

EXHIBIT “B”



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

ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST

THE HONOURABLE	)	TUESDAY, THE 29 TH
	)	
MR. JUSTICE MORAWETZ	)	DAY OF JUNE, 2010

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

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

ORDER

THIS MOTION, made by Terrace Bay Pulp Inc. ("Terrace Bay" or the "Applicant"), pursuant to the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the "CCAA") for an Order, among other things:

- (a) abridging the time for service of the Notice of Motion and Motion Record, if necessary, and declaring that the motion is properly returnable on Tuesday, June 29, 2010;
- (b) approving settlement agreements between:
 - (i) the United Steel Workers, Local 665 (the "USW") and Terrace Bay (the "USW Agreement"), and
 - (ii) the International Brotherhood of Electrical Workers, Local 1861 (the "IBEW") and together with the USW, the "Unions") and Terrace Bay (the "IBEW Agreement"),

both dated June 11, 2010 (collectively, the “Union Agreements”);

- (c) declaring that the claim filed by Her Majesty the Queen in Right of Ontario pursuant to a Proof of Claim dated February 8, 2010 in the Claims Process with respect to certain offences under the *Environmental Protection Act* (Ontario) that occurred in February and May, 2008 (the “Crown Environmental Claim”), is a Proven Unsecured Claim as defined in the Applicant’s plan of compromise and arrangement (the “Plan”) in the amount of \$187,515 as set out in the Monitor’s Notice of Revision or Disallowance dated June 11, 2010 (the “Notice of Revision”), that is subject to compromise in the Plan;
- (d) declaring that, upon execution of an agreement between Terrace Bay and Praxair Canada Inc. (“Praxair”) with respect to Praxair’s claims in the Claims Process and post-CCAA arrangements between Terrace Bay and Praxair, and without further Order of the Court, the Notice of Repudiation issued by Terrace Bay with respect to the VPSA Oxygen Supply Agreement dated March 31, 2003 between Terrace Bay and Praxair (the “Praxair Repudiation Notice”) shall be withdrawn, be deemed not to have been issued and to be of no force and effect *nunc pro tunc* to the date of its delivery by Terrace Bay;
- (e) extending the Stay Period (as defined in the Initial Order of this Court dated March 11, 2009) until July 30, 2010; and
- (f) approving the Thirteenth Report of Ernst & Young Inc. in its capacity as Monitor of Terrace Bay (the “Monitor”) dated June 17, 2010 (the “Thirteenth Report”) and the Fourteenth Report of the Monitor dated June 23, 2010 (the “Fourteenth Report”) and the conduct and activities of the Monitor and its counsel as reported on therein,

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

ON READING the Thirteenth Report, the Fourteenth Report and the Affidavit of Russell York sworn June 23, 2010, and on hearing the submissions of counsel for the Applicant and counsel for the Monitor,

SERVICE

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 Notice of 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 and that service in the manner effected by the Applicant is validated in all respects.

UNION AGREEMENTS

2. **THIS COURT ORDERS** that the Union Agreements be and are hereby approved.
3. **THIS COURT ORDERS** that the Applicant be and is hereby authorized and directed to execute the Union Agreements and to perform its obligations under the Union Agreements.
4. **THIS COURT ORDERS** that the Applicant be and is hereby authorized to execute and deliver such additional ancillary documents as may be necessary to give effect to the Union Agreements, subject to the prior approval of such documents by the Monitor or as may be ordered by this Court.

CROWN ENVIRONMENTAL CLAIM

5. **THIS COURT ORDERS AND DECLARES** that the Crown Environmental Claim is a Proven Unsecured Claim in the amount of \$187,515 as set out in the Notice of Revision that is subject to compromise pursuant to the Plan.

