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

MOTION RECORD OF TERRACE BAY PULP INC.

April 7, 2009

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

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INDEX

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

I N D E X

TAB NO.

1. Notice of Motion, returnable April 8, 2009
2. Affidavit of Russell York, sworn April 7, 2009
    A. Exhibit "A" – Pledge of Cash and Treasury Bills
    B. Exhibit "B" – Statement of Account of CIBC Mellon
3. Draft Order
4. Initial Order dated March 11, 2009

TAB 1

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

NOTICE OF MOTION

The Applicant will make a motion to a judge presiding over the Commercial List on Wednesday, April 8, 2009 at 10:00 a.m., or as soon after that time as the motion can be heard, at the Court House, 330 University Avenue, 8th Floor, Toronto, Ontario.

PROPOSED METHOD OF HEARING: The motion is to be heard

[ ] in writing under subrule 37.12.1(1)

[ ] in writing as an opposed motion under subrule 37.12.1(4);

[X] orally.

THE MOTION IS 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.

THE GROUNDS FOR THE MOTION ARE

(a) the stay of proceedings herein expires on April 10, 2009;

(b) paragraph 5 of the Initial Order requires the Applicant to pay to Nexcap monthly interest and costs;

(c) paragraph 8 of the Initial Order entitles the Applicant to pay to Nexcap any surplus amounts in permanent reduction of outstanding principal after estimated operating costs;

(d) the cash flows through July 5, 2009 attached as Appendix "C" to the First Report estimate payment in full to Nexcap from surplus cash within that period;

(e) however, an issue as to deficiencies in the General Security Agreement granted to Nexcap has been raised as a result of the independent review of the security by counsel for the Monitor. Notice of the deficiencies has been provided to counsel for Nexcap and to Lucky Star Holdings Inc., the next ranking secured creditor. The Applicant does not intend to oppose the proposed payments to Nexcap in accordance with the cash flows and as currently authorized by the Initial Order, but seeks advice and directions with respect to any opposition which may be raised by third parties;

(f) it is currently anticipated that Nexcap will be repaid from proceeds of inventory and receivables. The Applicant asserts that the security granted to Nexcap was to be restricted to inventory and accounts receivable and was not to charge all property. Since Nexcap is expected to be repaid from inventory and accounts receivable, it is proposed that this issue be deferred to be dealt with only if it becomes relevant;

(g) the Applicant is in the process of negotiating an agreement with the IESO that will provide the terms by which the IESO will continue to supply electricity to the Applicant through these CCAA proceedings, and anticipates this agreement to be finalized by the time of the hearing of this motion;

(h) a number of lien claimants have registered claims for lien under the *Construction Lien Act* and filed or attempted to file claims under the *Forestry Workers Lien for*

Wages Act. Without the ability to file their liens and/or commence actions pursuant to those statutes, they are at risk of certain limitation periods expiring. It is appropriate to permit the filing of such liens and the commencement of related actions, subject to the proceedings pursuant to those actions continuing to be subject to the stay of proceedings provided for by the Initial Order;

(i) an extension of the stay of proceedings to June 30, 2009 will permit the Applicant to continue to pursue its proposed restructuring process and the solicitation and identification of refinancing, or alternatively a purchaser for the business;

(j) the Applicant has been acting in good faith and with due diligence;

(k) Section 11 of the CCAA; and

(l) such further and other grounds as counsel may advise.

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

(a) The Affidavit of Russell York sworn April 7, 2009;

(b) The First Report of the Monitor; and

(c) Such other materials as counsel may advise and this Honourable Court permit.

April 6, 2009

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Lawyers for the Applicant

TO: **SERVICE LIST ATTACHED**

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. 09-CV-8062-00CL

Applicant

ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST

Proceeding commenced at Toronto

NOTICE OF MOTION
(RETURNABLE APRIL 8, 2009)

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TAB 2

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 April 7, 2009)

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 Chief Financial Officer of Terrace Bay Pulp Inc. ("Terrace Bay" or the "Company"), and as such have knowledge of the matters deposed to in this affidavit. Where this affidavit is not based on my direct personal knowledge, it is based on information and belief and I verily believe such information to be true.

Nature of Motion

2. This affidavit is sworn in support of the Company's motion:

   (a) authorizing and approving arrangements with the Independent Electricity Systems Operator ("IESO") for the continued provision of electrical supply to the Company;

(b) seeking advice and directions with respect to the payments to Nexcap Finance Corporation ("Nexcap") of those sums of money contemplated by the projected cash flow of the Company, for the period through July 5, 2009, as attached to the First Report of the Monitor (the "First Report"), provided that such payments are generated from the sale of inventory and collection of accounts receivable, as is expected;

(c) deferring the determination of any claims of Nexcap to proceeds of collateral other than inventory and accounts receivable, should that become relevant;

(d) amending the Initial Order to life the stay to permit the issuance of statements of claim and registration of liens under the *Forestry Workers Lien for Wages Act* and *Construction Lien Act*;

(e) amending the Initial Order to extend the stay of proceedings herein to June 30, 2009; and

(f) approving the activities to date of Ernst & Young Inc. in its capacity as Monitor (the "Monitor") as discussed in the First Report.

Background

3. As noted in my affidavit sworn March 10, 2009 (the "March 10 Affidavit"), filed in support of the Application for the Initial Order issued by the Court on March 11, 2009 (the "Initial Order"), Terrace Bay owns and operates a pulp mill on the north shore of Lake Superior.

4. As a result of a decline in demand for its product and the effects of the global economic downturn, Terrace Bay filed for protection under the CCAA in order to enable it to pursue a three-prong restructuring strategy (a) to seek proposals for the refinancing of the business; (b) to develop a plan to restructure the business to make it financially viable; and/or (c) to commence a marketing process for the sale of the business as a going concern (the "Restructuring Process").

Current Status

5. The Initial Order provided that the Monitor and the Company were authorized to conduct a Solicitation Process for the solicitation of offers for a financing or sale of the Property (as such terms are defined in the Initial Order) and to take such necessary or advisable steps that were required to affect the Restructuring Process.

6. The Initial Order established the following timetable, with such modifications, amendments or extensions as the Company and the Monitor may deem 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) deadline of April 24, 2009 for the receipt of expressions of interest.

