

**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

**INSTRUCTION LETTER
FOR CLAIMS PROCEDURE FOR D&O CLAIMS**

**THIS LETTER PROVIDES INSTRUCTIONS TO CLAIMANTS REGARDING THE
FILING OF A PROOF OF D&O CLAIM PURSUANT TO THE D&O CLAIMS
PROCEDURE ORDER MADE BY THE ONTARIO SUPERIOR COURT OF JUSTICE
IN THE CCAA PROCEEDING INVOLVING TERRACE BAY PULP INC.**

TO: Persons who may have D&O Claims against the existing or former Officers and Directors of Terrace Bay Pulp Inc. (the “**Applicant**”). Please review the order of the Ontario Superior Court of Justice [Commercial List] (the “**Court**”) dated October 29, 2012 (the “**D&O Claims Procedure Order**”) in connection with this Instruction Letter for the definition of a D&O Claim.

A. CLAIMS PROCEDURE

Pursuant to the D&O Claims Procedure Order made October 29, 2012, the court-appointed Monitor of the Applicant has been authorized by the Court to conduct a procedure (the “**Claims Procedure**”) for the determination of certain claims against existing and former Directors and Officers of the Applicant, which claims are as defined in the D&O Claims Procedure Order (the “**D&O Claims**”).

This letter provides instructions for completing the Proof of D&O Claim. Please note that capitalized terms which are not defined in this Instruction Letter shall have the meaning ascribed to them in the D&O Claims Procedure Order.

NOTE: THE CLAIMS PROCEDURE DOES NOT ADDRESS OR REQUIRE THE FILING OF ANY CLAIMS AGAINST TERRACE BAY PULP INC. OR ANY CLAIM AGAINST A DIRECTOR OR OFFICER THAT IS NOT A D&O CLAIM AS DEFINED IN THE D&O CLAIMS PROCEDURE ORDER.

The D&O Claims Procedure Order deals with D&O Claims and should be reviewed in relation to the Claims Procedure and the D&O Claims to be filed pursuant to the Claims Procedure. Such D&O Claims shall be valued in Canadian dollars. All D&O Claims denominated in a currency other than Canadian dollars shall, for the purpose of the Claims Procedure, be converted to and constitute obligations in Canadian dollars using the Bank of Canada nominal spot rate on January 25, 2012. If D&O Claims are so converted, the conversion rate and the original currency denomination used should be provided as part of the Proof of D&O Claim.

A D&O Claim is defined in the D&O Claims Procedure Order (which should be referenced), and means any existing or future right or claim of any Person against one or more of the Directors and/or Officers of the Applicant in respect of any obligations and liabilities which have arisen or may arise or was or may be incurred, in his or her capacity as a Director and/or Officer, after the commencement of the CCAA Proceeding and which have been indemnified by the Applicant pursuant to paragraph 16 of the Initial Order (including in respect of any environmental condition that arose or environmental damage that occurred after January 25, 2012, and excluding, for greater certainty, in respect of any environmental condition that arose or environmental damage that occurred prior to January 25, 2012), except to the extent that, with respect to any Officer and/or Director, such right or claim arose or arises or was or may be incurred as a result of such Director and/or Officer's gross negligence or wilful misconduct.

A D&O Claim for which a Proof of D&O Claim is to be filed pursuant to the D&O Claims Procedure Order does NOT include other claims against persons who are or may have been Directors or Officers of the Applicant.

If you believe that you have a D&O Claim against one or more of the Directors and/or Officers of the Applicant you must file a Proof of D&O Claim with the Monitor by the Claims Bar Date set out below.

If you have any questions regarding the Claims Procedure, please contact the Monitor at the address provided below. All notices and enquiries with respect to the Claims Procedure should be addressed to:

By Mail:

Ernst & Young Inc., as Monitor of Terrace Bay Pulp Inc.
TD Centre, P.O. Box 251
222 Bay Street, 24th Floor
Toronto, Ontario
M5K 1J7

Attention: Naomi Lieberman

By Courier or Personal Delivery:

Ernst & Young Inc., as Monitor of Terrace Bay Pulp Inc.
222 Bay Street, 24th Floor
Toronto, Ontario
M5K 1J7

Attention: Naomi Lieberman

By Facsimile Transmission:

Ernst & Young Inc., as Monitor of Terrace Bay Pulp Inc.
Attention: Naomi Lieberman

Fax No.: (416) 943-3300
Telephone: (855) 248-2569

By Email Transmission

Email: terracebay@ca.ey.com

B. FOR CLAIMANTS SUBMITTING A PROOF OF CLAIM

If you believe that you have a D&O Claim against one or more of the Directors and/or Officers of the Applicant you must file a Proof of D&O Claim with the Monitor. **All Proofs of D&O Claim must be received at the address or fax number set forth above by no later than 5:00**

p.m. (Toronto time) on December 10, 2012 (the “Claims Bar Date”). Pursuant to the D&O Claims Procedure Order, failure to submit a D&O Claim by the Claims Bar Date will result in such D&O Claim being barred and extinguished, released and discharged.

Additional Proof of D&O Claim forms are available from the Monitor upon request and can also be found on the Monitor’s website at: www.ey.com/ca/terracebay