Court File No. CV-09-8062-OOCL

ONTARIO

SUPERIOR COURT OF JUSTICE

COMMERCIAL LIST

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

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

SECOND REPORT OF ERNST & YOUNG INC.
DATED MAY 25, 2009

INTRODUCTION

1. On March 11, 2009, Terrace Bay Pulp Inc. ("**Terrace Bay**" or the "**Applicant**") filed for and obtained protection under the *Companies' Creditors Arrangement Act* (the "**CCAA**"). Pursuant to an Order of this Honourable Court dated March 11, 2009 (the "**Initial Order**"), Ernst & Young Inc. ("**EYI**") was appointed as Monitor (the "**Monitor**") in the CCAA proceeding. The Initial Order provided for a stay of proceedings through April 10, 2009 (the "**Stay Period**"). On April 8, 2009, this Honourable Court ordered that the Stay Period be extended to June 30, 2009 (the "**April 8 Order**").

2. On April 6, 2009 the Monitor filed its first Report with this Honourable Court (the "**First Report**"). A copy of all Monitor reports that are filed and all Court Orders issued and motion material filed in these CCAA proceedings are posted on the Monitor's website at www.ey.com/ca/terracebay.

PURPOSE

3. The purpose of this second report of the Monitor (the "**Second Report**") is to update this Honourable Court in relation to the activities of Terrace Bay and the Monitor since the Monitor's First Report, including :

(a) the ongoing activities of the Monitor and the Applicant to raise financing or identify a purchaser that might re-start the mill;

(b) the reporting provided to Terrace Bay's first secured lender, Nexcap Finance Corporation ("**Nexcap**");

(c) the receipts and disbursements from March 29, through May 15, 2009;

(d) the Monitor's update on certain Statutory Claims (as defined below);

(e) the further review of Nexcap's security position;

(f) the issuance of letters demanding repayment (the "**Demand Letters**") and Notices of Intention to Enforce a Security ("**Section 244 Notices**") by Lucky Star Holdings Inc. ("Lucky Star");

(g) the review of the security position of Lucky Star;

(h) the settlement by Terrace Bay of certain employee claims with respect to its acquisition of the Terrace Bay pulp mill business from Neenah Paper Company of Canada ("**Neenah**");

(i) an insurance settlement with respect to one of Terrace Bay's turbines that was destroyed; and

(j) a proposed lift stay order made to permit an action to be commenced against Terrace Bay that might otherwise have become statute-barred.

BACKGROUND

4. Terrace Bay operates a pulp mill in the Town of Terrace Bay, Ontario (the "**Town**"), which is located on the north shore of Lake Superior. Terrace Bay's customers include large tissue and paper producers in North America and abroad. The primary raw material for Terrace Bay's products is wood chips which, when the mill was operating, were sourced from nearby sawmills.

5. In 2006, Terrace Bay purchased the Terrace Bay pulp mill operations and other assets from its former owner, Neenah.

6. Prior to commencing this CCAA proceeding and due to the current difficulties in the global pulp and paper market, Terrace Bay had determined that the most prudent course of action was to idle the mill until such time as the market for its products improved to such a level that it was no longer unprofitable to run the mill. The mill was idled on February 23, 2009.

7. Activity at the mill site is currently limited. The primary activity of Terrace Bay at the current time is the sale and shipment of existing finished pulp inventory. At the date of the Initial Order, Terrace Bay had approximately 61,000 tons of pulp inventory on hand. This inventory was stored at the mill site and at various warehouses located throughout North America. Terrace Bay's current inventory totals approximately 20,500 tons.

8. The other activities of Terrace Bay relate to the preservation of the mill and related machinery and equipment and the maintenance of its water pump house. With respect to the preservation of the machinery and equipment, if the mill is not heated over the winter and early spring months, the machinery and equipment would be significantly damaged due to cold weather. Such damage would both render the equipment prohibitively expensive to repair and decrease the likelihood of any buyer or financier expressing an interest in supporting Terrace Bay in the future.

9. In addition to keeping the mill heated and selling inventory, employees at the mill have also maintained a pump house that supplied the Town with drinking water. Terrace Bay has advised the Monitor that effective May 1, 2009, the Town was operating their own, independent water pumping station and so is no longer reliant on Terrace Bay's facility. At the time this proceeding was commenced, Terrace Bay was the dominant source of employment for residents of the Town and another nearby community, Schreiber, Ontario.

10. Buchanan Forest Products Ltd. ("**Buchanan**") is an affiliated company of Terrace Bay. Terrace Bay traditionally purchased a significant portion of its pulp logs and bush chips from Buchanan. Subsequent to the date of the Initial Order, a secured creditor of Buchanan, The Toronto-Dominion Bank, appointed Deloitte & Touche Inc. as the receiver of the property and assets of Buchanan (the "**Buchanan Receiver**").

11. In the materials supporting Terrace Bay's initial application, Terrace Bay indicated that while the mill was shut down, it would be undertaking a process to either find a buyer for the mill or to find a capital source to refinance Terrace Bay's activities. An update on the activities of Terrace Bay with regard to these items is included in this **Second Report**.

TERMS OF REFERENCE

12. In preparing this Second Report, EYI has been provided with and in making the comments herein its has relied upon, unaudited financial information, Terrace Bay's books and records, financial information prepared by Terrace Bay, and discussions with management of Terrace Bay. EYI has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of such information and, accordingly, EYI expresses no opinion or other form assurance in respect of such information contained in this Second Report. Some of the information referred to in this Second Report consists of forecasts and projections. An examination or review of the financial forecast and projections, as outlined in the Canadian Institute of Chartered Accountants ("**CICA**") Handbook, has not been performed. Future oriented financial information referred to in this Second Report was prepared based on management's estimates and assumptions. Readers are cautioned that since projections are based upon assumptions about future events and conditions that are not ascertainable, the actual results will vary from the projections, even if the assumptions materialize, and the variations could be significant.

UPDATE ON TERRACE BAY'S RESTRUCTURING PROCESS

13. As summarized in the application materials filed by the Applicant in support of the Initial Order, the Applicant had three objectives (the "**Restructuring Process**"), with respect to the re-starting of the mill. These included:

(a) the commencement of a process to seek out proposals for the refinancing of the business;

(b) the development of a plan to restructure the business to ensure continued mill viability; and

(c) the commencement of a marketing process to sell the mill as a going concern.

14. Since March 11, 2009, Terrace Bay has been engaged in activities to accomplish one or more facets of the Restructuring Process. These activities have included, among other things, updating Terrace Bay's financial projections to reflect the current status of the mill and working with the Monitor to develop information materials to send to potential financiers and/or purchasers that may be interested in supporting Terrace Bay with a view to re-starting operations at the mill.

15. Paragraph 35 of the Initial Order authorized the Monitor and Terrace Bay to conduct a process for the solicitation of offers for a financing or sale of the Property (as defined in the Initial Order) and to take such steps as are necessary to carry out the Solicitation Process in accordance with the following timetable, with such modifications, amendments or extensions of time as the Monitor and Terrace Bay deemed appropriate:

(a) preparation of a Confidential Information Memorandum (a "**CIM**") and identification of potential purchasers by March 23, 2009;

(b) dissemination of the CIM to interested parties on execution of confidentiality agreements by April 6, 2009; and

(c) receipt of expressions of interest by April 24, 2009.

16. Paragraph 36 of the Initial Order permits the Applicant and the Monitor to apply to this Honourable Court for advice and direction with respect to the Solicitation Process.

17. As the Monitor previously reported to this Honourable Court in the First Report, the CIM has been updated. As of the date of this Second Report, the Monitor has contacted approximately 60 parties regarding the opportunity to either provide financing to or

purchase the business of Terrace Bay. A number of these parties have executed confidentiality agreements and received a copy of the CIM.

18. The Monitor has had discussions with many of these parties. The current state of the pulp market appears to be curtailing the interest of certain of these parties in pursuing further due diligence at this time. There are a limited number of parties with whom the Monitor continues to have discussions.

19. The Monitor has communicated with parties who are potential financiers. One lender has been identified that might be prepared to proceed, provided that additional long term financing also be arranged. Due to the uncertainty over the timing of the improvement in economic conditions, generally, and the pulp and broader forestry industry, in particular, a source of additional long term financing from traditional sources has not yet been identified.

20. The Monitor will continue to correspond with interested parties, but anticipates that this process will take additional time given the status of its discussions with prospective parties, and the general uncertainty regarding the timing of the forest product industry's a recovery from the current economic conditions it now faces.

21. The Monitor will continue to update this Honourable Court as the Solicitation Process and Restructuring Process continue. In the meantime, Terrace Bay will continue to collect its accounts receivable and sell its finished pulp inventory to generate proceeds, which proceeds can be used to retire its existing secured debt and maintain its activities during the Restructuring Process.

REPORTING TO NEXCAP AND ITS ADVISORS

22. As provided for in the Initial Order, Terrace Bay is required to provide certain reporting to Nexcap and its advisors. Nexcap has retained PricewaterhouseCoopers Inc. (**"PwC"**) as its financial advisor with respect to Terrace Bay. Since the date of the Initial Order, Terrace Bay has provided to Nexcap weekly reports detailing its cash flow (including a variance analysis against its cash flow forecasts), sales and inventory levels. The Monitor understands that such reports are forwarded to PwC for its review.

23. In addition to the above reporting, at the request of Nexcap, PwC attended at Terrace Bay's facility between March 18 and 20, 2009.

24. Pursuant to the Initial Order, the Monitor will continue assist Terrace Bay in responding to information requests from Nexcap and PwC.

RECEIPTS AND DISBURSEMENTS THROUGH MAY 15, 2009

25. Attached as **Appendix "A"** to this Second Report is a summary of Terrace Bay's actual receipts and disbursements from March 30, 2009 to May 17, 2009 (the "**Reporting Period**"). Current cash on hand is approximately $8,648,000, including $7,075,000 relating to insurance proceeds discussed below. Details of the receipts and disbursements, as well as a variance analysis against the Applicant's cash flow forecast submitted in the First Monitor's Report (the "**Cash Flow Forecast**"), are provided below:

    (a) *Customer receipts* - Customer receipts totalled approximately $15,319,000, compared to an amount of $14,631,000 in the Cash Flow Forecast resulting in a positive variance of approximately $687,000. This variance is temporary as it reflects faster than anticipated sales of inventory.

    (b) *Other receipts* – Terrace Bay received proceeds from the settlement of the IESO deposit of $2,976,000 versus an expected amount of $4,590,000. This is a permanent variance.

    (c) *Freight and sales agent* - Payments to Terrace Bay's freight and sales agent totalled approximately $1,640,000 during the Reporting Period. This resulted in a positive variance of approximately $649,000. This variance is permanent.

    (d) *Operating expenses* – Expenses of approximately $196,000 were higher than forecast by approximately $161,000 due to environmental testing costs and supplier costs greater than forecast. This variance is permanent.

    (e) *Benefits and pension* - Payments for benefits and pensions were forecast to be $403,000 during the Reporting Period. Actual disbursements were approximately $207,000, which resulted in a positive variance of approximately $196,000. The bulk of this relates to benefits not being extended and is a permanent variance.

(f) *Vacation Pay* – Payments of approximately $760,000 were higher than forecast by approximately $152,000. This is a permanent variance.

(g) *Utilities and fuel* - The Applicant made payments for utilities or fuel during the Reporting Period of approximately $2,339,000. Forecast disbursements totalled $3,245,000, so a positive variance was realized of approximately $906,000. This was achieved by using hog and bunker fuel in inventory and is a permanent variance.

(h) *Payments to Nexcap* – Secured creditor payments totalled approximately $281,000 in interest and approximately $16,000,000 in principal for the Reporting Period. Principal repayments exceed the forecast by $4,000,000.

(i) *Foreign Exchange* – A negative variance to forecast of approximately $554,000 was experienced as a result of the recent strengthening of the Canadian Dollar versus the U.S. Dollar.

26. It is anticipated that an updated cash flow forecast will be filed by Terrace Bay before June 30, 2009, in the context of its next motion to extend the Stay Period.

REVIEW OF NEXCAP SECURITY REGISTERED IN QUEBEC AND THE UNITED STATES

27. Paragraph 8 of the Initial Order provides that the Applicant is entitled to pay Nexcap any surplus cash flow in permanent reduction of its credit facility, after deducting an estimate of payments to fund its estimated operating costs.

28. As set out in the First Report, the Monitor requested its counsel, Lang Michener LLP (“**Lang Michener**”), to undertake a review of Nexcap’s security position. The First Report appended Lang Michener’s report with respect to the general security agreement granted by Terrace Bay to Nexcap in relation to personal property of Terrace Bay situated in the Province of Ontario.

29. In this Second Report, the Monitor provides a summary of the reviews it has requested be undertaken in relation to the registrations against personal property that have been made by Nexcap in the Province of Quebec and in the United States. The Monitor is of the belief that Terrace Bay is not the owner of any real property outside of Ontario.

30. The Monitor is able to report to this Honourable Court as follows in relation to the additional security reviews that have been undertaken.

(a) The Monitor retained the Quebec law firm of Kugler Kandestin, L.L.P to review the personal property security registrations made by Nexcap in the province of Quebec. Attached as **Appendix "B"** of this Second Report is a report from Kugler Kandestin (the "**Quebec Report").** From reviewing the Quebec Report, it appears that Nexcap does not hold valid and enforceable security over corporeal movable property (which would include inventory) of Terrace Bay situated in the Province of Quebec. The Quebec surety report references, among other things:

(i) a deficiency in the form of the security document (not being a movable hypothec with out delivery under applicable provisions of the Civil Code);

(ii) that the registration at the Register of Personal and Movable Real Rights of Quebec was not made in the correct prescribed form (it referenced notice of rights held by Nexcap as a lessor under a finance lease and was not registration of notice of security); and

(iii) it would be difficult to interpret Article 3104 of the Civil Code, presuming this Article to be applicable at all, to validate the security over inventory of Terrace Bay presently situated in Quebec.

(b) The Monitor retained the firm of Paul, Weiss, Rifkind, Wharton and Garrison LLP ("**Paul Weiss**") to conduct a review of the personal property security registrations made by Nexcap in the United States. Attached as **Appendix "C"** of this Second Report is the report of Paul Weiss (the "**U.S. Report**"). The U.S. Report concludes, subject to the assumptions and qualifications therein, that Nexcap has properly perfected its security interest in the personal property of Terrace Bay under Article 9-307 (c) of the Uniform Commercial Code (the "**UCC**"). This opinion is based, among other things, on the fact that Terrace Bay does not maintain a place of business in the United States and that the only assets of Terrace Bay in the United States are personal property in the form of inventory stored at various warehouses throughout the Untied States. Based on these assumptions, the only UCC searches that were conducted by Paul Weiss were in relation to registrations made against Terrace Bay in the central filing registry for the District of Columbia.

31. To the knowledge of the Monitor, no parties other than Nexcap have effected registrations against Terrace Bay in the Province of Quebec or in the District of Columbia.

32. Based on the current receivables balance of approximately $16,470,000 and the additional inventory on hand remaining to be sold, Terrace Bay anticipates that there will be sufficient proceeds generated from non-Quebec inventory to fully repay Nexcap. Terrace Bay has advised The Monitor that on March 11, 2009 the market value of inventory on hand in the Province of Quebec was approximately $4,600,000, all of which inventory has now been sold.

DEMAND LETTERS AND SECTION 244 NOTICES DELIVERED BY LUCKY STAR

33. On May 1, 2009, Lucky Star issued Demand Letters and Section 244 Notices to Terrace Bay, copies of which were transmitted by counsel for Lucky Star to Lang Michener and counsel for Terrace Bay by e-mail transmission delivered on May 1, 2009 at approximately 6:14 p.m. Copies of the said e-mail, Demand Letters and Section 244 Notices are attached as **Appendix "D"** to this Second Report. On May 7, 2009, Lang Michener wrote to counsel for Lucky Star advising that the Monitor viewed the issuance of the Demand Letters and Section 244 Notices as violating the stay provisions of the Initial Order and requesting that they be withdrawn. Counsel for the Monitor also spoke with counsel for Lucky Star on May 7, 2009, to convey this information. Attached as

Appendix "E" to this Second Report is a copy of the correspondence of Lang Michener to counsel for Lucky Star.

34. To date, Lucky Star has not provided notice to the Monitor, or its counsel, that it intends to withdraw the Demand Letters or Section 244 Notices. Accordingly, the Monitor recommends that this Honourable Court consider making an order preserving the ability of any interested party wishing to do so to raise an objection to the delivery of the Demand Letters and Section 244 Notices by Lucky Star, including, without limitation, to challenge the effect of such delivery having regard to the stay provisions of the Initial Order.

REVIEW OF LUCKY STAR SECURITY

35. As described above, Lucky Star issued to Terrace Bay Section 244 Notices.

36. As a result of the receipt of the Section 244 notices, the Monitor has requested Lang Michener to undertake a review of Lucky Star's security position in Ontario. Attached as **Appendix "F"** to this Second Report is the report of Lang Michener to the Monitor with respect to a certain debenture dated May 5, 2008 (the "**2008 Debenture**") granted by Terrace Bay to Lucky Star in relation to personal property and certain real property owned by Terrace Bay (the "**Real Property**") situated in the Province of Ontario (the "**Lucky Star Report**"). To the knowledge of the Monitor, Lucky Star has not effected registrations in relation to any security outside the Province of Ontario. Lucky Star also holds a purchase money security agreement (the "**PMSA**") dated May 5, 2008.

37. Based on Lang Michener's review and subject to certain assumptions and qualifications contained therein, it appears that the 2008 Debenture and the PMSA are valid and enforceable in accordance with their terms in relation to, and create perfected security interests in, the property and assets of the Applicant described therein constituting personal property to which the *Personal Property Security Act* (Ontario) (the "**PPSA**") applies. Counsel for the Monitor has not been provided with information to assess whether the PMSA might be found to create a valid purchase money security interest under the PPSA.

38. The Lucky Star Report reflects that there are other parties, including Nexcap, who have made registrations under the PPSA, some of which appear to relate to equipment specific collateral and one in relation to what is described as a consignment agreement. Lucky Star has also registered a Notice of Security Interest pursuant to section 54 of the PPSA, presumably to provide notice of the security interest in collateral that may constitute fixtures located on or affixed to or to be fixed to certain real property owned by Terrace Bay.