PRAXAIR

6. **THIS COURT ORDERS AND DECLARES** that, upon execution of an agreement between Terrace Bay and Praxair with respect to Praxair's claims in the Claims Process and post-CCAA arrangements between Terrace Bay and Praxair, and without further Order of the Court, the Praxair Repudiation Notice shall be withdrawn, be deemed not to

have been issued and to be of no force and effect, *nunc pro tunc*, to the date of its delivery by Terrace Bay.

STAY EXTENSION

7. **THIS COURT ORDERS** that the Stay Period be and is hereby extended until July 30, 2010.

MONITOR'S ACTIVITIES

8. **THIS COURT ORDERS** that the Thirteenth Report and the Fourteenth Report and the conduct and activities of the Monitor and its counsel as reported on therein be and are hereby approved.



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ON / BOOK NO.
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JUN 29 2010

PER / PAR J.S.N.

Applicant

ONTARIO

SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST

Proceeding commenced at Toronto

ORDER

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Lawyers for the Applicant

EXHIBIT “C”



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

ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST

THE HONOURABLE	)	TUESDAY, THE 29 TH
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MR. JUSTICE MORAWETZ	)	DAY OF JUNE, 2010

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

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

ORDER

THIS MOTION, made by Terrace Bay Pulp Inc. ("Terrace Bay" or 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, if necessary, and declaring that the motion is properly returnable on Tuesday, June 29, 2010;
- (b) approving the Fifteenth Report of the Monitor dated June 27, 2010 (the "Fifteenth Report") and the activities of the Monitor as described therein;
- (c) amending paragraph 36 of the Creditors' Meeting Order dated May 31, 2010 (the "Creditors' Meeting Order") such that the Monitor shall file its report to this Court by no later than five (5) Business Days (as defined in the Plan) after the date of the creditors' meeting of the Unsecured Class (as defined in the Second

Amended and Restated Plan dated June 25, 2010 (the "Plan") scheduled to be held on Monday June 28, 2010 as may be adjourned (the "Creditors' Meeting") with respect to the results of the votes cast at the Creditors' Meeting and the Township Meeting (as defined below);

- (d) amending paragraph 46 of the Creditors' Meeting Order such that any party who wishes to oppose the motion for approval of the Sanction Order (as defined in the Plan) shall serve upon the lawyers for both the Applicant and the Monitor, and upon all other parties on the Service List (as defined in the Creditors' Meeting Order), by not later than 5:00 p.m. (Eastern Daylight Time) on the day that is seven (7) Business Days after the Creditors' Meeting, a copy of the materials to be used to oppose the motion for approval of the Sanction Order, setting out the basis for such opposition;
- (e) amending paragraph 8 of the Creditors' Meeting Order, *nunc pro tunc*, such that for the purposes of considering and voting on the Plan and receiving distributions thereunder, the holders of Unsecured Claims shall be grouped into a single class, being the Unsecured Class;
- (f) directing that the Corporation of the Township of Terrace Bay (the "Township") be included in a single class of creditors, being the "Township Class" for the purposes of considering and voting on the Plan;
- (g) authorizing a representative of the Monitor to preside as the chair of the Township Meeting (the "Chair") and to decide all matters relating to the rules and procedures at, and the conduct of, the Township Meeting;
- (h) authorizing the Applicant to call, hold and conduct the Township Meeting on Wednesday, June 30, 2010 at 2:00 p.m. (Eastern Daylight Time) at the offices of Ernst & Young Inc., Ernst & Young Tower, 222 Bay Street, Toronto, Ontario or as may be adjourned, for the purposes of considering and voting on the Plan;
- (i) directing that the Township is entitled to vote in the amount of its Proven Township Claim (as defined in the Plan);

