Court File No.

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

APPLICATION RECORD

March 10, 2009

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

Pamela Huff LSUC#27344V
Tel: (416) 863-2958
Fax: (416) 863-2653

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

Lawyers for the Applicant

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TAB 1

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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 ______________________________
Local registrar

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 a pulp mill 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 the adjacent town of Schreiber 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 local 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 11, 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

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

Pamela Huff
Tel: (416) 863-2958
Fax: (416) 863-2653

Katherine McEachern
Tel: (416) 863-2566
Fax: (416) 863-2653

Lawyers for the Applicant

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.

Applicant

ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST

Proceeding commenced at Toronto

NOTICE OF APPLICATION

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Box 25, Commerce Court West
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Pamela Huff LSUC#: 27344V
Tel: (416) 863-2958

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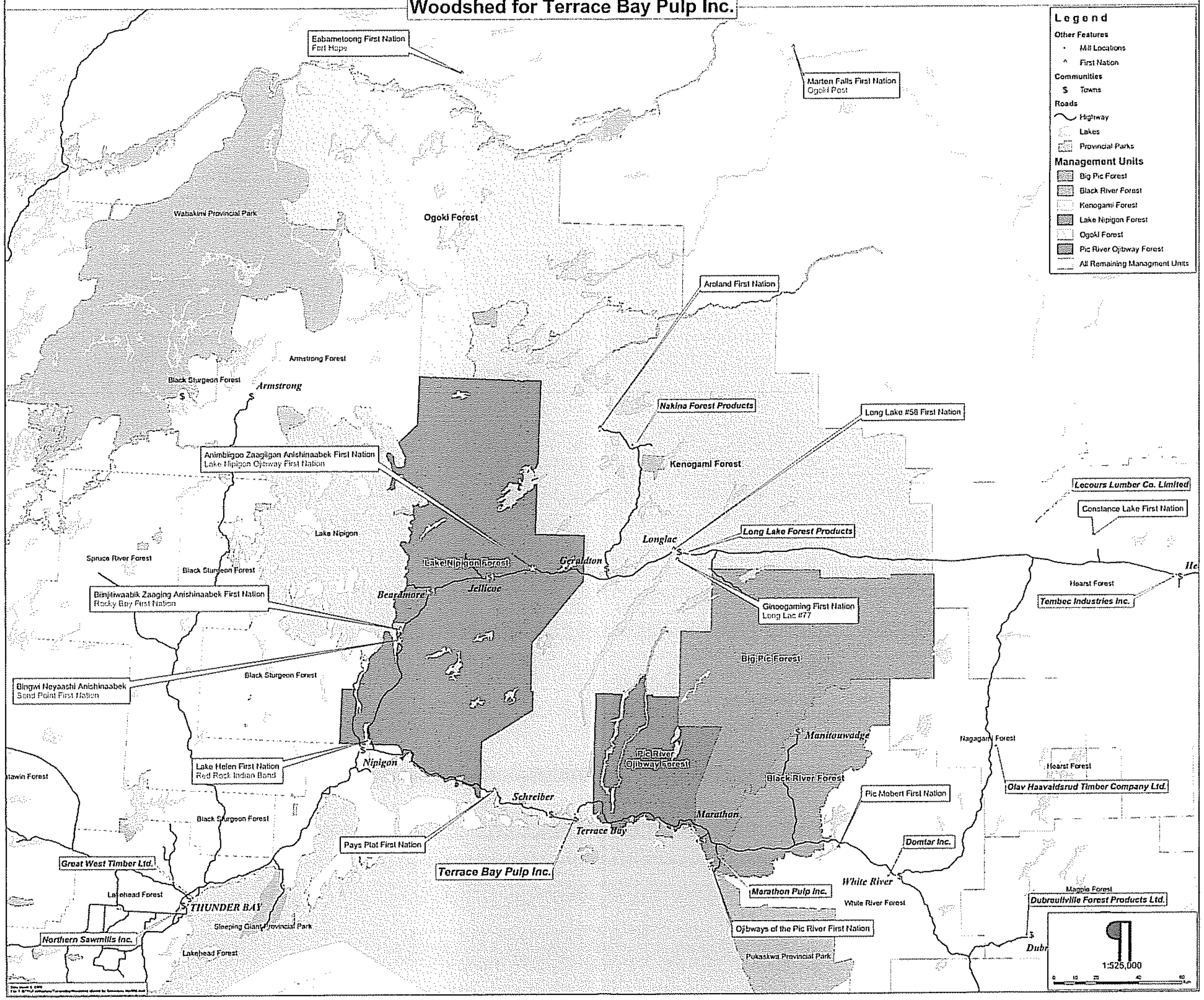
Lawyers for the Applicant

EXHIBIT "A"

This is **Exhibit "A"** referred to in the
Affidavit of Russell York
sworn the 10th day of March, 2009

A COMMISSIONER, ETC.

Woodshed for Terrace Bay Pulp Inc.



TAB 2

Court File No.

ONTARIO
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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 March 10, 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 Treasurer 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 Application and Overview of Relief Sought

2. This affidavit is sworn in support of the Company's application for relief under the *Companies' Creditors Arrangement Act* (Canada) (the "CCAA").

3. Terrace Bay is the operator of a pulp mill in the Town of Terrace Bay, on the north shore of Lake Superior. The pulp produced by Terrace Bay is sold to major tissue and paper makers in North America. Pulp is produced primarily from wood

chips which form the raw fibre input to the pulp mill. Wood chips are usually purchased from sawmills as a residual from the production of lumber.

4. Sawmills in Longlac, Nakina, Hearst and Dubreuilville would, under normal circumstances, supply wood chips and/or bark to Terrace Bay. The pulp mill is supported by these sawmills and by the woodlands operations companies in the region which employ people from more than 15 communities. These woodland operations are based on several different Sustainable Forest Licences. The location of Terrace Bay, and the regional towns, communities and First Nations which employ people who work in businesses which rely on Terrace Bay, are all indicated on the map attached hereto as Exhibit "A". These towns, communities and First Nations include Thunder Bay, Nipigon, Jellicoe, Beardmore, Longlac, Nakina, Geraldon, Caramat, Manitouwadge, Dubreuilville, Terrace Bay, Schreiber, Pays Plat First Nation, Lake Helen First Nation, Sand Point First Nation, Rocky Bay First Nation, Lake Nipigon Ojibway First Nation, Ginoogaming First Nation, Long Lake #58 First Nation and Aroland First Nation. This map also indicates the Sustainable Forest Licences from which fibre is sourced for the operations of the mill.