39. The Lucky Star Report also provides, subject to certain assumptions and qualifications, that the 2008 Debenture constitutes a valid charge on the Real Property, enforceable in accordance with its terms.

STATUTORY CLAIMS

40. Paragraph 3 of the April 8 Order amended section 12(iv) of the Initial Order to delete the original subparagraph 12(iv) and replace it with the following:

> 12. THIS COURT ORDERS that during the Stay Period, all rights and remedies of any [Person] against or in respect of the Applicant or the Monitor, or affecting the Business or the Property, are hereby stayed and suspended...provided that nothing in this Order shall...
>
> (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.

41. On April 8, 2009, Lang Michener contacted officials in the court office for the Superior Court of Ontario and the Small Claims Court in Thunder Bay (collectively, the "**Thunder**

42. **Bay Court Office**"), being the court office in which actions to preserve a claim for lien under the FWLWA or CLA against Terrace Bay (the "**Statutory Claims**") would need to be commenced, to notify them that the April 8 Order had been made.

43. It is a term of the April 8 Order that actions commenced under paragraph 12(iv) of the Initial Order, as amended, must be served on Terrace Bay and the Monitor within 30 days of issuance. Lang Michener developed a protocol (the "**Protocol**") with the Thunder Bay Court Office, whereby it was agreed that any person commencing an action ("**Claimants**") would be provided with a letter (the "**Notice Letter**") in the form of the letter attached as **Appendix "G"** to this Report. The Notice Letter advised Claimants of the April 8 Order, including that Claimants were required to serve a copy of any claims issued upon counsel for Terrace Bay and the Monitor, at the addresses set forth in the Notice Letter. The Notice Letter also advised Claimants that copies of documents filed in the Terrace Bay CCAA proceeding could be obtained from the Monitor's website. Counsel for the Monitor also provided copies of the April 8 Order and the Notice Letter to the Thunder Bay Court Office. A copy of the April 9, 2009 e-mail communication from Lang Michener to the Thunder Bay Court Office Receiver is attached as **Appendix "H"** to this Report.

44. The Monitor was aware that certain persons seeking to commence actions against Terrace Bay to preserve liens rights under the FWLWA might be associated with Buchanan, by virtue of the fact that it appears that certain logs and/or wood chips owned by Buchanan may be situated on property owned by Terrace Bay. As a result, on April 8, 2009, Lang Michener communicated with the Buchanan Receiver to notify it of the April 8 Order and to review with it the proposed Protocol. Lang Michener also wrote to the Buchanan Receiver to provide it with a copy of the Notice Letter and April 8 Order and to request the contact information for any counsel of whom the Buchanan Receiver might be aware who had been representing persons seeking to assert FWLWA claims. Upon receipt of the contact information for these counsel, Lang Michener also provided them with a copy of the Notice Letter and April 8 Order. Copies of the e-mail communications from Lang

Michener to the Buchanan Receiver, and to counsel whose names were provided to counsel for the Monitor by the Buchanan Receiver, are attached as **Appendix "I"** to this Report.

45. As of May 19, 2009, the Monitor has received copies of approximately 20 Claims of Lien that appear to relate to liens being asserted pursuant the FWLWA, in respect of which 16 statements of claim have been received by the Monitor. The Monitor is currently aware of five claims for lien that been filed against real property owned by Terrace Bay. One of the parties asserting a CLA claim has also brought a motion to this Honourable Court, which motion has been adjourned and may be brought back before this Honourable Court by scheduling a future 9:30 a.m. chambers appointment on not less than four days notice to the service list in the Terrace Bay CCAA proceedings. Lang Michener has written counsel for the parties who have filed the referenced lien claims under the CLA to provide them with a copy of the April 8 Order and request that they provide a copy of any statement of claim issued to counsel for Terrace Bay and Lang Michener. A copy of the email transmission of Lang Michener is attached as **Appendix "J"** to this Report.

THE MULTI-PARTY SETTLEMENT

46. At the request of Terrace Bay, the Monitor has considered the facts and background in relation to a certain settlement relating to the purchase by Terrace Bay of certain assets associated with the Terrace Bay pulp mill (the "**Pulp Mill Assets**") from Neenah in 2006. The Monitor has also reviewed documents and information provided to it by Terrace Bay regarding the source of funds being used to fund this settlement. Pursuant to paragraph 24 of the Initial Order, Terrace Bay has advised the Monitor that the information and documentation that have been provided to the Monitor in relation to the matters reported on in this section of this Report are confidential and are not to be provided to creditors, unless agreed to by Terrace Bay or directed by the Court.

47. The Monitor has been advised by Mr. Russell York, Treasurer and Vice President, Taxation and Compliance of Terrace Bay, that, in or around August 2006, Terrace Bay purchased the Pulp Mill Assets from Neenah. At the same time, Eagle Logging Inc. ("**ELI**"), a corporation affiliated with Terrace Bay, purchased other assets from Neenah.

Pursuant to the asset purchase agreements entered into by Neenah with Terrace Bay and with ELI, Neenah paid a global payment of $20 million (the "**Acquisition Payment**"). The Acquisition Payment was intended to be a contribution toward certain transition costs and liabilities being incurred and assumed by the purchasers, including, without limitation, the assumption of potential termination and severance obligations of Neenah to certain of its former employees.

48. The Monitor has been advised by Mr. York that the Acquisition Payment was held in trust by Terrace Bay in a trust account (the "**Trust Account**") pursuant to a trust agreement between Terrace Bay and ELI, pending agreement by Terrace Bay and ELI regarding the appropriate division and allocation of the Acquisition Payment as between them (or failing such agreement, resolution by arbitration), having regard to the identification and allocation of, among other things, the liabilities they each assumed. The Monitor has also been advised that the division of the Acquisition Payment was agreed to by Terrace Bay and ELI and completed in around December 2006.

49. The Monitor has been advised by Mr. York that, by December 2006, the transition costs and liabilities of Terrace Bay in relation to the Neenah purchase transaction had been funded out of the Trust Account and that the balance of the funds remaining in the Trust Account (the "**Remaining Trust Funds**") were the property of ELI and not Terrace Bay. The Remaining Trust Funds continued to remain on deposit in the same bank account into which the Acquisition Payment had been deposited (such account, from and following December 2006, being referred to herein as the "**ELI Account**"). The Monitor has been advised that Terrace Bay does not assert any claim to beneficial ownership against any of the funds on deposit in the ELI Account and that, since December 2006, the Remaining Trust Funds have been recorded and treated as an asset of ELI.

50. The Monitor was advised by Mr. York that, on or about August 27, 2008, the sum of $300,000 was paid by Terrace Bay to ELI and deposited into the ELI Account as a contribution toward the legal costs relating to the Neenah Litigation (defined below). The Monitor has been advised by Mr. York that substantially all of this contribution by Terrace Bay was paid out of the ELI Account for payment of legal fees prior to the

commencement of this CCAA proceeding. Other than this amount, Terrace Bay made no contribution to the ELI Account after December 2006.

51. The Monitor has been advised by Terrace Bay that, in January of 2009, prior to the commencement of this CCAA proceeding, Terrace Bay, ELI and others negotiated a settlement concerning certain civil and administrative proceedings involving Terrace Bay as a defendant, respondent or party with potential liability (the "**Neenah Litigation**") involving former unionized woodlands employees of Neenah (the "**Woodland Employees**") and the United Steelworkers Local 1-2693 (the "**Union**"), including a civil action, a proceeding before the Ontario Labour Relations Board and an application for review under the *Employment Standards Act* (Ontario) (the settlement of such actions and proceedings and related matters is hereinafter referred to as the "**Multi-Party Settlement**").

52. In January 2009, the payment of the negotiated settlement amount agreed to in the Multi-Party Settlement (the "**Settlement Payment**") was funded with funds on deposit in the ELI Account, comprised of the remaining balance of the Remaining Trust Funds, as well as interest accrued thereon and other amounts that had been deposited into the ELI Account by ELI after December 2006. In January of 2009, the Settlement Payment was paid from the ELI Account to Ms. Mandy Fricot, external labour counsel to ELI, to be held by Ms. Fricot, in trust, pending completion of the conditions of the Multi-Party Settlement (the "**Settlement Trust Funds**").

53. The Monitor has been advised by Terrace Bay that, pursuant to the Multi-Party Settlement, and the associated settlement documents, the Neenah Litigation is to be dismissed or discontinued and that Terrace Bay is to receive a full and final release of all proceedings and claims against it relating to the Neenah Litigation.

54. On or about March 31, 2009, Terrace Bay executed additional documentation in order to facilitate the payment of the Settlement Trust Funds out of the trust account maintained by Ms. Fricot in furtherance of the Multi-Party Settlement. The Monitor has been advised by Terrace Bay that the execution of such documentation did not require Terrace

Bay to make any additional payments or financial commitments, and was required to preserve the availability of the Settlement Trust Funds to satisfy the settlement payment to be effected under the Multi-Party Settlement.

55. The Monitor has been advised by Mr. York that, in furtherance of the terms of the Multi-Party Settlement, on or about April 9, 2009, Ms. Fricot paid over the Settlement Trust Funds to a trust account that is currently being maintained by counsel for Neenah ("**Neenah Counsel**") which Settlement Trust Funds will be transferred to Neenah for payment to the Union and the Woodland Employees in accordance with the Multi-Party Settlement.

56. The Monitor has been advised by Ms. Fricot and Terrace Bay that there are conditions that govern the release by Neenah Counsel of the Settlement Trust Funds, including that such funds are not to be disbursed until issues related to the Monitor are dealt with to the satisfaction of Neenah and Ms. Fricot. Ms. Fricot has requested the Monitor to confirm to her that it consents to the settlement documents being executed by Terrace Bay in relation to the Multi-Party Settlement, that it is of the view that Terrace Bay does not have an interest in the Settlement Trust Funds and that it does not object to the transfer or payment of the Settlement Trust Funds in furtherance of the Multi-Party Settlement.

57. In reporting on the matters in this section of its Report, the Monitor has not undertaken a review of the Neenah Litigation, nor of the settlement documents in relation to the Multi-Party Settlement. The Multi-Party Settlement was agreed to by Terrace Bay before this CCAA proceeding was commenced. Based on the accuracy and completeness of the information and documents provided by Terrace Bay to the Monitor, including, without limitation, the statutory declaration of Mr. York provided to the Monitor sworn on May 5, 2009 and the statements made therein and the fact that Mr. York and Ms. Fricot have confirmed to the Monitor that the information set out in this section of the Second Report is accurate and complete, the Monitor reports to this Honourable Court as follows.

(a) The Remaining Trust Funds appear to be property of ELI and it appears that ELI, and not Terrace Bay, was beneficially entitled to the funds in the ELI Account.

(b) Accordingly, the Monitor does not object to the transfer of the Settlement Trust Funds by Ms. Fricot to Neenah Counsel or the release of the Settlement Trust Funds by Neenah Counsel pursuant to the Multi-Party Settlement.

(c) The Monitor is not aware of any amounts (other than the aforementioned cost contribution made on August 27, 2009) that were or are to be paid by Terrace Bay in relation to the Multi-Party Settlement, or of any other financial obligations of Terrace Bay in relation to or that will result from the completion of the Multi-Party Settlement.

(d) The Multi-Party Settlement will bring conclusion and resolution to the Neenah Litigation and result in releases being provided in favour of Terrace Bay.

(e) Accordingly, the Monitor does not object to the execution by Terrace Bay of documents required to implement the Multi-Party Settlement. In this regard, the Monitor does not propose to review or report to the Court on any such documents executed or delivered by Terrace Bay, unless further ordered by this Honourable Court.

INSURANCE SETTLEMENT

58. In October of 2008, Terrace Bay suffered a complete loss of an electricity generating turbine due to an explosion at its mill facility. At the time, Terrace Bay maintained replacement value insurance coverage, but it did not seek to immediately replace the turbine due to the uncertain nature of its ongoing operations. While Terrace Bay began to negotiate its claim (the "**Turbine Claim**") with the insurance company, it postponed the final adjustment of the Turbine Claim for a period of time.

59. Following commencement of this CCAA proceeding, Terrace Bay continued negotiations with its insurance company with the goal of increasing the value to be received relating to the Turbine Claim. The Monitor is advised by Terrace Bay that, on or about May 4, 2009, an agreement was reached to settle the Turbine Claim on a cash value basis for total consideration of $9,500,000. The Monitor understands that, pending the final settlement, advance payments aggregating approximately $2,425,000 were made to

Terrace Bay in January and February of 2009. Finalization of the settlement of the Turbine Claim has resulted in additional proceeds of $7,075,000 being paid to Terrace Bay (the "**Insurance Proceeds**").

60. The Monitor understands that Terrace Bay has reserved its right to seek further directions and determinations from this Honourable Court regarding limitations it may wish to allege exist on the scope of the collateral that is charged by the security agreement granted to Nexcap, should it become apparent that Nexcap will not be repaid the Nexcap Debt from the proceeds of inventory and accounts receivable in Ontario or the United States. This reservation of rights is reflected in the preamble of the April 8 Order. In the interim, Terrace Bay has delivered the Insurance Proceeds to the Monitor to be held by the Monitor, in trust, until the earlier of the full and final repayment of the Nexcap Debt or a further Order of this Honourable Court regarding the issues to which Terrace Bay has reserved its rights.

61. The Monitor understands that Nexcap and Lucky Star each assert an interest in the Insurance Proceeds.

62. The cash forecasts of Terrace Bay appear to support that the Nexcap Debt will be repaid in full by July, 2009. As such, and in order to avoid litigation regarding matters that may not ever require a determination by this Honourable Court, the Monitor does not object to holding the Insurance Proceeds in trust, as set forth herein, for a period of time.

LIFT STAY ORDER

63. On May 14, 2008, with the consent of Terrace Bay and the Monitor, this Honourable Court made an order (the "**May 14 Order**") permitting the stay of proceedings under the Initial Order to be lifted to permit plaintiffs seeking the entitlement of certain accidental death benefits and related relief in relation to a former employee of Neenah to issue a statement of claim (the "**Sitko Claim**") that might otherwise have become barred by virtue of the Ontario *Limitations Act*. It is a condition of the May 14 Order that the

plaintiffs are not entitled to proceed further with the Sitko Claim as against Terrace Bay without further Order of this Honourable Court obtained on notice to Terrace Bay and the Monitor.

MONITOR'S RECOMMENDATION

64. The Monitor understands that a motion is being brought by Terrace Bay. In conjunction with such motion, the Monitor would approve of the following orders being made by this Honourable Court:

(a) an order ratifying and approving the steps and actions taken by Terrace Bay to date to implement the Multi-Party Settlement and authorizing and directing Terrace Bay to take such steps and actions as it may consider necessary or appropriate to complete and implement the Multi-Party Settlement;

(b) an order authorizing and directing the Monitor to hold, in trust for any party determined entitled thereto, the Insurance Proceeds, pending further order of this Honourable Court;

(c) an order reserving the right of any interested party wishing to do so in the future to (i) raise an objection to the delivery by Lucky Star, during the currency of this CCAA proceeding and without the benefit of the prior consent of the Monitor or an order of the Court, of the Demand Letters and Section 244 Notices, and (ii) challenge the effect of the delivery of such Demand Letters and Section 244 Notices, having regard to the stay provisions of the Initial Order;

(d) an order approving of the First Report and the Second Report and the conduct and activities of the Monitor and its counsel as reported on therein.

All of which is respectfully submitted this 25th day of May, 2009.

ERNST & YOUNG INC.
In its capacity as the Court-Appointed
Monitor of Terrace Bay Pulp Inc.