- (j) directing that the Township may vote by proxy and may deliver such proxy to the Monitor by email or facsimile transmission or courier at the address indicated on the proxy form at any time prior to the commencement of the Township Meeting;
- (k) amending the Creditors' Meeting Order, *nunc pro tunc*, so that any and all references to "Affected Creditor" contained therein (other than paragraphs 5-7) shall not include the Township and any reference to "Creditors' Meeting" shall not include the Township Meeting (other than paragraph 7, which shall include the Township Meeting); and
- (l) amending paragraph 43 of the Creditors' Meeting Order such that if the Plan is approved by (i) the Required Majorities of Eligible Voting Creditors (as such terms are defined in the Creditors' Meeting Order) at the Creditors' Meeting, and (ii) the Township, the Applicant shall seek Court approval of the Plan at a motion for approval of an Order sanctioning the Plan, which motion shall be returnable before this Court at 10:00 a.m. (Eastern Daylight Time) on July 13, 2010 or such other date as may be fixed by the Commercial List,

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

ON READING the Fifteenth Report of the Monitor, Ernst & Young Inc., dated June 27, 2010 (the "Fifteenth Report"), and the affidavit of Russell York sworn June 28, 2010, and on hearing the submissions of counsel for the Applicant and counsel for the Monitor,

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 Notice of 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 and that service in the manner effected by the Applicant is validated in all respects.
2. **THIS COURT ORDERS** that the Fifteenth Report and the activities of the Monitor as described therein are hereby approved.

3. **THIS COURT ORDERS** that paragraph 36 of the Creditors Meeting Order is hereby amended to read:

36. **THIS COURT ORDERS** that the Monitor shall file its report to this Court by no later than five (5) Business Days after the date of the Creditors' Meeting with respect to the results of the votes cast, including, without limitation, whether:

- (a) the Plan has been accepted by the Required Majorities of Affected Creditors;
- (b) the Plan has been accepted by the Township; and
- (c) the votes cast by Eligible Voting Creditors with Disputed Claims at the Creditors' Meeting, if any, would affect the result of the vote.

4. **THIS COURT ORDERS** that paragraph 46 of the Creditors' Meeting Order is hereby amended to read:

46. **THIS COURT ORDERS** that any party who wishes to oppose the motion for approval of the Sanction Order shall serve upon the lawyers for both the Applicant and the Monitor, and upon all other parties on the Service List, by not later than 5:00 p.m. (Eastern Daylight Time) on the day that is seven (7) Business Days after the Creditors' Meeting, a copy of the materials to be used to oppose the motion for approval of the Sanction Order, setting out the basis for such opposition.

5. **THIS COURT ORDERS** that paragraph 8 of the Creditors' Meeting Order shall be amended, *nunc pro tunc*, to read:

8. **THIS COURT ORDERS** that for the purposes of considering and voting on the Plan and receiving distributions

thereunder, the holders of Unsecured Claims shall be grouped into a single class, being the Unsecured Class.

6. **THIS COURT ORDERS AND DIRECTS** that for the purposes of considering and voting on the Plan, the Township shall be included in a single class of creditors, being the Township Class.
7. **THIS COURT ORDERS** that a representative of the Monitor is hereby authorized to preside as the Chair of the Township Meeting and to decide all matters relating to the rules and procedures at, and the conduct of, the Township Meeting. The Chair or the Monitor may adjourn the Township Meeting at their discretion.
8. **THIS COURT ORDERS** that the Applicant is hereby authorized to call, hold and conduct a meeting of the Township Class (the "Township Meeting") on Wednesday, June 30, 2010 at 2:00 p.m. (Eastern Daylight Time) at the offices of Ernst & Young Inc., Ernst & Young Tower, 222 Bay Street, Toronto, Ontario or as may be adjourned to such places and times as the Chair may determine at the Township Meeting, or as the Monitor may determine prior to the Township Meeting, for the purposes of considering and voting on the Plan.
9. **THIS COURT ORDERS** that the Township is entitled to vote in the amount of its Proven Township Claim.
10. **THIS COURT ORDERS** that the Township may vote by proxy (in the form attached to the Creditors' Meeting Order or such other form of proxy that the Monitor or the Chair may in either of their discretion accept) and may deliver such proxy to the Monitor by email or facsimile transmission or courier at the address indicated on the proxy form at any time prior to the commencement of the Township Meeting.
11. **THIS COURT ORDERS** that notwithstanding paragraph 3 of the Creditors' Meeting Order, the Creditors' Meeting Order is hereby amended, *nunc pro tunc*, so that any and all references to "Affected Creditor" contained therein (other than paragraphs 5-7) shall not include the Township and any reference to "Creditors' Meeting" shall not include the Township Meeting (other than paragraph 7, which shall include the Township Meeting).