7. Since the filing of these proceedings, the Company has pursued the strategy as set out above.

8. The Company has, with the assistance of the Monitor, updated its CIM regarding the business, for dissemination to potential financers, investors, and strategic buyers.

9. The Monitor has contacted over 50 parties regarding the opportunity to either provide financing to or purchase Terrace Bay. To date a number of parties have executed confidentiality agreements and received a copy of the CIM.

10. The Monitor will continue to correspond with interested parties. The process for identifying interested investors or buyers will extend beyond the current deadline of April 6, 2009, given the significant number of parties contacted. The Monitor expects to update the Court with respect to the Solicitation Process.

11. In the meantime, the Company has been reviewing its business and analyzing means by which costs and expenses can be restructured. This process continues.

12. As noted in my March 10 Affidavit, the pulp mill has been idled, and it remains so pending an increase in demand for pulp. The Company has been working diligently on selling its remaining inventory, and collecting its outstanding accounts receivable, the proceeds of which are expected to be sufficient to repay Nexcap in full.

13. In addition to its pulp operations, the pulp mill houses and operates the pump and pumphouse that provides the only currently available water supply to the local

municipality of Terrace Bay. The pump has continued to operate through these proceedings, and there has been no impact on the water supply. The municipality has been constructing its own pump facilities, at which time Terrace Bay will no longer have responsibility to the municipality for the supply of water. However, the completion date is uncertain.

Independent Electricity System Operator

14. Terrace Bay purchases electricity for the operation of its facility directly from the IESO, which manages the marketing, sale and supply of electricity in Ontario.

15. In order to secure the provision of electricity, the IESO has established market rules (the "Market Rules"), which provide for the calculation and provision of "prudential support" for the amount of electricity charges incurred by a market participant. This prudential support is in the nature of security taken by IESO to secure the payment obligations of the participant. In the case of Terrace Bay, the prudential support currently provided by Terrace Bay is comprised of the cash proceeds of two treasury bills, one in the amount of $1.8 million, and one in the amount of $1.5 million, pursuant to a Pledge of Cash and Treasury Bills dated February 6, 2007, executed by Terrace Bay in favour of IESO. Attached hereto as Exhibit "A" is a copy of the Pledge of Cash and Treasury Bills.

16. Both of these treasury bills were held under IESO's former name (the Independent Market Operator, or "IMO") in an account at CIBC Mellon. They have both matured and the cash proceeds are held in the account of CIBC Mellon (the "Current Prudential Amount"). Attached hereto as Exhibit "B" is a copy of

the statement of account of CIBC Mellon showing the treasury bills in the name of IMO. The Pledge of Cash and Treasury Bills provides set-off rights to IESO in respect of obligations owing to IESO under the Market Rules.

17. The Current Prudential Amount was calculated on the basis of full operation by the pulp mill, and was on the basis of a "no margin call" option under the Market Rules. The "no margin call" option requires a larger amount of prudential support in order to avoid margin call requirements by the IESO if usage exceeds certain levels during a particular period.

18. Terrace Bay owes IESO the amount of $1,529,957 for the supply of electricity prior to filing. Approximately $283,000 is owing post-filing as of March 31, 2009.

19. As the pulp mill is now idled, the Current Prudential Amount is far in excess of requirements and, pursuant to the Market Rules, ought to be reduced. However, Terrace Bay acknowledges that any reduced prudential amount will need to be increased upon the resumption of operations at the mill, as electricity usage will increase.

20. IESO has advised Terrace Bay that, given the insolvency proceedings and in order for it to continue to supply electricity post-filing, it will require payments for electricity weekly, in advance, in an estimated amount based on the prior week's usage.

21. As a result of discussions and negotiations with IESO, Terrace Bay has proposed the following:

(a) IESO will release its security over the Current Prudential Amount, and a new prudential amount, reduced to take into account the fact that the mill is currently idled, will be posted with the IESO in the amount of $408,000, as calculated under the Market Rules (the "Reduced Prudential Amount");

(b) Terrace Bay will pay the pre-filing amounts outstanding in the amount of $1,529,957;

(c) Terrace Bay will pay for electricity weekly, in advance, in an estimated amount based on the usage of the prior week, which is currently estimated to be approximately $70,000 per week;

(d) in the event the mill resumes operation, Terrace Bay will provide advance notice to IESO, and a new prudential amount will either be agreed on the basis of the Market Rules on consent of the Monitor or referred to the Court; and

(e) the beneficiaries of the Administration Charge and the Directors' Charge (the "Charges") will consent to an Order providing that the Charges will not attach to the Reduced Prudential Amount to be provided to IESO.

Discussions are continuing with IESO with the view to presenting a consent order to the Court on the return of the motion.

PAYMENTS TO NEXCAP

22. As set out in my March 10 Affidavit, the Company is indebted to Nexcap pursuant to a credit agreement executed as of July 26, 2007 (the "Credit Agreement).

23. As provided in paragraph 8 of the Initial Order, the Company was authorized to pay Nexcap any surplus cash flow in permanent reduction of its credit facility after estimated operating costs.

24. I am advised by Pamela Huff of Blake, Cassels & Graydon LLP that the form of Initial Order was negotiated with counsel for Nexcap. In settling the Initial Order, the Court was advised that the negotiations with counsel for Nexcap and the provisions in the Initial Order were based on the assumption that Nexcap had priority security over the assets of the Company. The Court was advised that an independent review of Nexcap's security would be undertaken by independent counsel for the Monitor. That review has recently been completed in relation to personal property security governed by the *Personal Property Security Act* (Ontario) and certain deficiencies have been noted which the Company must bring to the Court's attention.

25. The Monitor requested its counsel, Lang Michener LLP ("**Lang Michener**"), to complete a review of Nexcap's security position. Attached as Appendix A to the First Report of the Monitor is the opinion of Lang Michener dated April 6, 2009.

26. As set out in Lang Michener's opinion, there are certain deficiencies in the definitions in the General Security Agreement granted by Terrace Bay in favour of Nexcap on July 26, 2007 (the "GSA") , that result in an ambiguity of the GSA to clearly identify the obligations secured.

27. The security review has only recently been completed and counsel for Nexcap has been advised of the identified deficiencies. As well, counsel for Lucky Star Holdings Inc., as the next ranking secured creditor, was given notice late last week of the identified deficiencies.

