorded) in the REAL ESTATE RECORDS (Attach Addendum if applicable)	7. Check to REQUEST SEARCH REPORT(S) on Debtor(s) (Additional Fee)	All Debtors	Debtor 1	Debtor 2		
8. OPTIONAL FILER REFERENCE DATA						
File with WDFI						

FILING OFFICE COPY — NATIONAL UCC FINANCING STATEMENT (FORM UCC1) (REV. 07/29/96)

* An individual's social security number is not required to be placed on the form in Wisconsin (See Instructions)

Filing # - 060011516923

Filed - 07/28/2006 10:35 AM

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Wisconsin Department of
Financial Institutions

EXHIBIT A

DESCRIPTION OF THE CONTRACT EQUIPMENT

<u>Account Numbers</u>	<u>Item</u>
224-02-000	Wood Handling
02-001	Truck Scale
02-002	Scale House
02-003	Truck Dumps
02-004	TD Hydraulic Systems
02-005	Hog
02-006	Screen
02-007	Tramp Iron Magnet
02-008	Wood Prep Enclosure
02-009	Ventilating Systems
02-400	Live-Bottom Hopper
02-010	Wood Conveyors
02-011	Wood Feed Hoppers
02-012	Fire Protection
02-013	Lighting
02-014	Power & Control Wiring
02-600	Electrical Motors (601 thru 699)
02-900	Instrumentation

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Wisconsin Department of
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<u>Account Numbers</u>	<u>Item</u>
224-03-000	Coal Handling
03-001	Coal Dump Hopper
03-002	Car Shaker
03-003	Car Puller
03-004	Dump Hopper Enclosure
03-005	Intermediate Storage Bin
03-006	Tramp Iron Magnet
03-007	Coal Crusher
03-008	Screen
03-009	Coal Prep. Enclosure
03-010	Fire Protection
03-011	Lighting
03-012	Conveyors
03-400	Coal Bunker
03-013	Coal Scales
03-014	Power & Control Wiring
03-600	Electrical Motors
03-300	Sump Pumps
03-900	Instrumentation
03-015	Ventilating Systems

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Wisconsin Department of
Financial InstitutionsAccount NumbersItem

224-04-000

Boiler

04-001	Foster Wheeler Equipment
04-700	Over Fire Air Fan
04-701	Induced Air Fan
04-702	Forced Air Fan
04-002	Ductwork
04-003	Mechanical Collector
04-004	Sand Classifier
04-400	Sand Tank
04-005	Scrubber & Separator
04-006	Scrubber Clarifier
04-007	Ash Handling System
04-008	Stack
04-009	Boiler Enclosure
04-010	Heating & Ventilation
04-011	Fire Protection
04-500	Control & Safety Valves
04-012	Office, Lab, Locker Room
04-013	Lighting
04-014	Power & Control Wiring
04-600	Electrical Motors
04-900	Instrumentation
04-016	Misc. Valves & Piping
04-300	Pumps
04-704	Air Compressors

224-05-000

Turbine - Generator

05-001	General Electric Equipment
05-002	Emergency Standby Generator
05-003	T-G Enclosure
05-004	Overhead Crane
05-005	Lighting
05-006	Power & Control Wiring
05-007	Misc. Valves & Piping
05-300	Pumps & Coolers
05-008	Building Ventilation
05-900	Instrumentation

Filing # - 060011516923

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Account NumbersItemWisconsin Department of
Financial Institutions

