

EXHIBIT “A”

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



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:

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- (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:

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- (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's 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.

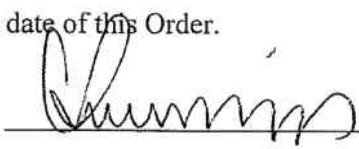
43. THIS COURT ORDERS that each of the Applicant and the Monitor be at liberty and is hereby authorized and empowered to apply to any court, tribunal, regulatory or administrative body, wherever located, for the recognition of this Order and for assistance in carrying out the terms of this Order.

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.

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ON / BOOK NO:
LE / DANS LE REGISTRE NO.:

MAR 11 2009


Christina Irwin
Registrar, Superior Court of Justice

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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Lawyers for the Applicant

EXHIBIT “B”

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

ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST

THE HONOURABLE	)	MONDAY, THE 2 ND
	)	
MR. JUSTICE MORAWETZ	)	DAY OF NOVEMBER, 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) directing that all capitalized terms not otherwise defined herein have the same meaning as in the Seventh Report of Ernst & Young Inc. in its capacity as Monitor (the "Monitor") dated October 30, 2009 (the "Seventh Report");
- (c) extending the Stay Period until November 20, 2009;
- (d) approving the Seventh Report and the conduct and activities of the Monitor described therein; and
- (e) such further and other relief as this Honourable Court may deem just;

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

ON READING the Seventh Report and the Affidavit of Russell York sworn October 30, 2009, all filed, and on hearing the submissions of counsel for the Applicant and counsel for the Monitor,

1. **THIS COURT ORDERS** that the time for service of the Notice of Motion and the Motion Record is hereby abridged so that this Motion is properly returnable today and that any requirement for service of the 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 all capitalized terms not otherwise defined herein have the same meaning as in the Seventh Report.
3. **THIS COURT ORDERS** that the Stay Period be and is hereby extended until November 20, 2009.
4. **THIS COURT ORDERS** that the Seventh Report and the conduct and activities of the Monitor described therein be and are hereby approved.



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ON / BOOK NO:
LE / DANS LE REGISTRE NO.:

NOV 02 2009

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.

Applicant

ONTARIO
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Proceeding commenced at Toronto

ORDER

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EXHIBIT “C”

**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 October 30, 2009)

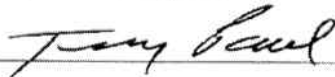
I, **RUSSELL YORK**, of the City of Thunder Bay, in the Province of Ontario,
MAKE OATH AND SAY AS FOLLOWS:

1. I am the Vice President and Treasurer of the Applicant, Terrace Bay Pulp Inc. ("Terrace Bay"), and as such have knowledge of the matters deposed to in this Affidavit. Where this Affidavit is not based on my personal knowledge, it is based on information and belief, the source of which I have identified and I verily believe such information to be true.
2. This Affidavit is sworn in support of Terrace Bay's motion returnable November 2, 2009 for, among other things, an order extending the stay of proceedings (the "Stay Period") pursuant to the Initial Order of this Honourable Court dated March 11, 2009 (the "Initial Order"), a copy of which is attached hereto as **Exhibit "A"**, until November 20, 2009.

3. The Stay Period has been extended from time to time since the issuance of the Initial Order and most recently until November 2, 2009 pursuant to the Order of the Honourable Mr. Justice Morawetz dated October 16, 2009 (the "October 16 Order"), a copy of which is attached hereto as **Exhibit "B"**. In support of the October 16 Order, Terrace Bay filed my Affidavit sworn October 13, 2009 (the "October 13 Affidavit"), a copy of which, without Exhibits, is attached hereto as **Exhibit "C"**. Attached hereto as **Exhibit "D"** is a copy of my Affidavit sworn September 25, 2009, without Exhibits, which Terrace Bay filed in support of the previous motion for an extension to the Stay Period.
4. As described in the October 13 Affidavit, Terrace Bay has been engaged in ongoing discussions with a potential non-traditional term loan lender. These discussions have progressed since the granting of the October 16 Order with a view to restarting the Mill and avoiding a potential liquidation and permanent shut-down of Terrace Bay's operations. Terrace Bay is currently engaged in discussions with this potential lender with respect to a term sheet and hopes to be in a position to provide an update to the Court on the return of this motion.
5. Accordingly, in order to allow these discussions on a term sheet to continue, Terrace Bay requires a short extension of the Stay Period until November 20, 2009. In the event that these discussions are unsuccessful, Terrace Bay and the Monitor will report back to the Court with respect to potential options moving forward.