5. The town of Terrace Bay as well as the adjacent town of Schreiber are reliant on the pulp mill, both as a direct and indirect source of employment for the majority of the local population. In the case of the town of Terrace Bay, the mill's pump and pump house are the source of the water supply for the town.

6. The pulp mill operations have been idled since February 23, 2009, to minimize expenses and to adjust inventory levels while keeping the plant warm and continuing to supply water to the town. It was intended when the decision was made to idle the mill that operations would be restarted on April 6, 2009, but, as described herein, circumstances are impeding this objective.

7. Terrace Bay was acquired by the present owners in 2006 and was profitable until the quarter ending October 31, 2008. The Company suffered its first quarterly loss on January 31, 2009, at which time it was negatively impacted by industry and market pressures; primarily, fluctuations of the Canadian dollar and decreasing revenues related to a reduction in the demand and price for pulp as a result of the global economic decline and tightening credit markets.

8. As a result of these difficulties, the Company is running out of cash and is facing an immediate liquidity crisis. The Company is in default to its primary secured lender, which has security over all of the Company's assets.

9. Buchanan Forest Products Limited ("BFPL"), which is an associated company to Terrace Bay, is Terrace Bay's major supplier of raw material for the manufacture of pulp. The Toronto-Dominion Bank ("TD"), BFPL's secured lender, has issued a demand for payment of all indebtedness owing to TD by BFPL, putting the supply of raw material in question.

10. Terrace Bay needs the stability of a stay of proceedings to prevent any precipitous creditor action, and to give Terrace Bay the opportunity to maximize realization

on its current inventory and to pursue various options for the restructuring, refinancing, or sale of the business for the benefit of all stakeholders.

11. It is intended that the Company will continue limited operations of the pulp mill during these CCAA proceedings. These would include processing on site raw materials, selling existing pulp inventory, and collecting accounts receivable. It must, in any event, continue limited operations to keep the mill warm and to ensure that its equipment is preserved from the deteriorating effects of the winter cold. Operations are also necessary to ensure that the water supply to the Town is not disrupted.

12. With the assistance of Ernst & Young Inc. ("E&Y"), the proposed Monitor, the Company intends to commence a process that will involve the following three elements, with the goal of preserving the business, protecting and preserving the livelihood of employees and the economy of the municipality and region, and maximizing stakeholder value (the "Restructuring Process"):

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

(b) the development of a plan to restructure the business in a manner that would make operation of the pulp mill viable; and

(c) the commencement of a marketing process for the sale of the business as a going concern.

13. The Company anticipates reporting to the Court by the end of April on the progress of its Restructuring Process and the options available to it. If no refinancing or potential purchaser is identified during this period, and no viable restructuring plan can be identified, then Terrace Bay may seek directions to commence the process of idling the mill, and either liquidating assets or waiting until market conditions improve. A plan of arrangement to its creditors may be appropriate in any of these circumstances.

Business Overview

14. Terrace Bay is an Ontario corporation. The pulp mill was first constructed in 1948 by the Kimberly-Clark Corporation ("Kimberly-Clark") and has been producing pulp on the northern shore of Lake Superior for over 60 years. Attached hereto as Exhibit "B" is a photograph of the pulp mill and surrounding facilities.

15. As noted above, Terrace Bay is the dominant employer in the town of Terrace Bay, and is the sole provider of the water supply to the town, as a result of arrangements established when the mill was first constructed in 1948.

16. The Company is a wholly owned subsidiary of Lucky Star Holdings Inc. ("Lucky Star"), and is one of several companies in what is sometimes referred to as the "Buchanan Group", a private group of companies which also includes a diversified range of sawmill, forest management and woodlands operations companies in Northern Ontario.

17. Terrace Bay is the only pulp mill owned and operated by the Buchanan Group. It was acquired by Lucky Star in 2006 from Neenah Paper Inc. ("Neenah"), which had acquired Terrace Bay from Kimberly-Clark in 2004 as a result of a spin-off of certain of Kimberly-Clark's pulp assets to Neenah, a newly formed entity incorporated for that purpose. The purpose of the acquisition by Lucky Star was to create logistical and commercial synergies with the Buchanan Group's nearby sawmills and woodlands operations. For example, the sawmills operated by the Buchanan Group located in Longlac and Nakina are (for reasons of economy and quality) the best source for the wood chips which form the raw fibre input to the pulp mill. These sawmills are also a source for the bark and other fibre (often referred to as "hog fuel") which is used by the pulp mill as an economic energy source for its boilers. The mill also produces its own chips and hog fuel from logs purchased from BFPL and others.

18. The business of Terrace Bay is the production of various blends of northern bleached softwood kraft pulp and northern bleached hardwood kraft pulp, together with certain other various pulp products. Terrace Bay historically supplied the bulk of its pulp production to Kimberly-Clark for use in its paper and tissue products.

19. Terrace Bay has its own stand alone financing, as discussed further below. Notwithstanding, since its acquisition, the Buchanan Group has provided considerable investment and support to Terrace Bay, in an effort to make it viable in the face of considerable industry pressures. Terrace Bay has invested funds borrowed from its parent, Lucky Star, in the amount of approximately $14 million

in the construction of a second co-generation facility to assist Terrace Bay in attaining electricity self-sufficiency. This project has also been supported by the Ontario government through grants of approximately $3.4 million and electricity rebates of approximately $1.5 million.

20. At the time of its acquisition in August 2006, Terrace Bay had suspended operations as a result of a lack of fibre due to an ongoing strike. A decision had been made by the previous owner to close the facility permanently. In September 2006, after its acquisition and after a new collective agreement with its mill unions had been negotiated, Terrace Bay resumed operations, starting up one of its production lines. In November 2007, its second production line was restarted. As of May 2008, Terrace Bay was producing 1,400 air-dry metric tonnes of pulp daily. In November 2008, the mill was temporarily idled for inventory adjustment purposes. In January 2009, the second line was shut down, and Terrace Bay was producing 1000 air-dry metric tonnes per day before its mill operations were idled at the end of February.

21. The logs, wood chips, and related fibre produced by various sawmills and woodlands operations in close proximity are Terrace Bay's largest production input. Most supply is provided by the Buchanan Group's own sawmills and woodlands operations, which account for the majority of Terrace Bay's production input.

22. Since its acquisition, Terrace Bay has successfully sought to expand its customer base which has, since 2006, grown from 14 to over 45.