28. Terrace Bay does not intend to oppose the proposed payments pursuant to the Credit Agreement and the GSA, notwithstanding the drafting deficiencies contained in the GSA. However, other parties should be given opportunity to consider their position on the issue. Since the completion of the security review and notice of the deficiencies has only recently occurred, and the Initial Order currently permits payments of surplus to Nexcap, advice and direction is sought on the return of this motion.

29. As noted in the March 10 Affidavit and the cash flows attached thereto as Exhibit "I", it was anticipated that Nexcap would be paid in full from inventory and accounts receivable, so my March 10 Affidavit did not raise any issue with respect to the collateral charged by the GSA. However, in the negotiations with Nexcap leading to the execution of the Credit Agreement, it was understood by the Company that the existing credit facilities were to be secured by inventory and receivables. All property was to be charged in the event Nexcap loaned additional

funds for the acquisition of a turbine for the plant. For convenience only, one GSA was executed charging all property. Nexcap did not provide the additional turbine financing and refused to amend the GSA to restrict the collateral to inventory and accounts receivable. Terrace Bay does not propose to advance this dispute at this time, since it is expected that Nexcap will be paid in full from inventory and accounts receivable. If there is any change in that expectation, Terrace Bay wishes to reserve its rights to refer this matter to the Court.

LIEN CLAIMS

30. As of April 3, 2009, Terrace Bay has been served with materials from eight parties asserting lien claims. Such claims include five claims pursuant to the *Forestry Workers Lien for Wages Act* ("FWLWA") and three claims pursuant to the *Construction Lien Act* ("CLA"). The total value of all eight lien claims is approximately $2.7 million.

31. The Initial Order permits the registration of claims for lien. However, in order to allow lien claimants under both the CLA and the FWLWA to comply with the statutory limitation periods, the Company has advised such lien claimants, where requested, that it consents to the issuance of statements of claim in respect of their claims, on the basis that any proceedings thereafter with respect to the claim will continue to be stayed. It is proposed that the Initial Order be amended such that the stay of proceedings will be lifted to permit the issuance of statements of claim under the CLE or FWLWA and registration of such lien claims, provided that

such proceedings against Terrace Bay are thereafter stayed in accordance with the Initial Order.

Extension of Stay

32. As noted above, steps in pursuit of the Restructuring Process have been initiated and are well underway. Further time will be required to pursue a going concern solution for the Company.

33. In the meantime, the Company continues to pursue its efforts to realize on its inventory and accounts receivable for the benefit of stakeholders.

34. The premises continue to be maintained for the protection and benefit of stakeholders while the Restructuring Process is undertaken.

35. The Company believes it is acting in good faith and with due diligence, and it seeks an extension of the stay to June 30, 2009 to permit the Restructuring Process to be advanced and to report back to the Court as necessary in connection with the solicitation of financing and/or purchasers.

Relief Sought

36. This Affidavit is therefore made in support of the Company's motion for an Order in the draft form provided in the Motion Record, as may be revised and supplemented to take in to account the position of third parties on the Nexcap

security issues and any final arrangements with IESO, and for no other or improper purpose.

SWORN BEFORE ME at the City of Thunder Bay, in the Province of Ontario this 7th day of April, 2009	)))))	
JOHN G. ILLINGWORTH		**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
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Proceeding commenced at Toronto

AFFIDAVIT OF RUSSELL YORK
(Sworn April 7, 2009)

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Solicitors for the Applicant

EXHIBIT "A"

THIS IS EXHIBIT " A "
REFERRED TO IN THE AFFIDAVIT OF

RUSSELL YORK.

SWORN BEFORE ME THIS 7TH DAY OF

APRIL 2009

[signature]

A COMMISSIONER, ETC.

JOHN G. ILLINGWORTH

DOCUMENT2

EXHIBIT "A"

CONFIDENTIAL

IMO_AGR_0013

AGREEMENT

ieso

Power to Ontario.
On Demand.

Pledge of Cash and Treasury Bills

Between

TERRACE BAY PULP INC.

and

INDEPENDENT ELECTRICITY SYSTEM OPERATOR

Confidential

SCANNED

Document Change History

Issue	Reason for Issue	Date
1.0	First release	March 25,2002
2.0	Name and logo change to *IESO* Change in confidentiality classification to confidential	March 9, 2005

TO: Independent Electricity System Operator (the "IESO")

RE: Obligations of Terrace Bay Pulp Inc. (the "Pledgor") under the Market Rules

PLEDGE OF CASH AND TREASURY BILLS

1. Obligations Secured. consideration of the of the Pledgor participating in the markets established by the IESO under the Market Rules In and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged by the Pledgor, the Pledgor hereby enters into this agreement with the IESO as security for the payment and performance of the Obligations.

2. Definitions and Interpretation. In this agreement, the following words shall, unless otherwise provided, have the meanings set out below:

   "Collateral" means all Money and Treasury Bills deposited with and pledged, assigned, hypothecated, transferred and charged in favour of the IESO pursuant to Section 4 of this agreement (including, without limitation, all renewals thereof, substitutions therefor and accretions and additions thereto and all interest and other amounts accrued and accruing thereon and Proceeds thereof), together with any and all instruments, receipts, certificates and other documents evidencing the same;

   "Market Rules" means the rules made under section 32 of the *Electricity Act, 1998* (Ontario);

   "Money" means a medium of exchange authorized or adopted by the Parliament of Canada as part of the currency of Canada or by a foreign government as part of its currency;

   "Obligations" means all present and future indebtedness, liabilities and obligations, direct or indirect, absolute or contingent, of the Pledgor to the IESO arising pursuant to or under the Market Rules;

   "Person" means any natural person, corporation, limited liability company, trust, joint venture, association, company, partnership or other entity;

   "Proceeds" means identifiable or traceable personal or real property in any form derived directly or indirectly from any dealing with property or the proceeds therefrom and includes any payment representing indemnity or compensation for loss of or damage to property or proceeds therefrom; and

   "Treasury Bills" means negotiable debt obligations issued by the Government of Canada having an original term to maturity at issuance of not more than 365 days.