6. This Affidavit is therefore made in support of Terrace Bay's motion for, among other things, an extension of the Stay Period until November 20, 2009 and for no other or improper purpose.

SWORN BEFORE ME at the City of
Thunder Bay, in the Province of Ontario
this 30th day of October, 2009



Terrance Ronald Paul, a Commissioner, etc.,
District of Thunder Bay for
Weller, Maloney, Nelson, Barristers and Solicitors
Expires February 5, 2011

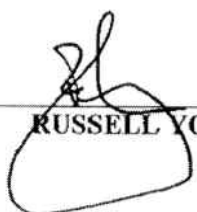

RUSSELL YORK

Exhibit "A"

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



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:

- 5 -

- (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's 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.

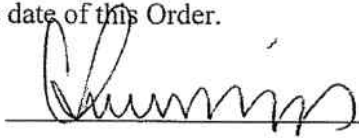
43. THIS COURT ORDERS that each of the Applicant and the Monitor be at liberty and is hereby authorized and empowered to apply to any court, tribunal, regulatory or administrative body, wherever located, for the recognition of this Order and for assistance in carrying out the terms of this Order.

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 A TORONTO
ON / BOOK NO:
LE / DANS LE REGISTRE NO.:

MAR 11 2009


Christina Irwin
Registrar, Superior Court of Justice

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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Lawyers for the Applicant

EXHIBIT "B"

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

ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST

THE HONOURABLE	)	FRIDAY, THE 16 TH
	)	
MR. JUSTICE MORAWETZ	)	DAY OF OCTOBER, 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) directing that all capitalized terms not otherwise defined herein have the same meaning as in the Sixth Report of Ernst & Young Inc. in its capacity as Monitor (the "Monitor") dated October 13, 2009 (the "Sixth Report");
- (c) extending the Stay Period until November 2, 2009;
- (d) authorizing and directing the Applicant and the Monitor to consent to an extension of the time period for the Applicants (the "Judicial Review Applicants") in the Application To Divisional Court for Judicial Review in Court File No. 96/07 (the "Judicial Review Application") to perfect the Judicial Review Application until December 31, 2010, and that, if necessary, granting leave of this

- 2 -

Court to lift the stay of proceedings herein solely for the purpose of the Judicial Review Applicants perfecting the Judicial Review Application and that the Judicial Review Applicants continue to be otherwise prohibited from proceeding with the Judicial Review Application as against the Applicant without written consent of the Applicant and the Monitor or leave of this Court;

- (e) approving the Sixth Report and the conduct and activities of the Monitor described therein; and
- (f) 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 Sixth Report and the Affidavit of Russell York sworn October 13, 2009, all filed, and on hearing the submissions of counsel for the Applicant and counsel for the Monitor,

1. **THIS COURT ORDERS** that the time for service of the Notice of Motion and the Motion Record is hereby abridged so that this Motion is properly returnable today and that any requirement for service of the 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 all capitalized terms not otherwise defined herein have the same meaning as in the Sixth Report.
3. **THIS COURT ORDERS** that the Stay Period be and is hereby extended until November 2, 2009.
4. **THIS COURT ORDERS** that the Applicant and the Monitor be and are hereby authorized and directed to consent to an extension of the time period for the Judicial Review Applicants to perfect the Judicial Review Application until December 31, 2010,

and that, if necessary, leave of this Court is hereby granted to lift the stay of proceedings herein solely for the purpose of the Judicial Review Applicants perfecting the Judicial Review Application and that the Judicial Review Applicants continue to be otherwise prohibited from proceeding with the Judicial Review Application as against the Applicant without written consent of the Applicant and the Monitor or leave of this Court.

5. **THIS COURT ORDERS** that the Sixth Report and the conduct and activities of the Monitor described therein be and are hereby approved.



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

OCT 16 2009

PER / PAR: TV

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
Box 25, Commerce Court West
Toronto, Ontario M5L 1A9

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

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

Michael McGraw LSUC#46679C
Tel: (416) 863-4247
Fax: (416) 863-2653

Lawyers for the Applicant

EXHIBIT "C"

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 October 13, 2009)

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

1. I am the Vice President and Treasurer of the Applicant, Terrace Bay Pulp Inc. ("Terrace Bay"), and as such have knowledge of the matters deposed to in this Affidavit. Where this Affidavit is not based on my personal knowledge, it is based on information and belief, the source of which I have identified and I verily believe such information to be true.
2. This Affidavit is sworn in support of Terrace Bay's motion returnable October 16, 2009 for, among other things, an order extending the stay of proceedings (the "Stay Period") pursuant to the Initial Order of this Honourable Court dated March 11, 2009 (the "Initial Order"), a copy of which is attached hereto as **Exhibit "A"**, until November 2, 2009.