Current Status

23. Despite efforts with respect to diversification of sales, demand for pulp has declined dramatically over the past six months with the decline in the global economy. The closure of various sawmill operations throughout North America and locally has resulted in a shortage of available wood chips and fibre due to their significantly lower than normal lumber production, primarily caused by credit market turmoil and the stall on North American housing and construction markets. The resulting decline in revenue, coupled with rising energy and transportation costs, has negatively impacted the financial performance of Terrace Bay.

24. For the past 10 months, Terrace Bay has employed the services of Ernst & Young Orenda Corporate Finance Inc. to assist in identifying a new source of financing for its business. While there was a good market interest in financing Terrace Bay, that interest has recently dissipated as a result of the drop in pulp prices and demand and the tightening of credit markets. Interested lenders recognized the quality of the assets and the sustainability of the Company's business model but, given the global economic turmoil, have generally not made more or new credit available.

Operational Facilities

25. The corporate head offices of Terrace Bay are located in Thunder Bay, Ontario. The pulp mill is located at 21 Mill Road, Terrace Bay, Ontario, on land owned by

Terrace Bay. The pulp mill is a state-of-the-art facility with two fully integrated pulp lines, and three integrated pulp machines, each capable of producing various hardwood and softwood blends.

26. Terrace Bay, when in full operation, operates on a 24 hour a day basis, 7 days per week, excluding maintenance shut-downs. Terrace Bay has an operational capacity of approximately 450,000 air-dried metric tonnes of pulp per year.

27. In August 2007, with the loans provided by Lucky Star and the financial assistance of the Ontario government discussed before, Terrace Bay began construction of a second on-site cogeneration facility for the production of electricity on-site, in order to improve production efficiency, reduce operating costs and to become energy self-sufficient. The construction is now complete. A substantial insurance claim has been made with respect to damage to the first cogeneration facility in October 2008.

28. As noted above, the facilities of the mill include the pump and pumphouse that provides the only water supply to the mill and to the town of Terrace Bay. The town is currently in the process of constructing its own pumphouse and independent supply of water, but this is not completed yet.

29. Heat for the facility is generated by a steam plant that produces steam on the burning of diesel fuel and "hog fuel", generated in the milling process by Terrace Bay, and other mills. Continued heating of the facilities through the winter months until approximately end of May is necessary in order to ensure that equipment is not irreparably deteriorated by the winter cold. A forced shut down

of the pulp mill would have significant negative consequences on the value of the facilities and equipment, and greatly increase the cost to resume operations, should financing be raised or a going concern sale be achieved.

30. Notwithstanding the liquidity crisis of Terrace Bay, certain functions of the mill need to be maintained, in order that the property and equipment are protected, in order that the water supply to the town is maintained pending completion of its construction of its own pumphouse, and to remain in compliance with environmental obligations.

Employees of the Business

31. There are approximately 425 hourly and salaried employees of Terrace Bay, of which 50 are salaried non-union and 375 are hourly employees. Hourly employees are represented by two unions, the United Steelworkers Association ("USW"), Local 665, and the International Brotherhood of Electrical Workers ("IBEW"), Local 1861. The Company's current collective agreements with its employees are five year contracts agreed to in August 2006, on the acquisition of the business. The Company enjoys positive labour relations with the USW and IBEW, and the mill employees are committed to the success of Terrace Bay's operations.

32. Terrace Bay provides its employees with a defined contribution pension plan. As of February 28, 2009, Terrace Bay was up to date with respect to all of its contributions. On the acquisition of Terrace Bay, all of its unfunded legacy

pension and post-employment benefit obligations were retained by Neenah and, as a result, Terrace Bay does not have any unfunded liabilities.

Supply and Services Provided by Affiliated Companies

33. Sales and marketing services are provided to Terrace Bay by Buchanan Sales Inc. ("BSI"). BSI provides services that cover all of the sales, invoicing, receivables, and collections functions, as well as all logistics and warehousing functions. The services are provided pursuant to a Commission Sales Agreement between BSI and Terrace Bay.

34. BFPL supplies hog fuel, chips and logs to Terrace Bay pursuant to a supply agreement and is currently owed approximately $15.5 million. An additional quantity of logs and chips has been delivered by BFPL and is currently stored at the mill site. These logs and wood chips are the property of BFPL but are available for purchase by Terrace Bay.

35. The demand made by TD on BFPL has created uncertainty surrounding the status of BFPL. It is therefore uncertain whether any economic arrangement can be made to purchase the logs and wood chips currently on site for production of pulp.

Financial Position

36. A copy of the Company's audited financial statements for the fiscal year ended April 30, 2008 are attached hereto as Exhibit "C". Interim internal financial statements for the month ended January 31, 2009 are attached here as

Exhibit "D". As noted above, the Company first suffered a loss in the first quarter of 2009.

Assets

37. The Company's assets, as disclosed in its interim financial statements as of January 31, 2009, consist of the following:

Current Assets:	(Canadian dollars in thousands)
Cash and cash equivalents	$5,745
Receivables, net	$14,808
Inventories, net	$48,963
Prepaids/Other current assets	$ 6,213
Total current assets	$75,729
Capital	$16,839
Total assets	$92,568

The foregoing figures represent book value of the Company's assets.

38. One of the major assets of Terrace Bay is the Sustainable Forest Licence for the Kenogami Forest, one of the largest Sustainable Forest Licences in Ontario, which is managed by BFPL. This provides access to harvest the fibre allocations for that region.

39. Finished inventory is comprised of approximately 66,600 air dried metric tonnes of pulp as at February 28, 2009. It is located at the mill, as well as in warehouses in Thunder Bay, and in various locations in the U.S. All warehouse costs are fully paid up, as these are paid by BSI, as part of its services provided to Terrace Bay.

Liabilities

Secured Debt of the Company

Nexcap Canada Inc.

40. The Company is financed independently from other members of the Buchanan Group. The Company's senior secured lender is Nexcap Finance Corporation ("Nexcap"), as Agent for the Ontario Teachers' Pension Plan Board, pursuant to a Credit Agreement made as of July 26, 2007 (the "Credit Agreement"). The Ontario Teachers' Pension Plan Board is the Lender under the Credit Agreement, having taken an assignment of all indebtedness from the original Lender, Nexcap Canada Inc. The Credit Facilities provided pursuant to the Credit Agreement consist of an operating term loan in the amount of $25 million, maturing in July 2012. Interest only is payable monthly at the rate of 7.6%. Attached hereto as Exhibit "E" is a copy of the Credit Agreement.