Per:

Alex Morrison
Senior Vice President

Appendix A

Terrace Bay Pulp Inc.
Actual Cash Flows
March 30 to May 17, 2009
(CDN$000s)

	Actual							
Week Ended	05-Apr-09	12-Apr-09	19-Apr-09	26-Apr-09	03-May-09	10-May-09	17-May-09	Total
Receipts								
Customer receipts	2,250	1,364	2,163	1,820	2,576	3,092	2,053	15,319
GST								-
Other receipts	2	2,976	194	-	0	2	-	3,175
Total receipts	2,253	4,341	2,357	1,820	2,576	3,094	2,053	18,494
Disbursements								
Freight & sales agent	(294)	(303)	(526)	(201)	(45)	(99)	(173)	(1,640)
Salaries & wages	(73)	(57)	(73)	(67)	(69)	(17)	(42)	(398)
Operations	(17)	(12)	-	(73)	(90)	(4)	-	(196)
Payroll withholdings	(77)	(0)	(213)	(71)	(9)	(73)	(233)	(677)
Benefits & pension	(103)	-	-	(72)	(32)	-	-	(207)
Bank service charges	(0)	-	-	(0)	1	-	-	1
WSIB	-	-	-	-	(5)	-	-	(5)
Vacation pay	(304)	-	-	-	(457)	-	-	(760)
Utilities & fuel	-	(1,945)	(164)	(80)	(80)	(70)	-	(2,339)
Insurance	(188)	-	-	-	(188)	-	-	(375)
Interest payments to secured creditors	-	(161)	-	-	(120)	-	-	(281)
Principal payments to secured creditors	-	(4,500)	(3,500)	(2,000)	(2,000)	(2,000)	(2,000)	(16,000)
Foreign exchange translation	(12)	(15)	(78)	(5)	(114)	(146)	(183)	(554)
Restructuring costs	(10)	(83)	(20)	(12)	(25)	(3)	(8)	(160)
Total disbursements	(1,078)	(7,076)	(4,575)	(2,581)	(3,233)	(2,412)	(2,639)	(23,593)
Cash Flow	**1,175**	**(2,735)**	**(2,218)**	**(761)**	**(656)**	**682**	**(586)**	**(5,099)**
Bank balance, opening	6,672	7,847	5,112	2,894	2,133	1,477	2,159	6,672
Cash flow	1,175	(2,735)	(2,218)	(761)	(656)	682	(586)	(5,099)
Bank balance, closing	**7,847**	**5,112**	**2,894**	**2,133**	**1,477**	**2,159**	**1,573**	**1,573**
Amount held by Monitor	-	-	-	-	-	**7,075**	**7,075**	**7,075**
Nexcap Loan, Opening	25,000	25,000	20,500	17,000	15,000	13,000	11,000	25,000
Payments to Nexcap	-	(4,500)	(3,500)	(2,000)	(2,000)	(2,000)	(2,000)	(16,000)
Nexcap Loan, Closing	**25,000**	**20,500**	**17,000**	**15,000**	**13,000**	**11,000**	**9,000**	**9,000**

Terrace Bay Pulp Inc.
Forecast Cash Flows
March 30 to May 17, 2009
(CDN$000s)

	Forecast							
Week Ended	**05-Apr-09**	**12-Apr-09**	**19-Apr-09**	**26-Apr-09**	**03-May-09**	**10-May-09**	**17-May-09**	**Total**
Receipts								
Customer receipts	2,250	1,604	2,000	1,889	2,108	2,030	2,751	14,631
GST	-	100	-	-	25	-	-	125
Other receipts	-	4,590		-	-	-	-	4,590
Total receipts	2,250	6,294	2,000	1,889	2,133	2,030	2,751	19,346
Disbursements								
Freight & sales agent	(294)	(333)	(333)	(333)	(333)	(333)	(333)	(2,289)
Salaries & wages	(73)	(122)	-	(122)	-	(122)	-	(439)
Operations	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(35)
Payroll withholdings	(74)	-	(278)	-	(65)	-	(280)	(697)
Benefits & pension	(103)	-	(200)	-	(50)	-	(50)	(403)
Bank service charges	-	-	-	-	-	-	-	-
WSIB	-	-	-	-	(5)	-	-	(5)
Vacation pay	(304)	-	-	-	(304)	-	-	(608)
Utilities & fuel	-	(2,545)	(80)	(80)	(380)	(80)	(80)	(3,245)
Insurance	(188)	-	-	-	(188)	-	-	(376)
Interest payments to secured creditors		(150)	-	-	(138)	-	-	(288)
Principal payments to secured creditors	-	(4,500)	(3,500)	(1,000)	(1,000)	(1,000)	(1,000)	(12,000)
Foreign exchange translation	-	-	-	-	-	-	-	-
Restructuring costs	(10)	(50)	(50)	(50)	(50)	(50)	(50)	(310)
Total disbursements	(1,051)	(7,705)	(4,446)	(1,590)	(2,518)	(1,590)	(1,798)	(20,695)
Cash Flow	**1,199**	**(1,411)**	**(2,446)**	**299**	**(385)**	**440**	**953**	**(1,349)**
Bank balance, opening	6,672	7,871	6,461	4,015	4,314	3,930	4,370	6,672
Cash flow	1,199	(1,411)	(2,446)	299	(385)	440	953	(1,349)
Bank balance, closing	**7,871**	**6,461**	**4,015**	**4,314**	**3,930**	**4,370**	**5,323**	**5,323**
Amount held by Monitor	-	-	-	-	-	-	-	-
Nexcap loan, opening	25,000	25,000	20,500	17,000	16,000	15,000	14,000	25,000
Payments to Nexcap	-	(4,500)	(3,500)	(1,000)	(1,000)	(1,000)	(1,000)	(12,000)
Nexcap loan, closing	**25,000**	**20,500**	**17,000**	**16,000**	**15,000**	**14,000**	**13,000**	**13,000**

Terrace Bay Pulp Inc.
Variance from Forecast
March 30 to May 17, 2009
(CDN$000s)

	Variance							
Week Ended	05-Apr-09	12-Apr-09	19-Apr-09	26-Apr-09	03-May-09	10-May-09	17-May-09	Total
Receipts								
Customer receipts	0	(240)	163	(69)	468	1,063	(698)	687
GST	-	(100)	-	-	(25)	-	-	(125)
Other receipts	2	(1,614)	194	-	0	2	-	(1,415)
Total receipts	3	(1,953)	357	(69)	443	1,065	(698)	(852)
Disbursements								
Freight & sales agent	0	30	(194)	132	288	233	159	649
Salaries & wages	0	65	(73)	55	(69)	105	(42)	41
Operations	(12)	(7)	5	(68)	(85)	1	5	(161)
Payroll withholdings	(3)	(0)	65	(71)	56	(73)	47	20
Benefits & pension	(0)	-	200	(72)	18	-	50	196
Bank service charges	(0)	-	-	(0)	1	-	-	1
WSIB	-	-	-	-	(0)	-	-	(0)
Vacation pay	0	-	-	-	(153)	-	-	(152)
Utilities & fuel	-	600	(84)	-	300	10	80	906
Insurance	0	-	-	-	0	-	-	1
Interest payments to secured creditors	-	(11)	-	-	18	-	-	7
Principal payments to secured creditors	-	-	-	(1,000)	(1,000)	(1,000)	(1,000)	(4,000)
Foreign exchange translation	(12)	(15)	(78)	(5)	(114)	(146)	(183)	(554)
Restructuring costs	(0)	(33)	30	38	25	47	42	150
Total disbursements	(27)	628	(129)	(991)	(715)	(822)	(841)	(2,898)
Cash Flow	(24)	(1,325)	228	(1,060)	(272)	242	(1,539)	(3,750)
Bank balance, opening	-	(24)	(1,349)	(1,121)	(2,181)	(2,453)	(2,211)	-
Cash flow	(24)	(1,325)	228	(1,060)	(272)	242	(1,539)	(3,750)
Bank balance, closing	(24)	(1,349)	(1,121)	(2,181)	(2,453)	(2,211)	(3,750)	(3,750)
Amount held by Monitor	-	-	-	-	-	7,075	7,075	7,075
Nexcap Loan, Opening	-	-	-	-	(1,000)	(2,000)	(3,000)	-
Payments to Nexcap	-	-	-	(1,000)	(1,000)	(1,000)	(1,000)	(4,000)
Nexcap Loan, Closing	-	-	-	(1,000)	(2,000)	(3,000)	(4,000)	(4,000)

Terrace Bay Pulp Inc.
Actual Cash Flows
March 11 to May 17, 2009
(CDN$000s)

	Actual										
Week Ended	**15-Mar-09**	**22-Mar-09**	**29-Mar-09**	**05-Apr-09**	**12-Apr-09**	**19-Apr-09**	**26-Apr-09**	**03-May-09**	**10-May-09**	**17-May-09**	**Total**
Receipts											
Customer receipts	1,121	2,578	1,839	2,250	1,364	2,163	1,820	2,576	3,092	2,053	15,319
GST											-
Other receipts	65	-	-	2	2,976	194	-	0	2	-	3,175
Total receipts	1,186	2,578	1,839	2,253	4,341	2,357	1,820	2,576	3,094	2,053	18,494
Disbursements											
Freight & sales agent	-	(229)	(307)	(294)	(303)	(526)	(201)	(45)	(99)	(173)	(1,640)
Salaries & wages	(127)	-	(56)	(73)	(57)	(73)	(67)	(69)	(17)	(42)	(398)
Operations	-	-	-	(17)	(12)	-	(73)	(90)	(4)	-	(196)
Payroll withholdings	(0)	(71)	-	(77)	(0)	(213)	(71)	(9)	(73)	(233)	(677)
Benefits & pension	-	-	(153)	(103)	-	-	(72)	(32)	-	-	(207)
Bank service charges	-	-	(0)	(0)	-	-	(0)	1	-	-	1
WSIB	-	-	-	-	-	-	-	(5)	-	-	(5)
Vacation pay	-	-	-	(304)	-	-	-	(457)	-	-	(760)
Utilities & fuel	-	-	-	-	(1,945)	(164)	(80)	(80)	(70)	-	(2,339)
Insurance	-	-	-	(188)	-	-	-	(188)	-	-	(375)
Interest payments to secured creditors	-	-	-	-	(161)	-	-	(120)	-	-	(281)
Principal payments to secured creditors	-	-	-	-	(4,500)	(3,500)	(2,000)	(2,000)	(2,000)	(2,000)	(16,000)
Foreign exchange translation				(12)	(15)	(78)	(5)	(114)	(146)	(183)	(554)
Restructuring costs	-	-	(38)	(10)	(83)	(20)	(12)	(25)	(3)	(8)	(160)
Total disbursements	(128)	(299)	(553)	(1,078)	(7,076)	(4,575)	(2,581)	(3,233)	(2,412)	(2,639)	(23,593)
Cash Flow	**1,059**	**2,279**	**1,286**	**1,175**	**(2,735)**	**(2,218)**	**(761)**	**(656)**	**682**	**(586)**	**(5,099)**
Bank balance, opening	2,048	3,107	5,385	6,672	7,847	5,112	2,894	2,133	1,477	2,159	6,672
Cash flow	1,059	2,279	1,286	1,175	(2,735)	(2,218)	(761)	(656)	682	(586)	(5,099)
Bank balance, closing	**3,107**	**5,385**	**6,672**	**7,847**	**5,112**	**2,894**	**2,133**	**1,477**	**2,159**	**1,573**	**1,573**
Amount held by Monitor	-	-	-	-	-	-	-	-	**7,075**	**7,075**	**7,075**
Nexcap Loan, Opening	25,000	25,000	25,000	25,000	25,000	20,500	17,000	15,000	13,000	11,000	25,000
Payments to Nexcap	-	-	-	-	(4,500)	(3,500)	(2,000)	(2,000)	(2,000)	(2,000)	(16,000)
Nexcap Loan, Closing	**25,000**	**25,000**	**25,000**	**25,000**	**20,500**	**17,000**	**15,000**	**13,000**	**11,000**	**9,000**	**9,000**

Appendix B

KUGLER KANDESTIN

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May 1, 2009

ERNST & YOUNG INC., in its capacity as
CCAA Monitor to Terrace Bay Pulp Inc.
TD Centre
222 Bay Street
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M5K 1J7

Attention: Mr. Alex Morrison

LANG MICHENER LLP
181 Bay Street
Suite 2500
Toronto, Ontario
M5J 2T7

Attention: Ms. Sheryl E. Seigel

RE: In the Matter of a Plan of Compromise or Arrangement of Terrace Bay Pulp Inc.

Dear Sirs/Madams:

We have been asked on behalf of Ernst & Young Inc. as the Monitor (the "**Monitor**") in the *Companies' Creditors Arrangement Act* proceedings governing Terrace Bay Pulp Inc. ("**Terrace Bay**") to render an opinion as to whether certain security executed and granted by Terrace Bay in favour of Nexcap Finance Corporation ("**Nexcap**") constitutes valid and opposable movable property security charging the corporeal (tangible) movable property owned by Terrace Bay which is presently located in the Province of Quebec, under the applicable laws of the Province of Quebec. Such mandate has been given to us in our capacity as attorneys of the Province of Quebec and is strictly limited to matters relating to the laws of the Province of Quebec.

1. **Examinations**

1.1 For the purposes of our herein expressed opinions, we have examined an executed copy of the following documents:

a) credit agreement dated as of July 26, 2007 by and among Terrace Bay, Nexcap (as administrative agent for the lenders named from time to time as party to such agreement) and the lenders from time to time where party to such agreement (the "**Credit Agreement**"); and

b) general security agreement dated July 26, 2007 executed by and between Terrace Bay and Nexcap (the "**GSA**").

2. **Searches**

2.1 We have conducted on-line searches at the Register of Personal and Movable Real Rights of Quebec (the "**RDPRM**") with respect to Terrace Bay (which searches are current to the end of the day on March 24, 2009) and we confirm that such search results reflect the following registrations effected at the RDPRM in respect of Terrace Bay only:

a) Notice of registration effected at the RDPRM on August 3, 2007 under registration number 07-0445634-0001 setting forth the following information:

Nature of right:	Right of ownership in virtue of a finance lease (Droits de propriété de crédit-bailleur)
Parties:	Terrace Bay Pulp Inc.-lessor Nexcap Finance Corporation-lessee
Property charged:	Security to be taken over all present and after acquired collateral with the exception of consumer goods (inventory, equipment, accounts, motor vehicle and other.) All inventory as secured under the general security agreement dated July 26, 2007.
Date of agreement:	July 23, 2007
Place of execution:	Burlington, Ontario

b) Notice of rectification registered on August 9, 2007 under registration number 07-0456676-0001:

Nature of right:	Rectification of a registration
Reference:	Rectification to filing made under registration number 07-0445634-0001.

Modification: To correct the designation of the parties in order that Nexcap Finance Corporation be designated as the lessor and Terrace Bay Pulp Inc. be designated as the lessee.

3. Assumptions

3.1 In our examinations of the documents referred to in Section 1 of the present opinion letter and in our reporting to you of our search results, we have assumed:

a) that the full legal name of Terrace Bay is "Terrace Bay Pulp Inc.";

b) the legal capacity of all individuals, the genuineness of all signatures on, and the authenticity and completeness of, all documents submitted to us as original documents, and the conformity to authentic original documents of all documents submitted to us as notarial, certified, photostat or similarly reproduced copies of such original documents;

c) the currency, completeness, truth and accuracy of all facts set forth in the official public records, certificates and documents supplied by public officials or otherwise conveyed to us by public officials. Without limiting the generality of the foregoing, we have assumed the accuracy, completeness and currency of the indexes and registers maintained in the RDPRM as well as all other registers where we have conducted searches or inquiries or have caused searches or inquiries to be conducted;

d) that each party to the GSA is duly incorporated and validly organized and subsisting, is authorized to carry on business in its incorporating jurisdiction and in the Province of Quebec, has the requisite power and capacity to execute, deliver and perform its obligations under the GSA to which it is a party, has taken all necessary actions to authorize the execution, delivery and performance by it of the GSA and that neither the execution, delivery and performance of the GSA to which each is a party, nor the consummation of the transactions contemplated thereby, conflict with or result in a breach of each such party's constating documents or by-laws;

e) that each party to the GSA and the performance by each party thereto has been duly and validly authorised, executed and delivered by each party thereto and that the GSA is binding on Terrace Bay;

f) that the "Obligations" as defined in the GSA and the Credit Agreement constitute legal, valid and binding obligations of Terrace Bay, enforceable against Terrace Bay in accordance with the terms thereof;

g) that the GSA constitutes legal, valid and binding obligations of Terrace Bay and creates a valid security interest in the therein described "Collateral" under the laws of the Province of Ontario, enforceable in accordance with its terms;

h) that the movable property owned by Terrace Bay which is located in the Province of Quebec from time to time consists principally of inventory (pulp);

i) that the domicile of Terrace Bay is located in the Province of Ontario; and

j) that there exists no other security agreements which have been granted by Terrace Bay in favour of Nexcap or any of the lenders named in the Credit Agreement, which are governed by the laws of the Province of Quebec.

4. Law

4.1 Our opinions set out below are limited to the laws of the Province of Quebec, as well as the federal laws of Canada applicable therein. We express no opinion as to the laws of any other jurisdiction.

5. Discussion

5.1 Validity of Security as a Hypothec

The GSA purports to create a mortgage, pledge, charge and security interest in favour of Nexcap as the "Secured Party" by Terrace Bay in all of the property and assets, real and personal, movable and immovable, tangible and intangible, wherever situate, present and future of Terrace Bay, including inventory, machinery and other tangible property. The security granted under the GSA is purported to be given in order to secure the payment and performance of all "Obligations". The term "Obligations" is defined by reference to obligations, indebtedness and liabilities of Terrace Bay under any "Loan Document". We note, however, that the term "Loan Document" is defined in the GSA by reference to various other capitalized terms, none of which are themselves defined in the GSA and which capitalized terms do not include the term "Loan Agreement". The GSA is stated to be governed by the laws of the Province of Ontario and the federal laws of Canada applicable therein (other than conflict of laws rules).

The general rule under the *Civil Code of Quebec* (the "**Civil Code**") with respect to the validity and publication of movable security is set forth at Article 3102 of the Civil Code, which reads as follows:

> "**Article 3102.** The validity of a movable security is governed by the law of the country in which the property charged with it is situated at the time of creation of the security.
>
> Publication and its effects are governed by the law of the country in which the property charged with the security is currently situated."

In light of the foregoing, security on movable (personal) corporeal (tangible) property in the nature of inventory which is situated in the Province of Quebec when the security is created and thereafter is governed by the laws of the Province of Quebec for the purposes of validity and for the purposes of publication (registration). Conventional security on corporeal movable property must be created by way of hypothec, in accordance with the applicable provisions of the Civil Code. Essentially, the grantor of the security must expressly provide that it is granting a hypothec on specified property (which can be present and after-acquired) for and in a specific sum, as security for specified obligations. Such sum is generally an amount arbitrarily designated as being well in excess of any anticipated debt.

The GSA does not create a "hypothec" on any property of Terrace Bay under the applicable provisions of the Civil Code, because the GSA:

(i) does not expressly provide for the granting of a hypothec by Terrace Bay over the charged property in favour of Nexcap as security for specified obligations;

(ii) does not provide that the charge or hypothec is granted for a specific finite sum;

(iii) does not contemplate that the GSA should have effect as a movable hypothec on a universality of property by means of setting forth the foregoing language and by stating that the GSA shall be governed by the laws of the Province of Quebec to the extent that the collateral is comprised of movable corporeal property situated from time to time in the Province of Quebec; and

(iv) has not been published at the RDPRM as notice of a hypothec without delivery.

Moreover, even if the terms of the GSA complied with the requirements of a movable hypothec under Quebec law, it is uncertain under Quebec law as to whether security in such form can validly be granted by the Grantor in favour of an agent purporting to act on behalf of other creditors. In the case at hand, however, this last issue is not relevant, as the GSA does not constitute a hypothec under Quebec law.

In virtue of Articles 2950, 2970 and 2983 of the Civil Code, a movable hypothec without delivery on a universality of property must be published by way of the filing of an application for registration at the RDPRM, specifying the nature of the rights held by the holder of the security, the identity of the grantor, the description of the property charged and the amount of the hypothec. The registration effected on behalf of Nexcap at the RDPRM in respect of the GSA does not refer to rights in the nature of a movable hypothec without delivery, but rather refers to rights in virtue of a finance lease.