3. The Stay Period has been extended from time to time since the issuance of the Initial Order and most recently until October 19, 2009 pursuant to the Order of the Honourable Madam Justice Hoy dated September 29, 2009 (the "September 29 Order"), a copy of which is attached hereto as **Exhibit "B"**. In support of the September 29 Order, Terrace Bay filed my Affidavit sworn September 25, 2009 (the "September 25 Affidavit"), a copy of which, without Exhibits, is attached hereto as **Exhibit "C"**.
4. As described in greater detail in the September 25 Affidavit, Terrace Bay operates a pulp mill (the "Mill"). When these CCAA proceedings (the "CCAA Proceedings") were commenced, Terrace Bay was the dominant employer for the Town of Terrace Bay, Ontario, and the nearby community of Schreiber, Ontario. A study conducted by Terrace Bay has estimated that when Terrace Bay and its supporting mills are operational, it supports economic development and stability in 14 communities and 16 First Nations and it is responsible for the creation of 8,000 jobs in Northern Ontario.
5. During the CCAA Proceedings, Terrace Bay has sold and shipped its existing finished pulp inventory and taken steps to preserve and maintain the Mill and related machinery and equipment in order to preserve and protect these assets from any damage which could affect its value to a potential purchaser.
6. Further, Terrace Bay and the Monitor have held discussions with parties who have expressed an interest in purchasing and/or financing Terrace Bay with a view to restarting the Mill. However, the depressed state of the forestry and pulp

industries during the CCAA Proceedings has made these efforts more challenging than in more normalized circumstances. This has been worsened by global economic conditions which have limited Terrace Bay's access to credit markets.

7. Accordingly, to date, Terrace Bay has been unable, to secure financing or a purchaser which would allow the Mill to restart and to facilitate Terrace Bay's exit from the CCAA Proceedings.
8. As described in the September 25 Affidavit, Terrace Bay believes that the Mill is a viable operation in more normalized and stable market conditions and that an immediate liquidation of its operations would not be optimal for obtaining value for all stakeholders. In light of the significant consequences for the Town and the region, and all stakeholders, Terrace Bay believes that it is prudent that it continue to work together with the Monitor to continue to explore its options with a view to preserving Terrace Bay as a viable ongoing concern. Significant recent improvement in pulp markets may assist the ongoing efforts to secure the necessary financing to restart the Mill.
9. As described in the September 25 Affidavit, Terrace Bay has recently been engaged in discussions with a potential non-traditional term loan lender. These discussions have continued since the granting of the September 29 Order and are being conducted with a view to restarting the Mill and avoiding a potential liquidation and permanent shut-down of Terrace Bay's operations. These discussions have not yet resulted in a commitment to provide financing and the

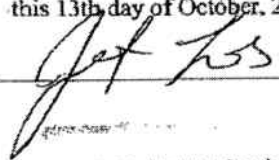
potential lender has requested additional time for discussion and exchange of information.

10. Accordingly, in order to determine if there are any viable options, particularly with respect to the potential term lender which would facilitate a restart and/or sale of the Mill, Terrace Bay requires an extension of the Stay Period until November 2, 2009. Terrace Bay believes that if this extension is granted, it will be in a better position to advise the Court of potential options moving forward regarding the Mill, including any possibilities with the term lender, and if necessary, a liquidation or permanent shut-down of the Mill.
11. On this motion, Terrace Bay also seeks the Court's authorization and direction for Terrace Bay and the Monitor to consent to an extension for the period for certain First Nations (the "Judicial Review Applicants") to perfect their Application to Divisional Court for Judicial Review (the "Judicial Review Application"), a copy of which is attached hereto as **Exhibit "D"**. The Judicial Review Application is an ongoing matter related to the Sustainable Forest License held by Terrace Bay with respect to the Kenogami Forest.
12. The Judicial Review Applicants are required to perfect the Judicial Review Application by December 31, 2009. In light of these ongoing CCAA Proceedings, Terrace Bay is prepared to consent to the request by the Judicial Review Applicants to extend the time period for perfection until December 31, 2010 and to lift the stay of proceedings, if necessary, for the purposes of perfection of the Judicial Review Application only. The Judicial Review

Applicants would continue to be prohibited from otherwise proceeding with the Judicial Review Application,

13. This Affidavit is therefore made in support of Terrace Bay's motion for, among other things, an extension of the Stay Period until November 2, 2009 and for no other or improper purpose.