41. The term operating loan under the Credit Agreement is secured by security over all of the assets and undertaking of the Company pursuant to a General Security Agreement dated July 26, 2007, and registered under the Ontario Personal Property Security Act ("PPSA"), as well as the personal property registries in Manitoba, Quebec, Alberta, and pursuant to the Uniform Commercial Code in Washington D.C., to secure inventory located in Canada and the United States. Attached as Exhibit "F" is a copy of the General Security Agreement.

42. One of the terms of the Credit Agreement is a requirement that Terrace Bay retain the sum of $5 million in cash and cash equivalents in reserve. Terrace Bay continues to maintain that reserve, notwithstanding its cash difficulties.

43. The Company has defaulted on one of its covenants with Nexcap, namely the interest coverage ratio. It has been in discussions with Nexcap since early February with respect to its plans, prospects, and a potential forbearance agreement.

Other Secured Creditors

44. Terrace Bay has received certain secured advances from its parent, Lucky Star, to assist in funding operating cash requirements and the construction of the cogeneration project. As of January 31, 2009, these advances totaled $14 million. The amount is secured by a Demand Debenture dated November 7, 2006, which is registered under the PPSA and against title to the real property, charging all of its assets and undertaking as security for such indebtedness. Attached hereto as Exhibit "G" is a copy of the Demand Debenture.

45. The Company also has the following secured creditors who have registered security against the Company:

(a) Kinecor LP, with respect to a consignment agreement relating to certain equipment;

(b) Citicorp Vendor Finance, Ltd., with respect to certain Toyota equipment;

(c) Liftcapital Corporation, with respect to certain material handling equipment; and

(d) National Leasing Group, with respect to certain photocopiers.

46. Attached hereto as Exhibit "H" is a copy of the searches of PPSA registrations against the Company for Ontario, Manitoba, Alberta, and Quebec, and a search under the Uniform Commercial Code for Washington D.C.

Unsecured Liabilities

47. The Company has approximately 21.1 million of trade liabilities as of February 28, 2009.

48. The Company also has intercompany payables owing to other members of the Buchanan Group for the supply of goods and services, as described above. As of February 28, 2009, the amount owing by Terrace Bay was approximately $19.5 million.

49. The Company's payroll, when in full operation, is approximately $1 million bi-weekly. It has an outstanding vacation pay liability of approximately $2.2 million. It will have severance and termination obligations to employees in the event that Terrace Bay is unsuccessful in its Restructuring Process that result in the continued operation of the mill.

Priority Statutory Liabilities

50. The Company has maintained its obligations for payroll, source deductions, and GST throughout, and is not in arrears in respect of these items. The Company is current in respect of its income taxes, and expects to receive a tax refund in the range of approximately $3-4 million.

Need for Stay

51. The Company is facing an immediate liquidity crisis. The Company is insolvent and entitled to relief under the CCAA. The Company urgently requires a stay of proceedings in order to preserve the interests of the Company's stakeholders, and undertake the steps proposed below.

Steps Proposed under CCAA

52. As noted above, Terrace Bay has been focused on pursuing a new source of financing for several months, without success to date. Subsequent to the filing, Terrace Bay intends to pursue the Restructuring Process under the supervision of E & Y, the proposed Monitor. It intends to undertake such process with a deadline of April 24, 2009 for the receipt of offers or expressions of interest to finance or purchase Terrace Bay.

53. Terrace Bay proposes to undertake a limited period of production to process the log and chip inventory supplied by BFPL that is currently in its yard, if Terrace Bay can negotiate beneficial pricing for the logs and chips with BFPL. If it is possible to work out an economic arrangement to process the logs and chips, Terrace Bay will be able to generate work for employees for approximately one month, and additional receivables that will be of benefit to all stakeholders. The demand by TD on BFPL has made the prospect for this uncertain. It is anticipated that any such arrangements will be the subject of either the consent of the Monitor and Nexcap or court approval.

54. During the CCAA process, Terrace Bay will also seek to maximize value for its stakeholders by working to sell its existing pulp inventory and to collect its outstanding accounts receivable.

55. If the Restructuring Process does not identify a solution, Terrace Bay will seek directions from the Court as to the process for idling the plant, taking into account the water processing requirements of the town of Terrace Bay and appropriate environmental considerations.

Payments

56. A projected cash flow of the Company has been prepared for the purposes of these proceedings, from March 11th through the week of July 19, 2009 (the "Projected Cash Flow"). A copy of the Projected Cash Flow is attached hereto as Exhibit "I". During the period of the CCAA process, the Company intends to make current payments as set out in the draft Initial Order and Projected Cash Flow.

57. The monthly operating costs to maintain the idled mill (that is to maintain electricity supply and provide heat, operate the water system and pay ongoing wages) is set out in the Projected Cash Flow.

58. The Projected Cash Flow anticipates payment in full to Nexcap by the week of July 19, 2009, from the sale of inventory and collection of accounts receivable, while at the same time providing the Company with the necessary cash to operate through the Restructuring Process.

59. If the Company can work out economic arrangements to process the on site logs and chips owned by BFPL, with the consent of the Monitor and Nexcap or court approval, the Company will file a revised cash flow projection to take this into account.

Financing During the Process

60. Terrace Bay intends to rely on its current cash flow generated from the collection of accounts receivable, sale of processed pulp and conversion of any other assets as set out in the Projected Cash Flow.

61. The Company has had discussions and has met on several occasions with Nexcap to discuss its current financial difficulties and consider a potential forbearance agreement or other arrangement with Nexcap outside of an insolvency proceeding. While no arrangement was successfully completed, Nexcap has been provided with copies of the Projected Cash Flow, and was advised in advance of this filing. The Company expects being in a position to pay out Nexcap in full through this CCAA process, and there is no prejudice to Nexcap as a result of this filing.

62. In order to protect the interests of Nexcap, Terrace Bay proposes the following terms in the Initial Order:

(a) Terrace Bay will pay interest monthly at the rate of 7.6% to Nexcap on the outstanding indebtedness as provided for in the Credit Agreement; and

(b) amounts recovered by Terrace Bay in excess of estimated operating costs will be paid to Nexcap. Estimated operating costs are set out in the Projected Cash Flow.

63. Once Nexcap is paid in full, Terrace Bay will pay any amounts recovered in excess of its operating costs to Lucky Star until Lucky Start is paid in full. Such arrangements will be put in place once the Monitor has reviewed and reported to the Court as to the validity and registration of the security of Lucky Star.