5.2 Article 3104 of the Civil Code

Notwithstanding Article 3102 of the Civil Code, another provision of the Civil Code, namely Article 3104, provides that security originally granted in accordance with a foreign jurisdiction and registered in such foreign jurisdiction could later be registered in the Province of Quebec where the collateral in question was located in such jurisdiction as at the date of the initial security and was subsequently moved from such foreign jurisdiction to the Province of Quebec:

> "**Article 3104.** A security published according to the law of the country where the property was situated at the time of creation of the security will be deemed to be published in Québec, from the first publication, if it is published in Québec before any of the following events, whichever occurs first:
>
> 1) the cessation of effect of publication in the country where the property was situated at the time of creation of the security;
>
> 2) the expiry of 30 days from the time the property reaches Québec;
>
> 3) the expiry of 15 days from the time the creditor is advised that the property has arrived in Québec.
>
> However, the security may not be set up against a buyer who has acquired the property in the ordinary course of the activities of the grantor."

In the case at hand, assuming that the property of Terrace Bay which is present in the Province of Quebec consists of inventory stored in Quebec warehouses, all of the following conditions would have to be met in order for Article 3104 of the Civil Code to apply and to render the GSA and the notice of registration thereof valid security opposable to third parties in respect of such property:

(i) all of the inventory presently located in Quebec must be comprised of inventory which existed and was owned by Terrace Bay as at July 26, 2007 and was ultimately moved to the various Quebec warehouses since such time;

(ii) Nexcap must have registered notice of the GSA at the RDPRM within the earlier of 30 days from the time such inventory was moved from Ontario to Quebec or 15 days from the time that Nexcap was advised that such inventory had been moved to Quebec; and

(iii) the notice of registration effected by Nexcap at the RDPRM must have been in the appropriate or prescribed form, namely notice of a "*sûreté publiée à l'étranger*" or security registered in a foreign jurisdiction.

While we have not received any confirmation with respect to whether any Quebec inventory existed as at the date that the GSA was first executed, we note that the purported registration of the GSA at the RDPRM was effected on August 3, 2007, less than 2 weeks after the execution of the GSA. Furthermore, we have not received any information from the Monitor as to whether any Ontario inventory which existed as at the date of the execution of the GSA was subsequently transported to the Quebec warehouse locations or that any of such inventory still exists (which may be unlikely).

With respect to (ii) above, it seems apparent that the intention of Nexcap was to register notice of the GSA at the RDPRM more or less concurrently with date of execution of the GSA. Based on our research to date, however, we are unaware of any decisions of Quebec tribunals which address the interpretation of Article 3104 of the Civil Code for the purposes of validating a security interest in inventory constituting after acquired property of a debtor that is regularly transported into the Province of Quebec.

Last, the registration which has been made in favour of Nexcap at the RDPRM is not in the prescribed form, in that it purports to be a registration of rights held by Nexcap as a lessor under a finance lease and not the registration of security published in a foreign jurisdiction. While this may be tempered somewhat by the fact that the property described in such registration makes reference to the GSA and the collateral governed thereby and might be held by a Quebec Court to constitute sufficient notice thereof, the form of registration creates further uncertainty as to the validity thereof, in addition to the timing issue.

The registration form used to register notice of a finance lease is a different form entirely than that used to register notice of security pursuant to Article 3104 of the Civil Code. As a result of the foregoing, it is uncertain that the registration filed by Nexcap at the RDPRM would be held by a Quebec Court to be valid publication for the intended purposes, even if all other conditions of Article 3104 of the Civil Code have been fulfilled. We are unable to opine further on this issue (which we shall refer to as the "**Registration Deficiency**" for the purposes of the discussion below), without conducting additional research, which we would be pleased to do upon receiving your instructions to proceed.

In light of the criteria raised by Article 3104 of the Civil Code, the following scenarios merit discussion:

(i) Inventory Situated in Quebec on July 26, 2007

To the extent that the inventory presently owned by Terrace Bay and situated in the Province of Quebec consists of inventory which existed as of July 26, 2007 and was situated in the Province of Quebec at such time (or which was acquired in replacement thereof), Article 3104 of the Civil Code would not apply to such property.

(ii) Inventory Situated in Ontario on July 26, 2007

To the extent that the inventory presently owned by Terrace Bay and situated in the Province of Quebec consists of inventory which existed as of July 26, 2007, was situated in the Province of Ontario at such time, was subsequently moved to the Province of Quebec and remains identifiable as the original property, it is possible that the first condition of Article 3104 might apply to such property, but unlikely for the reasons that follow.

First, if there was also inventory of Terrace Bay situated in the Province of Quebec at such time, then this would establish that relocated Ontario inventory did not constitute property of a nature which was displaced to another jurisdiction as an anomaly, but rather property which by its nature would necessarily and intentionally be maintained in such jurisdiction. Furthermore, even if there was no Quebec-located inventory of Terrace Bay at the date of the grant of security, Article 3104 of the Civil Code would require that one or more registrations be made within 15 days of the date on which Nexcap first learned that each particular shipment of pre-existing inventory had been made from Ontario to Quebec. The context indicates an entirely different intention of Nexcap than the situation contemplated by Article 3104 of the Civil Code, which was designed to provide a means for a secured party to maintain the continuity of its security interest against collateral that exists at the time of the grant of security that is located in a jurisdiction other than Quebec (and presumably properly perfected in that jurisdiction), when such collateral is subsequently moved from the other jurisdiction to Quebec. Parties intending to create a valid and opposable security interest against inventory under Quebec law would typically use a different form of security agreement and would not effect a registration under Article 3104 of the Civil Code.

In addition to the foregoing, the Registration Deficiency would continue to remain a significant obstacle to recognizing the GSA as a valid and opposable security interest under Quebec law in this scenario.

(iii) Inventory Situated in Ontario on July 26, 2007 and Subsequently Replaced

The scenario considered here is the same one as the preceding scenario, except that all of the inventory presently owned by Terrace Bay and located in the Province of Quebec results from inventory which has since been replaced following its sale in the ordinary course of business. There could be a theoretical argument, having regard to Articles 2674 and 2675 of the Civil Code (which provide that a hypothec would continue to charge inventory which replaced inventory sold in the ordinary course), that with respect to any inventory which replaced inventory in existence in Ontario but moved from Ontario to Quebec within the time frames provided by Article 3104 of the Civil Code (the "**Original Transported Inventory**"), Article 3104 of the Civil Code could be interpreted to apply to the inventory that replaced the Original Transported Inventory that was sold in the ordinary course of business from the Quebec warehouses. In our opinion, however, this would require a novel interpretation of the Civil Code. Once again, we have not conducted definitive research into this issue, but would be pleased to do this, if so instructed.

The better view is that Article 3104 of the Civil Code would not be interpreted by a Quebec Court to validate foreign security which is intended to govern present and after-acquired property which is known to the holder of such security to be both (i) maintained by the grantor thereof in the Province of Quebec on an ongoing basis; and (ii) sold in the ordinary course of the grantor's business. As noted above, there are other means to create a valid and opposable security interest in this type of collateral. Even if this interpretation was accepted by a Quebec Court, the Registration Deficiency would still exist. Also, Article 3104 of the Civil Code would not assist in relation to any inventory owned by Terrace Bay already situated in the Province of Quebec as at the date of the execution of the GSA.

There are other provisions of the Civil Code which apply to different circumstances, such as where the movable property in question is not intended to remain in the country in which it is situated at the time that the security in granted or where the corporeal movable property in question is ordinarily used in more than one country, neither of which appears to be the case in the case at hand.

6. Opinions

6.1 Based upon and relying on the foregoing, and subject to the assumptions, qualifications and limitations set forth in this opinion letter, we are of the opinion that:

a) the GSA does not constitute a movable hypothec without delivery under applicable provisions of the laws of the Province of Quebec and more specifically, the provisions of the Civil Code;

b) the registration effected by or on behalf of Nexcap at the RDPRM with respect to the GSA does not constitute publication of a movable hypothec without delivery for the purposes of the Civil Code and such registration does not, of itself, serve to create valid security, duly registered, over Terrace Bay's movable property situated in Quebec in accordance with the laws of the Province of Quebec;

c) unless the GSA and the registration effected in respect thereof comply with all of the conditions and requirements of Article 3104 of the Civil Code as outlined in Section 5 hereof, Nexcap does not hold valid and enforceable security over corporeal movable property of Terrace Bay which is presently situated in the Province of Quebec, under the laws of the Province of Quebec.

7. **Qualifications**

7.1 In order to provide you with a more definitive opinion as to whether the GSA and the publication of notice thereof at the RDPRM might constitute valid security on the corporeal movable property of Terrace Bay situated in the province of Quebec in accordance with the laws of the Province of Quebec, further clarifications and confirmations regarding the nature of the inventory and other collateral of Terrace Bay located in the Province of Quebec would be required;

7.2 Our review of the Credit Agreement was not extensive and was limited to verifying the applicable law, the nature of the credit facilities granted under the Credit Agreement, the identity of the parties thereto and the general intention of the parties regarding collateral and the security to be granted by Terrace Bay in respect thereof;

7.3 Our searches were limited to the RDPRM and we did not search any corporate registers or registers governed by:

a) the *Bank Act* (Canada);

b) the *Patent Act* (Canada), the *Trade-Marks Act* (Canada); the *Industrial Designs Act* (Canada); the *Integrated Circuit Topography Act* (Canada); the *Copyright Act* (Canada); or the *Plant Breeders' Rights Act* (Canada);

c) the *Canada Shipping Act*; or

d) the *Canada Transportation Act* or the *Railway Act* (Quebec);

7.4 This opinion letter is limited to the matters stated herein and may not be relied upon by any person other than the addresses hereof for any purpose other than in the context of the proceedings first mentioned at the outset of the present opinion letter.

Yours truly,

KUGLER KANDESTIN, L.L.P.

Kugler Kandestin, L.L.P.

Appendix C

PAUL, WEISS, RIFKIND, WHARTON & GARRISON LLP
1285 AVENUE OF THE AMERICAS NEW YORK, NEW YORK 10019-6064

April 1, 2009

MEMORANDUM

To Ernst & Young Inc.
Ernst & Young Tower, 222 Bay Street,
Toronto-Dominion Centre
Toronto, Ontario M5K 1J7,Canada

Lang Michener LLP
181 Bay Street, Suite 2500
Toronto, Ontario M5J 2T7, Canada

From Claudia R. Tobler
Sarah Harnett

Subject Terrace Bay Pulp Inc.

PRIVILEGED AND CONFIDENTIAL

I. Overview

Ernst & Young Inc., in its capacity as monitor in the mater of Terrace Bay Pulp Inc., as debtor in a proceeding under *Canada's Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended, has asked us to determine whether Nexcap Finance Corporation ("Nexcap") properly perfected its security interest in the assets of Terrace Bay Pulp Inc., a corporation formed under the laws of Canada (the "Debtor") under applicable United States law. Subject to the assumptions and qualifications contained herein, based upon the results of our search of the applicable filing office, Nexcap has properly perfected its security interests in the personal property of the Debtor under article 9-307(c) of the Uniform Commercial Code (as revised) to the extent it can be perfected by the filing of a financing statement.

In reaching this conclusion, we assume, without expressing an independent view, that the governing loan documents and security agreement are enforceable under Canadian law, that all actions under Canadian law have been taken to give rise to an enforceable security interest in favor of Nexcap, that such security interest would be recognized under applicable United States law, that the Debtor has rights in the collateral, and that value has been given by Nexcap. Nor do we express a view as to the scope of the grant of a security interest in the collateral, and whether it would, in fact, cover all personal property recognized under the Uniform Commercial Code. We also provide no view on whether Nexcap has properly perfected its security interest in collateral subject to alternate forms of perfection, such as fixtures, timber to be cut, as-extracted collateral, certificate-of-title collateral, deposit accounts, investment property, certain intellectual property, and letter-of-credit rights.

II. Diligence Review

We reviewed (a) the Credit Agreement among Terrace Bay Pulp Inc., as Borrower, and Nexcap Finance Corporation, as the Agent, and the Lenders from time to time parties thereto, dated as of July 26, 2007 (the "Credit Agreement"); and (b) the General Security Agreement between Terrace Bay Pulp Inc. and Nexcap Finance Corporation dated as of July 26, 2007. We also requested a search of the central filing registry for the District of Columbia under the Debtor's and Nexcap's names.

We understand and assume that the Debtor is a valid corporation, duly existing under the laws of Canada, that it maintains its place of business solely in the Province of Ontario, Canada, at the place identified as the address of the borrower under the Credit Agreement. *See* Credit Agreement, § 7.11. We further understand and assume that the assets of the Debtor in the United States are limited to personal property in the form of inventory (mostly wood pulp) stored at various warehouses throughout the United States.

III. Overview of Applicable Law

Revised Article 9 of the Uniform Commercial Code (the "U.C.C.") has been enacted in each state.[1] Under Revised Article 9, the location of the debtor determines the jurisdiction whose law governs the perfection of a security interest. *See* U.C.C. §§ 9-301(1), 9-305(c). Generally, a non-individual debtor is deemed to be located at its place of business in the United States if it has only one, or at its chief executive office if it has more than one place of business. *See* U.C.C. § 9-307(b).

Section 9-307(c) provides an exception to this general rule for non-U.S. debtors. The normal rules for determining the location of a debtor under section 9-307(b) only apply if the debtor is located "in a jurisdiction whose law generally requires information concerning the existence of a nonpossessory security interest to be made generally available in a filing, recording, or registration system as a condition or result of the security interest's obtaining priority over the rights of a lien creditor with respect to the collateral." *See* U.C.C. § 9-307(c). If a non-U.S. debtor does not have its residence, place of business or chief executive office in a jurisdiction that maintains a filing system for perfection, the security interest can be perfected in the United States by a filing in the District of Columbia, subject to the limitations of what can be perfected by filing a financing statement generally. *Id.*; *See In re Flag Telecom Holdings Limited*, 320 B.R. 763, 767 (Bankr. S.D.N.Y. 2005), rev'd on other grounds, 337 B.R. 15 (S.D.N.Y. 2005)

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1 *See* 9B FREDERICK H. MILLER & NEIL B. COHEN, HAWKLAND U.C.C. SERIES § 9-301:3 (2008).

(stating that under the U.C.C. applicable in New York, perfection of a nonpossessory security interest for a debtor located outside the United States is governed by District of Columbia law if the debtor's principal place of business is not located in a jurisdiction that maintains a filing system for perfection).

Generally, the Canadian legal regime is the only other system, outside of the United States, that generally conditions perfection on giving public notice in a filing, recording, or registration system that would satisfy the requirements of section 9-307(c). *See* Carl S. Bjerre, *International Project Finance Transactions: Selected Issues Under Revised Article 9*, 73 Am. Bankr. L.J. 261, 273-74 (1999). Although a Canadian secured party could argue that solely Canadian law governs perfection, we understand that many Canadian creditors file against the debtor concurrently in the District of Columbia as a matter of practice.

IV. Results of Search

We conducted a search of U.C.C. filings concerning Terrace Bay Pulp Inc. in the District of Columbia through March 11, 2009. A copy of the lien search results from the Corporation Service Company is attached hereto as Exhibit A. The search produced one U.C.C.-1 filing of a security interest in favor of Nexcap Finance Corporation in Terrace Bay Pulp Inc.'s assets specified therein filed on August 3, 2007.[2] A copy of a chart summarizing this filing is attached hereto as Exhibit B. As a result, Nexcap properly perfected its security interest in the personal property of Terrace Bay

2 Other than for certain exceptions that do not apply here, a filing statement remains valid for five years. U.C.C. § 9-515.

Pulp, Inc. in accordance with section 9-307(c) of the U.C.C. to the extent it can be perfected by filing a financing statement.

Please note that, among other things, a U.C.C. filing under section 9-307(c) does not perfect nonpossessory security interests in other collateral including, among others, fixtures, timber to be cut, as-extracted collateral, certificate-of-title collateral, deposit accounts, investment property, and letter-of-credit rights. *See* U.C.C. §§ 9-301, 9-303, 9-304, 9-305, 9-306. We also wish to point out that in the case of proceeds as defined in Article 9 of the U.C.C., the continuation of perfection of any security interest in them is limited to the extent set forth in Section 9-315 of the U.C.C. We further call to your attention the fact that (i) Article 9 of the U.C.C. requires the filing of continuation statements within the period of six months prior to the expiration of each five year period from the date of the original filing of financing statements in order to maintain the effectiveness of the filing referred to in this opinion, and (ii) additional filings may be necessary if the Debtor changes its name, identity or corporate structure or the jurisdiction in which it is organized.

C.R.T.
S.H.

Appendix D

From: Paul Jasiura [mailto:pjasiura@wmnlaw.com]
Sent: Friday, May 01, 2009 5:24 PM
To: Alex Ilchenko; katherine.mceachern@blakes.com
Cc: taras@bls-tb.com
Subject: Lucky Star demands Terrace Bay Pulp Inc.

We are solicitors acting on behalf of Lucky Star Holdings Inc. in respect of two security interests involving Terrace Bay Pulp Inc.

We understand that you are counsel for the Monitor and for Terrace Bay Pulp, respectively.

Please find enclosed a copy of a Demand made by my client under each of these securities and their respective Notices under the BIA. These are sent to you for your information.

We acknowledge that actual enforcement of the claims, arising from these demands, is governed by the CCAA and Lucky Star will act (or refrain from acting) accordingly.

B. Paul Jasiura
Weiler, Maloney, Nelson
Barristers and Solicitors

Phone: (807) 623-1111
Fax: (807) 623-4947
Direct Phone: (807) 625-8881

Mailing / Courier
1001 William Street, Suite 201,
Thunder Bay, ON P7B 6M1

Visit Weilers on the Web at www.weilers.ca

Lang Michener LLP-

Lawyers - Patent & Trade Mark Agents

Brookfield Place, 181 Bay Street, Suite 2500

Toronto, Ontario, Canada M5J 2T7

Telephone (416) 360-8600 Fax (416) 365-1719

Visit us on the web at www.langmichener.ca

 Lucky Star Holdings demand Not of Sec Int.pdf Lucky Star Holdings demand re Debenture.pdf

LUCKY STAR HOLDINGS INC.
P.O. Box 29039, McIntyre Centre
Thunder Bay, Ontario
P7B 6P9

May 1, 2009

Terrace Bay Pulp Inc.
1120 Premier Way
Thunder Bay ON P7B 0A3

Attention: Mr. Wolfgang Gericke, President

RE: Notice of Security Interest by Lucky Star Holdings Inc.