12. **THIS COURT ORDERS** that paragraph 43 of the Creditors' Meeting Order shall be amended to read:

43. THIS COURT ORDERS that if the Plan is approved by (i) the Required Majorities of Eligible Voting Creditors at the Creditors' Meeting, and (ii) the Township, the Applicant shall seek Court approval of the Plan at a motion for approval of an Order sanctioning the Plan (the "Sanction Order"), which motion shall be returnable before this Court at 10:00 a.m. (Eastern Daylight Time) on July 13, 2010 or such other date as may be fixed by the Commercial List (the "Sanction Hearing").



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JUN 29 2010

PER / PAR 

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

ORDER

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Lawyers for the Applicant

EXHIBIT “D”

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

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

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

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

Applicant

AFFIDAVIT OF RUSSELL YORK
(Sworn June 23, 2010)

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

INTRODUCTION

1. I am the Vice President and Treasurer of the Applicant, Terrace Bay Pulp Inc. ("Terrace Bay"), and as such have knowledge of the matters deposed to in this Affidavit. Where this Affidavit is not based on my personal knowledge, it is based on information and belief, the source of which I have identified and I verily believe such information to be true.
2. This Affidavit is sworn in support of Terrace Bay's motion returnable Tuesday, June 29, 2010 for an Order, among other things:
 - (a) abridging the time for service of the Notice of Motion and Motion Record, if necessary, and declaring that the motion is properly returnable on Tuesday, June 29, 2010;

- (b) approving settlement agreements between:
- (i) the United Steel Workers, Local 665 (the “USW”) and Terrace Bay (the “USW Agreement”), and
 - (ii) the International Brotherhood of Electrical Workers, Local 1861 (the “IBEW”) and together with the USW, the “Unions”) and Terrace Bay (the “IBEW Agreement”),
- both dated June 11, 2010 (collectively, the “Union Agreements”);
- (c) declaring that the Crown Environmental Claim (as defined below) is a Proven Unsecured Claim (as defined in the Plan) in the amount of \$187,515 as set out in the Monitor’s Notice of Revision dated June 11, 2010 (the “Notice of Revision”) which is subject to compromise pursuant to the terms of the Plan (as defined below);
- (d) declaring that, upon execution of an agreement between Terrace Bay and Praxair Canada Inc. (“Praxair”) with respect to Praxair’s claims in the Claims Process and post-CCAA arrangements between Terrace Bay and Praxair, the Notice of Repudiation issued by Terrace Bay (the “Praxair Repudiation Notice”) with respect to the VPSA Oxygen Supply Agreement dated March 31, 2003 between Terrace Bay and Praxair (the “Praxair Agreement”) shall be withdrawn, shall be deemed not to have been issued and shall be of no force and effect, *nunc pro tunc*, to the date of delivery by Terrace Bay; and
- (e) extending the Stay (as defined below) until July 30, 2010;