The Monitor

64. E&Y has agreed to act as Monitor in these proceedings.

Officers and Directors

65. In order to continue to carry on business during these proceedings, the Company requires at least one director and certain remaining officers (together with the Company's former directors and officers, the "Directors") to remain committed. Although the Company intends to comply with applicable laws with respect to matters affecting it, including, without limitation, wages, employee source deductions, vacation pay, GST, provincial sales tax and regulatory trust fund requirements, the failure to successfully complete a Restructuring Process may result in significant personal liabilities for Directors.

66. As such, the Company requests a charge (the "Directors' Charge") in the amount of $2.5 million to indemnify the Directors in respect of any such liabilities as they may incur in these proceedings.

Administration Charge

67. In order to protect the fees and expenses of the Monitor, counsel to the Monitor, and counsel to Terrace Bay, the Company seeks a charge in favour of these professionals to secure payments of their reasonable fees and disbursements incurred both in the period prior to filing for the Initial Order requested herein, and incurred post-filing (the "Administration Charge") in the amount of $750,000. It is requested that the Administration Charge have first priority against the property of the Company, subject to certain limitations as contained in the draft Initial Order filed herewith.

Conclusion

68. The Initial Order sought will provide an immediate stay and an opportunity for Terrace Bay to pursue the Restructuring Process that will hopefully preserve the business for the benefit of all stakeholders. It will also permit Terrace Bay to maximize value for creditors by providing a stable environment in which it can convert log and chip inventory to finished product and sell it, if an economic arrangement can be reached, recover on its existing pulp inventory, and collect its outstanding accounts receivable. If the Restructuring Process is not ultimately successful, the Company intends to seek further direction from the Court to idle the plant for a longer term and either wait until the market improves or liquidate assets, either of which may require a plan of arrangement to be proposed to creditors.

69. This Affidavit is therefore made in support of the Company's application for an Order under the CCAA and for no other or improper purpose.

SWORN BEFORE ME at the City of [Toronto], in the Province of Ontario this 10th day of March, 2009	)))))	
		RUSSELL YORK

Court File No.

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 March 10, 2009)

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

Pamela Huff LSUC# 27344V
Tel: (416) 863-2958
Fax: (416) 863-2653

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

Solicitors for the Applicant

EXHIBIT “B”

This is **Exhibit "B"** referred to in the
Affidavit of Russell York
sworn the 10th day of March, 2009

A COMMISSIONER, ETC.

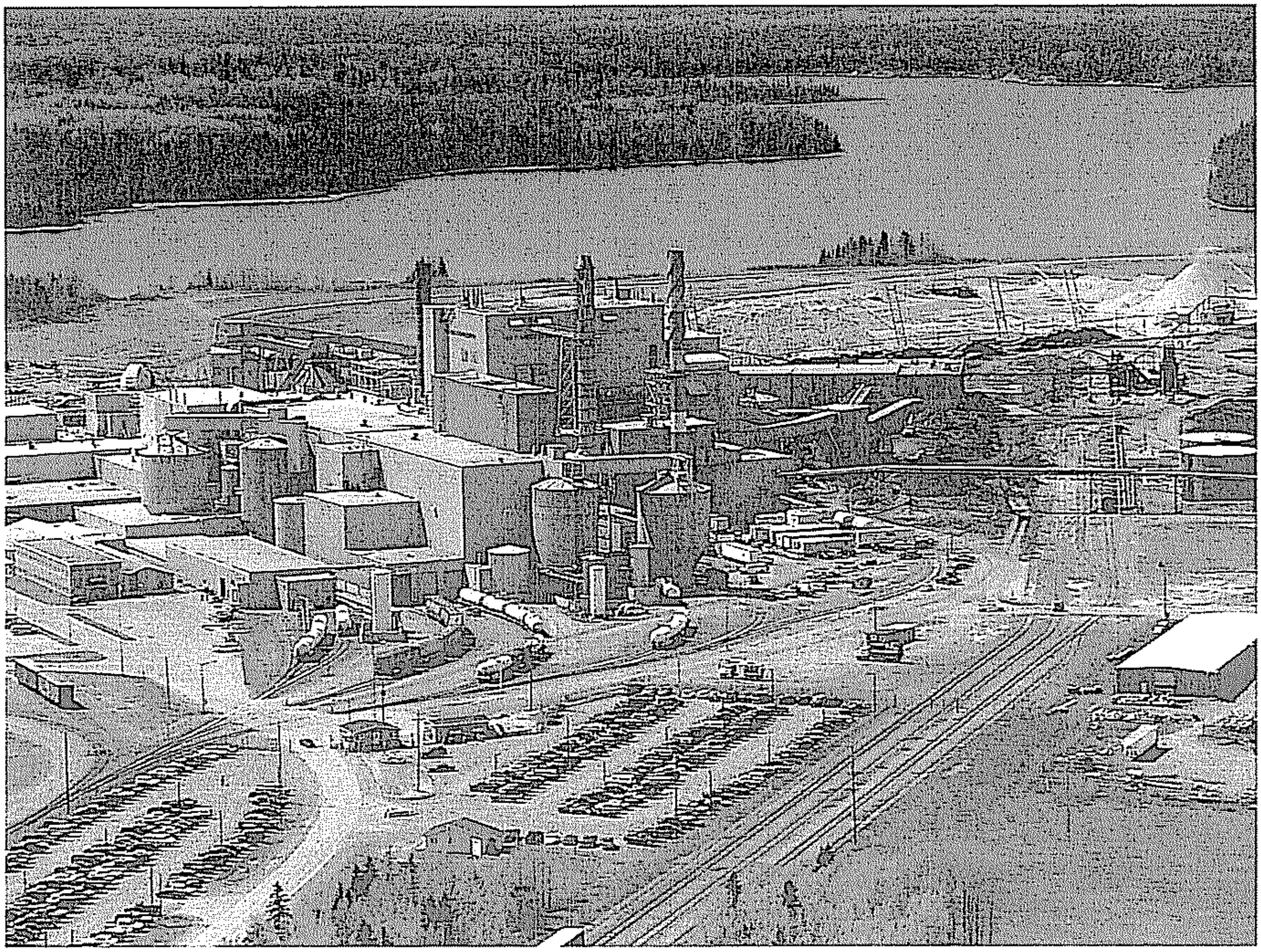

EXHIBIT "C"

This is **Exhibit "C"** referred to in the
Affidavit of Russell York
sworn the 10th day of March, 2009

A COMMISSIONER, ETC.