This letter will serve as a demand for payment with respect to a certain Notice of Security Interest of Lucky Star Holdings Inc. of Terrace Bay Pulp Inc. which has been registered as Instrument No. TY62887 on May 5, 2008 at the Land Registry Office at Thunder Bay, Ontario.

Lucky Star Holdings Inc. gives notice to Terrace Bay Pulp Inc. that the amount now due and owing to Lucky Star Holdings Inc. is FIVE MILLION ($5,000,000) DOLLARS and now demands that Terrace Bay Pulp Inc. forward payment of the said amount, made payable to Lucky Star Holdings Inc., immediately.

In the event that payment of the said amount is not received by Lucky Star Holdings Inc. on or before the 12th day of May, 2009, Lucky Star Holdings will take whatever action it considers necessary to enforce and recover the payment thereof and protect its interests, subject to any restrictions thereon that may arise pursuant to any court orders made pursuant to the provisions of the *Companies' Creditors Arrangement Act.*

We remind you as well that interest at a rate of 15% per annum will accrue on the balance outstanding from time to time from and after the date of demand.

Yours sincerely,

RUSSELL YORK, Secretary / Treasurer
Lucky Star Holdings Inc.

Receipt acknowledged
this 1st day of May, 2009
by Terrace Bay Pulp Inc.

Per: ____________________

NOTICE OF INTENTION TO ENFORCE A SECURITY

(Rule 124)
(Section 244.1, *Bankruptcy and Insolvency Act*)

TO: **TERRACE BAY PULP INC.**

TAKE NOTICE THAT:

1. **LUCKY STAR HOLDINGS INC.**, a secured creditor, intends to enforce its security on the insolvent person's property described below:

2. The security that is to be enforced is in the form of:

   (a) A certain Notice of Security Interest of Lucky Star Holdings Inc. of Terrace Bay Pulp Inc. which has been registered as Instrument No. TY62887 on May 5, 2008 at the Land Registry Office at Thunder Bay, Ontario.

3. The total amount of indebtedness secured by the security is FIVE MILLION ($5,000,000) DOLLARS plus interest and costs as set out in such mortgages.

4. The secured creditor will not have the right to enforce the security until after the expiry of the 10-day period after this Notice is sent unless the insolvent person consents to an earlier enforcement.

DATED AT Thunder Bay, ON this 1st day of May, 2009

LUCKY STAR HOLDINGS INC.

Per:

RUSSELL YORK, Secretary / Treasurer

Receipt acknowledged
this 1st day of May, 2009
by Terrace Bay Pulp Inc.

Per:

LUCKY STAR HOLDINGS INC.
P.O. Box 29039, McIntyre Centre
Thunder Bay, Ontario
P7B 6P9

May 1, 2009

Terrace Bay Pulp Inc.
1120 Premier Way
Thunder Bay ON P7B 0A3

Attention: Mr. Wolfgang Gericke, President

RE: Debenture to Lucky Star Holdings Inc.

This letter will serve as a demand for payment with respect to a certain Debenture granted to Terrace Bay Pulp Inc. which has been registered as Instrument No. TY62886 on May 5, 2008 at the Land Registry Office at Thunder Bay, Ontario.

Lucky Star Holdings Inc. gives notice to Terrace Bay Pulp Inc. that the amount now due and owing to Lucky Star Holdings Inc. is FOURTEEN MILLION ($14,000,000) DOLLARS and now demands that Terrace Bay Pulp Inc. forward payment of the said amount, made payable to Lucky Star Holdings Inc., immediately.

In the event that payment of the said amount is not received by Lucky Star Holdings Inc. on or before the 12th day of May, 2009, Lucky Star Holdings will take whatever action it considers necessary to enforce and recover the payment thereof and protect its interests, subject to any restrictions thereon that may arise pursuant to any court orders made pursuant to the provisions of the *Companies' Creditors Arrangement Act.*

We remind you as well that interest at a rate of 15% per annum will accrue on the balance outstanding from time to time from and after the date of demand.

Yours sincerely,

RUSSELL YORK, Secretary / Treasurer
Lucky Star Holdings Inc.

Receipt acknowledged
this 1st day of May, 2009
by Terrace Bay Pulp Inc.

Per: ______________________

NOTICE OF INTENTION TO ENFORCE A SECURITY

(Rule 124)
(Section 244.1, *Bankruptcy and Insolvency Act*)

TO: **TERRACE BAY PULP INC.**

TAKE NOTICE THAT:

1. **LUCKY STAR HOLDINGS INC.**, a secured creditor, intends to enforce its security on the insolvent person's property described below:

2. The security that is to be enforced is in the form of:

   (a) A certain Debenture granted to Terrace Bay Pulp Inc. by Lucky Star Holdings Inc. which has been registered as Instrument No. TY62886 on May 5, 2008 at the Land Registry Office at Thunder Bay, Ontario

3. The total amount of indebtedness secured by the security is FOURTEEN MILLION ($14,000,000) DOLLARS plus interest and costs as set out in such mortgages

4. The secured creditor will not have the right to enforce the security until after the expiry of the 10-day period after this Notice is sent unless the insolvent person consents to an earlier enforcement.

DATED AT Thunder Bay, ON this 1st day of May, 2009

LUCKY STAR HOLDINGS INC.

Per:

RUSSELL YORK, Secretary / Treasurer

Receipt acknowledged
this 1st day of May, 2009
by Terrace Bay Pulp Inc.

Per:

Appendix E

Lang Michener LLP
Lawyers – Patent & Trade Mark Agents

Brookfield Place, 181 Bay Street, Suite 2500
P.O. Box 747
Toronto ON M5J 2T7
Canada

Telephone: 416-360-8600
Facsimile: 416-365-1719

Reply to:
Alex A. Ilchenko
Direct Tel: 416-307-4116
Direct Fax: 416-304-3880
ailchenko@langmichener.ca

DRAFT FOR DISCUSSION PURPOSES

VIA EMAIL

May ◆, 2009

Paul Jasiura
Weiler, Maloney, Nelson
Barristers and Solicitors
1001 William Street, Suite 201
Thunder Bay Ontario
P7B 6M1

Dear Mr. Jasiura:

Re: Terrace Bay Pulp Inc. ("Terrace Bay")

We are counsel to Ernst & Young Inc., the court appointed monitor of Terrace Bay (the "Monitor"), appointed under the Initial Order of the Honourable Mr. Justice Morawetz made under the *Companies' Creditors Arrangement Act* (the "CCAA") on March 11, 2009, as extended and amended (the "Initial Order").

We reference your email of May 1, 2009, enclosing copies of: (i) a demand letter and a Notice of Intention to Enforce a Security under Section 244 of the *Bankruptcy and Insolvency Act* (a "244 Notice") in relation to the Notice of Security Interest ("NOSI") registered as Instrument Number TY62887 on May 5, 2008 at the Land Registry office at Thunder Bay, Ontario (the "Land Registry Office"), each dated May 1, 2009 as issued by Lucky Star Holdings Inc. ("Lucky Star"); and (ii) a demand letter and 244 Notice in relation to the Debenture dated May 5, 2008, registered as Instrument Number TY62886 at the Land Registry Office, each dated May 1, 2009 and also issued by Lucky Star. We note that the demand letter and 244 Notice relating to the NOSI make no reference to the underlying security that Lucky Star is seeking to enforce.

Capitalized terms not defined in this letter, have the meanings set forth in the Initial Order. The Initial Order contains a broad stay of proceedings, rights and remedies in relation to Terrace Bay and its assets and property. Specifically, pursuant to paragraph 12 of the Initial Order, all rights and remedies of any Person against or in respect of the Applicant, or affecting the Business or the Property are stayed and suspended except with the written consent of the Applicant or the Monitor, or leave of the Court. It is the position of the Monitor that the issuance of the demand letters and 244 Notices by Lucky Star, without obtaining the prior written consent of the Monitor, or leave of the Court, violates the provisions of paragraph 12 of the Initial Order.

Without commenting on the effectiveness of a demand for payment or a 244 Notice delivered in contravention of the Initial Order, the Monitor requests that these be withdrawn. Lucky Star is thereafter free to seek leave from the Court, should it desire to do so, to make demand for payment and deliver 244 Notices, which motion should be brought on notice to all persons on the service list in the Terrace Bay CCAA proceeding.

Please advise the undersigned forthwith as to Lucky Star Holdings Inc.'s intentions.

Yours truly,

Lang Michener LLP

cc: Alex F. Morrison, *Ernst & Young Inc.*
Pamela L. J. Huff, *Blake, Cassels & Graydon LLP*
Katherine McEachern, *Blake, Cassels & Graydon LLP*

Appendix F

Lang Michener LLP
Lawyers – Patent & Trade Mark Agents

May 4, 2009

VIA EMAIL AND REGULAR MAIL

Ernst & Young LLP
TD Centre
222 Bay Street
16th Floor
Toronto, Ontario M5K 1J7

Attention: Mr. Alex Morrison

Dear Sirs:

Re: Terrace Bay Pulp Inc. (the "Debtor")

In your capacity as the monitor of the Debtor (the "**Monitor**") in relation to the proceedings under the *Companies' Creditors Arrangement Act* ("**CCAA**") commenced in the Ontario Superior Court of Justice (the "**Court**"), you have asked us to provide you with our views in respect of certain security granted by the Debtor in favour of Lucky Star Holdings Inc. ("**Lucky Star**").

In doing so, we have examined a copy of a demand debenture dated November 7, 2006 executed by the Debtor in favour of Lucky Star (the "**2006 Debenture**"), a demand debenture dated May 5, 2008 executed by the Debtor in favour of Lucky Star (the "**2008 Debenture**") and a purchase money security agreement dated May 5, 2008 executed by the Debtor in favour of Lucky Star (the "**Security Agreement**" and, together with the 2006 Debenture and the 2008 Debenture, collectively, the "**Security Documents**").

For the purpose of this opinion, we have not reviewed any other documents, including any other documents purporting to create security interests in respect of all or any part of the Charged Property (as defined below) of the Debtor in favour of Lucky Star, or which purport to subordinate the priority of any of Lucky Star's security interests under the Security Documents.

We did not act for the Debtor in connection with the negotiation, execution and delivery of the Security Documents. The undertaking, business, properties, assets, interests and rights of the Debtor as described in the Security Documents are collectively referred to herein as the "**Charged Property**").

I. *Scope of Enquiry*

We have considered such questions of law applicable in the Province of Ontario, and such statutes and regulations of the Province of Ontario and of Canada applicable in Ontario (collectively, "**Ontario Law**"), and conducted such searches (as of the dates and detailed in Schedule "A" below) as we considered necessary as a basis for this Report.

Unless otherwise indicated, capitalized terms are as defined in subsection 1(1) of the *Personal Property Security Act* (Ontario) (the "**PPSA**).

II. *Assumptions and Qualifications*

The views and opinions contained in this Report are based on, and are subject to, each of the assumptions and qualifications listed on Schedule "D" to this Report.

III. *Searches*

We have conducted the searches, current as of the dates and at the offices set forth in Schedule "A" for registrations, filings, proceedings or recordings against the name "Terrace Bay Pulp Inc.".

Our searches failed to disclose any proceedings, registrations, filings or recordings against Terrace Bay Pulp Inc., other than those disclosed in Schedule "B" hereto, and, in the case of the Real Property (as defined below), except as disclosed in Parts I and II of Schedule "C" hereto. For the purposes of this Report, we have relied upon the accuracy, currency and completeness of the indices and filing systems maintained at the public offices at which we have searched or caused searches or inquiries to be conducted.

We have not made any further or independent investigation of original or copied documents other than our review of the Security Documents and the searches expressly referred to in Schedule "A" to this letter.

We have obtained a corporation profile report (the "**Profile Report**") from the Ministry of Government Services (the "**Ministry**") in respect of the Debtor.

We have also conducted real property parcel register subsearches (collectively, the "**Real Property Subsearches**") against the real property currently owned by the Debtor as described in Schedule "A" to the 2008 Debenture (the "**Real Property**"), a summary of which is attached as Schedule "C" hereto. Part I of Schedule "C" lists those properties which we have assumed not to have any buildings and/or fixtures located on them (based on the fact that there are no NOSIs (as defined below) registered against title to those properties). Part II of Schedule "C" lists those properties on which we understand there may be buildings and/or fixtures. We confirm your instructions that our review is to be based upon and rely solely upon the Real Property Subsearches (but not full title searches) in giving the opinions set out herein, is satisfactory for your purposes at this time and, without limitation, we confirm that we have not conducted any off-title searches, including, without limitation, searches relating to any outstanding real property taxes or utility charges which may have priority in respect of the subject real properties. We have not been called upon and have not conducted any searches of abutting lands to determine compliance with the *Planning Act* (Ontario).

IV. *Registrations*

A. PPSA

Our review included conducting a search (the "**PPSA Search**") of the Ontario Personal Property Registration System against the Debtor. These search results are summarized on Schedule "B" attached to this report. Schedule "B" reflects registrations against the Debtor in favour of Lucky Star, as more particularly reported on below.

B. Bank Act

According to our search for registrations under the *Bank Act* (Canada), no interests have been filed under the *Bank Act* against the Debtor in favour of Lucky Star or any other creditor.

C. Executions

According to our search for executions filed against the Debtor with the Office of the Sheriff in the Territorial District of Thunder Bay and the Office of the Sherriff in the City of Toronto, no writs of execution have been filed.

D. Real Property

The Real Property Subsearches revealed that a Notice of Security Interest ("**NOSI**") was registered in favour of Lucky Star against certain properties as more particularly set out in Part II of Schedule "C" attached hereto and that such NOSI gives notice that a security interest has been created in all of the collateral described in the Security Agreement. The notice states that the collateral is "located or affixed or is to be affixed to the selected "PIN" (meaning the property identification number).

V. *Security Documents*

A. The 2006 Debenture and the 2008 Debenture

The 2006 Debenture appears to have been executed by Wolfgang Gericke, President, on November 7, 2006. The 2008 Debenture appears to have been executed by Taras Sawula, Vice-President, on May 5, 2008. The copies of the 2006 Debenture and the 2008 Debenture (collectively, the "**Debentures**") that we have reviewed do not appear to have been executed under the Debtor's corporate seal. No directors' resolutions have been provided to us authorizing the execution of the Debentures on behalf of the Debtor. Capitalized terms used in this section have the meanings given to them in the Debentures.

The Debentures each grant to Lucky Star by way of a fixed and specific mortgage, pledge and charge, to and in favour of Lucky Star, (i) a charge on all freehold and leasehold real property or interest therein now owned or leased by the Debtor, together with all buildings, erections, and fixtures now or hereafter constructed or placed on such real property, and (ii) a charge on all freehold and leasehold real property or interest therein hereafter owned or leased by the Debtor, together with all buildings, erections, and fixtures now or hereafter constructed or placed on such real property. Additionally, the Debentures grant to Lucky Star, as and by way of a floating charge, mortgage and assignment, a security interest in all of the Debtor's Inventory, Equipment, Proceeds, Book & Records and Other Property. The foregoing security interests were granted as general and continuing security for the payment of the "Indebtedness". The Indebtedness is stated to be payable on demand. The principal amount of the Indebtedness under the 2006 Debenture is $20,000,000. The principal amount of the Indebtedness under the 2008 Debenture is $13,000,000.

In addition to the security interests described in the paragraph above, pursuant to the Debentures, the Debtor also transfers and assigns all Book Debts to Lucky Star.

The security interests created by the 2008 Debenture appear to have been registered under the PPSA on May 6, 2008 as file number 644895315 (the "**2008 PPSA Registration**"), against the collateral classifications Inventory, Equipment, Accounts, Other and Motor Vehicles. We note that the said PPSA registration contains no vehicle identification numbers ("**VINS**") in relation to any motorized vehicles. We also note that this PPSA registration includes the reference, "Debenture dated May 5, 2008" in the General Collateral Description section. As such, this registration appears to be limited to the 2008 Debenture.

Subject to the qualifications and assumptions set out in this Report, including Schedule "D" to this Report, the 2008 Debenture appears to be valid and enforceable in accordance with its respective terms and creates a perfected security interest in the Debtor's Charged Property described therein to which the PPSA applies. While the 2006 Debenture may be a valid debenture (although the lack of its registration under the PPSA or against title to real property may raise questions regarding whether it is a subsisting debenture), the 2008 PPSA Registration appears to deliberately reference only the 2008 Debenture and cannot be said to result in the 2006 Debenture having been validly perfected by registration under the PPSA. Even if the 2008 PPSA Registration could be so construed, the date of perfection would be the same as for the 2008 Debenture.

B. The Security Agreement

The Security Agreement appears to have been executed by Taras Sawula, Vice- President on May 5, 2008. It does not appear from the copy presented to have been executed under the Debtor's corporate seal. No directors' resolution has been provided to us authorizing the execution of the Security Agreement on behalf of the Debtor.

Capitalized terms used in this section have the meanings given to them in the Security Agreement.

The Security Agreement provides that, in consideration of a loan from the Secured Party in favour of Terrace Bay in the amount of $5,000,000 "for the purpose of enabling Terrace Bay to acquire rights in the goods described in Schedule "A" hereto and as general and continuing security for payment of Indebtedness...", Terrace Bay grants to Lucky Star a security interest in the "goods", which shall constitute "Collateral". "Indebtedness" is defined under the Security Agreement as indebtedness of any nature and kind and is not limited to the referenced loan of $5,000,000. The term "goods" is not defined, but in reading the first paragraph of section 2 of the Security Agreement appears to relate back and be limited to the goods described on Schedule "A", being the following:

> "A "turbine" including but not limited to a generator, gear box, and the turbine itself, including all the ancillary piping, wiring, electrical generating equipment and control panels and bark handling system, all located on the Debtor's pulp mill lands at Terrace Bay." (the "**Equipment**")

In our view, the Equipment is the only collateral secured under the Security Agreement and references to "Collateral" under the Security Agreement should be interpreted as meaning the Equipment or any part thereof.