SWORN BEFORE ME at the City of
Thunder Bay, in the Province of Ontario
this 13th day of October, 2009



Jennifer Marie Lohuis, a Commissioner, etc.,
Province of Ontario, while a Student-at-Law.
Expires August 12, 2012.



RUSSELL YORK

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

**ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST**

Proceeding commenced at Toronto

**AFFIDAVIT OF RUSSELL YORK
(Sworn October 13, 2009)**

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Fax: (416) 863-2653

Lawyers for the Applicant

EXHIBIT "D"

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

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

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

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

Applicant

AFFIDAVIT OF RUSSELL YORK
(Sworn September 25, 2009)

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

1. I am the Vice President and Treasurer of the Applicant, Terrace Bay Pulp Inc. ("Terrace Bay"), and as such have knowledge of the matters deposed to in this Affidavit. Where this Affidavit is not based on my personal knowledge, it is based on information and belief, the source of which I have identified and I verily believe such information to be true.
2. This Affidavit is sworn in support of Terrace Bay's motion returnable September 29, 2009 for, among other things, an order extending the stay of proceedings (the "Stay Period") pursuant to the Initial Order of this Honourable Court dated March 11, 2009 (the "Initial Order"), a copy of which is attached hereto as **Exhibit "A"**, until October 19, 2009.

3. The Stay Period has been extended from time to time since the issuance of the Initial Order and most recently until September 30, 2009, pursuant to the Order of the Honourable Mr. Justice Morawetz dated June 19, 2009, a copy of which is attached hereto as **Exhibit "B"**.
4. Terrace Bay operates a pulp mill (the "Mill") in the Town of Terrace Bay, Ontario. When these CCAA proceedings (the "CCAA Proceedings") were commenced, Terrace Bay was the dominant employer for the Town and the nearby community of Schreiber, Ontario. A study conducted by Terrace Bay has estimated that when Terrace Bay and its supporting mills are operational, it supports economic development and stability in 14 communities and 16 First Nations and it is responsible for the creation of 8,000 jobs in Northern Ontario.
5. Prior to commencing the CCAA Proceedings, Terrace Bay idled the mill on February 23, 2009.
6. During the CCAA Proceedings, Terrace Bay has sold and shipped 61,000 tons of existing finished pulp inventory. Terrace Bay has also taken steps to preserve and maintain the Mill and related machinery and equipment and its water pumphouse in order to preserve and protect its assets from any damage which could decrease the likelihood of a buyer or financier expressing an interest in Terrace Bay and ultimately restarting the Mill.
7. Since the commencement of the CCAA Proceedings, and pursuant to paragraph 35 of the Initial Order, Terrace Bay, with the assistance of the Monitor, has held discussions with parties who have expressed an interest in purchasing

and/or financing Terrace Bay with a view to restarting the Mill. However, the depressed state of the forestry and pulp industries during the CCAA Proceedings has made the process of securing a purchaser and/or financier more challenging than in more normalized circumstances. This has been exacerbated by global economic conditions which have limited Terrace Bay's access to credit markets.

8. Accordingly, to date, Terrace Bay has been unable, to secure financing or a purchaser which would allow the Mill to restart and facilitate Terrace Bay's exit from the CCAA Proceedings.
9. Terrace Bay continues to believe that the Mill is a viable operation in more normalized and stable market conditions and that an immediate liquidation of its operations would not be the best method to obtain value for the benefit of all stakeholders. In particular, due to the significant consequences for the Town and the region, the forest products industry in Northern Ontario and the stakeholders in the CCAA Proceedings, Terrace Bay believes it is prudent that it to continue to work together with the Monitor to fully explore its options with a view to preserving Terrace Bay as a viable ongoing concern. This is particularly true in light of the significant improvement in pulp markets in recent weeks which may provide a better environment to secure the necessary financing to restart the Mill.
10. Terrace Bay is also facing time pressures related to the impending arrival of colder weather, particularly related to the requirement to heat the Mill to preserve the operational integrity of its machinery and equipment for a possible sale, restart or liquidation of the Mill. Accordingly, if a viable solution cannot be brought

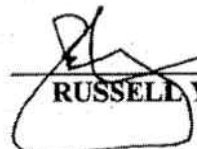
forward within a reasonable period of time, it will be necessary for Terrace Bay to begin exploring alternatives for a liquidation and/or permanent shut-down of the Mill.