224-06-000

Condensate & Feedwater Systems

06-001

Valves & Piping

06-400

Condensate Receiver

06-401

Demineralized Water Storage

06-402

Deaerator

06-404

Demineralizer

06-408

Condensate Polisher

06-002

Chemical Treatment

06-412

Acid Storage

06-413

Caustic Storage

06-300

Pumps

06-003

Power & Control Wiring

06-600

Electrical Motors

06-900

Instrumentation

224-07-000

Major Electrical

07-001

Power Centers

07-002

Motor Control Centers

07-003

Power & Control Wiring

07-004

Transmission Cable & Tray

224-08-000

Pipelines to Mill

08-001

Track Crossing Structure

08-002

Piping Supports

08-003

Insulation

08-004

Valves & Piping

08-005

Electrical Heat Trace

10-003

Wyatt Insurance

10-004

Wyatt Engineering

EXHIBIT F

EXHIBIT "F"



State of Wisconsin \ DEPARTMENT OF NATURAL RESOURCES

Jim Doyle, Governor
 Matthew J. Frank, Secretary
 John Gozdziński, Regional Director

Northern Region Headquarters
 107 Sutliff Ave.
 Rhineland, Wisconsin 54501
 Telephone (715) 365-8900
 FAX (715) 365-8932

June 16, 2009

Marie Dumontier,
 Fraser Papers, Inc.
 451 Victoria St.
 Thurso, Quebec
 CANADA JOX 3B0

FID# 51032930
 Price Co.
 SW/CME

Subject: PF Papers Landfill, License #2756
 Site Compliance Inspection -- June 10, 2009 Notice of Non-Compliance

Dear Ms. Dumontier:

On June 10, 2009, I conducted a compliance inspection at the PF Papers closed landfill #2756, consisting of the Trench Area and the Emergency Expansion. The purpose for the site visit was to conduct an inspection for compliance with the solid waste management requirements of chs. NR 500 - 590, Wis. Adm. Code, and the approved plan of operation for the landfill. Vladimir Wojnar, of AECOM, was at the landfill during my inspection. Enclosed is a copy of the Closed Landfill Inspection Form that was completed as a result of the inspection. One non-compliance issue and one area of concern are recorded on the attached form and discussed below.

Non-Compliance Issue

Section NR 506.08.(3)(a), Wis. Adm. Code, requires that final grades be sloped adequately to allow storm water runoff. Pondered storm water and vegetation indicative of a wetland environment were observed in almost every trench in the Trench Area. Pondered storm water and vegetation indicative of a wetland environment were also observed in several areas of the Emergency Expansion, especially on the south and west sides of the Expansion. Repairs need to be made to the final cover to provide storm water runoff from all areas of the final covers of both the Trench Area and the Emergency Expansion. A proposal for the repairs should be sent to the Department for concurrence, within 60 days of the date of this letter. The repairs should be performed this construction season and documentation of the repairs should be included in the annual report for the landfill.

Area of Concern

Brushy vegetation was observed at several locations of the Trench Area and the Emergency Expansion. A tamarack tree was also observed in the Emergency Expansion. The brush and tree must be removed. Annual mowing should be performed to prevent establishment of woody vegetation on the landfill cover.

Ms. Dumontier – Page 2

As indicated on the attached form, inspection of the condition of the site monitoring points was not performed as part of this inspection. Please ensure that all monitoring wells and other monitoring points are in good condition. A written summary of the inspection of the monitoring points and repairs completed should be included with the annual report. Additionally, please make sure that any monitoring wells not required to be sampled for, at this landfill, or the adjacent landfill #3051, are properly abandoned.

Please see the attached form which contains additional comments regarding the inspection.

You should be informed that the Department may perform additional inspections at this facility to insure compliance with the solid waste management requirements. If you have any questions or comments, please feel free to contact me at (608) 267-9387 or susan.fisher@wisconsin.gov.

