

ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST

THE HONOURABLE MR.

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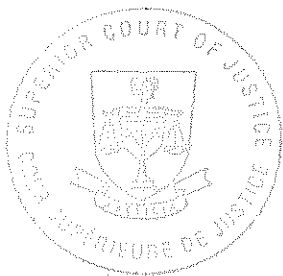
WEDNESDAY, THE 8TH

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JUSTICE MORAWETZ

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DAY OF APRIL, 2009



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

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

ORDER

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

- (a) abridging the time for service of the Notice of Motion and Motion Record herein, validating the service of such motion material and dispensing with the service of such motion material on interested parties not served;
- (b) authorizing and approving arrangements with the Independent Electricity Systems Operator ("IESO") for the continued provision of electrical supply to the Applicant;
- (c) seeking advice and directions relating to the position which may be taken by third parties with respect to the payment to Nexcap Finance Corporation ("Nexcap") of those sums of money contemplated by the projected cash flow of the Applicant

attached as Appendix "C" to the First Report of the Monitor (the "First Report") and as currently authorized by paragraphs 5 and 8 of the Initial Order granted March 11, 2009;

- (d) deferring the determination of any claims of Nexcap to proceeds of collateral other than inventory and accounts receivable, should that become relevant in the event that proceeds of inventory and accounts receivable are insufficient to discharge all indebtedness to Nexcap;
- (e) amending the Initial Order to provide that those parties with lien claims under the *Construction Lien Act* or the *Forestry Workers Lien for Wages Act* may file or register their liens, in accordance with the applicable statute, and in order to preserve the time limitations provided for by the provisions of those statutes, to permit such claimants to commence actions in respect of such claims in accordance with the relevant statute, subject to the stay of proceedings provided by the Initial Order applying to stay any further proceedings against Terrace Bay in respect of those actions;
- (f) amending the Initial Order to extend the stay of proceedings herein to June 30, 2009;
- (g) approving the activities and conduct to date of Ernst & Young Inc. in its capacity as Monitor (the "Monitor") as referenced in the First Report; and
- (h) such further and other relief as this Honourable Court may deem just.

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

ON READING the affidavit of Russell York sworn April 7, 2009 and the Exhibits thereto, the First Report of the Monitor, Ernst & Young Inc. (the "Monitor"), and on hearing the submissions of counsel for the Applicant, counsel for the Monitor, counsel for Nexcap, and counsel for IESO, no one else appearing, and on being advised that the Applicant reserves

its rights to seek further directions and determinations from the Court as to the alleged limitations on the scope of collateral charged for outstanding indebtedness should it become apparent that Nexcap will not be repaid in full from the proceeds of inventory and accounts receivable, all rights reserved to all parties in this regard:

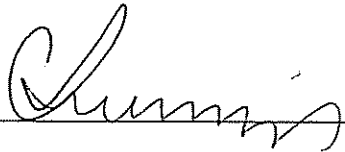
1. **THIS COURT ORDERS** that the time for service of the Notice of Motion and the Motion Record is hereby abridged so that this Motion is properly returnable today and that any requirement for service of the Motion and the Motion Record on any parties other than the parties actually served with the Notice of Motion and the Motion Record is hereby dispensed with.
2. **THIS COURT ORDERS** that the Stay Period provided for in paragraph 11 of the Initial Order be and is hereby extended from April 10, 2009 to and including June 30, 2009 and that all other terms of the Initial Order, as amended from time to time, shall remain in full force and effect, except as may be required to give effect to this paragraph.
3. **THIS COURT ORDERS** that the Initial Order be and is hereby amended by deleting sub- paragraph 12(iv) thereto and replacing it with the following:

“(iv) prevent the registration of a claim for lien under the *Construction Lien Act* (the “CLA”), or the filing of a lien claim under the *Forestry Workers Lien for Wages Act* (the “FWLWA”). In order to preserve the time limitations provided for by the provisions of the CLA and the FWLWA, lien claimants under the CLA or under the FWLWA are hereby permitted to commence actions (and where relevant, register a corresponding certificate of action) in respect of such liens in accordance with the relevant statute, provided that such actions will be subject to the stay imposed by this Order, unless otherwise ordered. Any such actions commenced under this sub-paragraph (iv) must be served on the Applicant and the Monitor within 30 days of issuance by the applicable Court office.”
4. **THIS COURT ORDERS** that the Applicant be and is hereby authorized and directed to pay to the IESO the sum of approximately \$1,529,957 (subject to adjustment upon

issuance of March 2009 trade date invoice) for amounts outstanding and owing for the supply of electricity prior to the commencement of these proceedings. The Applicant shall also pay all amounts outstanding and owing for electricity supplied subsequent to the commencement of these proceedings in the amount of approximately \$415,000 (covering the period from March 11 to April 12, 2009, subject to adjustment upon issuance of March 2009 and April 2009 trade date invoices). Such payments may be made out of the cash proceeds of two treasury bills and accrued interest (the "Treasury Bill Proceeds") that have been held and controlled by IESO in the total amount of approximately \$3.3 million (the "Treasury Bills"), pursuant to a Pledge of Cash and Treasury Bills between the Applicant and the IESO dated February 6, 2007 (the "Pledge").

5. **THIS COURT ORDERS** that out of the remaining balance of Treasury Bill Proceeds, the sum of \$408,000 shall be used to purchase a treasury bill that shall be pledged to and held by the IESO in accordance with the Pledge as prudential support (the "Reduced Prudential Support") under the Market Rules issued by the IESO (the "Market Rules") for the amounts owing from time to time to the IESO for the provision of electrical supply during these proceedings, subject to paragraph 7 below.
6. **THIS COURT ORDERS** that the remaining balance of Treasury Bill Proceeds, after remittance of the amounts in paragraphs 4 and 5 above, shall be refunded to the Applicant.
7. **THIS COURT ORDERS** that the Applicant shall give 5 business days notice to the IESO of any intention to resume operations at the pulp mill owned by the Applicant which is currently idled, and in such instance, prior to the resumption of operations, shall provide the appropriate amount of Prudential Support as defined under the Market Rules in existence at the time, to reflect any increase in electricity usage, subject to the consent of the Monitor, or in the absence of agreement of the parties, as may be ordered by the Court.

8. **THIS COURT ORDERS** that during the course of these proceedings, the Applicant shall pay the IESO weekly in advance (each Monday, or first business day of each week) for the supply of electricity, an amount calculated on the basis of electricity usage by the Applicant as determined by the IESO for the immediately preceding week, to be adjusted weekly in arrears based on actual usage. Any overpayment to the IESO shall be promptly credited to the Applicant, and any underpayment by the Applicant will be promptly paid by the Applicant.
9. **THIS COURT ORDERS** that the Administration Charge and the Directors' Charge provided for in paragraphs 18 and 28 of the Initial Order shall not attach to Reduced Prudential Support or the amounts received by the IESO contemplated by paragraph 4 hereof.
10. **THIS COURT ORDERS** that in the event that the Applicant fails to comply with paragraphs 4 to 9 of this Order, an event of default shall have occurred pursuant to the Market Rules, and the IESO shall be entitled, on 2 business days notice to the Applicant and the Monitor to cure such default, to take steps pursuant to the Market Rules to suspend and disconnect the applicable facility for the IESO controlled grid.



Christina Irwin
Registrar, Superior Court of Justice

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ON / BOOK NO:
LE / DANS LE REGISTRE NO.:

APR 08 2009

PER / PAR:



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

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

Applicant

ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST

Proceeding commenced at Toronto

ORDER

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