

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 APPLICATION

TO THE RESPONDENT:

A LEGAL PROCEEDING HAS BEEN COMMENCED by the applicant. The claim made by the applicant appears on the following page.

THIS APPLICATION will come on for a hearing on Wednesday March 11, 2009, at 10:00 a.m., at 330 University Avenue, Toronto, Ontario.

IF YOU WISH TO OPPOSE THIS APPLICATION, to receive notice of any step in the application or to be served with any documents in the application, you or an Ontario lawyer acting for you must forthwith prepare a notice of appearance in Form 38A prescribed by the Rules of Civil Procedure, serve it on the applicant's lawyer or, where the applicant does not have a lawyer, serve it on the applicant, and file it, with proof of service, in this court office, and you or your lawyer must appear at the hearing.

IF YOU WISH TO PRESENT AFFIDAVIT OR OTHER DOCUMENTARY EVIDENCE TO THE COURT OR TO EXAMINE OR CROSS-EXAMINE WITNESSES ON THE APPLICATION, you or your lawyer must, in addition to serving your notice of appearance, serve a copy of the evidence on the applicant's lawyer or, where the applicant does not have a lawyer, serve it on the applicant, and file it, with proof of service, in the court office where the application is to be heard as soon as possible, but not later than 2 days before the hearing.

IF YOU FAIL TO APPEAR AT THE HEARING, JUDGMENT MAY BE GIVEN IN YOUR ABSENCE AND WITHOUT FURTHER NOTICE TO YOU. IF YOU WISH TO OPPOSE THIS APPLICATION BUT ARE UNABLE TO PAY LEGAL FEES, LEGAL AID MAY BE AVAILABLE TO YOU BY CONTACTING A LOCAL LEGAL AID OFFICE.

Date: March 11, 2009

Issued by



Christina Jordan
Registrar, Superior Court of Justice

Address of the Court Office:

330 University Avenue
Toronto, Ontario

APPLICATION

1. The Applicant will make an application for:
 - (a) an Order dispensing with service on all creditors of the Applicant with the exception of those parties listed on the Notice of Application;
 - (b) leave, if required, to bring this Application on short notice;
 - (c) an Order under the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36 ("CCAA") in a form to be filed with the court; and
 - (d) such further and other relief as this Honourable Court may deem just.
2. **THE GROUNDS FOR THE APPLICATION ARE:**
 - (a) the Applicant is the operator of a pulp mill in the Town of Terrace Bay, located on the north shore of Lake Superior;
 - (b) the Applicant has been negatively impacted by a decline in demand for pulp as a result of the global economic downturn, and is not in a position to support the consequent losses that it is currently suffering and will continue to sustain without a restructuring or refinancing;
 - (c) the Applicant is insolvent;
 - (d) the Applicant is a company to which the CCAA applies;
 - (e) the Town of Terrace Bay as well as other local communities are reliant on the pulp mill, both as a direct and indirect source of employment for the majority of the local population;
 - (f) the Applicant owns and operates the pump and pumphouse that provides the sole source of water supply to the Town of Terrace Bay;

- (g) the Applicant requires a stay of proceedings from its creditors in order that it may refinance, restructure, or alternatively, sell its business as a going concern for the benefit of its creditors, employees, and other stakeholders, while maintaining basic operations that will protect the water supply to the municipality and protect the assets of the mill from deterioration;
- (h) the Applicant anticipates that it will be able to finance itself through these CCAA proceedings and pay down its obligations to its senior secured lender, in accordance with a cash flow projection to be filed herewith;
- (i) the provisions of the CCAA, as amended, and the equitable jurisdiction of this Court;
- (j) the grounds as more fully set out in the Affidavit of Russell York, filed herewith;
- (k) Rules 2.03, 3.02 and 14.05(2) of the Rules of Civil Procedure; and
- (l) such further and other grounds as counsel may advise and this Honourable Court may permit.

3. THE FOLLOWING DOCUMENTARY EVIDENCE WILL BE USED AT THE HEARING OF THE APPLICATION:

- (a) the Affidavit of Russell York sworn March 10, 2009 and the exhibits annexed thereto;
- (b) the consent of Ernst & Young Inc. to act as Monitor; and

- (c) such further and other evidence as counsel may advise and this Honourable Court may admit.

March 11, 2009

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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

NOTICE OF APPLICATION

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