BACKGROUND

3. Terrace Bay operates a pulp mill (the "Mill") in the Town of Terrace Bay, Ontario (the "Town"). Terrace Bay is the primary employer for the Town and the nearby community of Schreiber, Ontario. Prior to commencing these CCAA proceedings (the "CCAA Proceedings"), Terrace Bay idled the Mill on February 23, 2009.
4. The Mill has operated in the Town since 1948, and when fully operational provides employment for 425 employees (375 unionized, 50 non-unionized) and operates 3 shifts, 7 days per week.
5. Terrace Bay commenced these CCAA Proceedings pursuant to the Initial Order of this Honourable Court dated March 11, 2009 (the "Initial Order") and Ernst & Young Inc. was appointed as Monitor (the "Monitor"). The stay of proceedings pursuant to the Initial Order (the "Stay") has been extended from time to time since the issuance of the Initial Order and most recently until June 30, 2010, pursuant to the Order of the Honourable Mr. Justice Morawetz dated April 30, 2010.
6. During the CCAA Proceedings, Terrace Bay has worked diligently with the Monitor to maximize realizations for all of its stakeholders while continuing to explore options which would allow it to exit the CCAA Proceedings and restart the Mill. Terrace Bay has proceeded with a view to preserving its business as a going concern and the belief that the Mill is a viable operation in improved market conditions, particularly now that world pulp markets have improved significantly.
7. On December 18, 2009, Terrace Bay sought and obtained an Order approving a claims process for the purposes of calling for and determining creditor claims (the "Claims Process"). This Order was subsequently amended to exclude claims of employees in their capacity as employees. The Applicant and the Monitor continue to administer the Claims Process.

8. Terrace Bay prepared a plan of arrangement and compromise (as may be amended from time to time, the "Plan"). Pursuant to the Creditors' Meeting Order, a copy of which is attached hereto as **Exhibit "A"**, this Court authorized Terrace Bay to file the Plan and call a meeting of its creditors (the "Creditors' Meeting") for the purpose of voting on the Plan. In accordance with the Creditors' Meeting Order, the approved Information Package (as defined in the Meeting Order) was sent to all known creditors. The Information Circular (which was included in the Information Package sent to known creditors) included disclosure of the Union Agreements and Terrace Bay's intention to seek Court approval of same.
9. The Creditors' Meeting was originally scheduled for Monday, June 21, 2010 in Thunder Bay. In preparation for the Creditors' Meeting, the Monitor served its Thirteenth Report dated June 17, 2010 (the "Thirteenth Report"), a copy of which is attached hereto as **Exhibit "B"**.
10. As a result of certain outstanding conditions with respect to the implementation of the Plan, as set out at paragraphs 21-22 of the Thirteenth Report, the Creditors' Meeting was adjourned from June 21, 2010 until June 28, 2010. Copies of the Notice to Creditors Regarding the Adjournment of the Creditors' Meeting dated June 18, 2010 and the Notice to Creditors Regarding the Rescheduling, Location and Time of the Creditors' Meeting, dated June 21, 2010, are attached hereto as **Exhibits "C" and "D"**, respectively.

THE UNION AGREEMENTS

11. As described above, claims of employees (in their capacity as employees) are excluded from the Claims Process. Rather, Terrace Bay has successfully negotiated agreements with the Unions with respect to the resolution of claims with Terrace Bay's unionized employees. The Union Agreements were ratified by the Unions in March, 2010, but are both subject to Court approval. The USW Agreement and the IBEW Agreement are attached hereto as **Exhibits "E" and "F"**, respectively, without the schedules thereto which identify the individual employees and quantum of their individual claims. These schedules have not been

made public to protect the privacy rights of individual employees, but can be made available to the Court on a confidentially basis, if necessary.

12. Terrace Bay determined that it was able to allocate \$400,000 for the settlement of severance and termination pay claims based on anticipated cash needs post-CCAA emergence. These claims, if required to be paid in full, would be in excess of \$2.8 million. Of this \$400,000, \$30,000 was allocated to funding the obligations under the IBEW Agreement and the balance was allocated to funding the obligations under the USW Agreement.