Terrace Bay Pulp Inc.
Financial Statements
For the year ended April 30, 2008

Contents

BDO Dunwoody LLP
Chartered Accountants
and Advisors

1095 Barton Street
Thunder Bay Ontario Canada P7B 5N3
Telephone: (807) 625-4444
Telefax: (807) 623-8460

www.bdo.ca

Auditor's Report

To the Shareholder
Terrace Bay Pulp Inc.

We have audited the balance sheet of Terrace Bay Pulp Inc. as at April 30, 2008 and the statements of operations and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these statements present fairly, in all material respects, the financial position of the Company as at April 30, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

BDO Dunwoody LLP

Chartered Accountants, Licensed Public Accountants

Thunder Bay, Ontario
June 13, 2008

Terrace Bay Pulp Inc.
Balance Sheet

April 30	2008	2007
Assets		
Current		
Cash	$ 4,493,169	$ 5,639,651
Short term investment (Note 2)	1,513,254	1,489,521
Accounts receivable	31,217,734	25,014,279
Inventories (Note 3)	56,684,081	30,185,335
Prepaid expenses	451,888	1,342,711
	94,360,126	63,671,497
Property, plant and equipment (Note 4)	9,660,766	-
	$104,020,892	63,671,497
Liabilities and Shareholder's Equity		
Current		
Accounts payable (Note 5)	$ 35,159,052	$ 15,056,322
Income taxes payable	909,000	4,872,000
	36,068,052	19,928,322
Long-term debt (Note 6)	25,000,000	-
Due to parent company (Note 7)	13,000,000	20,000,000
	74,068,052	39,928,322
Shareholder's equity		
Share capital (Note 8)	100	100
Retained earnings	29,952,740	23,743,075
	29,952,840	23,743,175
	$104,020,892	$ 63,671,497

On behalf of the Board:

_______________________ Treasurer

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

Terrace Bay Pulp Inc.
Statement of Operations and Retained Earnings

For the year ended April 30	2008	2007
		(Note 14)
Sales	**$263,495,592**	$147,689,541
Cost of sales		
Operating costs	**247,128,365**	130,679,487
Amortization	**14,073**	-
	247,142,438	130,679,487
Gross margin	**16,353,154**	17,010,054
Expenses		
Administration	**1,693,961**	1,740,061
Foreign exchange loss	**3,613,176**	909,667
Interest on long term debt	**1,712,057**	-
	7,019,194	2,649,728
Income before income taxes and extraordinary item	**9,333,960**	14,360,326
Income taxes		
Current	**3,124,295**	4,872,000
Income before extraordinary item	**6,209,665**	9,488,326
Extraordinary item		
Acquisition of business assets	**-**	14,254,749
Net income for the period	**6,209,665**	23,743,075
Retained earnings, beginning of period	**23,743,075**	-
Retained earnings, end of period	**$ 29,952,740**	$ 23,743,075

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

Terrace Bay Pulp Inc.
Statement of Cash Flows

For the year ended April 30	2008	2007
		(Note 14)
Cash flows from operating activities		
Net income for the period	$ 6,209,665	$ 23,743,075
Amortization	14,073	-
Change in non-cash operating working capital balances (Note 9)	(15,671,648)	(36,614,003)
	(9,447,910)	(12,870,928)
Cash flows from investing activities		
Purchase of plant machinery and equipment	(9,674,839)	-
Purchase of short term investment	(23,733)	(1,489,521)
	(9,698,572)	(1,489,521)
Cash flows from financing activities		
Advances from parent company	13,000,000	20,000,000
Repayment to parent company	(20,000,000)	-
Long term debt advanced	25,000,000	-
Common shares issued	-	100
	18,000,000	20,000,100
Increase (decrease) in cash for the period	(1,146,482)	5,639,651
Cash, beginning of period	5,639,651	-
Cash end of period	$ 4,493,169	$ 5,639,651

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

Terrace Bay Pulp Inc.
Summary of Significant Accounting Policies

April 30, 2008

Use of Estimates	The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.
Cash and Cash Equivalents	Cash and cash equivalents consist of cash on hand and balances with banks with maturities of three months or less.
Inventories	Inventories of pulp products, logs and wood chips are valued at the lower of average cost and net realizable value. Operating supplies, fuels and chemicals are valued at the lower of cost and net realizable value.
Property, Plant and Equipment	Property, plant and equipment are recorded at cost. Amortization is provided on the straight-line basis over the estimated useful life of the asset at the following rates: Plant machinery and equipment - 25%
Future Income Taxes	Income taxes are accounted for under the asset and liability method. Future income tax assets and liabilities are recognized for the tax consequences attributable to differences between the financial statements carrying amounts of existing assets and liabilities and their respective tax bases. Future income tax assets and liabilities are measured using enacted tax rates to be recovered or settled. The effect on future income tax assets and liabilities of a change in tax rates is recognized in the period that includes the enactment date.
Revenue Recognition	Sales are recognized at the time title passes to the customers. Sales are reported net of commissions and discounts. Production costs are net of by-product revenue.
Foreign Currency Transactions	At the transaction date, each asset, liability, revenue and expense is translated into Canadian dollars by the use of the exchange rate in effect at that date. At the year-end date, monetary assets and liabilities are translated into Canadian dollars by using the exchange rate in effect at that date and the resulting foreign exchange gains and losses are included in income in the current period.

Terrace Bay Pulp Inc.
Notes to Financial Statements

April 30, 2008

1. Related Party Transactions

The Company had the following transactions conducted in the normal course of business with companies under common control:

	2008	2007
Wood chip, log and hog fuel purchases	$107,720,000	$ 60,209,000
Sales commissions paid	4,886,000	800,000
Computer services purchased	269,000	626,000
Construction and maintenance services purchased	3,157,000	-

2. Short Term Investment

The short term investment comprises a Government of Canada treasury bill bearing interest at 3.85%, maturing October 30, 2008. The investment has been pledged as collateral to Independent Electricity System Operator.

3. Inventories

	2008	2007
Logs and wood chips	$ 12,049,733	$ 9,426,932
Pulp products	33,232,713	12,895,272
Chemicals	1,735,250	1,615,081
Fuels	2,363,415	1,945,059
Operating supplies	7,302,970	4,302,991
	$ 56,684,081	$ 30,185,335

4. Property, Plant and Equipment

	Cost	Accumulated Amortization	Net Book Value
Plant machinery and equipment	$ 162,204	$ 14,073	$ 148,131
Contruction in progress	9,512,635	-	9,512,635
	$ 9,674,839	$ 14,073	$ 9,660,766

During the year the Company began construction of a new steam turbine and a hog fuel plant. The costs to date of $9,268,488 are included in construction in progress but no amortization has been recorded since the projects were not completed at year end.