Sincerely,


Susan M. Fisher, P.E.
Waste Management Engineer

Attachment: Closed Landfill Inspection Form

cc: Steve Ashenbrucker - Park Falls
Herman Luedtke – Flambeau River Papers-Email
Vladimir Wojnar – AECOM - Email
Terry Koehn - Email
Ann Coakley - Email
Colleen Storck - Email



CLOSED LANDFILL INSPECTION FORM

PF PAPERS LANDFILL

Contact Date: 06/10/2009

FID No: 851032830

LIC/RU/RA No: 2758

FIST SEQ #: 35323

WASTE & MATERIALS
MANAGEMENT PROGRAM

Section 1 General Facility Requirements

A. Gate provided at the entrance and kept locked when authorized personnel not on site.

C

NR 506.07(1)(j)

Landfill consist of a Trench Area consisting of 12 individual trenches. This area has no liner or leachate collection. Trench Area area does have a geomembrane final cover. Emergency Expansion is a separate and adjacent area fill with geomembrane liner and cover and leachate collection system. Settlement hubs and passive gas vents located through out the final cover of both landfills.

B. Entrance area clean and no solid waste indiscriminately dumped at or near the entrance. (e.g. operating an unlicensed storage or disposal facility)

C

NR 289.31(1)

C. Sign posted at the entrance to the facility indicating that the landfill is closed, and includes the landfill name, license number, penalty for unauthorized use and any other pertinent information unless the approved final use does not require signage.

C

NR 506.08(1)(b)

D. Access to the landfill restricted by use of gates, fencing, or other appropriate means unless approved final use allowing access (e.g. baseball playfields, soccer fields, dog runs, etc.) does not require these restrictions.

C

NR 506.08(2)

Electric gate in place at entrance to facility off Hwy 13.

Section 2 Sediment and Erosion Control

A. Runoff channels are protected to prevent scour and erosion that generates sediment.

C

NR 506.07(2)(a)(5)

B. Storm water drainage ditches, structures and sedimentation basins cleaned and maintained.

C

NR 506.07(2)(b)

I did not walk the perimeter of the landfill. Tall vegetation prevented locating and inspection of storm water discharge culverts from the final cover. No sedimentation basins exist.

C. The entire solid waste disposal area is covered with compacted earth and final grades are adequately sloped to allow storm water runoff. (e.g. no depressions with ponded water or wetland vegetation on the disposal area).

X

NR 506.08(3)(a)

Ponded storm water observed in almost every trench in Trench Area. Ponded storm water observed in several areas of Emergency Expansion especially on the south and west sides. Wetland vegetation also present throughout landfill cover. Grass in hummocks over much of final cover. 40 photos taken.

D. Storm water run-on diverted around all areas used for solid waste disposal to limit erosion of the cover soils and infiltration.

C

NR 506.08(3)(b)

Berms surround the Trench Area and Emergency Expansion. The berms are built up above the surrounding topography.

E. The finished surface of the disposal area is covered with a minimum of 6 inches of topsoil.

C

NR 506.08(3)(d)

F. Vegetation established to minimize erosion (e.g. no bare spots or woody vegetation).

CA

NR 506.08(4)

Many willow brush growing on the trenches and the Emergency Expansion. One tamarack tree observed on Emergency Expansion cover, south side. Brush and tree need to be cut down. Covers should be mowed annually to prevent woody vegetation.

Section 3 Gas Control

A. Effective means being utilized to prevent migration of explosive gases generated by the waste fill (e.g. no noticeable gas odors or indication of stressed vegetation, and gas control system operating, if applicable).

C

NR 506.07(4)

Passive gas vents.

Code/Stat : C: Compliance CA: Compliance with Concern X: Non-Compliance NA: Not Applicable NI: Not Inspected

Noncode: Y: Yes N: No UN: Unknown

Notes: *: Dept. approved alternate may apply

No "compliance box" is an open ended question

Page 1 of 2

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CLOSED LANDFILL INSPECTION FORM