- i. **The USW Agreement**

13. The USW Agreement divides the employees represented by the USW into two categories. The employees listed on Schedule "A" will all be recalled on a date between June 30, 2010 and August 31, 2010, depending upon the timing of the implementation of the Plan and reopening of the Mill. In consideration of the length of time that the Mill has been idled, they will however be given the option to elect not to return to work. The employees listed on Schedule "B" are those who lost their employment status when their recall rights expired in the spring of this year. Their employment was terminated at that time.
14. Schedule "A" employees who elect not to return to work between June 30, 2010 and August 31, 2010 in accordance with the USW Agreement will be deemed to have terminated their employment and renounced all recall rights effective June 29, 2010. The USW Agreement provides for \$113,000 to fund claims of termination and/or severance pay to such employees. Employees who elect not to return to work in accordance with the USW Agreement will receive an amount equal to their claim as set out in Schedule "A" to the USW Agreement, provided that if the total amount paid out to such employees exceeds \$113,000, then this amount will be shared pro rata among such employees. Schedule A has not been made public to protect the privacy rights of employees.

15. The Schedule "B" employees will be paid termination pay and/or severance pay in the amounts set out in Schedule "B". Schedule B has not been made public to protect the privacy rights of employees. Total amounts payable to Schedule "B" employees for termination pay and/or severance total \$257,000.

ii. **The IBEW Agreement**

16. Under the IBEW Agreement, all employees will be recalled on a date between June 30, 2010 and August 31, 2010, depending upon the timing of implementation of the Plan and the reopening of the Mill. Pursuant to the IBEW Agreement, if the employee's recall rights have expired, they will be offered recall with full rights of seniority. For those employees who refuse recall, a total amount of \$30,000 will be made available on a pro rata basis on account of their severance and termination pay claims.

iii. **Benefits of Union Agreements**

17. The Union Agreements are mutually beneficial to the Unions and Terrace Bay. The Union Agreements provide the following benefits to Terrace Bay:
- the capping of liability for severance and termination claims
 - the waiver of claims relating to mass termination
 - the establishment of a smooth system for recall
 - a cap on drug coverage claims where there was no previous limitation on liability so that Terrace Bay will now be in a position obtain insurance
 - significant savings on vacation pay claims
 - final resolution of outstanding union grievances
 - the reduction of floating holiday rights
18. The Union Agreements will provide the following benefits to the USW and the IBEW:

- the prospect of the return to work for the majority of the bargaining unit employees
- the extension of recall rights with full seniority for many employees
- payment in full of severance and termination pay for those employees not offered extension of recall rights
- funding for termination and severance claims for those employees offered recall rights but who elect not to return to work

THE CROWN ENVIRONMENTAL CLAIM

19. Her Majesty the Queen in Right of Ontario (the "Crown") filed a Proof of Claim dated February 8, 2010 (the "Crown Environmental Claim") in the Claims Process with respect to certain offences under the *Environmental Protection Act* (Ontario) that occurred in February and May, 2008, which were the subject of a Summons and Information (the "Summons") issued to Terrace Bay on November 2, 2009, by the Ontario Court of Justice (Provincial Offences) sitting in Thunder Bay (the "Provincial Offences Court"). Based on an agreement between the Crown and Terrace Bay, on June 7, 2010, the Provincial Offences Court ordered payment by Terrace Bay in the amount of \$187,515, representing the fine, surcharge and costs with respect to Terrace Bay's conviction for three of the offences under the Summons. Terrace Bay and the Crown further agreed that the Crown Environmental Claim would be subject to compromise pursuant to the terms of the Plan.
20. Accordingly, the Monitor delivered the Notice of Revision, reducing the amount claimed by the Crown in its Proof of Claim to \$187,515. Copies of the Notice of

Revision and the accompanying letter from Terrace Bay's counsel dated June 11, 2010 are attached hereto as **Exhibit "G"**.

21. Accordingly, on this motion, Terrace Bay seeks a declaration of this Court that the Crown Environmental Claim, as revised by the Notice of Revision, is a Proven Unsecured Claim which is subject to compromise pursuant to the terms of the Plan.