3. Governing Law. This agreement shall be construed in accordance with and be governed by the laws of the Province of Ontario. For the purpose of legal proceedings, this agreement shall be deemed to have been made in the said Province and to be performed therein and the courts of that Province shall have jurisdiction over all disputes which may arise under this agreement. The

Pledgor hereby irrevocably and unconditionally submits to the non-exclusive jurisdiction of such courts, provided always that nothing herein contained shall prevent the IESO from proceeding at its election against the Pledgor in the courts of any other province, country or jurisdiction.

4. Pledge of Collateral. The Pledgor hereby assigns, transfers, pledges, hypothecates and grants a security interest in the Collateral to the IESO and the Collateral shall be held by the IESO as continuing security to secure payment of the Obligations.

5. Default. On default being made in either payment to the IESO when due or performance of the Obligations, or any part thereof, the IESO may forthwith, without notice, without demand for payment, and without any other formality, all of which are hereby waived by the Pledgor, take, appropriate and apply the Collateral, or any part thereof, to pay the Obligations or any part thereof. The Pledgor expressly acknowledges and agrees that the IESO may set-off and apply the Collateral contemporaneously with any demand made by the IESO for payment of any of the Obligations and the Pledgor hereby waives, to the fullest extent permitted by law, any obligation on the IESO which may be imposed by a court to allow the Pledgor reasonable notice prior to the exercise of such set-off and application.

6. Investment and Interest. The IESO shall not be bound under any circumstances to invest the Collateral or any part thereof but any interest payable on the Collateral held by the IESO shall be added to the Collateral, deemed to be part thereof and held by the IESO pursuant to the terms hereof.

7. Application of Collateral. The IESO shall not be obliged to pursue or exhaust its recourse against any other security or securities the IESO may hold before applying, appropriating, realizing on, or otherwise dealing with the Collateral in such manner as the IESO considers desirable, and the Collateral may be applied on such part or parts of the Obligations as the IESO may see fit and the IESO shall at all times and from time to time have the right to change any appropriation of any moneys received by the IESO and to reapply the same on any other part or parts of the Obligations as the IESO may see fit, notwithstanding any previous application by whomsoever made, and the IESO may grant extensions, take and give up securities, accept compositions, grant releases and discharges and otherwise make arrangements with the Pledgor and deal with other Persons and securities as the IESO may see fit without prejudice to the Obligations or the IESO's right to hold, deal with and realize upon the Collateral in any manner which the IESO considers desirable.

8. Withdrawals and Dispositions. The Pledgor shall not withdraw or demand payment of the Collateral or any part thereof other than in accordance with the Market Rules.

9. Further Assurances. At the request of the IESO, the Pledgor shall, at its sole expense, execute all such additional transfers, assignments and documents as may reasonably be required, with all necessary powers as may be expedient for better vesting the Collateral in the IESO or such Person or Persons as the IESO may appoint.

10. Successors and Assigns. This agreement shall enure to the benefit of and be binding upon the Pledgor and the IESO and their respective successors and assigns.

11. Notices, Demands. Any demand, notice or other communication in connection with this agreement shall be made or given in accordance with the Market Rules.

IN WITNESS WHEREOF this agreement has been executed by the Pledgor as of the 6th day of February, 2007

TERRACE BAY PULP INC.

By: __________________________
Name: Taras Sawula
Title: Vice President, Secretary-Treasurer

I have the authority to bind the Debtor

EXHIBIT "B"

THIS IS EXHIBIT "B"
REFERRED TO IN THE AFFIDAVIT OF
RUSSELL YORK
SWORN BEFORE ME THIS 7TH DAY OF
APRIL 2009

A COMMISSIONER, ETC.

JOHN G. ILLINGWORTH

DOCUMENT2

EXHIBIT "B"

CIBC Mellon

IMO REAL-TIME MKT CU - IMOF21110002

Security Valuation by Asset Type
Settled Basis
2/28/2009

Report ID: ICUS0006
Reporting Currency: CAD

CUSIP	Security ID	Description	Location	Units	Original Face	Local Price	Market Value Local	Market Value Base
CASH & CASH EQUIVALENTS								
CANADIAN DOLLAR		EXCHANGE RATE: 1.000000						
1350Z7LM4	NC8949579	GOVERNMENT OF CANADA 0.00% T-BILL 19-MAR-	DCS	1,875,000.000	0.000	97.397000	1,826,193.75	1,826,193.75
[redacted]								
1350Z7MA9	NC8106633	GOVERNMENT OF CANADA 0.000% T-BILL 05-MAR-	DCS	1,508,000.000	0.000	97.634000	1,472,320.72	1,472,320.72
[redacted]								
		TOTAL CANADIAN DOLLAR:		[redacted]			[redacted]	[redacted]
		TOTAL CASH & CASH EQUIVALENTS:		[redacted]				[redacted]
		TOTAL IMOF21110002:		[redacted]				[redacted]

TAB 3

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

ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST

THE HONOURABLE	)	WEDNESDAY, THE 8^{TH}
	)	
JUSTICE	)	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 Ernst & Young Inc.(the "Monitor") counsel for Nexcap, counsel for IESO, [and counsel for],

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 of proceedings provided for at paragraph 11 of the Initial Order be and is hereby extended from April 19, 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 issue as between the Applicant and Nexcap as to alleged limitations on the collateral charged for outstanding indebtedness to Nexcap is deferred until when it becomes apparent, if ever, that the proceeds of inventory and accounts receivable will not be sufficient to repay Nexcap in full.

5. **THIS COURT ORDERS** that the activities and conduct of the Monitor as referenced in the First Report be and are hereby approved.

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
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Lawyers for the Applicant

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

MOTION RECORD OF
TERRACE BAY PULP INC.
(RETURNABLE APRIL 8, 2009)

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

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

Lawyers for the Applicant

TAB 4

Court File No. CV-09-8062-OOCL

ONTARIO

SUPERIOR COURT OF JUSTICE

COMMERCIAL LIST

THE HONOURABLE MR.	)	WEDNESDAY, THE 11TH
	)	
JUSTICE MORAWETZ	)	DAY OF MARCH, 2009

SUPERIOR COURT OF JUSTICE COUR SUPÉRIEURE DE JUSTICE

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.

INITIAL ORDER

THIS APPLICATION, made by the Applicant, pursuant to the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the "CCAA") was heard this day at 330 University Avenue, Toronto, Ontario.