4. Property, Plant and Equipment (cont'd)

Construction of the steam turbine and hog fuel plant is expected to cost $15,000,000 and will be financed through commercial financing and a government grant. Completion of construction is expected by October 2008.

5. Accounts Payable

	2008	2007
Trade	**$ 16,689,387**	$ 11,040,764
Companies under common control	**18,469,665**	4,015,558
	$ 35,159,052	$ 15,056,322

6. Long Term Debt

The Company has a $25,000,000 term operating facility with Ontario Teachers' Pension Plan Board, interest only payable at 7.6% per annum, calculated and payable monthly, maturing July 2012.

The facility is secured by a general security agreement providing a first charge over all assets of the Company.

The facility has certain covenants regarding permitted distributions and capital expenditures. In addition, the facility has certain financial covenants, including minimum cash on hand, net working capital, current ratio and a maximum total debt ratio.

7. Due to Parent Company

The amount due to the parent company is interest free, not due within one year and is secured by a second charge debenture covering all assets of the Company.

8. Share Capital

		2008	2007
Authorized			
Unlimited	Class A Special Shares voting, non-cumulative redeemable, retractable		
Unlimited	Class B Special Shares voting, non-cumulative redeemable, retractable		
Unlimited	Class C Special Shares voting, non-cumulative redeemable, retractable		
Unlimited	Class D Special Shares voting, non-cumulative redeemable, retractable		
Unlimited	common shares		
Issued			
100	common shares	$ 100	$ 100

9. Statement of Cash Flows

Change in non-cash working capital balances is represented by the following:

	2008	2007
Accounts receivable	$ (6,203,455)	$ (25,014,279)
Inventories	(26,498,746)	(30,185,335)
Prepaid expenses	890,823	(1,342,711)
Accounts payable	20,102,730	15,056,322
Income taxes payable	(3,963,000)	4,872,000
	$ (15,671,648)	$ (36,614,003)
Interest paid	$ 1,737,398	$ 144,994
Income taxes paid	$ 7,087,295	$ -

Terrace Bay Pulp Inc.
Notes to Financial Statements

April 30, 2008

10. Pension Plan

The Company has contributory defined contribution pension plans covering its employees. For each hourly employee the Company pays between 2.75% and 6.25% of an employee's pensionable earnings into the plan, based on a formula of age and years of service. For each salaried employee the Company pays between 2.75% and 7.25% of an employee's pensionable earnings into the plan, based on a formula of age and years of service. The expense to the Company for the year was approximately $1,318,000 (2007 - $852,000.)

11. Financial Instruments

Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest or credit risks arising from its financial instruments.

a) Fair Value

The carrying amount of cash, short term investment, accounts receivable and accounts payable approximates their fair value based on their short-term nature.

The fair value of amounts due to the parent Company cannot be determined as there is no readily available comparative market.

The carrying value of long term debt approximates its fair value based on management's best estimate of the fair value to renegotiate debt with similar terms at the year end date.

b) Currency and Commodity Risk

A significant portion of the Company's income from operations is generated from sales denominated in U.S. dollars. The Company does not hold or issue derivative instruments for trading purposes or to reduce its exposure to currency or commodity risk.

The following contain balances denominated in U.S. dollars

	2008	2007
Cash	$ **191,451**	$ 1,469,311
Accounts receivable	$ **28,295,175**	$ 21,136,867
Accounts payable - trade	$ **1,129,222**	$ 136,000
- companies under common control	$ **2,759,718**	$ 70,196

c) Credit Risk

A significant portion of the Company's sales and accounts receivable are with Neenah Paper, Inc. The pulp manufacturing agreement with Neenah Paper, Inc. expires June 2008. Credit risk is the responsibility of a company under common control.

12. Litigation

Certain former employees of Neenah Paper, Inc ("Neenah") who were previously employed in Neenah's Longlac woodlands operations brought suit against Neenah in 2006 in addition to other parties including the Company for an alleged wrongful termination of employment. The Company believes that the lawsuit is without merit and will defend the litigation.

13. New Accounting Pronouncements

General standards on financial statement presentation
CICA Handbook Section 1400, General Standards on Financial Statement Presentation, has been amended to include requirements to assess and disclose an entity's ability to continue as a going concern. The changes are effective for interim and annual financial statements beginning on or after January 1, 2008. The Company does not expect the adoption of these changes to have a material impact on its financial statements.

Capital disclosures
CICA Handbook Section 1535, Capital Disclosures, requires disclosure of an entity's objectives, policies and processes for managing capital, quantitative data about what the entity regards as capital and whether the entity has complied with any capital requirements and, if it has not complied, the consequences of such non-compliance. This standard is effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007. The Company is currently assessing the impact of the new standard.

Inventories
The CICA has issued Section 3031, Inventories, which provides guidance on determining cost as well as other recognition, measurement, disclosure and presentation issues related to inventories. The standard includes guidance on the treatment of excess capacities, inventory valuation and write-downs and additional elements to be considered in measuring inventory costs. The new standard is effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008. The Company does not expect the adoption of these changes to have a material impact on its financial statements.

Financial instruments
In January 2005, the CICA issued Section 3855, Financial Instruments – Recognition and Measurement, Section 1530, Comprehensive Income, Section 3251, Equity, Section 3861, Financial Instruments - Disclosure and Presentation, and Section 3865, Hedges. The new standards establish recognition, measurement, presentation and disclosure requirements for financial instruments and related requirements for other financial statement areas such as comprehensive income and equity. The new standards are effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007. The Company is currently assessing the impact of the new standards.

13. New Accounting Pronouncements (cont'd)

Financial instruments – disclosures and presentation
CICA Handbook Section 3862, Financial Instruments - Disclosure, increases the disclosures currently required to enable users to evaluate the significance of financial instruments for an entity's financial position and performance, including disclosures about fair value. CICA Handbook Section 3863, Financial Instruments – Presentation, replaces the existing requirements on the presentation of financial instruments, which have been carried forward unchanged. These standards are effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007. The Company is currently evaluating the impact of the adoption of these changes on the disclosure and presentation within its financial statements.

14. Comparative Amounts

Comparative amounts are for the three hundred and fifty seven day period ended April 30, 2007. The Company commenced pulp production on September 19, 2006.

EXHIBIT "D"

This is **Exhibit "D"** referred to in the
Affidavit of Russell York
sworn the 10th day of March, 2009

A COMMISSIONER, ETC.

TERRACE BAY PULP INC.