11. In light of this possibility, Terrace Bay has recently been engaged in discussions with a possible term loan lender. These discussions are ongoing and being conducted with a view to restarting the Mill and avoiding a potential liquidation and permanent shut-down of Terrace Bay's operations.
12. Accordingly, in order to determine if there are any viable options which would facilitate a restart and/or sale of the Mill, Terrace Bay requires an extension of the Stay Period until October 19, 2009. If granted, Terrace Bay would report back to this Honourable Court prior to this date, at which time it will be in a better position to advise the Court of potential options moving forward regarding the Mill, including, if necessary, a liquidation.
13. This Affidavit is therefore made in support of Terrace Bay's motion for an extension of the Stay Period until October 19, 2009 and for no other or improper purpose.

SWORN BEFORE ME at the City of
Thunder Bay, in the Province of Ontario
this 25th day of September, 2009



A Commissioner, etc.



RUSSELL YORK

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

Applicant

**ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST**

Proceeding commenced at Toronto

**AFFIDAVIT OF RUSSELL YORK
(Sworn September 25, 2009)**

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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.

Applicant

**ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST**

Proceeding commenced at Toronto

**AFFIDAVIT OF RUSSELL YORK
(Sworn October 30, 2009)**

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Michael McGraw LSUC#46679C

Tel: (416) 863-4247

Fax: (416) 863-2653

Lawyers for the Applicant

EXHIBIT “D”

November 19, 2009

***TERRACE BAY PULP INC.
ANNOUNCEMENT***

Today, we are pleased to announce that the Government of Ontario, has agreed to participate in the financing of the restart of operations at Terrace Bay Pulp Inc. Specifically, the Government has indicated that it is prepared to support the mill through a \$25 million dollar term loan. This critical and important piece of the restructuring process will now allow the mill to complete financing, make arrangements with creditors and, once these steps are completed, commence a mill start up.

Since Terrace Bay Pulp was required to seek CCAA protection on March 11, 2009, the Company has worked closely with stakeholders - and in particular with the Government of Ontario through the offices of Michael Gravelle, Minister of Northern Development, Mines and Forestry and the local municipalities - to put together a plan which will allow the mill to exit from CCAA protection and resume operations – sustainably and for the long term.

When fully operational, the pulp mill and its supporting industries have an annual economic footprint in Northwestern Ontario of approximately 2.45 Billion dollars. The Company's return to normal operations has been affected primarily by the continuing credit crisis. We believe that this announcement is the foundation for a positive path forward.

The next steps for the company include completing the financing package, reaching agreement on a CCAA plan of arrangement with the creditors of Terrace Bay Pulp and, planning for a mill start up. Terrace Bay Pulp will be meeting with its employees and other stakeholders in the coming days. We will be seeking court approval for an extension of creditor protection during this process and we hope to get approval for a schedule which includes the completion of restructuring and the start up of the mill.

We understand and appreciate how difficult and trying the last months have been for our employees, their families and all of those who have a stake in the future of this mill. As we move forward with this process we remain committed to keeping all stakeholders informed.

For further information regarding this announcement please contact:
Yves Fricot, General Counsel at 343 6555.

EXHIBIT “E”

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

**ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST**

THE HONOURABLE

)

THURSDAY, THE

)

MR. JUSTICE MORAWETZ

)

14th DAY OF MAY, 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 permitting the issuance of the Statement of Claim in the form attached hereto as **Schedule "A"** (the "Statement of Claim"), was heard this day at 330 University Avenue, Toronto, Ontario.

ON READING the Consent of the Applicant and the Monitor to the relief requested:

1. **THIS COURT ORDERS** that pursuant to paragraph 11 of the Order of the Honourable Mr. Justice Morawetz dated March 11, 2009 in these proceedings, the Plaintiffs in the action contemplated by the Statement of Claim (the "Action") are hereby permitted to issue the Statement of Claim on the condition and provided that the Plaintiffs shall not be entitled to proceed further with the Action as against the Applicants without further order of this Court obtained by the Plaintiffs on the notice to the Applicants and the Monitor.

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

MAY 14 2009

PER / PAR: TV

05/08/2009 13:16 FAX

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PETRONE HORNAK GA

01:57:08 p.m.

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05-04-2009

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SCHEDULE "A"

No. CV - 09 -

ONTARIO
SUPERIOR COURT OF JUSTICE

BETWEEN:

KARIN SITKO, Executrix, and RONALD SITKO, Executor
of the Estate of the late RICHARD SITKO, deceased

Plaintiffs

- and -

INDUSTRIAL ALLIANCE PACIFIC INSURANCE AND FINANCIAL SERVICES INC.,
THE MANUFACTURER'S LIFE INSURANCE COMPANY also known as MANULIFE FINANCIAL,
NEENAH PAPER COMPANY OF CANADA and TERRACE BAY PULP INC.