The Security Agreement bears the title "PURCHASE MONEY SECURITY AGREEMENT". In order to create a valid purchase money security interest ("**PMSI**") in equipment, the conditions set out in Section 33(2) of the PPSA must be met. Section 33(2) of the PPSA provides as follows:

> Except where the collateral or its proceeds is inventory or its proceeds, a purchase-money security interest in collateral or its proceeds has priority over any other security interest in the same collateral given by the same debtor if the purchase-money security interest,
>
> (a) in the case of collateral, other than an intangible, was perfected before or within ten days after,
>
> (i) the debtor obtained possession of the collateral as a debtor, or
>
> (ii) a third party, at the request of the debtor, obtained or held possession of the collateral,
>
> whichever is earlier;...

The security interest created by the Security Agreement appears to have been originally registered under the PPSA on May 6, 2008 as file number 644895333, against the collateral classifications Equipment and Motor Vehicles. The registration was subsequently amended on March 11, 2009 to include Accounts and Other to the collateral classification. We note that the registrations referred to in this paragraph do not contain any VINS in relation to any motorized vehicles.

We note that for Lucky Star to assert PMSI priority it will be necessary for it to demonstrate that its PPSA registration was effected prior to or within 10 days following the debtor obtaining possession of the Equipment. We are not in possession of sufficient information to comment upon whether Lucky Star might validly claim priority over the prior registered security interest of Nexcap.

The security interest created by the Security Agreement was perfected by registration under the PPSA on May 6, 2008. Subject to the qualifications and assumptions set out in this Report, including Schedule "D" to this Report, the Security Agreement is valid and enforceable in accordance with its terms and creates a perfected security interest in favour of Lucky Star in the Equipment pursuant to the PPSA.

C. Real Property Security Registrations

(a) 2008 Debenture

The 2008 Debenture was registered against title to the Real Property as more particularly described on Schedule "C" attached hereto. The 2008 Debenture constitutes a valid charge on the Real Property, enforceable in accordance with its terms. We note that the 2008 Debenture is the only charge that appears to be registered against the Real Property. As noted in Part II of Schedule "C' hereto, there are other registrations in addition to the 2008 Debenture against such real property, including a NOSI registered in favour of Lucky Star on May 6, 2008, a NOSI registered in favour of Nexcap Finance Corporation (**"Nexcap"**) on July 31, 2008 and, in relation to PIN 62457-1118 and PIN 62457-1206, five construction lien claims.

(b) Notice of Security Interest Registered against certain of the Real Property

Under section 54 of the PPSA, a NOSI may be registered in the proper land registry office, among other instances, where the collateral is or includes fixtures or goods that may become fixtures that are situated upon real property. The PPSA provides that where such a notice has been registered, every person dealing with the collateral shall be deemed for the purposes of section 34(2) of the PPSA (dealing with fixtures) to have knowledge of the security interest. As noted above, Lucky Star has registered a NOSI against title to the real property described on Part II of Schedule "C" attached hereto in relation to the collateral described under the Security Agreement.

VI. *Other PPSA Registrations*

As noted on Schedule "B" attached hereto, the PPSA Search revealed other registrations against the Debtor in favour of various secured parties. We confirm that we have not been requested to review any of the other security held by the secured parties listed on Schedule "B" (other than in relation to Nexcap, on which we have previously reported) and, accordingly, any such review is beyond the scope of this Report.

VII. *Applicable Law*

The opinions expressed in this opinion letter are limited to Ontario Law in force as at the date of this opinion letter.

VIII. ***Reliance***

The opinions expressed in this opinion letter may be relied upon only by Ernst & Young LLP for the purposes of acting as the Monitor. These opinions may not be quoted from or referred to in any other document without our prior written consent and may not be:

(i) relied upon for any purpose or in connection with any other transactions, except in connection with or during the course of judicial or administrative proceedings in which the foregoing opinions may be relevant;

(ii) relied upon by any other person; or

(iii) disclosed or furnished (in whole as in part, in its original form or by copy) to any other person, except in connection with, or during the course of, judicial or administrative proceedings in which the opinions contained herein maybe relevant.

Yours truly,

Lang Michener LLP

Sheryl E. Seigel

Lang Michener LLP
Lawyers – Patent & Trade Mark Agents

SCHEDULE "A"

SEARCHES

Corporate Search

We obtained a Profile Report from the Ministry dated March 18, 2009 for the Debtor. The Profile Report did not disclose any former names of or predecessor corporations of the Debtor.

Executions Search

We obtained a Sheriff's Certificate for the Sheriff's Office of the Territorial District of Thunder Bay and for the Sherriff's Office of the City of Toronto, each dated March 23, 2009, and each of which disclosed no writs of execution or certificates of lien in such Sheriff's hands in respect of the Debtor.

Bank Act Search

As of March 19, 2009, no registrations under the *Bank Act* (Canada) against the Debtor were disclosed from our searches at the office of the Agency of the Bank of Canada in Ontario.

PPSA Search

We carried out searches against the Debtor at the Ontario Personal Property Security Registry maintained by the Ministry. We obtained certificates in respect of the Debtor dated of March 18, 2009, with a file currency of March 17, 2009, disclosing the registrations summarized on Schedule "B" below.

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SCHEDULE "B"

PPSA SEARCH SUMMARY

Personal Property Security Act (Ontario, current to March 17, 2009)

The following abbreviations are used to identify collateral classifications under the *Personal Property Security Act*:

A – Accounts
CG – Consumer Goods
E – Equipment
I – Inventory
O – Other
MV – includes Motor Vehicle

Terrace Bay Pulp Inc.

Reference File No.	*Registration No.*	*Debtor*	*Secured Party*	*Collateral*	*General Collateral Description/Comments*
650228301 (3 years)	20081128 1446 1530 6243	Terrace Bay Pulp Inc. 21 Mill Road Terrace Bay, ON P0T 2W0	**Liftcapital Corporation** 300 The East Mall, Suite 401 Toronto, ON M9B 6B7	E, O	Material handling equipment together with all parts, attachments, accessories, additions, batteries, chargers, repair parts, and other equipment placed on or forming part of the goods described herein with any proceeds thereof and therefrom including, without limitation, all goods, securities, instruments, documents of title, chattel paper and intangibles (as defined in the Personal Property Security Act).
644895315 (5 years)	20080506 1529 1862 0609	Terrance Bay Pulp Inc. 1120 Premier Way Thunder Bay, ON P7B 0A3 (ON Corp. #2101997)	**Lucky Star Holdings Inc.** 1120 Premier Way Thunder Bay, ON P7B 0A3	I, E, A, O, MV No fixed maturity date	Amount: 13000000 Debenture dated May 5, 2008
644895333 (5 years)	20080506 1530 1862 0610 20090311 0930 1862 2196 (Amendment – add/include accounts and other Section 1 on line 10 of the collateral classification to registration number 20080506 1530 1862 0610.)	Terrance Bay Pulp Inc. 1120 Premier Way Thunder Bay, ON P7B 0A3 (ON Corp. #2101997)	**Lucky Star Holdings Inc.** 1120 Premier Way Thunder Bay, ON P7B 0A3	E, A, O, MV No fixed maturity date	Amount: 5000000 Security Agreement date May 5, 2008

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Reference File No.	*Registration No.*	*Debtor*	*Secured Party*	*Collateral*	*General Collateral Description/Comments*
643202037 (4 years)	20080307 1003 6005 7224	Terrace Bay Pulp Inc. 21 Mill Road Terrace Bay, ON P0T 2W0	**National Leasing** Group Inc. L#2411960 1558 Willson Place Winnipeg, MB R3T 0Y4	E	All photocopiers of every nature or kind described in lease number 2411960 between the secured party, as lessor and the debtor as lessee, as amended from time to time, together with all attachments, accessories and substitutions.
637713234 (5 years)	20070730 1215 1862 0810 20070730 1306 1862 0820 (amendment – amend secured party address) 20070802 1006 1862 1087 (amendment – add collateral to registration) 20070803 0906 1862 1178 (Amendment – to substitute line 10 and if required to clarify financing change statement 20070802100618621087)	Terrace Bay Pulp Inc. 21 Mill Road Terrace Bay, ON P0T 2W0 (ON Corp. #002101997)	**Nexcap Finance Corporation** 5420 North Service Road, Suite 504 Burlington, ON L7N 6C7	I, E, A, O, MV No fixed maturity date	
634468275 (3 years)	20070418 1943 1531 9387	Terrace Bay Pulp Inc. 21 Mill Road Terrace Bay, ON P0T 2W0	**CitiCorp Vendor Finance, Ltd.** 123 Front Street West 16th Fl Toronto, ON M5J 2M3	E, MV	Year: 2007 Make: Toyota Model: 7FGU25 V.I.N.: 84961 Year: 2007 Make: Toyota Model: 7FGU25 V.I.N.: 84969 Together with all parts, attachments, accessories, additions, repair parts and other equipment placed on or forming part of the goods described herein and any proceeds thereof and therefrom including, without limitation, all goods, securities, instruments, documents of title, chattel paper and intangibles (as defined in the Personal Property Security Act)

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Reference File No.	*Registration No.*	*Debtor*	*Secured Party*	*Collateral*	*General Collateral Description/Comments*
631475865 (7 years)	20061215 1441 1616 1576	Terrace Bay Pulp Inc 1223 Amber Drive Thunder Bay, ON P7B 6M4	**Kinecor LP** 2200 52 Eme Avenue Lachine, QC H8T 2Y3	I	Consignment agreement, further to a consignment agreement between the seller Kinecor LP & the buyer Terrace Bay Pulp Inc, all goods consigned by the seller to the buyer, such as nut not restricted to, hydraulic and process equipment, bearings and power transmission (bearings, pillow block & components, packing, cam followers, gasets, etc)

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SCHEDULE "C"

REAL PROPERTY SUBSEARCH SUMMARY

Part I – (current to March 24, 2009)

No.	PIN No.	Owner	Property Remarks	Charges	Subject To	Other Registrations
1	62456–0120	Terrace Bay Pulp Inc.	Crown Grant see PPA5365	Lucky Star Holdings Inc. – TY62886 (registered on May 6, 2008)	n/a	n/a
2	62456–0122	Terrace Bay Pulp Inc.	Crown Grant see PPA5365	Lucky Star Holdings Inc. – TY62886 (registered on May 6, 2008)	S/T LPA83730	Transfer Easement LPA83730 Plan Reference PAR301
3	62457–0432	Terrace Bay Pulp Inc.	Crown Grant see PPA5174	Lucky Star Holdings Inc. – TY62886 (registered on May 6, 2008)	n/a	Order LPA32578
4	62457–0492	Terrace Bay Pulp Inc.	Crown Grant see PPA5174	Lucky Star Holdings Inc. – TY62886 (registered on May 6, 2008)	n/a	n/a
5	62457–0728	Terrace Bay Pulp Inc.	Crown Grant see PPA5174	Lucky Star Holdings Inc. – TY62886 (registered on May 6, 2008)	n/a	n/a
6	62457–0815	Terrace Bay Pulp Inc.	Crown Grant see PPA5174	Lucky Star Holdings Inc. – TY62886 (registered on May 6, 2008)	n/a	Plan Reference 55R3613
7	62457–0954	Terrace Bay Pulp Inc.	Crown Grant see PPA5174	Lucky Star Holdings Inc. – TY62886 (registered on May 6, 2008)	n/a	Plan Reference 55R3613
8	62457–0956	Terrace Bay Pulp Inc.	Crown Grant see PPA5174	Lucky Star Holdings Inc. – TY62886 (registered on May 6, 2008)	n/a	Plan Reference 55R3613
9	62457–1000	Terrace Bay Pulp Inc.	Crown Grant see PPA5174	Lucky Star Holdings Inc. – TY62886 (registered on May 6, 2008)	n/a	Plan Reference 55R5587
10	62457–1024	Terrace Bay Pulp Inc.	Crown Grant see PPA5174	Lucky Star Holdings Inc. – TY62886 (registered on May 6, 2008)	n/a	Plan Reference 55R9343
11	62457–1025	Terrace Bay Pulp Inc.	Crown Grant see PPA5174	Lucky Star Holdings Inc. – TY62886 (registered on May 6, 2008)	n/a	n/a
12	62457–1026	Terrace Bay Pulp Inc.	Crown Grant see PPA5174	Lucky Star Holdings Inc. – TY62886 (registered on May 6, 2008)	n/a	n/a
13	62457–1033	Terrace Bay Pulp Inc.	Crown Grant see PPA5174	Lucky Star Holdings Inc. – TY62886 (registered on May 6, 2008)	n/a	n/a

No.	PIN No.	Owner	Property Remarks	Charges	Subject To	Other Registrations
14	62457–1034	Terrace Bay Pulp Inc.	Crown Grant see PPA5174, PPA5189	Lucky Star Holdings Inc. – TY62886 (registered on May 6, 2008)	n/a	Plan Reference 55R6668
15	62457–1041	Terrace Bay Pulp Inc.	Crown Grant see PPA5174, PPA5189	Lucky Star Holdings Inc. – TY62886 (registered on May 6, 2008)	n/a	n/a
16	62457–1048	Terrace Bay Pulp Inc.	Crown Grant see PPA5174	Lucky Star Holdings Inc. – TY62886 (registered on May 6, 2008)	S/T LT235181	Plan Reference 55R6668 Transfer Easement LT235181
17	62457–1082	Terrace Bay Pulp Inc.	Planning Act Consent as in LT173634; Crown Grant see PPA5174	Lucky Star Holdings Inc. – TY62886 (registered on May 6, 2008)	n/a	Plan Reference 56R732 Notice LT174387
18	62457–1083	Terrace Bay Pulp Inc.	n/a	Lucky Star Holdings Inc. – TY62886 (registered on May 6, 2008)	S/T LPA43496, LT210598	Transfer Easement LPA43496 Plan Reference 55R1257 Plan Reference 55R3595 Plan Reference 55R5375 Transfer Easement LT210598 Plan Reference 55R11103 LR's Order TY3308

Part II – (current to April 24, 2009)

No.	PIN No.	Owner	Property Remarks	Charges	Subject To	Other Registrations
1	62457–1091	Terrace Bay Pulp Inc.	n/a	Lucky Star Holdings Inc. – TY62886 (registered on May 6, 2008)	n/a	**Notice of Sec Interest** TY49141 (Nexcap Finance Corporation registered on July 31, 2007) **Notice of Sec Interest** TY62887 (Lucky Star Holdings Inc. registered on May 6, 2008)
2	62457–1096	Terrace Bay Pulp Inc.	Crown Grant see PPA5174	Lucky Star Holdings Inc. – TY62886 (registered on May 6, 2008)	n/a	Order LPA32578 Plan Reference 55R2142 **Notice of Sec Interest** TY49141 (Nexcap Finance Corporation registered on July 31, 2007) **Notice of Sec Interest** TY62887 (Lucky Star Holdings Inc. registered on May 6, 2008)
3	62457–1105	Terrace Bay Pulp Inc.	Crown Grant see PPA5189	Lucky Star Holdings Inc. – TY62886 (registered on May 6, 2008)	n/a	Order LPA32578 Plan Reference 55R11640 Plan Reference 55R11735 **Notice of Sec Interest** TY49141 (Nexcap Finance Corporation registered on July 31, 2007) **Notice of Sec Interest** TY62887 (Lucky Star Holdings Inc. registered on May 6, 2008)

No.	PIN No.	Owner	Property Remarks	Charges	Subject To	Other Registrations
4	62457–1116	Terrace Bay Pulp Inc.	n/a	Lucky Star Holdings Inc. – TY62886 (registered on May 6, 2008)	n/a	Order LPA32578 **Notice of Sec Interest** TY49141 (Nexcap Finance Corporation registered on July 31, 2007) **Notice of Sec Interest** TY62887 (Lucky Star Holdings Inc. registered on May 6, 2008)
5	62457–1117	Terrace Bay Pulp Inc.	n/a	Lucky Star Holdings Inc. – TY62886 (registered on May 6, 2008)	n/a	Notice LPA31804 **Notice of Sec Interest** TY49141 (Nexcap Finance Corporation registered on July 31, 2007) **Notice of Sec Interest** TY62887 (Lucky Star Holdings Inc. registered on May 6, 2008)
6	62457–1118	Terrace Bay Pulp Inc.	Crown Grant see PPA5277	Lucky Star Holdings Inc. – TY62886 (registered on May 6, 2008)	S/T LPA43496 partially released by LT152053	Order LPA32578 APL (General) LPA40453 Transfer Easement LPA43496 Release LT152053 Plan Reference 55R4505 APL (General) LT164282 Plan Reference 55R4825 Notice LT209729 Plan Reference 55R8154 Plan Reference 55R11544 Certificate F116935 LR's Order F137148 **Notice of Sec Interest** TY49141 (Nexcap Finance Corporation registered on July 31, 2007) **Notice of Sec Interest** TY62887 (Lucky Star Holdings Inc. registered on May 6, 2008) **Construction Lien** TY79281 ($321,322 - Skyway Canada Limited registered on March 10, 2009 and a certificate of action was subsequently registered on April 14, 2009) **Construction Lien** TY79859 ($51,367 – Peterson Machine & Supply Inc. registered on March 24, 2009) **Construction Lien** TY80190 ($386,950 – Vector Construction Ltd. registered on April 1, 2009) **Construction Lien** TY80772 ($115,003 – KMH Engineering Inc. registered on April 15, 2009) **Construction Lien** TY80900 ($996,356 – Great West Timber Limited registered on April 17, 2009)