ON READING the affidavit of Russell York sworn March 10, 2009 and the Exhibits thereto and on hearing the submissions of counsel for the Applicant and counsel for Nexcap Finance Corporation ("Nexcap"), and on reading the consent of Ernst & Young Inc. to act as the Monitor (the "Monitor"),

SERVICE

1. THIS COURT ORDERS that the time for service of the Notice of Application and the Application Record is hereby abridged so that this Application is properly returnable today and hereby dispenses with further service thereof.

APPLICATION

2. THIS COURT ORDERS AND DECLARES that the Applicant is a company to which the CCAA applies.

PLAN OF ARRANGEMENT

3. THIS COURT ORDERS that the Applicant shall have the authority to file and may, subject to further order of this Court, file with this Court a plan of compromise or arrangement (hereinafter referred to as the "Plan") between, *inter alia*, the Applicant and one or more classes of its secured and/or unsecured creditors as it deems appropriate.

POSSESSION OF PROPERTY AND OPERATIONS

4. THIS COURT ORDERS that the Applicant shall remain in possession and control of its current and future assets, undertakings and properties of every nature and kind whatsoever, and wherever situate including all proceeds thereof (the "Property"). Subject to further Order of this Court, the Applicant shall continue to carry on business in a manner consistent with the preservation of its business (the "Business") and Property. The Applicant shall be authorized and empowered to continue to retain and employ the employees, consultants, agents, experts, accountants, counsel and such other persons (collectively "Assistants") currently retained or employed by it, with liberty to retain such further Assistants as it deems reasonably necessary or desirable in the ordinary course of business or for the carrying out of the terms of this Order.

5. THIS COURT ORDERS that the Applicant shall pay the following expenses whether incurred prior to or after this Order:

(a) all outstanding and future wages, salaries, employee and pension benefits, vacation pay, and expenses payable on or after the date of this Order, but not severance and termination pay, in each case incurred in the ordinary course of business and consistent with existing compensation policies and arrangements;

(b) the fees and disbursements of any Assistants retained or employed by the Applicant in respect of these proceedings, at their standard rates and charges; and

(c) monthly interest to Nexcap on the outstanding indebtedness at the rate of 7.6% as prescribed by the Credit Agreement dated July 26, 2007 along with all reasonable costs and fees at standard rates and charges permitted thereunder;

provided that unless specifically contemplated by this paragraph, the Applicant shall only be entitled (but not required) to pay costs and expenses that were incurred before the date of this Order to the extent that such costs and expenses are deemed necessary for the preservation of the Property and/or the Business by the Applicant, the Monitor and Nexcap, or upon further order in these proceedings.

6. THIS COURT ORDERS that, except as otherwise provided to the contrary herein, the Applicant shall be entitled but not required to pay all reasonable expenses incurred by the Applicant in carrying on the Business in the ordinary course after this Order, and in carrying out the provisions of this Order, which expenses shall include, without limitation:

(a) all expenses and capital expenditures reasonably necessary for the preservation of the Property or the Business including, without limitation, payments on account of insurance (including directors and officers insurance), maintenance and security services; and

(b) payment for goods or services actually supplied to the Applicant following the date of this Order.

7. THIS COURT ORDERS that the Applicant shall remit, in accordance with legal requirements, or pay:

(a) any statutory deemed trust amounts in favour of the Crown in right of Canada or of any Province thereof or any other taxation authority which are required to be deducted from employees' wages, including, without limitation, amounts in respect of (i) employment insurance, (ii) Canada Pension Plan, (iii) Quebec Pension Plan, and (iv) income taxes;

(b) all goods and services or other applicable sales taxes (collectively, "Sales Taxes") required to be remitted by the Applicant in connection with the sale of goods and services by the Applicant, but only where such Sales Taxes are accrued or collected after the date of this Order, or where such Sales Taxes were accrued or collected prior to the date of this Order but not required to be remitted until on or after the date of this Order, and

(c) any amount payable to the Crown in right of Canada or of any Province thereof or any political subdivision thereof or any other taxation authority in respect of municipal realty, municipal business or other taxes, assessments or levies of any nature or kind which are entitled at law to be paid in priority to claims of secured creditors and which are attributable to or in respect of the carrying on of the Business by the Applicant.

8. THIS COURT ORDERS that, except as specifically permitted herein, the Applicant is hereby directed, until further Order of this Court: (a) to make no payments of principal, interest thereon or otherwise on account of amounts owing by the Applicant to any of its creditors as of this date, except that the Applicant is entitled to pay to Nexcap any surplus amounts in permanent reduction of outstanding principal after estimated operating costs; (b) to grant no security interests, trust, liens, charges or encumbrances upon or in respect of any of its Property; (c) to not grant credit or incur liabilities except in the ordinary course of the Business; (d) to pay to Nexcap the amount of $3,300,000 currently in treasury bills pledged to providers of utilities upon release from such pledges and maturity of the treasury bills; and (e) to maintain $1,700,000 in a separate segregated interest bearing account.

9. THIS COURT ORDERS that the Applicant shall not cease to provide water supply services to the Town of Terrace Bay other than with court approval on 2 weeks notice to the Town of Terrace Bay.

RESTRUCTURING

10. THIS COURT ORDERS that the Applicant shall, subject to the terms of this Order, have the right to:

(a) permanently or temporarily cease, downsize or shut down any of its business or operations and to dispose of redundant or non-material assets not exceeding \$250,000 in any one transaction or \$1,000,000 in the aggregate;

(b) terminate the employment of such of its employees or temporarily lay off such of its employees as it deems appropriate;

(c) repudiate such of its arrangements or agreements of any nature whatsoever, whether oral or written, as the Applicant deems appropriate and with the consent of the Monitor; and

(d) pursue all avenues of refinancing and offers for material parts of its Business or Property, in whole or part, in accordance with the Solicitation Process approved herein at paragraph 35, subject to prior approval of this Court being obtained before any material refinancing or any sale (except as permitted by subparagraph (a), above),

(e) proceed with an orderly liquidation of such Property as the Applicant deems necessary or appropriate, including retaining any liquidator or advisor in connection therewith;

(f) sell, convey, transfer, assign, lease, or in any other manner dispose of the Property, or any part or parts thereof in the ordinary course of business without the specific approval of this Court;

all of the foregoing to permit the Applicant to proceed with an orderly restructuring of the Business (the "Restructuring").