Defendants

STATEMENT OF CLAIM

TO THE DEFENDANT(S)

A LEGAL PROCEEDING HAS BEEN COMMENCED AGAINST YOU by the plaintiff(s). The claim made against you is set out in the following pages.

IF YOU WISH TO DEFEND THIS PROCEEDING, you or an Ontario lawyer acting for you must prepare a statement of defence in Form 18A prescribed by the Rules of Civil Procedure, serve it on the plaintiff(s) lawyer or, where the plaintiff(s) do(es) not have a lawyer, serve it on the plaintiff(s), and file it, with proof of service, in this court office, WITHIN TWENTY DAYS, after this statement of claim is served on you, if you are served in Ontario.

If you are served in another province or territory of Canada or in the United States of America, the period for serving and filing your statement of defence is forty days. If you are served outside of Canada and the United States of America, the period is sixty days.

Instead of serving and filing a statement of defence, you may serve and file a notice of intent to defend in Form 18B prescribed by the Rules of Civil Procedure. This will entitle you to ten more days within which to serve and file your statement of defence.

IF YOU FAIL TO DEFEND THIS PROCEEDING, JUDGMENT MAY BE GIVEN AGAINST YOU IN YOUR ABSENCE AND WITHOUT FURTHER NOTICE TO YOU. IF YOU WISH TO DEFEND THIS PROCEEDING BUT ARE UNABLE TO PAY LEGAL FEES, LEGAL AID MAY BE AVAILABLE TO YOU BY CONTACTING A LOCAL LEGAL AID OFFICE.

Date:

Issued by

Local Registrar

Address of court office:

277 Camelot Street

THUNDER BAY, ON P7A 4B3

05/08/2009 13:17 FAX

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PETRONI HORNAK GA

01:57:20 p.m.

05-04-2009

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(Name and address of each defendant)

TO: **INDUSTRIAL ALLIANCE PACIFIC
INSURANCE AND FINANCIAL SERVICES INC.**
2165 Broadway West
Vancouver, BC V6B 5H6

TO: **MANULIFE FINANCIAL**
2 Queen Street East
P. O. Box 4606
Station "A"
Toronto, Ontario M5W 4Z2

TO: **NEENAH PAPER COMPANY
OF CANADA**
260 Abercrombie Rd
New Glasgow, NS, B2H 1K8

TO: **TERRACE BAY PULP**
Terrace Bay, Ontario

CLAIM

1. THE PLAINTIFFS CLAIM:

- (a) A declaration that Basic Accidental Death Insurance coverage on the life of Richard Sitko, through Manulife Financial Group policy number G0038089 issued to Terrace Bay Pulp Inc. is valid and binding on the defendant, Manulife Financial;
- (b) A declaration that Basic Accidental Death Insurance coverage on the life of Richard Sitko issued by Industrial-Alliance Pacific Insurance Company through Policy No. 100005877 valid and binding;
- (c) Payment of the plaintiffs' Death Benefit and Accidental Death Benefit claim in the amount of \$200,000.00;
- (d) Damages for breach of contract in the amount of \$200,000.00;
- (e) Pre-judgment interest on the amount claimed in sub-paragraph (c) from the 15th day of May 2007 to the date of payment or judgment pursuant to the provisions of the *Courts of Justice Act*, R.S.O. 1990 and amendments thereto;
- (f) Aggravated, punitive, exemplary damages for bad faith and breach of fiduciary duty in the amount of \$75,000.00;
- (g) Postjudgment interest on the amounts found to be owing herein in accordance with the Courts of Justice Act, R.S.O. 1990, and amendments thereto;
- (h) Costs of this action on a Solicitor and Client basis, together with Goods and Services Tax pursuant to the Excise Tax Act, R.S.O. 1990, and amendments thereto;
- (i) Such further and other relief as the nature of this claim or this Honourable court may deem just;

2. The Plaintiff, Karin Sitko, resides in the City of Thunder Bay, in the District of Thunder Bay, and is the wife of the late, Richard Sitko.

3. The Plaintiff, Ronald Sitko, resides in the Town of Schreiber, in the District of Thunder Bay, and is the brother of the late, Richard Sitko.

4. Karin Sitko and Ronald Sitko bring this action as Executrix and Executor, respectively, of the Estate of the late, Richard Sitko.