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No.	PIN No.	Owner	Property Remarks	Charges	Subject To	Other Registrations
7	62457–1119	Terrace Bay Pulp Inc.	n/a	Lucky Star Holdings Inc. – TY62886 (registered on May 6, 2008)	n/a	Order LPA32578 **Notice of Sec Interest** TY49141 (Nexcap Finance Corporation registered on July 31, 2007) **Notice of Sec Interest** TY62887 (Lucky Star Holdings Inc. registered on May 6, 2008)
8	62457–1120	Terrace Bay Pulp Inc.	n/a	Lucky Star Holdings Inc. – TY62886 (registered on May 6, 2008)	S/T LPA43492, LPA43494, LPA43496, LT210598	Order LPA32578 APL (General) LPA40453 Transfer Easement LPA43492 Transfer Easement LPA43494 Transfer Easement LPA43496 Plan Reference 55R5375 Transfer Easement LT210598 **Notice of Sec Interest** TY49141 (Nexcap Finance Corporation registered on July 31, 2007) **Notice of Sec Interest** TY62887 (Lucky Star Holdings Inc. registered on May 6, 2008)
9	62457–1121	Terrace Bay Pulp Inc.	n/a	Lucky Star Holdings Inc. – TY62886 (registered on May 6, 2008)	n/a	Order LPA32578 **Notice of Sec Interest** TY49141 (Nexcap Finance Corporation registered on July 31, 2007) **Notice of Sec Interest** TY62887 (Lucky Star Holdings Inc. registered on May 6, 2008)

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No.	PIN No.	Owner	Property Remarks	Charges	Subject To	Other Registrations
10	62457–1206	Terrace Bay Pulp Inc.	n/a	Lucky Star Holdings Inc. – TY62886 (registered on May 6, 2008)	S/T F65076, LPA49848, LT148632	Order LPA32578 Transfer Easement LPA49848 Plan Reference PAR576 Plan Reference 55R3612 Transfer Easement LT148631 Transfer Easement LT148632 Plan Reference 55R7495 Order LT233066 Plan Reference 55R10328 Transfer Easement F65076 LR's Order F137183 APL (General) TY238 LR's Order TY2293 **Notice of Sec Interest** TY49141 (Nexcap Finance Corporation registered on July 31, 2007) **Notice of Sec Interest** TY62887 (Lucky Star Holdings Inc. registered on May 6, 2008) Plan Reference 55R12801 **Construction Lien** TY79281 ($321,322 - Skyway Canada Limited registered on March 10, 2009 and a certificate of action was subsequently registered on April 14, 2009) **Construction Lien** TY79859 ($51,367 – Peterson Machine & Supply Inc. registered on March 24, 2009) **Construction Lien** TY80190 ($386,950 – Vector Construction Ltd. registered on April 1, 2009) **Construction Lien** TY80772 ($115,003 – KMH Engineering Inc. registered on April 15, 2009) **Construction Lien** TY80900 ($996,356 – Great West Timber Limited registered on April 17, 2009)
11	62457–1202	Terrace Bay Pulp Inc.	Crown Grant see PPA5365	Lucky Star Holdings Inc. – TY62886 (registered on May 6, 2008)	S/T LPA83730	Transfer Easement LPA83730 Plan Reference PAR301 **Notice Sec Interest** TY49141 (Nexcap Finance Corporation registered on July 31, 2007) **Notice of Sec Interest** TY62887 (Lucky Star Holdings Inc. registered on May 6, 2008)

No.	PIN No.	Owner	Property Remarks	Charges	Subject To	Other Registrations
12	62458–0523	Terrace Bay Pulp Inc.	Crown Grant see PPA3368	Lucky Star Holdings Inc. – TY62886 (registered on May 6, 2008)	S/T Right in LPA32803	Order LPA32578 **Notice of Sec Interest** TY49141 (Nexcap Finance Corporation registered on July 31, 2007) **Notice of Sec Interest** TY62887 (Lucky Star Holdings Inc. registered on May 6, 2008)
13	62458–0533	Terrace Bay Pulp Inc.	Crown Grant see PPA5276	Lucky Star Holdings Inc. – TY62886 (registered on May 6, 2008)	n/a	Order LPA32578 **Notice of Sec Interest** TY49141 (Nexcap Finance Corporation registered on July 31, 2007) **Notice of Sec Interest** TY62887 (Lucky Star Holdings Inc. registered on May 6, 2008)
14	62458–0534	Terrace Bay Pulp Inc.	Crown Grant see PPA5289	Lucky Star Holdings Inc. – TY62886 (registered on May 6, 2008)	n/a	APL (General) LPA40453 **Notice of Sec Interest** TY49141 (Nexcap Finance Corporation registered on July 31, 2007) **Notice of Sec Interest** TY62887 (Lucky Star Holdings Inc. registered on May 6, 2008)
15	62458–0578	Terrace Bay Pulp Inc.	Crown Grant see PPA889	Lucky Star Holdings Inc. – TY62886 (registered on May 6, 2008)	n/a	Plan Reference 55R11271 APL (General) TY32012 **Notice of Sec Interest** TY49141 (Nexcap Finance Corporation registered on July 31, 2007) **Notice of Sec Interest** TY62887 (Lucky Star Holdings Inc. registered on May 6, 2008)
16	62458–0579	Terrace Bay Pulp Inc.	Crown Grant see PPA861	Lucky Star Holdings Inc. – TY62886 (registered on May 6, 2008)	S/T LT201161	Plan Reference 55R5898 Transfer Easement LT201161 Plan Reference 55R11271 Transfer Easement F96840E LR's Order F137164 APL (General) TY32365 **Notice of Sec Interest** TY49141 (Nexcap Finance Corporation registered on July 31, 2007) **Notice of Sec Interest** TY62887 (Lucky Star Holdings Inc. registered on May 6, 2008)
17	62458–0591	Terrace Bay Pulp Inc.	n/a	Lucky Star Holdings Inc. – TY62886 (registered on May 6, 2008)		Order LPA32578 Plan Reference 55R11271 **Notice of Sec Interest** TY49141 (Nexcap Finance Corporation registered on July 31, 2007) **Notice of Sec Interest** TY62887 (Lucky Star Holdings Inc. registered on May 6, 2008)

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No.	PIN No.	Owner	Property Remarks	Charges	Subject To	Other Registrations
18	62501–0002	Terrace Bay Pulp Inc.	n/a	Lucky Star Holdings Inc. – TY62886 (registered on May 6, 2008)	n/a	**Notice of Sec Interest** TY49141 (Nexcap Finance Corporation registered on July 31, 2007) **Notice of Sec Interest** TY62887 (Lucky Star Holdings Inc. registered on May 6, 2008)
19	62501–0003	Terrace Bay Pulp Inc.	Crown Grant see PPA5315	Lucky Star Holdings Inc. – TY62886 (registered on May 6, 2008)	n/a	**Notice of Sec Interest** TY49141 (Nexcap Finance Corporation registered on July 31, 2007) **Notice of Sec Interest** TY62887 (Lucky Star Holdings Inc. registered on May 6, 2008)
20	62501–0090	Terrace Bay Pulp Inc.	Crown Grant see PPA5366	Lucky Star Holdings Inc. – TY62886 (registered on May 6, 2008)	S/T LPA53820	Transfer Easement LPA53820 **Notice of Sec Interest** TY49141 (Nexcap Finance Corporation registered on July 31, 2007) **Notice of Sec Interest** TY62887 (Lucky Star Holdings Inc. registered on May 6, 2008)
21	62458–0314	Terrace Bay Pulp Inc.	Crown Grant see PPA861	Lucky Star Holdings Inc. – TY62886 (registered on May 6, 2008)	S/T Ease over parts 2, 4, 5 & 7 on 55R11271 in favour of part 9 on 55R11271 as in F96838	Transfer Easement LT201161 Plan Reference 55R11271 APL (General) TY32012 **Notice of Sec Interest** TY49141 (Nexcap Finance Corporation registered on July 31, 2007) **Notice of Sec Interest** TY62887 (Lucky Star Holdings Inc. registered on May 6, 2008)

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SCHEDULE "D"

ASSUMPTIONS AND QUALIFICATIONS

The Assumptions and Qualifications contained in this Schedule "D" form part of and should be read together with the preceding Report. References to "Documents" or a "Document" in this Schedule "D" shall mean collectively the Debentures and the Security Agreement, or any one of them. Capitalized terms in Schedule "D" have the meanings set forth in the Report, unless otherwise defined. The views and opinions contained in the Report are subject to each of the Assumptions and Qualifications that follow.

ASSUMPTIONS

1. We have assumed the genuineness of all signatures, the identity and the necessary legal capacity at all times of all individuals, the authenticity of all documents and instruments submitted to us as originals, the conformity to originals and completeness of all documents and instruments submitted to us as photocopies thereof to the originals, the authenticity of the originals of such photocopies, that each of the Documents, including any dated "as of" a particular date, were executed on the date appearing on each such document and that none of such documents have been amended and that all relevant individuals had full legal capacity at all relevant times.

2. We have assumed that the Debtor was duly incorporated and validly subsisting at the time the Documents were executed by it and that the Debtor continues to be validly subsisting as of the date of this opinion.

3. We have assumed that the Profile Report dated March 18, 2009 received from the Ministry is conclusive evidence that the Debtor was incorporated under the OBCA at all material times and has not been dissolved under the OBCA.

4. We have assumed that, at the time of the execution of the Documents, the Debtor had the requisite power, capacity and authority to enter into, execute, deliver and perform its rights and obligations under each of the Documents and that each of the Documents was duly authorized, executed and delivered by the Debtor and that no provision of the articles of incorporation, charter documents or other documents by which the Debtor was incorporated or continued or any by-laws or any unanimous shareholders agreement was violated by the execution, delivery or performance of any of the Documents.

5. We have assumed that the Documents are governed by the laws of the Province of Ontario and that where the choice of law of a Document is the Province of Ontario, it will

be given effect to in any legal proceeding, and that the principal place of business for the Debtor was, at all material times, Ontario.

6. We have assumed the validity and enforceability of the obligations purporting to be secured by each of the Documents, that valid consideration has been given by Lucky Star to the Debtor in respect of which the security was granted, that the obligations secured have not been repaid, or complied with, and remain outstanding, and that all conditions precedent contained in each of the Documents, if any, were satisfied or waived.

7. We have assumed that there are no agreements, facts or understandings, written or oral, (such as duress, mistake of fact, undue influence, unconscionability, oppressive conduct, misrepresentations or bad faith) or usage of trade or course of prior dealings between the parties affecting or concerning any of the Documents or the various principal obligations in respect of which the Documents were granted that were not apparent from our review of the Documents and that would or might affect the execution and delivery, validity, legality, binding effect or enforceability of any of the Documents, at law or in equity, or that would or might discharge, release, subordinate, surrender or assign any security interest granted to Lucky Star or have provisions that are inconsistent with the provisions of the Documents.

8. We have assumed the identity and capacity of all individuals acting or purporting to act as public officials, the accuracy and completeness of the records maintained by offices of public record and of all representations, statements and other matters of fact set out or referred to in such searches and documents, the reliability of all search results obtained by electronic transmission, the accuracy of the results of any printed or computer search of offices of public record and that the applicable filings, registrations or recordings referred to in the searches conducted relate to the Documents and continue to be effective and unchanged as of the date of this opinion.

9. We have assumed the conduct of the parties to the Documents has complied with any requirement of good faith, fair dealing and conscionability, and that Lucky Star, and any agent acting for Lucky Star, in connection with the Documents, have acted in good faith and without notice of any defence against the enforcement of any rights created by, or adverse claim to, any property or security interest transferred, or created, as part of, the Documents.

10. We have assumed, for the purposes of any opinion relating to the validity, perfection or effect of perfection or non-perfection of any security interest in any personal property, that:

    (a) the PPSA applies to such personal property and security interest;

    (b) value has been given (within the meaning of Section 11(2) of the PPSA);

    (c) Lucky Star has not agreed to postpone the time for attachment of any of the security interests created by the Documents and that attachment, within the meaning of the PPSA, of the security interests constituted by the Documents, has occurred;

(d) such personal property does not constitute "consumer goods" as defined in the PPSA;

(e) this collateral comprises tangible personal property situated in the Province of Ontario; and

(f) the Debtor has rights in such personal property.

11. We have not undertaken any independent investigation to verify the correctness of any of the foregoing assumptions.

QUALIFICATIONS

1. The enforceability of the Documents and the rights and remedies set out therein or any judgment arising out of or in connection therewith may be limited by any applicable bankruptcy, insolvency, winding-up, reorganization, arrangement, moratorium, fraudulent preference, fraudulent conveyance, oppression or other laws affecting creditors' rights generally. We express no opinion as to whether the Documents could be attacked under any such legislation or in any manner, including:

   (a) the costs of and incidental to a proceeding to enforce a Document are in the discretion of an Ontario court of competent jurisdiction (the "**Court**"), and the Court may determine by whom and to what extent the costs shall be paid;

   (b) under the *Courts of Justice Act* (Ontario) interest after judgment may be limited to a rate which is less than a rate specified in any Document;

   (c) section 347 of the *Criminal Code* (Canada) prohibits the payment of "interest" at a "criminal rate" (as such terms are defined therein);

   (d) any action on any Document may be barred by the *Limitations Act* (Ontario) after the applicable limitation period has expired;

   (e) a judgment by the Court for the payment of an amount of money may only be awarded in Canadian currency and may be based on a rate of exchange in existence on a date other than the date of payment.

2. We express no opinion regarding the enforceability of any provision of the Documents which purports to provide that any portion thereof which is unenforceable may be severed without affecting the enforceability of the remaining provisions.

3. We express no opinion as to the legal or beneficial right, title or interest of the Debtor to any of the collateral subject to the Documents and such title has been assumed to the full extent necessary to express the opinions herein contained.

4. We express no opinion as to the ranking or priority of any security interest, lien, hypothec or security interest expressed to be created by or under the Documents. We note that the order of registration of a security interest under the PPSA is not absolutely indicative of priority. There are exceptions to priority by registration, not limited to, the case of investment property, purchase money security interests, interests not governed by or subject to the PPSA and unregistered government claims.

5. We express no opinion regarding the creation, validity, enforceability or perfection of any security interest, lien, hypothec or other interest in, or the enforceability of, the Documents insofar as it relates to any:

   (a) real property (other than expressly referenced in this Report and only to that extent), fixtures, claims or rights, or a lease of real property, or any interest in real property or right to payment that arises in connection with an interest in land;

   (b) policy of insurance or contract of annuity;

   (c) trade-mark, copyright, industrial design, patent, patent application, licence, approval, privilege, quota, franchise, permit or any other intellectual property, regulatory authorizations or other similar property which is not personal or movable property;

   (d) consumer goods (as such item is defined in the PPSA);

   (e) interest in a right to damages in tort or at law;

   (f) debt owing to the Debtor by the Crown or any agent thereof;

   (g) any property which is an interest in an unearned right to payment under a contract to a transferee who is to perform the transferor's obligations under the contract.

6. We express no opinion as to the enforceability of any provisions in any of the Documents, which:

   (a) purport to directly or indirectly exclude unwritten variations, waivers or consents of, to or under the Documents or restrict their effect;

   (b) provide for agreement at a later date;

   (c) purport to restrict the access to, waive or purport to waive the benefit or protection of, any legal or equitable rights, remedies or defences, or principle of statutory protection based on public policy, including any rights to notices, including notices of enforcement,

(d) provide for obligations, rights or remedies which are inconsistent with any other provisions of the Documents or subject or subordinate to, or overridden by, other provisions in the Documents;

(e) provide for evidentiary standards as being conclusive and binding;

(f) purport to bind or affect, or confer a benefit upon, persons who are not parties to the Documents;

(g) purport to establish evidentiary standards, such as provisions stating that certain determinations, calculations, requests or certificates will be conclusive or binding; or

(h) appoint or constitute any person as attorney for the Debtor to execute any document or do any other act on behalf of the Debtor.

7. Each of the Documents may be subject to:

(a) the Court's powers to stay proceedings and execution of judgments;

(b) applicable laws regarding limitation of actions;

(c) the Court's discretion to decline to hear any action or give effect to any obligation if to do so would be contrary to public policy; and

(d) implied obligations of good faith, fair dealing and reasonableness in the performance of a contract;

8. Provisions providing for the recovery of fees and expenses may be restricted by a Court to a reasonable amount and counsel fees may be subject to taxation.

9. No opinion is expressed concerning the applicability of any equitable remedy, nor concerning equitable limitations on, and defences against, the availability of remedies and equitable principles of application to proceedings at law or in equity.

10. No opinion is expressed as to the creation, validity, enforceability, attachment or perfection of any mortgage, charge, hypothec, security interest or other interests expressed to be created by or under any of the Documents with respect to any property of the Debtor or any proceeds of such property that are not identifiable or traceable.

11. No opinion is expressed as to the maintenance of perfection of any security interest created by any of the Documents.

12. Notwithstanding that, subject to attachment, registration under the PPSA will perfect a secured party's security interest in all forms of personal property to the extent that such statute applies to such personal property, only perfection by (i) possession by or on behalf of the secured party of chattel paper and instruments (including certain types of letters of credit and advances of credit and negotiable documents of title), and (ii) control by or on

behalf of the secured party of Investment Property (within the meaning of the PPSA), is sufficient to defeat the interest of certain specified parties as provided for under the PPSA.

13. No opinion is expressed in this Report as to whether Lucky Star has obtained "control", as defined in s.1(2) of the PPSA, over any form of collateral over which the provisions of the Ontario *Securities Transfer Act, 2006* ("**STA**") apply, or whether security interests in any personal property collateral have been perfected by Lucky Star or any other person other than by registration in accordance with the provisions of the PPSA.

14. A security interest perfected by registration of a financing statement under the PPSA will only remain perfected by such registration until the expiry date shown in respect of that registration, unless renewed before that date by the filing of a financing change statement or Form 3C properly completed in the manner prescribed under the PPSA. Any change in corporate name of, or the adoption or change of a French form of the name of, or a transfer to any third party of any of its property subject to the security interests created in favour of the holder of any Document would require timely registration of a financing change statement properly completed in the manner prescribed under the PPSA to preserve the priority and perfection of the security interests therein.

15. Any security interest expressed to be created under any of the Documents in any collateral acquired by the Debtor after the execution and delivery of the relevant Document will not attach to such collateral (and will not be enforceable against third parties or perfected) until the Debtor acquires rights in such collateral.

