

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

IN THE MATTER OF the *Companies' Creditors
Arrangement Act*, R.S.C. 1985, c. C-36, as amended

AND IN THE MATTER of a Plan of Compromise or Arrangement
of TERRACE BAY PULP INC.

Applicant

AFFIDAVIT OF RUSSELL YORK
(Sworn December 16, 2009)

I, **RUSSELL YORK**, of the City of Thunder Bay, in the Province of Ontario,
MAKE OATH AND SAY AS FOLLOWS:

1. I am the Vice-President and Treasurer of the Applicant, Terrace Bay Pulp Inc. ("Terrace Bay"), and as such, have knowledge of the matters deposed to in this Affidavit. Where this Affidavit is not based on my personal knowledge, it is based on information and belief, the source of which I have identified and I verily believe such information to be true.
2. This Affidavit is sworn in support of Terrace Bay's motion returnable December 18, 2009 for, among other things, Orders approving the Claims Process (as defined below) and approving the Forest Management Agreement (as defined below) and the payments contemplated thereunder.

THE PROPOSED CLAIMS PROCESS

3. Pursuant to the Order of the Honourable Mr. Justice Morawetz dated November 20, 2009 (the “November 20 Order”), a copy of which is attached hereto as **Exhibit “A”**, Terrace Bay sought and obtained an extension of the Stay Period (as defined in the Initial Order) until February 26, 2010. In support of the November 20 Order, Terrace Bay filed the Affidavit of Taras Sawula sworn November 19, 2009 (the “Sawula Affidavit”), a copy of which, without Exhibits, is attached hereto as **Exhibit “B”**.
4. As described in the Sawula Affidavit, Terrace Bay concluded negotiations with the Province of Ontario (the “Province”) on or about November 19, 2009 with the Province agreeing to a term sheet (the “Term Sheet”) providing for the financing of a \$25 million term loan which would ultimately facilitate Terrace Bay’s exit from these CCAA proceedings and the re-start of Terrace Bay’s operations. Terrace Bay’s term loan from the Province is conditional upon, among other things, the sanctioning and implementation of a Plan of Arrangement (a “Plan”) and a number of other matters. Accordingly, the extension of the Stay Period was required for, among other things, the implementation a claims process with a view to developing a Plan.
5. As part of the steps moving forward to develop a Plan, facilitate creditor approval for a Plan and ultimately exit these CCAA proceedings, on this motion Terrace Bay now seeks Court approval of a claims process substantially in the form as

described in the Monitor's Ninth Report dated December 15, 2009, and the draft Order to be filed on this motion (the "Claims Process").

6. Terrace Bay believes that the proposed Claims Process, including the provisions with respect to notice and time periods, is reasonable and will provide Terrace Bay's affected creditors with reasonable time periods in which to file claims and respond to the determination of such claims by the Monitor, in consultation with Terrace Bay.

GREENFOREST MANAGEMENT AGREEMENT

7. On Terrace Bay's motion returnable September 8, 2009, Terrace Bay sought this Court's authorization and direction to enter into a forest management agreement with GreenForest Management Inc. ("GMI") dated April 1, 2009, (the Forest Management Agreement") *nunc pro tunc* as of April 1, 2009. Terrace Bay also sought this Court's authorization and direction to pay certain amounts to GMI pursuant to the Forest Management Agreement. This relief was adjourned to September 14, 2009, with certain other relief sought on the motion returnable September 8, 2009.
8. In support of the approval of the Forest Management Agreement, the Monitor filed its Fourth Report dated September 1, 2009 (the "Fourth Report") a copy of which, without Appendices, (except for Appendix "D", which is a copy of the original form of the Forest Management Agreement), is attached hereto as **Exhibit "C"**. On that motion, Terrace Bay also filed my Affidavit sworn

September 11, 2009 (the “September 11 Affidavit”), a copy of which, with Exhibits, is attached hereto as **Exhibit “D”**.