5. The defendant, The Manufacturer's Life Insurance Company also known as Manulife Financial (hereinafter referred to as "Manulife"), is an insurance company carrying on business as an insurer in the Province of Ontario and elsewhere and at all material times issued a group policy of insurance, including accidental death and dismemberment insurance to the policy holder, Terrace Bay Pulp Inc., being Group policy number G0038089, (hereinafter referred to as "the Policy") under which the late Richard Sitko was an insured.

6. The defendant, Industrial-Alliance Pacific Life Insurance Company (hereinafter referred to as "Industrial-Alliance"), is a corporation duly incorporated pursuant to the laws of the Dominion of Canada and has its head office in the City of Vancouver in the Province of British Columbia, and carries on business as an insurance company, and is licenced to carry on the business of providing insurance, including Basic Accidental Death and Dismemberment Insurance and at all material times issued Policy No. 100005877.

7. The defendant, Neenah Paper Company of Canada (hereinafter referred to as "Neenah"), is a company duly incorporated pursuant to the laws of the Dominion of Canada and with an office in the City of New Glasgow in the Province of Nova Scotia.

8. The defendant, Terrace Bay Pulp Inc. (hereinafter referred to as "Terrace Bay") is a company duly incorporated pursuant to the laws of the Province of Ontario.

9. In or about February 2006, Richard Sitko was diagnosed with Malignant Mesothelioma as a result of exposure to Asbestos in or about 1978 or 1979 while working.

10. As of August 6, 2006, Richard Sitko was employed by Neenah. On August 6, 2006, Richard Sitko was unable to continue work and began to collect Long-term disability benefits. At that time, pursuant to policy provisions, Mr. Sitko was granted a waiver of premiums.

11. On August 29, 2006, Terrace Bay Pulp Inc. purchased Neenah.

12. As of August 29, 2006, Neenah had cancelled its policy and all salaried employees that were on LTD/WSIB at that time were given the same amount of coverage under the Policy at no cost to the employees for a period of one year. The Policy in effect as of August 29, 2006 included coverage for Accidental Death and Dismemberment Insurance.

13. As of August 29, 2006 Manulife entered into a contract of insurance with Terrace Bay Pulp Inc. being Policy Number G0038089 to provide certain insurance benefits which were available to employees of Terrace Bay.

14. Manulife provided a Benefit Booklet to Terrace Bay being Group Policy Number G0038089. Pursuant to the provisions contained in the Benefit Booklet basic life and accidental death and dismemberment coverage are insured with Industrial-Alliance under policy number 100005877.

15. Any reference to the defendants includes Manulife, Industrial-Alliance, Neenah and Terrace Bay, jointly or severally.

16. The plaintiffs state and the fact is that pursuant to the provisions of the Policy and verbal and written representations made on behalf of the defendants, Mr. Sitko was granted waiver of premium in connection with all benefits.

17. Richard Sitko died on May 15, 2007, the plaintiffs state that his death was as a consequence of and directly attributable to the accidental inhalation of asbestos.

18. Demand was made for the payment of the Accident Death benefit in the sum of \$200,000.00 pursuant to the said Accidental Death benefit provision of the Policy, however the defendants have refused to pay.

19. The plaintiff, Karin Sitko, states that she received a letter dated February 29, 2008 denying payment for the Accidental Death benefit by reason of the following exclusion:

"Mr. Sitko was on premium life waiver for the Basic Life benefit, however was not on premium life waiver for Accidental Death benefits as Mr. Sitko's benefit plan with Neenah Paper did not offer Accidental Death benefits."

The plan did offer a Voluntary Accidental Death benefit, but this benefit did not offer premium life waiver, therefore, would have been on a premium paying basis. The Voluntary Accidental Death benefit cancelled with Manulife Financial on October 1, 2006, therefore, if a plan member did elect this coverage on a premium paying basis it would have Cancelled on October 1, 2006 which was prior to Mr. Sitko's date of death.

As a result no Accidental Death benefit is payable."

20. The plaintiffs state and the fact is that pursuant to the Policy, and at all material times, Richard Sitko was entitled to Waiver of Premium. The Policy states:

Waiver of Premium

If you become Totally Disabled while insured and prior to age 65 and meet the Entitlement Criteria outlined below, your Life Insurance will continue without payment of premium.

21. The plaintiffs state that if Terrace Bay purchased or took over the obligations of Neenah, it failed to advise Richard Sitko that the Accidental Death and Dismemberment Insurance benefit was not subject to premium life waiver with devastating consequences to him and his Estate. Terrace Bay assumed the legal obligations of Neenah.