16. The views expressed in this opinion unless otherwise noted are limited to the PPSA and therefore do not address (i) laws of jurisdictions other than the Province of Ontario; (ii) Ontario law, except for the PPSA; (iii) collateral of a type not subject to the PPSA, including the types of collateral enumerated under s.4 or the PPSA; or (iv) the creation or perfection of any security interest with respect to property for which, pursuant to applicable conflicts rules (including, without limitation, the conflicts rules of the PPSA) the validity, perfection and effect of perfection or non-perfection or enforcement are governed by the laws of a jurisdiction other than Ontario.

17. Any views expressed with respect to the personal property security held by Lucky Star are based solely upon a review of the information provided to us by the Ministry. We express no opinion with respect to (i) any subordination or postponement agreements, or (ii) any unregistered or unperfected claims of third parties whether now existing or arising in the future, including legislative super-priority claims, liens, charges or trusts, which may, in the absence of any registration or other means of perfection, rank in priority to, or take precedence over, the security interests of Lucky Star.

18. We express no opinion as to title to, rights in or the beneficial interest of the Debtor or any other person in any real property, personal property or lease of real or personal property.

19. With respect to the security interests in the Collateral created under the Documents:

(a) acceleration, enforcement and realization under the Documents may be limited or conditioned by statutory conditions contained in the PPSA;

(b) a security interest in instruments, securities, chattel paper and negotiable documents of title may be perfected by registration, but will be defeated by certain claimants obtaining possession or control of such property in the circumstances described in the PPSA, STA or the *Bills of Exchange Act* (Canada), as applicable;

(c) a security interest in goods will be defeated by certain claimants to whom the Debtor sells, leases or encumbers those goods in the ordinary course of business, in the circumstances described in the PPSA;

(d) a security interest in motor vehicles sold outside of the ordinary course of business may be taken by the buyer free of any security interest, even if perfected by registration, unless the VIN is included in the PPSA registration (which, as noted above, Lucky Star's registration did not include); and

(e) no opinion is expressed with respect to any security interest in collateral that is transformed in such a way that it is not identifiable or traceable or in any proceeds of collateral that are not identifiable or traceable.

20. A receiver or receiver and manager appointed pursuant to any Document may, for certain purposes, be treated by the Court as being the agent of Lucky Star and not solely the agent of the Debtor (and Lucky Star may not be deemed to be acting as the agent or attorney of the Debtor in making such appointment), notwithstanding any provision in any of the Documents to the contrary.

21. Provisions in any Document to the effect that Lucky Star is not responsible to the Debtor for its own misconduct or negligence, or the misconduct or negligence of any agent, receiver or receiver and manager appointed by Lucky Star, may be invalid.

22. The effectiveness of provisions of any Document which purport to relieve a person from a liability or duty otherwise owed may be limited by law, and provisions requiring indemnification or reimbursement may not be enforced by the Court to the extent they relate to the failure of such person to have performed such duty or liability.

23. The fixed and specific security interests expressed to be created by any Document may be ineffective in respect of any collateral not in existence on, or acquired by the Debtor, after the date of delivery of the Document, or not described with sufficient particularity therein, with the result that such collateral will be subject to a security interest which is not in the nature of a fixed and specific security.

24. No opinion is expressed in this opinion letter as to whether it may be necessary in connection with the enforcement of any Document for Lucky Star, the Debtor or any other persons proposing to acquire, own or operate all or any part of the property secured

thereunder, to give any notice or obtain or effect any licence, franchise, permit, consent, approval, registration or other authorization or exemption in connection therewith.

25. We have not conducted any searches in respect of any trade marks, trade names, industrial designs, patents, copyrights or other intellectual property interests and no opinion is expressed with respect to the validity or effectiveness of the security interests of Lucky Star in relation to any such property. A security interest in (i) a trade mark, copyright, industrial design, patent, patent application, license or any goods purchased under any licence, (ii) an approval, privilege, quota, franchise, permit or lease, and (iii) an instrument, contract, account or agreement may not be perfected, valid, binding or enforceable because of the nature or terms of such property, or to the extent the nature or terms of such property or any statute or regulation require a consent, approval, acknowledgement, notice or other authorization or registration which has not been given or made.

26. Pursuant to the provisions of section 8 of the *Interest Act* (Canada), no fine, penalty or rate of interest may be exacted on any arrears of principal or interest secured by a mortgage on real property that has the effect of increasing the charge on the arrears beyond the rate of interest payable on principal money not in arrears.

27. We express no opinion on the priority or ranking of any real property charges vis-à-vis, *inter alia*, any liens under the *Construction Lien Act* (Ontario) (the "**CLA**") to the extent of any deficiency in the holdbacks required to be made under the CLA or to the extent provided by section 78(3) of the CLA, any liens for taxes, rates, assessments or governmental or public utility charges or levies not yet due and payable, and any unregistered lease, interest, claim or encumbrance of which the addressee has actual notice.

28. Our opinions do not address any of the following matters:

(a) any required registration, filing, recording or notice in respect of any fixtures, or goods that may become fixtures;

(b) any required caution filing which may be required in certain circumstances where goods are intended to be brought or are brought into Ontario; or

(c) any required registration, filing, recording or notice in respect of any real property rights or interests of any of the Documents.

29. With respect to the charge created under the 2008 Debenture and registered against any of the Real Property:

(a) realization of the 2008 Debenture may be limited or conditioned by statutory conditions contained in the *Mortgages Act* (Ontario) or the *Planning Act* (Ontario);

(b) enforcement of the 2008 Debenture against the Real Property may not be possible unless and until the 2008 Debenture is registered against the Real

Property in accordance with the land registration provisions of the *Land titles Act* (Ontario) and the *Registry Act* (Ontario), as applicable, and no opinion is expressed as to whether registration of the Debentures is possible;

(c) any interest in the Real Property registered before the 2008 Debenture may rank in priority to the 2008 Debenture;

(d) other interests in the Real Property registered subsequent to the 2008 Debenture may rank in priority to the 2008 Debenture; and

(e) enforcement and realization of the 2008 Debenture may also be limited or conditioned by any:

(i) unregistered liens, charges, adverse claims, security interests or other encumbrances of any nature claimed or held by Her Majesty the Queen in Right of Canada or Ontario or by any other governmental department, agency or authority under or pursuant to any applicable legislation, statute or regulation;

(ii) mechanics, construction, labourers, vendors, materials or other similar liens arising in the ordinary course of business and out of the construction or improvement of real property or out of the furnishing of materials or supplies therefor, a claim for which shall not have been registered against such property or of which notice in writing shall not at the time have been given; or

(iii) undetermined or inchoate liens arising or potentially arising under statutory provisions which have not at the time been filed and of which written notice has not been served pursuant to law or which relate to obligations not due or delinquent.

30. No opinion is expressed in this opinion letter as to any of those matters, which we have assumed for the purposes of rendering the opinions expressed above. All opinions which expressly, or by necessity, relate to the validity and enforceability of each of the Documents may be subject to any of the foregoing matters and limitations.

Appendix G

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April 9, 2009

To: Forestry Workers Lien for Wages Act and Construction Lien Act Claimants

Dear Sirs:

Re: Terrace Bay Pulp Inc. ("Terrace")

We are counsel for Ernst & Young Inc., the court appointed monitor of Terrace (the "**Monitor**").

On March 11, 2009, Terrace obtained an order (the "**Initial Order**") under the *Companies' Creditors Arrangement Act* (the "**CCAA**") staying proceedings by all parties with claims against Terrace and its property (the "**Stay of Proceedings**").

On April 8, 2009, the Honourable Justice Morawetz made an order (the "**April 8 Order**") (attached) lifting the Stay of Proceedings to permit persons having claims under the *Forestry Workers Lien for Wages Act* (the "**FWLWA**") and the *Construction Lien Act* (the "**CLA**") to preserve their claims (the "**Claims**") under the FWLWA and the CLA by filing lien claims and by commencing actions in respect of such liens in accordance with the FWLWA and CLA (and where relevant, registering a corresponding certificate of action under the CLA). The April 8 Order also extended the stay of proceedings under the Initial Order to June 30, 2009.

PURSUANT TO PARAGRAPH 3 OF THE APRIL 8TH ORDER, PARTIES ISSUING STATEMENTS OF CLAIM TO PRESERVE CLAIMS <u>MUST</u> SERVE A COPY OF ANY SUCH STATEMENT OF CLAIM UPON TERRACE AND THE MONITOR WITHIN 30 DAYS OF ISSUANCE.

Counsel for Terrace is:

BLAKE, CASSELS & GRAYDON LLP
Box 25, Commerce Court West
199 Bay Street, Suite 2800
Toronto, ON M5L 1A9

Attention: Pamela Huff / Katherine McEachern

Counsel for the Monitor is:

LANG MICHENER LLP
Barristers & Solicitors
Brookfield Place, Box 747
2500-181 Bay Street
Toronto, ON M5J 2T7

Attention: Sheryl Seigel/Alex Ilchenko

These statements of claim may be served by fax on counsel for Terrace at (416) 863-2653 to the attention of Katherine McEachern or to the following email address:

katherine.mceachern@blakes.com

These statements of claim may be served by fax upon counsel for the Monitor at (416) 365-1719 to the attention of Alex Ilchenko or to the following email address:

ailchenko@langmichener.ca

Parties may obtain copies of the documents filed in the Terrace CCAA proceedings at the following website established by the Monitor:

http://documentcentre.eycan.com/Pages/Main.aspx?SID=102

Parties requesting information with respect to the Terrace CCAA proceedings may also call the hotline number established by the Monitor at 1-866-986-9676.

THE APRIL 8 ORDER PROVIDES THAT THE STAY OF PROCEEDINGS WILL STAY ALL FURTHER PROCEEDINGS TO ENFORCE THE CLAIMS, ONCE THE CLAIMS ARE PRESERVED BY THE FILING OF A LIEN CLAIM, THE COMMENCEMENT OF AN ACTION IN ACCORDANCE WITH THE FWLWA AND THE CLA AND THE SERVICE OF THE STATEMENT OF CLAIM UPON TERRACE AND THE MONITOR AS DESCRIBED ABOVE.

Yours truly,

Lang Michener LLP

Alex A. Ilchenko
AAI/fl

c.c.: Alex Morrison, Ernst & Young Inc.
Sheryl Seigel, Lang Michener LLP
Pamela L. J. Huff, Blake, Cassels & Graydon LLP
Katherine McEachern, Blake, Cassels & Graydon LLP

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

ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST

THE HONOURABLE MR.	)	WEDNESDAY, THE 8TH
	)	
JUSTICE MORAWETZ	)	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

ENTERED AT / INSCRIT À TORONTO
ON / BOOK NO:
LE / DANS LE REGISTRE NO.:

APR 0 8 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

BLAKE, CASSELS & GRAYDON LLP
Box 25, Commerce Court West
Toronto, Ontario M5L 1A9

Pamela Huff LSUC#: 27344V
Tel: (416) 863-2958
Katherine McEachern LSUC#: 38345M
Tel: (416) 863-2566
Fax: (416) 863-2653

Lawyers for the Applicant

Appendix H

Alex Ilchenko

From:	Alex Ilchenko
Sent:	Thursday, April 09, 2009 2:45 PM
To:	Janette Sprovieri (janette.sprovieri@ontario.ca)
Cc:	Sheryl Seigel; 'alex.f.morrison@ca.ey.com'; 'Todd.J.Ambachtsheer@ca.ey.com'; 'PAM.HUFF@blakes.com'; 'katherine.mceachern@blakes.com'
Subject:	Terrace Bay Pulp Inc. ("Terrace")
Attachments:	Letter to FWLWA Claimants 9April09.pdf

As discussed, please find attached a pdf copy of a letter attaching a copy of the Order of Justice Morawetz dated April 8, 2009 (the "**April 8 Order**").

As noted in the letter, the April 8 Order permits parties wishing to make claims against Terrace under the *Construction Lien Act* and the *Forestry Workers Lien for Wages Act* to file liens and commence actions for the purpose of preserving their ability to make claims within the required time periods under these Acts.

Please ensure that the counter staff at both the Superior Court of Justice and Small Claims Court provide this letter and the April 8 Order to all parties commencing actions against Terrace under the *Construction Lien Act* and the *Forestry Workers Lien for Wages Act*, so that these claimants are informed of the required procedure for service of the claim on Terrace and the Monitor under the April 8 Order.

As noted in paragraph 3 of the April 8 Order, any statements of claim issued under these Acts will have to be served on Terrace and the Monitor within 30 days of issuance. The Stay of Proceedings under the Initial Order will then stay any further prosecution of these actions.

For today please print out a requisite number of copies of the letter and the April 8 Order and provide them to any persons filing claims under these Acts today. We thank you for your assistance in this regard.

We will be providing you with additional copies of the letter and the April 8 Order on Tuesday by courier. Please confirm that this package should be sent to:

Janette Sprovieri
Supervisor Court Operations
Superior Court of Justice --Thunder Bay
1805 East Arthur Street
Thunder Bay, Ontario P7E 5N7

If you have any questions regarding this procedure, please do not hesitate to contact me at the numbers below.

Alex A. Ilchenko
Phone: 416-307-4116
Fax: 416-304-3880
Email: ailchenko@langmichener.ca

Appendix I

Alex Ilchenko

From: Alex Ilchenko
Sent: Monday, April 13, 2009 5:08 PM
To: Dhanani, Arif (CA - Toronto)
Cc: Caterina Costa (ccosta@goodmans.ca); Sheryl Seigel; 'PAM.HUFF@blakes.com'; 'katherine.mceachern@blakes.com'; 'alex.f.morrison@ca.ey.com'; 'Todd.J.Ambachtsheer@ca.ey.com'
Subject: Terrace Bay Pulp Inc.
Attachments: Letter to FWLWA Claimants 9April09.pdf

As discussed, at the April 8th hearing Justice Morawetz raised a concern about the impact of the stay of proceedings under the Initial Order on the rights of persons with possible claims under the *Forestry Workers Lien for Wages Act* ("FWLWA") and the *Construction Lien Act.*

In his endorsement Justice Morawetz requested that the the Applicant and the Monitor advise the appropriate Court offices of the existence of the amendments to the stay of proceedings implemented by his April 8th Order (the "April 8 Order"), permitting claimants under these statutes to commence actions in accordance with statutory time limits and the terms of the April 8th Order.

On April 9, 2009 the Supervisor of Court Operations at the Thunder Bay Court House agreed to instruct counter staff at the Superior Court and the Small Claims Court counters to provide claimants wishing to commence actions under these statutes with a copy of the letter attached, as well as with a copy of the April 8th Order. The letter advises claimants of the requirement to serve the Monitor and the Applicant with their statements of claim within 30 days of issuance, and advises claimants that the stay of proceedings under the Initial Order will stay all further proceedings in their actions after they issue and serve their statements of claim.

You have advised that there are only a small number of lawyers that are filing the majority of these claims under the FWLWA. Please provide us with names of these lawyers so that we may provide them with a copy of the attached letter and the April 8 Order.

Alex A. Ilchenko
Phone: 416-307-4116
Fax: 416-304-3880
Email: ailchenko@langmichener.ca

Alex Ilchenko

From: Alex Ilchenko
Sent: Friday, April 17, 2009 3:27 PM
To: 'cbrochu@buset-partners.com'; 'Lrfilion@ntl.sympatico.ca'; 'pyounglaw@tbaytel.net'; 'eesquega@erickson-law.com'; 'pjasiura@wmnlaw.com'
Cc: Sheryl Seigel; 'alex.f.morrison@ca.ey.com'; 'Todd.J.Ambachtsheer@ca.ey.com'; 'MCEACHERN, KATHERINE'; 'pam.huff@blakes.com'; 'Costa, Cathy'
Subject: Terrace Bay Pulp Inc. ("Terrace")
Attachments: Letter to FWLWA Claimants 9April09.pdf

We are counsel for Ernst & Young Inc., the Court Appointed Monitor of Terrace in the *Companies' Creditors Arrangement Act* proceedings for Terrace (the "**CCAA Proceedings**").

We understand that you may represent clients making claims under the *Forestry Workers Lien for Wages Act.*

Please find attached a letter that has been provided to Thunder Bay Courthouse staff for distribution to claimants under the *Construction Lien Act* and the *Forestry Workers Lien for Wages Act,* along with a copy of the Order of the Honourable Mr. Justice Morawetz dated April 8, 2009 made in the CCAA Proceedings.

Alex A. Ilchenko
Phone: 416-307-4116
Fax: 416-304-3880
Email: ailchenko@langmichener.ca

Appendix J

Message from "Alex Ilchenko" <ailchenko@langmichener.ca> on Tue, 19 May 2009 14:34:14 -0400 -----

To: <pustinan@carell.com>, <pjasiura@wmnlaw.com>, <gcamelino@mcleankerr.com>, <ken@ec
<holinger@tbaytel.net>

cc: "Sheryl Seigel" <sseigel@langmichener.ca>, <alex.f.morrison@ca.ey.com>, <Todd.J.Ambacht
<pam.huff@blakes.com>, "MCEACHERN, KATHERINE" <KATHERINE.MCEACHERN@l
<michael.mcgraw@blakes.com>

Subject: Terrace Bay Pulp Inc. ("Terrace")

We are counsel for Ernst & Young Inc., the Court Appointed Monitor (the "**Monitor**") in the *Companies' Creditors Arrangement Act* proceedings for Terrace (the "**CCAA Proceedings**").

We understand that you may represent clients making claims against Terrace under the *Construction Lien Act* (the "**CLA**").

Please find attached a letter that has been provided to Thunder Bay Courthouse staff for distribution to claimants under the CLA and the *Forestry Workers Lien for Wages Act*, along with a copy of the Order of the Honourable Mr. Justice Morawetz dated April 8, 2009 made in the CCAA Proceedings (the "**April 8 Order**").

Under the provisions of paragraph 3 of the April 8 Order lien claimants issuing Statements of Claim under the CLA must serve copies of any such Statements of Claim on Terrace and the Monitor within thirty days of issuance.

To the extent that you have not done so to date, please send copies of any Statements of Claim issued under the CLA against Terrace (and the corresponding registered Certificates of Action) to the Monitor and Terrace at the contact numbers provided in the letter.

Alex A. Ilchenko
Phone: 416-307-4116
Fax: 416-304-3880
Email: ailchenko@langmichener.ca

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