NO PROCEEDINGS AGAINST THE APPLICANT OR THE PROPERTY

11. THIS COURT ORDERS that until and including **April 10, 2009**, or such later date as this Court may order (the "Stay Period"), no proceeding or enforcement process in any court or tribunal (each, a "Proceeding") shall be commenced or continued against or in respect of the Applicant or the Monitor, or affecting the Business or the Property, except with the written consent of the Applicant and the Monitor, or with leave of this Court, and any and all Proceedings currently under way against or in respect of the Applicant or affecting the Business or the Property are hereby stayed and suspended pending further Order of this Court.

NO EXERCISE OF RIGHTS OR REMEDIES

12. THIS COURT ORDERS that during the Stay Period, all rights and remedies of any individual, firm, corporation, governmental body or agency, or any other entities, including warehousemen, storers or bailees (all of the foregoing, collectively being "Persons" and each being a "Person") against or in respect of the Applicant or the Monitor, or affecting the Business or the Property, are hereby stayed and suspended except with the written consent of the Applicant and the Monitor, or leave of this Court, provided that nothing in this Order shall (i) empower the Applicant to carry on any business which the Applicant is not lawfully entitled to carry on, (ii) exempt the Applicant from compliance with statutory or regulatory provisions relating to health, safety or the environment, (iii) prevent the filing of any registration to preserve or re-perfect an existing security interest, or (iv) prevent the registration of a claim for lien.

NO INTERFERENCE WITH RIGHTS

13. THIS COURT ORDERS that during the Stay Period, no Person shall discontinue, fail to honour, alter, interfere with, repudiate, terminate or cease to perform any right, renewal right, contract, agreement, licence or permit in favour of or held by the Applicant, and the Applicant shall be entitled to possession of its Property, wherever situate, without any interference of any kind from any Person except with the written consent of the Applicant and the Monitor, or leave of this Court.

CONTINUATION OF SERVICES

14. THIS COURT ORDERS that during the Stay Period, all Persons having oral or written agreements with the Applicant or statutory or regulatory mandates for the supply of goods and/or services, including without limitation all computer software, communication and other data services, centralized banking services, payroll services, insurance, transportation, services, utility or other services to the Business or the Applicant, are hereby restrained until further Order of this Court from discontinuing, altering, interfering with or terminating the supply of such goods or services as may be required by the Applicant, and that the Applicant shall be entitled to the continued use of its current premises, telephone numbers, facsimile numbers, internet addresses and domain names, provided in each case that the normal prices

or charges for all such goods or services received after the date of this Order are paid by the Applicant in accordance with normal payment practices of the Applicant or such other practices as may be agreed upon by the supplier or service provider and each of the Applicant and the Monitor, or as may be ordered by this Court.

NON-DEROGATION OF RIGHTS

15. THIS COURT ORDERS that, notwithstanding anything else contained herein, no creditor of the Applicant shall be under any obligation after the making of this Order to advance or re-advance any monies or otherwise extend any credit to the Applicant. Nothing in this Order shall derogate from the rights conferred and obligations imposed by the CCAA.

PROCEEDINGS AGAINST DIRECTORS AND OFFICERS

16. THIS COURT ORDERS that during the Stay Period, and except as permitted by subsection 11.5(2) of the CCAA, no Proceeding may be commenced or continued against any of the former, current or future directors or officers of the Applicant with respect to any claim against the directors or officers that arose before the date hereof and that relates to any obligations of the Applicant whereby the directors or officers are alleged under any law to be liable in their capacity as directors or officers for the payment or performance of such obligations, until a compromise or arrangement in respect of the Applicant, if one is filed, is sanctioned by this Court or is refused by the creditors of the Applicant or this Court.

DIRECTORS' AND OFFICERS' INDEMNIFICATION AND CHARGE

17. THIS COURT ORDERS that the Applicant shall indemnify its directors and officers from all claims, costs, charges and expenses relating to the failure of the Applicant, after the date hereof, to make payments of the nature referred to in subparagraphs 5(a), 7(a), 7(b) and 7(c) of this Order which they sustain or incur by reason of or in relation to their respective capacities as directors and/or officers of the Applicant except to the extent that, with respect to any officer or director, such officer or director has actively participated in the breach of any related fiduciary duties or has been grossly negligent or guilty of wilful misconduct.

18. THIS COURT ORDERS that the directors and officers of the Applicant shall be entitled to the benefit of and are hereby granted a charge (the "Directors' Charge") on the

Property, which charge shall not exceed an aggregate amount of $2,500,000 as security for the indemnity provided in paragraph 17 of this Order. The Directors' Charge shall have the priority set out in paragraphs 29 and 31 herein.

19. THIS COURT ORDERS that, notwithstanding any language in any applicable insurance policy to the contrary, (a) no insurer shall be entitled to be subrogated to or claim the benefit of the Directors' Charge, and (b) the Applicant's directors and officers shall only be entitled to the benefit of the Directors' Charge to the extent that they do not have coverage under any directors' and officers' insurance policy, or to the extent that such coverage is insufficient to pay amounts indemnified in accordance with paragraph 17 of this Order.

APPOINTMENT OF MONITOR

20. THIS COURT ORDERS that Ernst & Young Inc. is hereby appointed pursuant to the CCAA as the Monitor, an officer of this Court, to monitor the Property and the Applicant's conduct of the Business with the powers and obligations set out in the CCAA or set forth herein and that the Applicant and its shareholders, officers, directors, and Assistants shall advise the Monitor of all material steps taken by the Applicant pursuant to this Order, and shall co-operate fully with the Monitor in the exercise of its powers and discharge of its obligations.