Contact Date: 06/10/2009

FID No: 851032930

LIC/RU/RA No: 2758

FIST SEQ #: 35323

WASTE & MATERIALS
MANAGEMENT PROGRAM

Section 4: Leachate Collection System

- A. Any liquid that comes in contact with waste being handled as leachate and properly managed (e.g. no leachate seeps or discolored surface water/soil). **C** NR 506.07(5)(b)
Leachate removal from Emergency Expansion. No leachate collection from Trench Area.
- B. Leachate removal from all leachate storage structures to maintain gravity flow (e.g. no leachate storage on landfill base or liner). **C** NR 506.07(5)(a)
- C. All leachate removed from the leachate collection system is being disposed of at a wastewater treatment facility unless the facility has approval to recirculate leachate or gas condensate. **C** NR 506.07(5)(a)
Leachate hauled to Flambeau River Papers for disposal.
- D. Leachate lines cleaned on an annual basis or other frequency approved by the Department. **C** NR 506.07(5)(c)
- E. Leachate head wells protected and being monitored for leachate head levels. **NA** NR 507.21(3)
No headwells observed.

Section 5: Monitoring Devices

- A. Monitoring and sampling devices protected to prevent contaminant entry and damage (e.g. caps present and locked, protective casing in good condition and not affected by frost heave or sunk relative to the well casing that prevents closure). **NI** NR 507.04(3)
- B. All monitoring devices clearly and permanently labeled on the outside of the device. **NI** NR 507.04(4)
Did not inspect the ground water wells. Number identification on several settlement hubs no longer visible and should be re-marked.
- C. Any permanent monitoring well no longer being used to gather information is properly abandoned within 60 days after its use has been discontinued. **NI** NR 141.25(1)(b)
- D. Any monitoring device that has been damaged, provides a conduit to the subsurface or otherwise fails to function is properly abandoned and replaced within 60 days after discovery. **NI** NR 507.13
- E. Surface water sampling locations surveyed and permanently and clearly marked. **NA** NR 507.23(2)

Section 6: Final Use

- A. Waste disposal area not being used for agricultural purposes unless approved by the Department. **C** NR 506.085(1)
- B. No structures or other development over waste disposal area unless approved by the Department. **C** NR 506.085(2)
- C. No excavation of the final cover or any waste materials. **C** NR 506.085(3)

Code/Stat: C: Compliance CA: Compliance with Concern X: Non-Compliance NA: Not Applicable NI: Not Inspected

Noncode: Y: Yes N: No UN: Unknown

Notes: *: Dept. approved alternate may apply

No 'compliance box' is an open ended question

Page 2 of 2

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EXHIBIT G

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EXHIBIT "G"

ASSUMPTION AGREEMENT

THIS ASSUMPTION AGREEMENT is made as of the ____ day of July, 2010,

BETWEEN:

Fraser Papers Limited, a corporation incorporated under the laws of the State of Maine,

Fraser Papers Inc., a corporation incorporated under the laws of the Province of Ontario,

(collectively, "Fraser")

- and -

Park Falls Operator, LLC., a Wisconsin limited liability company

(collectively, "Park Falls")

RECITALS:

- A. Fraser and Park Falls, among others, are party to a Settlement Agreement dated as of July ___, 2010 (the "Settlement Agreement");
- B. All capitalized terms used herein and not otherwise defined are as defined in the Settlement Agreement;
- C. The Settlement Agreement provides that Park Falls shall, as of the Closing Date, acquire the Licenses (as defined below) for two landfills located in or near the Town of Eisenstein, Price County, Wisconsin and identified as #2756 and #3051 (collectively, the "Landfill") and assume and perform as and from the date thereof all obligations of the licensee thereunder;
- D. The Licenses shall be taken to mean the Solid Waste Facility Closure and Long-Term Care License (license no. 03051) in respect of landfill #3051 issued by the Wisconsin Department of Natural Resources ("WDNR") and the Solid Waste Facility Closure and Long-Term Care License to be issued by the WDNR in respect of landfill #2756, including that certain letter dated June 16, 2009 from the WDNR to Fraser Papers, Inc. with the subject line "PF Papers Landfill, License

#2756 Site Compliance Inspection – June 10, 2009 Notice of Non-Compliance” and any and all requirements and obligations thereunder;