THE PRAXAIR REPUDIATION NOTICE

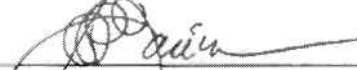
22. Praxair filed a Proof of Claim in the Claims Process with respect to both pre-filing and post-filing amounts which it claimed were due and owing pursuant to the Praxair Agreement.
23. On June 1, 2010, Terrace Bay's counsel sent the Praxair Repudiation Notice to counsel for Praxair, a copy of which is attached hereto as **Exhibit "H"**.
24. Terrace Bay and Praxair have subsequently reached an agreement in principle which will address Praxair's Proof of Claim and establish post-CCAA supply arrangements between Praxair and Terrace Bay. One of the terms of this agreement is the withdrawal of the Praxair Repudiation Notice such that it be deemed not to have been issued and to be of no force and effect.
25. Terrace Bay believes that the terms of its proposed agreement with Praxair are reasonable and advantageous to Terrace Bay, and as such, on this motion, Terrace Bay seeks a declaration that upon execution of this proposed agreement, the Praxair Repudiation Notice shall be withdrawn, deemed not to have been issued

and to be of no force and effect, *nunc pro tunc*, to the date of delivery by Terrace Bay.

STAY EXTENSION

26. As described above, the Creditors' Meeting was adjourned from June 21, 2010 to June 28, 2010 in order to permit Terrace Bay to address a number of outstanding conditions regarding implementation of the Plan. These conditions are described in the Thirteenth Report. The date for the Sanction Hearing has been scheduled for July 13, 2010. Terrace Bay continues to work diligently with the assistance of the Monitor in order to resolve the issues related to these conditions with a view to bringing the Plan forward for approval and sanction by this Court after approval by Terrace Bay's creditors. If the Plan is sanctioned on July 13, 2010 by this Honourable Court, Terrace Bay anticipates the immediate commencement of pre-production activities, subject to the consent of the Monitor, pending full resumption of Mill operations on Plan implementation and exit from CCAA.
27. In order to provide sufficient time for sanction and Plan implementation, Terrace Bay believes that extending the Stay Period for an additional time period of 30 days would be appropriate.
28. This Affidavit is therefore made in support of Terrace Bay's motion for, among other things, approval of the Union Agreements, declarations with respect to the Crown Environmental Claim and the Praxair Repudiation Notice and an extension of the Stay Period until July 30, 2010, and for no other or improper purpose.

SWORN BEFORE ME at the City of
Thunder Bay, in the Province of Ontario
this 23rd day of June, 2010



A Commissioner, etc.

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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 June 23, 2010)

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Lawyers for the Applicant

EXHIBIT “E”

**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 June 28, 2010)

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

INTRODUCTION

1. I am the Vice President and Treasurer of the Applicant, Terrace Bay Pulp Inc. ("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 (i) in support of Terrace Bay's motion returnable Tuesday, June 29, 2010 and (ii) to provide an update to this Honourable Court on the outcome of the meeting of the Unsecured Class (as defined in the Second Amended and Restated Plan of Compromise and Arrangement dated June 25, 2010 (as may be amended the "Plan")) which occurred at 2:00 p.m. on June 28, 2010 (the "Creditors' Meeting").