21. THIS COURT ORDERS that the Monitor, in addition to its prescribed rights and obligations under the CCAA, is hereby directed and empowered to:

(a) monitor the Applicant's receipts and disbursements and report on a weekly basis to Nexcap;

(b) report to this Court at such times and intervals as the Monitor may deem appropriate with respect to matters relating to the Property, the Business, and such other matters as may be relevant to the proceedings herein;

(c) assist the Applicant, to the extent required by the Applicant, in its dissemination, to Nexcap (and its financial advisor, PricewaterhouseCoopers Inc. ("PwC")) and to Lucky Star Holdings Inc. (the "Secured Creditors") and their counsel on a periodic basis (and no less than weekly) of financial and other information as agreed to between the Applicant and the Secured Creditors which may be used in these proceedings including reporting on a basis to be agreed with the Secured Creditors;

(d) advise the Applicant in its preparation of the Applicant's cash flow statements and reporting required by the Secured Creditors, which information shall be reviewed with the Monitor and delivered to the Secured Creditors and their counsel on a periodic basis (and no less than weekly) as agreed to by the Secured Creditors;

(e) advise the Applicant in its development of the Plan and any amendments to the Plan;

(f) assist the Applicant, to the extent required by the Applicant, with the holding and administering of creditors' or shareholders' meetings for voting on the Plan;

(g) have full and complete access to the books, records and management, employees and advisors of the Applicant and to the Business and the Property to the extent required to perform its duties arising under this Order;

(h) be at liberty to engage independent legal counsel or such other persons as the Monitor deems necessary or advisable respecting the exercise of its powers and performance of its obligations under this Order, including being at liberty to retain and utilize the services of entities related to the Monitor as may be necessary to perform its duties hereunder;

(i) consider, and if deemed advisable by the Monitor, prepare a report and assessment on the Plan;

(j) advise and assist the Applicant as requested in its negotiations and discussions with suppliers, customers, creditors and other stakeholders;

(k) assist the Applicant in the conduct of any solicitation process or processes as the Applicant may consider necessary or advisable to sell the Property and Business or any part thereof, including pursuant to the Solicitation Process approved herein;

(l) perform such other duties as are required by this Order or by this Court from time to time; and

(m) facilitate access by PwC to the pulp mill site to conduct a field examination for Nexcap.

22. THIS COURT ORDERS that the Monitor shall not take possession of the Property and shall take no part whatsoever in the management or supervision of the management of the Business and shall not, by fulfilling its obligations hereunder, be deemed to have taken or maintained possession or control of the Business or Property, or any part thereof.

23. THIS COURT ORDERS that nothing herein contained shall require the Monitor to occupy or to take control, care, charge, possession or management (separately and/or collectively, "Possession") of any of the Property that might be environmentally contaminated, might be a pollutant or a contaminant, or might cause or contribute to a spill, discharge, release or deposit of a substance contrary to any federal, provincial or other law respecting the protection, conservation, enhancement, remediation or rehabilitation of the environment or relating to the disposal of waste or other contamination including, without limitation, the *Canadian Environmental Protection Act*, the Ontario *Environmental Protection Act*, the *Ontario Water Resources Act*, or the Ontario *Occupational Health and Safety Act* and regulations thereunder (the "Environmental Legislation"), provided however that nothing herein shall exempt the Monitor from any duty to report or make disclosure imposed by applicable Environmental Legislation. The Monitor shall not, as a result of this Order or anything done in pursuance of the Monitor's duties and powers under this Order, be deemed to be in Possession of any of the Property within the meaning of any Environmental Legislation, unless it is actually in possession.

24. THIS COURT ORDERS that that the Monitor shall provide the Secured Creditors and any other creditor of the Applicant with information provided by the Applicant in response to reasonable requests for information made in writing by such creditor addressed to the Monitor. The Monitor shall not have any responsibility or liability with respect to the information disseminated by it pursuant to this paragraph. In the case of information that the Monitor has been advised by the Applicant is confidential, the Monitor shall not provide such information to creditors unless otherwise directed by this Court or on such terms as the Monitor and the Applicant may agree.

25. THIS COURT ORDERS that, in addition to the rights and protections afforded the Monitor under the CCAA or as an officer of this Court, the Monitor shall incur no liability or obligation as a result of its appointment or the carrying out of the provisions of this Order, save and except for any gross negligence or wilful misconduct on its part. Nothing in this Order shall derogate from the protections afforded the Monitor by the CCAA or any applicable legislation.

26. THIS COURT ORDERS that the Monitor, counsel to the Monitor and counsel to the Applicant shall be paid their reasonable fees and disbursements, in each case at their standard rates and charges, by the Applicant as part of the costs of these proceedings. The Applicant is hereby authorized and directed to pay the accounts of the Monitor, counsel for the Monitor and counsel for the Applicant on a weekly basis.

27. THIS COURT ORDERS that the Monitor and its legal counsel shall pass their accounts from time to time, and for this purpose the accounts of the Monitor and its legal counsel are hereby referred to a judge of the Commercial List of the Ontario Superior Court of Justice.

28. THIS COURT ORDERS that the Monitor, counsel to the Monitor, if any, and the Applicant's counsel shall be entitled to the benefit of and are hereby granted a charge (the "Administration Charge") on the Property, which charge shall not exceed an aggregate amount of $750,000, as security for their professional fees and disbursements incurred at the standard rates and charges of the Monitor and such counsel, both before and after the making of this Order in respect of these proceedings. The Administration Charge shall have the priority set out in paragraphs 29 and 31 hereof.

VALIDITY AND PRIORITY OF CHARGES CREATED BY THIS ORDER

29. THIS COURT ORDERS that the priorities of the Directors' Charge, and the Administration Charge, as among them, shall be as follows:

First – Administration Charge (to the maximum amount of $750,000); and

Second - Directors' Charge (to the maximum amount of $2,500,000).

30. THIS COURT ORDERS that the filing, registration or perfection of the Directors' Charge and the Administration Charge (collectively, the "Charges") shall not be required, and that the Charges shall be valid and enforceable for all purposes, including as against any right, title or interest filed, registered, recorded or perfected subsequent to the Charges coming into existence, notwithstanding any such failure to file, register, record or perfect.

31. THIS COURT ORDERS that each of the Directors' Charge and the Administration Charge (all as constituted and defined herein) shall constitute a charge on the Property and such Charges shall rank in priority to all other security interests, trusts, liens, charges and encumbrances, statutory or otherwise (collectively, "Encumbrances") in favour of any Person, with the exception that the Directors' Charge shall rank subordinate to the valid security interests of Nexcap.

32. THIS COURT ORDERS that except as otherwise expressly provided for herein, or as may be approved by this Court, the Applicant shall not grant any Encumbrances over any Property that rank in priority to, or *pari passu* with, the Directors' Charge or the Administration Charge, unless the Applicant also obtains the prior written consent of the Monitor and the beneficiaries of the Directors' Charge and the Administration Charge, or further Order of this Court.