NOW THEREFORE in consideration of the mutual covenants contained in the Settlement Agreement and in this Assumption Agreement and other good and valuable consideration (the receipt and sufficiency of which are hereby acknowledged), the parties hereto agree as follows:

1. Assumption

Park Falls hereby irrevocably assumes and agrees to observe and perform all of the obligations of the licensee under the Landfill Licenses (the “Obligations”) which are to be observed or performed thereunder as and from the date hereof. For greater certainty, but without limiting in any way the Obligations assumed by Park Falls hereunder, Park Falls acknowledges and confirms that its assumption of the Obligations relating to the Landfill Licenses shall include (but not be limited to) all items set forth in the currently approved plans of operation for the Landfill, the requirements of the Notice of Noncompliance regarding landfill #2756 issued by the WDNR dated June 16, 2009 and all other applicable Long Term Care requirements that may be imposed at any time by WDNR.

2. Further Assurances

Each of the parties hereto shall promptly do, make, execute or deliver, or cause to be done, made, executed or delivered, all such further acts, documents and things as the other party hereto may reasonably require from time to time for the purpose of giving effect to this assignment and shall use its best efforts and take all such steps as may be reasonably within its power to implement to their full extent the provisions of this assignment, all at the cost of the requesting party.

3. Enurement

This assignment and assumption agreement shall enure to the benefit of and be binding upon the parties hereto and their successors and assigns, respectively.

4. Governing Law

This assignment and assumption agreement shall be governed by and construed in accordance with the laws of the State of Wisconsin and the federal laws applicable therein.

5. Paramountcy

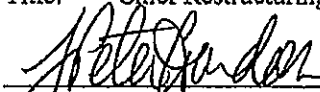
In the event of any conflict or inconsistency between the provisions of this agreement and the Settlement Agreement, the provisions of the Settlement Agreement shall prevail to the extent of such inconsistency.

IN WITNESS WHEREOF the parties hereto have executed this Assignment and Assumption Agreement.

FRASER PAPERS INC.

by: 

Name: Glen McMillan
Title: Chief Restructuring Officer

by: 

Name: Peter Gordon
Title: Director

FRASER PAPERS LIMITED

by: 

Name: Glen McMillan
Title: Secretary

by: 

Name: Peter Gordon
Title: Director

PARK FALLS OPERATOR, LLC
by: Flambeau River Papers, LLC, Sole Member

by: Thomas Steiner
Thomas Steiner, Authorized Representative

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

AND IN THE MATTER OF A PROPOSED PLAN OF COMPROMISE OR ARRANGEMENT WITH
RESPECT TO **FRASER PAPERS INC./PAPIERS FRASER INC.**, FPS CANADA INC., FRASER PAPERS
HOLDINGS INC., FRASER TIMBER LIMITED, FRASER PAPERS LIMITED AND FRASER N.H. LLC

Applicants

Court File No.: CV-09-8241-00CL

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

Proceedings commenced at Toronto

AFFIDAVIT OF GLEN MCMILLAN

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Lawyers for the Applicants.

TAB 3

Court File No. CV-09-8241-00CL

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

THE HONOURABLE MR.	)	THURSDAY, THE 12TH DAY
	)	
JUSTICE MORAWETZ	)	OF AUGUST, 2010

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

**AND IN THE MATTER OF A PROPOSED PLAN OF COMPROMISE OR
ARRANGEMENT WITH RESPECT TO FRASER PAPERS
INC./PAPIERS FRASER INC., FPS CANADA INC., FRASER PAPERS
HOLDINGS INC., FRASER TIMBER LIMITED, FRASER PAPERS LIMITED
and FRASER N.H. LLC (collectively, the Applicants")**

Applicants

**ORDER
(Flambeau Settlement Agreement)**

THIS MOTION made by the Applicants for the relief sought in the Notice of Motion herein dated July 30, 2010, was heard this day on an unopposed basis in chambers at 9:30 a.m. at 330 University Avenue, in the City of Toronto, Ontario.