COST STATEMENTS

For the period ended January 31, 2009

Contents

TERRACE BAY PULP INC.
Balance Sheet
January 31, 2009

Assets		
Current		
Cash	$	5,745,538
AccountsReceivable, (note 1)		14,808,397
Inventories, (note 2)		48,963,102
Prepaid Expenses, (note 3)		6,213,691
Other		-
		75,730,728
Capital, (note 4)		16,838,858
	$	92,569,586
Liabilities and Shareholders' Equity		
Current		
Accounts Payable and Accrued Liabilities, (note 5)	$	30,409,743
Income Taxes Payable		(3,021,936)
Deferred Liability		-
Deferred Major Shutdown Liability		-
		27,387,807
Long Term Debt, (note 6)		39,000,000
Shareholders' Equity		
Share Capital		100
Paid in Capital		-
Retained Earnings		26,181,679
		26,181,779
	$	92,569,586

TERRACE BAY PULP INC.

Statement of Operations and Retained Earnings

January 31, 2009

	Total Month	Total Year To Date
SALES:		
Gross	$ 7,981,941	$ 154,689,977
Foreign Exchange	1,783,807	10,397,501
	9,765,747	165,087,478
SELLING EXPENSES:		
Freight	1,200,201	18,663,378
Commissions	160,222	2,934,882
Discounts	3,755	93,178
Brokerage	2,461	22,014
	1,366,640	21,713,451
NET SALES	8,399,107	143,374,027
COST OF SALES:		
Beginning Inventory	28,171,536	31,796,737
Production Costs	19,581,105	156,440,137
Ending Inventory	(37,304,067)	(37,304,067)
COST OF SALES	10,448,574	150,932,808
Depreciation	65,502	132,385
TOTAL COSTS	10,514,076	151,065,193
GROSS MARGIN	(2,114,969)	(7,691,165)
Administration	134,486	1,267,045
INCOME (LOSS) BEFORE INCOME TAXES	(2,249,455)	(8,958,210)
Other Income/(Expense), (note 6)	22,153	3,242,151
	(2,227,301)	(5,716,060)
Income Taxes - Current	(757,000)	(1,945,000)
NET INCOME (LOSS)	(1,470,301)	(3,771,060)
Retained Earnings, Beginning	27,651,980	29,952,739
RETAINED EARNINGS, ENDING	$ 26,181,679	$ 26,181,679
Sales ADMT	13,937	220,810
Net sales price per ADMT	$ 602.63	$ 649.31

TERRACE BAY PULP INC.
Statement of Changes in Financial Position
YTD ended January 31, 2009

Cash provided by (used in)		
Operating activites		
Net income for the period	$	(3,771,060)
Items not involving cash		
Amortization		132,385
Gain (loss) on disposal of capital assets		-
		(3,638,675)
Change in non-cash operating working capital balances		9,688,268
Dividends		-
		6,049,593
Investing activites		
Purchase/Disposal of capital assets		(7,310,478)
Financing activities		
Proceeds (Repayment) of long term debt		1,000,000
Increase (decrease) in cash		(260,885)
Cash, beginning of period		6,006,423
Cash, end of period	$	5,745,538

TERRACE BAY PULP INC.

Notes to Financial Statements

January 31, 2009

1.	**Accounts Receivable**			
	Pulp Sales			$ 13,940,462
	Turpentine Sales			81,127
	MNR			0
	IESO Rebate			153,191
	Insurance Claim - re:Turbine			271,168
	Other			362,449
				$ 14,808,397

		Units	Unit Cost	Extended
2.	**Inventories**			
	Fuels			
	Bunker C			2,133,811
	Diesel Fuel			26,412
	Hogfuel (GMT)	24,462	$25.51	624,047
	Total Fuels			2,784,270
	Stores (Parts/Wires)			7,267,263
	Pulp Strapping (Wires/Straps)			63,304
	Offsite Inventory			-
	Logs (m3)			
	Softwood	-	$0.00	(0)
	Poplar	-	-	0
	Subtotal	-	$0.00	0
	Fine Chips (m3)	-	$0.00	-
	Chips (m3)			
	Softwood	-	$0.00	(0)
	Poplar	-	-	-
	Subtotal	-	$0.00	(0)
	Total Fibre (m3)	-	**$0.00**	**0**
	Chemicals			
	Caustic			266,066
	Defoamer 9154			15,345
	Defoamer calmfoam			-
	Defoamer QJ55			79,195
	Hydrogen Peroxide			73,523
	Lime			48,380
	Liquor			729,247
	Magnesium Sulfate			-
	Methanol			53,652
	Pitch Dispersant			30,866
	Saltcake			11,154
	Sodium Chlorate			128,164
	Sulphuric Acid			102,081
	Surfactant			0
	Talc			6,526
	Total Chemicals			1,544,198
	Pulp			
	WIP Softwood Pulp			676,128
	WIP Poplar Pulp			(0)
	Finished Softwood Pulp			34,809,738
	Finished Poplar Pulp			1,818,201
	Total Pulp			37,304,067
Total Inventory				$ 48,963,102

3. Prepaid Expenses

		Year to date
Prepaid General Insurance	$	(159,361)
Prepaid Expenses - General (Freight reload accrual)		3,650,742
Assets Held for Resale		-
Other Deferred Charges - Major Shutdown		2,722,311
	$	6,213,691

4. Capital Assets

	Cost	Additions /Disposals	Net of Additions /Disposals	Accumulated Amortization
Land	$ -	$ -	$ -	$ -
Buildings	-	-	-	-
Plant Machinery & Equipment	162,204	4,227,404	4,389,608	(140,229)
Mobile Equipment	-	81,762	81,762	(1,557)
Construction In Progress	9,512,635	3,001,312	12,613,946	
	$ 9,674,839	$ 7,310,478	$ 16,985,317	$ (141,787)

Cost less accumulated amortization	$	16,843,530

5. Accounts Payable and Accrued Liabilities

Trade Payables	$	(18,857,106)
Intercompany Payables		(11,388,988)
Severances Payable		(163,649)
Other		-
Total Accounts Payable and Accrued Liabilities	$	(30,409,743)

6. Long Term Debt

Due to Nexcap Finance Corp.	$	25,000,000
Due to Parent		14,000,000
Total Long Term Debt	$	39,000,000

7. Other Income

		Month		Year to date
Interest Income (Expense)	$	(151,839)	$	(1,111,854)
Exchange Gains (Losses)		125,028		2,868,644
Other (Includes IESO rebate)		48,964		1,485,360
Total Other Income	$	22,153	$	3,242,151