22. In the further alternative, the plaintiffs further state that if the underlying policy with Manulife or Industrial-Alliance was indeed amended, Richard Sitko was not aware and furthermore never consented to such change as an Insured member of Group Policy Number G0038089 and/or 10005877. Terrace Bay knew of the changes and failed to advise its employee/insured, then Terrace Bay was negligent and breached its contract of employment with Richard Sitko.

23. The plaintiff, Karin Sitko, further states that she received a letter from Industrial Alliance Pacific Insurance and Financial Services Inc. dated January 27, 2009 denying payment for the Accidental Death Benefit for the following reason:

"Under the terms of the Policy, "Injury" whenever used in this policy means bodily injury caused by an accident occurring while this policy is in force as to the Insured Person whose injury is the basis of claim and resulting directly and independently of all other causes in loss covered by this policy (emphasis added).

Based on the information presented to our office, Mr. Sitko's immediate cause of death has been indicated as Mesothelioma. Mr. Sitko presented to his Physician in January 2006 with symptoms of left lower quadrant pain and in February 2006, diagnostic studies indicated that the Lesion was suspicious for Malignant Mesothelioma and a biopsy subsequently confirmed this diagnosis. The WSIB reports submitted, indicate Mr. Sitko was exposed to Asbestos in 1978/1979 while working in a mill. As noted above, the effective date of coverage for our Policy was August 29, 2006. We have reviewed all information submitted to date, and have concluded that Mr. Sitko's death on May 15, 2007 was not the result of a bodily injury caused by an accident occurring while this Policy was in force."

In view of the preceding, we must advise that we will be unable to accept liability of Mr. Sitko's claim."

24. Pursuant to the provisions of the Policy, coverage for the Basic Accidental Death and Dismemberment Insurance is described as:

"Any accident resulting in: death, dismemberment, loss of sight, or paralysis – anywhere in the world – 24 hours a day – on or off the job."

25. The plaintiffs further plead that the defendants are responsible for payment of life insurance and accidental death benefits proceeds in amounts stated in the Policy on the date of death of Richard Sitko, namely May 15, 2007.

26. The plaintiffs plead and rely upon the provisions of the Policy.

27. The plaintiffs state that the defendants' conduct in refusing to pay death benefits and accidental death benefits in the face of a lack of sufficient evidence to support the defendants' position, demonstrates a wanton and reckless disregard for the rights and well-being of the plaintiffs such as to entitle the plaintiffs to punitive and exemplary damages from the defendants. Further the defendants have acted unfairly and in bad faith towards the plaintiffs, thus entitling them to punitive and exemplary damages.

28. The plaintiffs plead that in every contract or policy of insurance there is an implied covenant of good faith and fair dealing and that neither party will do anything which will injure the right of the other to receive the benefits of the agreement.

29. The plaintiffs plead that Richard Sitko has done nothing wrong to warrant the denial of coverage under the said policy. Accordingly, the defendants are acting in bad faith and should be estopped from attempting to circumvent its obligations contained in the policy of insurance.

30. It is unconscionable for the defendants to attempt to repudiate and blatantly breach the contract with their insured.

31. The plaintiffs state that at all material times, Richard Sitko acted in good faith. The plaintiffs further state that the defendants, by their refusal to pay benefits pursuant to the policy of insurance issued by them, they are attempting to repudiate their contractual obligation under the aforesaid policy.

32. The plaintiffs further allege that such an attempt by the defendants constitutes an expression of bad faith and unfair dealings towards Richard Sitko as an "insured person" and accordingly, the defendants should be estopped from attempting to circumvent their contractual obligations contained in the policy hereinbefore referred too.

33. The Plaintiffs plead and rely upon the provisions of the *Insurance Act*, R.S.O. 1990, c. I-8, and amendments thereto and *Courts of Justice Act*, R.S.O. 1990, c. C-43 and amendments thereto.

34. The plaintiffs further and in the alternative plead the doctrine of the *Relief from Forfeiture*.

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35. The plaintiff requires that this Statement of Claim be served outside the Province of Ontario pursuant to Rule 17.02 (b), (f), (g) and (h) of the Rules of Civil Procedure.

The Plaintiff(s) propose(s) that this action be tried at Thunder Bay.

Name, address and telephone number of plaintiff's solicitor or plaintiff)

Date of issue:

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Solicitors for the Plaintiffs

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

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

Applicant

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**AFFIDAVIT OF TARAS SAWULA
(Sworn November 19, 2009)**

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**MOTION RECORD
(RETURNABLE NOVEMBER 20, 2009)**

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