9. The motion for approval of the Forest Management Agreement and the payments thereunder was ultimately adjourned pursuant to the Order of the Honourable Mr. Justice Morawetz dated November 6, 2009, a copy of which is attached hereto as **Exhibit “E”**, until the earlier of the return of a motion by Terrace Bay in which Terrace Bay advises the Court: (i) whether or not the mill will be restarting; (ii) that it will be developing a Plan; or (iii) that it will be commencing an alternate process with respect to the mill and Terrace Bay’s operations. As this is the second motion on which Terrace Bay is advising the Court that it will be developing a Plan, Terrace Bay is entitled to bring the relief with respect to the Forest Management Agreement forward for approval.

10. As set out in the September 11 Affidavit, it is the position of Terrace Bay that the approval of and payments contemplated under the Forest Management Agreement are reasonable and appropriate in the circumstances for the following reasons:
 - (i) as described in the Fourth Report, as the holder of a sustainable forest license (the “SFL”) issued by the Ministry of Natural Resources (the “MNR”), Terrace Bay has mandatory forest management obligations pursuant to the *Crown Forest Sustainability Act* (Ontario) related to its harvest rights in the Kenogami Forest, one of the main sources of fibre for Terrace Bay’s operations;

- (ii) these forest management obligations, which include silviculture, forestry monitoring, reporting activities, planning and maintenance of roads and bridges, were previously performed by Buchanan Forest Products Limited (“BFPL”) prior to its receivership and bankruptcy;
- (iii) Terrace Bay is not equipped to perform such forest management obligations and there are a limited number of companies, such as BFPL and GMI, which are equipped to do so;
- (iv) the SFL is essential to the operation and long-term viability of the mill and the forest management obligations are an integral component of the SFL, such that if they are not fulfilled to the satisfaction of the MNR, the MNR has the discretion to revoke the SFL;
- (v) revocation of the SFL would leave the mill without a sufficient source of fibre, the mill may not be in a position to restart, and were a sales process to become necessary at any point in the future, any potential purchaser wishing to operate the mill as a going concern would not be able to do so, thereby reducing the value of Terrace Bay’s assets;
- (vi) even though the mill is not currently operational, as long as there is a reasonable possibility that the mill may restart in the future, these forest management obligations must be maintained on an

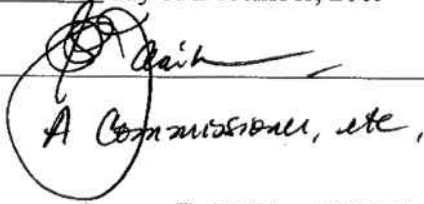
ongoing basis to ensure that MNR requirements are met and that a supply of fibre is available should operations be re-commenced; and

- (vii) the maintenance of the SFL is critical to any sale of the mill, as prospective purchasers will not be interested in purchasing, or will only be interested in doing so at a significantly reduced price, if there is not a ready source of fibre, and as such, failure to maintain the SFL would be detrimental to all stakeholders.

11. The executed form of the Forest Management Agreement which was attached to the Fourth Report was not approved by this Court and no payments have been made to GMI pending Court approval. This original form of agreement has been amended to provide for, among other things, a 60-day notice period for termination without cause during the duration of these CCAA Proceedings and a limitation on damages to costs actually incurred by GMI for any such termination by Terrace Bay during these CCAA Proceedings. An amended and restated version of the Forest Management Agreement, which Terrace Bay seeks authorization and direction to enter into on this motion, is attached hereto as **Exhibit "F"**. Further, the amount which Terrace Bay seeks authorization to pay to GMI is \$384,036.16, representing amounts owing to GMI under the Forest Management Agreement up to and including November 30, 2009, retroactive to April 1, 2009.

12. This Affidavit is therefore made in support of Terrace Bay's motion for, among other things, approval of the Claims Process and the Forest Management Agreement, and for no other or improper purpose.

SWORN BEFORE ME at the City of
Thunder Bay, in the Province of Ontario
this 16 day of December, 2009


A Commissioner, etc.,

B. PAUL JASIURA


RUSSELL YORK

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

Applicant

**ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST**

Proceeding commenced at Toronto

**AFFIDAVIT OF RUSSELL YORK
(Sworn DECEMBER 16 2009)**

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