33. THIS COURT ORDERS that the Charges shall not be rendered invalid or unenforceable and the rights and remedies of the chargees entitled to the benefit of the Charges (collectively, the "Chargees") shall not otherwise be limited or impaired in any way by (a) the pendency of these proceedings and the declarations of insolvency made herein; (b) any application(s) for bankruptcy order(s) issued pursuant to the Bankruptcy and Insolvency Act ("BIA"), or any bankruptcy order made pursuant to such applications; (c) the filing of any assignments for the general benefit of creditors made pursuant to the BIA; (d) the provisions of any federal or provincial statutes; or (e) any negative covenants, prohibitions or other similar provisions with respect to borrowings, incurring debt or the creation of Encumbrances, contained in any existing loan documents, lease, sublease, offer to lease or other agreement (collectively, an "Agreement") which binds the Applicant, and notwithstanding any provision to the contrary in any Agreement:

(a) neither the creation of the Charges nor the execution, delivery, perfection, registration or performance of any documents or agreements in respect thereof shall create or be deemed to constitute a breach by the Applicant of any Agreement to which it is a party;

(b) none of the Chargees shall have any liability to any Person whatsoever as a result of any breach of any Agreement caused by or resulting from the creation of the Charges, or the execution, delivery or performance of any agreements or obligations in respect thereof; and

(c) the granting of the Charges do not and will not constitute fraudulent preferences, fraudulent conveyances, oppressive conduct, settlements or other challengeable, voidable or reviewable transactions under any applicable law.

APPROVAL OF AGREEMENT WITH BUCHANAN FOREST PRODUCTS LTD.

34. THIS COURT ORDERS that the Applicant be and is hereby entitled to enter into such arrangements for the purchase of log and chip inventory owned by Buchanan Forest Products Ltd. and stored by the Applicant, provided that the purchase and processing of the log and chip inventory is approved by the Monitor and Nexcap, or, failing which, is approved by the Court.

APPROVAL OF SOLICITATION PROCESS

35. THIS COURT ORDERS that the Monitor and the Applicant are hereby authorized to conduct a process for the solicitation of offers for a financing or a sale of the Property (the "Solicitation Process"), and are authorized to take such steps as are necessary or advisable in carrying out the Solicitation Process in accordance with the following timetable, with such modifications, amendments or extensions of time as the Applicant and the Monitor may deem appropriate in the circumstances:

(a) Preparation of Confidential Information Memorandum and identification of potential offerors: by March 23, 2009;

(b) Dissemination of Confidential Information Memorandum to interested parties on execution of confidentiality agreements: by April 6, 2009; and

(c) Deadline for expressions of interest: by April 24, 2009.

36. THIS COURT ORDERS that the Applicant and the Monitor may obtain advice and directions from the Court with respect to the Solicitation Process.

SERVICE AND NOTICE

37. **THIS COURT ORDERS that** the Monitor shall, within ten (10) business days of the date of entry of this Order, send notice of this Order to the known creditors of the Applicant, other than employees and creditors to which the Applicant owes less than $250, at their addresses as they appear on the Applicant's records, advising that such creditor may obtain a copy of this Order on the internet at the website of the Monitor, **www.ey.com/ca/terracebay**, (the "Website") and if such creditor is unable to obtain it by that means, such creditor may request a copy from the Monitor. The Monitor shall promptly send a copy of this Order to any interested Person requesting a copy of this Order, and the Monitor is relieved of its obligation under Section 11(5) of the CCAA to provide similar notice, other than to supervise this process.

38. THIS COURT ORDERS that the Applicant and the Monitor be at liberty to serve this Order, any other materials and orders in these proceedings, any notices or other correspondence, by forwarding true copies thereof by prepaid ordinary mail, courier, personal delivery or electronic transmission to the Applicant' creditors or other interested parties at their respective addresses as last shown on the records of the Applicant and that any such service or notice by courier, personal delivery or electronic transmission shall be deemed to be received on the next business day following the date of forwarding thereof, or if sent by ordinary mail, on the third business day after mailing.

39. THIS COURT ORDERS that the Applicant, the Monitor, and any party who has filed a Notice of Appearance may serve any court materials in these proceedings by e-mailing a PDF or other electronic copy of such materials to counsels' email addresses as recorded on the Service List from time to time, in accordance with the E-filing protocol of the Commercial List to the extent practicable, and the Monitor may post a copy of any or all such materials on the Website.

GENERAL

40. THIS COURT ORDERS that the Applicant or the Monitor may from time to time apply to this Court for advice and directions in the discharge of its powers and duties hereunder.

41. THIS COURT ORDERS that nothing in this Order shall prevent the Monitor from acting as an interim receiver, a receiver, a receiver and manager, or a trustee in bankruptcy of the Applicant, the Business or the Property.

42. THIS COURT HEREBY REQUESTS the aid and recognition of any court, tribunal, regulatory or administrative body having jurisdiction in Canada or in the United States, to give effect to this Order and to assist the Applicant, the Monitor and their respective agents in carrying out the terms of this Order. All courts, tribunals, regulatory and administrative bodies are hereby respectfully requested to make such orders and to provide such assistance to the Applicant and to the Monitor, as an officer of this Court, as may be necessary or desirable to give effect to this Order, to grant representative status to the Monitor in any foreign proceeding, or to assist the Applicant and the Monitor and their respective agents in carrying out the terms of this Order.

43. THIS COURT ORDERS that each of the Applicant and the Monitor be at liberty and is hereby authorized and empowered to apply to any court, tribunal, regulatory or administrative body, wherever located, for the recognition of this Order and for assistance in carrying out the terms of this Order.

44. THIS COURT ORDERS that any interested party (including the Applicant and the Monitor) may apply to this Court to vary or amend this Order on not less than seven (7) days' notice to any other party or parties likely to be affected by the order sought or upon such other notice, if any, as this Court may order.

45. THIS COURT ORDERS that this Order and all of its provisions are effective as of 12:01 a.m. Eastern Daylight Savings Time on the date of this Order.

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

MAR 1 1 2009

Christina Irwin
Registrar, Superior Court of Justice

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DOCSTOR: 11704 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

INITIAL ORDER

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