ON READING the affidavit of Glen McMillan sworn July 30, 2010 (the "McMillan Affidavit") and on hearing the submissions of counsel for the Applicants and counsel for the Monitor, no one appearing for any other person on the Service List in this proceeding, and no one appearing for any other party who could be affected by the within Order as reflected on the

additional Service List filed, although all were duly served as appears from the affidavit of service of Annette Fournier sworn July 30, 2010, filed;

AND UPON BEING ADVISED that the relief sought is not opposed by the Applicants' DIP lenders Brookfield Asset Management Inc., in its capacity as administrative agent and collateral agent, and CIBC Asset Based Lending Inc., or by the Wisconsin Department of Natural Resources;

1. **THIS COURT ORDERS** that service of the Notice of Motion and the Motion Record be and is hereby validated in all respects.
2. **THIS COURT ORDERS** that the settlement agreement among Fraser Papers Limited ("Fraser US"), Fraser Papers Inc. ("Fraser Papers"), Flambeau River Papers LLC ("Flambeau") and Park Falls Operator LLC ("Park Falls") (the "Settlement Agreement") is hereby approved, and Fraser US and Fraser Papers are hereby authorized to complete the closing of the transaction described in the Settlement Agreement and in that regard to execute and deliver all such documents as may be annexed to, contemplated or required pursuant to the terms of the Settlement Agreement.
3. **THIS COURT ORDERS AND DIRECTS** that, effective upon closing of the transaction described in the Settlement Agreement and the receipt by Fraser US of all consideration to be received thereunder, all security interests of Fraser US and any party claiming through Fraser US, in the Boiler (as defined in the Settlement Agreement) shall be immediately and irrevocably discharged.

4. **THIS COURT ORDERS AND DECLARES** that, effective upon closing of the transaction described in the Settlement Agreement, Fraser US, Fraser Papers and their respective present, former and future directors, officers, employees, agents, servants, consultants, predecessors, successors and assigns and all other persons or entities acting on their behalf or at their direction or control are hereby released from any and all claims, demands, charges, causes of action, or complaints for losses, damages, and liabilities of any kind whatsoever, including without limitation, legal costs incurred in connection with such claims, whether known, unknown, contingent or unliquidated, arising out of or relating to the Landfills from and after the Closing Date (as defined in the Settlement Agreement”).
5. **THIS COURT ORDERS** that this Order shall have full force and effect in all provinces and territories in Canada.
6. **THIS COURT HEREBY REQUESTS** the aid and recognition of any court, tribunal, regulatory or administrative body having jurisdiction in Canada (including the assistance of any court in Canada pursuant to section 17 of the CCAA) or in the United States to give effect to this Order and to assist the Applicants, the Monitor and their respective agents in carrying out the terms of this Order. All courts, tribunals, regulatory and administrative bodies are hereby respectfully requested to make such Orders and to provide such assistance to the Applicants and the Monitor, as an officer of this Court, as may be necessary or desirable to give effect to this Order or to assist the Applicants and

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the Monitor and their respective agents in carrying out the terms of this Order.

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

AND IN THE MATTER OF A PROPOSED PLAN OF COMPROMISE OR ARRANGEMENT WITH
RESPECT TO **FRASER PAPERS INC./PAPIERS FRASER INC.**, FPS CANADA INC., FRASER PAPERS
HOLDINGS INC., FRASER TIMBER LIMITED., FRASER PAPERS LIMITED AND FRASER N.H. LLC

Applicants

Court File No.: CV-09-8241-00CL

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

Proceedings commenced at Toronto

ORDER

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Applicants

Court File No.: CV-09-8241-00CL

ONTARIO
**SUPERIOR COURT OF JUSTICE
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Proceedings commenced at Toronto

MOTION RECORD

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