3. Terms not otherwise defined herein shall have the meaning given to them in the Plan.

AMENDMENTS TO PLAN AND CREDITORS' MEETING ORDER

4. Terrace Bay prepared the Plan and pursuant to an Order dated May 31, 2010 (the "Creditors' Meeting Order") this Court authorized Terrace Bay to file the Plan and call a meeting of its creditors for the purpose of voting on the Plan.
5. The Plan as filed has been amended twice, in a First Amended and Restated Plan of Compromise and Arrangement that was filed and sent to creditors on June 24, 2010 and in a Second Amended and Restated Plan of Compromise and Arrangement that was sent to creditors on June 25, 2010. More complete details of the amendments and the steps taken to give notice to creditors of the amendments are contained in the Monitor's Fifteenth Report dated June 27, 2010 (the "Fifteenth Report").
6. The primary change to the Plan in these amendments was to reflect the terms of an agreement between the Corporation of the Township of Terrace Bay (the "Township") and Terrace Bay (the "Township Agreement"). Generally, the Township Agreement provides for a payment plan for municipal realty tax arrears and other tax relief. The Township Agreement also provides for the Township to vote in a separate class from other Affected Creditors.
7. Due to constraints under the *Municipal Act*, the tax relief may only be implemented under the Plan and pursuant to the *Companies' Creditors Arrangement Act*. Given the unique legal framework relating to municipal taxes, and the treatment of the Township under the Plan, it is appropriate for the Township to vote in a separate class. The Township Agreement is an important step in Terrace Bay's restructuring and provides the benefit of additional tax relief not otherwise available.
8. The Creditors' Meeting Order made on May 31, 2010 contemplates that all Affected Creditors be grouped into a single class of creditors, being the

Unsecured Class. Accordingly, Terrace Bay seeks approval to authorize the inclusion of the Township in a separate class of creditors, being the "Township Class" and to call and hold a meeting of the Township Class (the "Township Meeting").

9. ~~It is proposed that the Creditors' Meeting Order be amended such that the~~
procedures set out in that Order apply to the procedures and conduct of the meeting of the Unsecured Class. A further order is being sought which, if approved, will govern the procedures and conduct of the Township Meeting.
10. Other amendments to the Plan are as described in the Fifteenth Report, along with a summary of the procedures followed by Terrace Bay and the Monitor to provide notice of such amendments in accordance with the Creditors' Meeting Order.
11. A blackline of the Plan as amended, to the Plan as originally filed is attached hereto and marked as **Exhibit "A"**.

OUTCOME OF CREDITORS' MEETING

12. The Creditors' Meeting for the Unsecured Creditor class was originally scheduled for Monday, June 21, 2010 in Thunder Bay, but was adjourned until June 28, 2010. The Creditors' Meeting went ahead at 2:00 p.m. on the date hereof.
13. 168 Eligible Voting Creditors were present in person or represented by proxy at the Creditors' Meeting. The total value of the Proven Unsecured Claims held by such Eligible Voting Creditors was \$27,249,937.19. The total value of the Disputed Claims held by such Eligible Voting Creditors was \$7,565,698.80. The number of Eligible Voting Creditors present in person or represented by proxy with Proven Unsecured Claims was 158. The number of Eligible Voting Creditors present in person or represented by proxy with Disputed Claims was 10, all of which voted in favour of the Plan.
14. On the motion to approve the Plan as amended, 165 Eligible Voting Creditors present in person or by proxy voted in favour of the Plan, representing 98.2% in

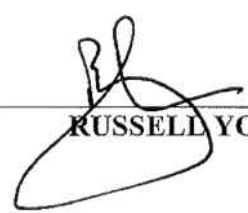
number and 96.7% of the value of the Proven Unsecured Claims and Disputed Claims of such Eligible Voting Creditors. Three Eligible Voting Creditors present in person or by proxy, representing the balance of the votes cast at the Creditors Meeting, voted against the Plan.

- 15. The Monitor will provide a more detailed report of the outcome of the Creditors' Meeting and the Township Meeting in accordance with the Creditors' Meeting Order.
- 16. This Affidavit is therefore made in support of Terrace Bay's motion returnable June 29, 2010 and to provide an update to this Honourable Court regarding the outcome of the Creditors' Meeting, and for no other or improper purpose.

SWORN BEFORE ME at the City of
Thunder Bay, in the Province of Ontario
this 28th day of June, 2010


JACKIE MOHER

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RUSSELL YORK

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

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

Applicant

ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST

Proceeding commenced at Toronto

AFFIDAVIT OF RUSSELL YORK
(Sworn June 28, 2010)

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