Court File No. CV-12-9566-00CL

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.

The Applicant

AFFIDAVIT OF YU HANJIANG
(sworn July 15, 2012)

I, Yu Hanjiang, of the City of Tangshan, in the Province of Hebei, China, **MAKE OATH AND SAY AS FOLLOWS**:

1. I am the Vice General Manager of Tangshan Sanyou Group Xingda Chemical Fiber Co. Ltd. ("TS"), and as such I have knowledge of the matters to which I hereinafter depose in this affadivit. Where this affidavit is not based on my personal knowledge, I have stated the source of my information and, in all such cases, believe it to be true.

2. I note that Chinese is my first language. As such, due to time constraints this affidavit has been drafted in the English language by Norton Rose Canada LLP, counsel to TS, based upon information that I have provided to them or that is known to them through their role as counsel to TS. I have then reviewed the affidavit in Chinese with the assistance of Janet Lee, a partner at Norton Rose Canada LLP who is bilingual.

3. TS is a subsidiary of Tangshan Sanyou Chemical Industries Co., Ltd. ("Parent") and an affiliate of 0945328 B.C. Ltd. ("TSBC"). TS, TSBC and Parent are referred to herein, collectively, as "Tangshan".

4. Tangshan has requested that Terrace Bay Pulp Inc. ("Terrace Bay") and Ernst & Young Inc., the court appointed monitor (the "Monitor") in the *Companies' Creditors*

Arrangement Act (Canada) ("CCAA") proceedings of Terrace Bay consider an offer presented by TSBC to acquire the assets of Terrace Bay which assets were the subject of a court-ordered sale process. In the alternative, TSBC has requested that the sale process be continued in an auction format where all interested parties may make final bids for those assets. Both requests have been refused.

5. Tangshan's requests have found the support of certain creditors of Terrace Bay, including Birchwood Trading, Inc., being one of the holders of a beneficial interest in a note issued under Terrace Bay's prior CCAA plan (the "CCAA Note") who has recently become aware of the Tangshan requests. Birchwood Trading, Inc. is also a trade creditor of Terrace Bay.

6. I am advised by Alex Jushevsky of Recovery Partners, financial advisors to Tangshan, that the terms of the CCAA Note require a majority vote by resolution in order for the trustee of the CCAA Note to take any action in connection with that note. Such a resolution requires a vote to be made on 21 days notice.

7. Tangshan believes that its offer to acquire the assets of Terrace Bay is far superior to the best offer produced by the court-ordered sales process.

Background to Tangshan

8. TS is located in Tanshang City, Hebei Province, China. TS is a prominent Chinese state owned enterprise and, because of its pulp supply needs and technical expertise, is one of a small few uniquely qualified potential acquirers of the Terrace Bay assets. Background information on Tangshan is provided in the presentation attached as Exhibit "A".

9. TS is a leading chemical company in China. It produces hundreds of products across six main output classes, including pulp based textile products. Its products sell well domestically in over 20 Chinese provinces, and are also exported to more than 10 other countries including the United States, Turkey, Spain, and Switzerland.

10. TS is the 3rd largest manufacturer of viscose staple fibre in the world. The dissolving pulp to be produced by Terrace Bay following a proposed retrofit is a key input in the viscose staple fibre industry.

11. TS is well-acquainted with plant retro-fit, expansion and new product start-up activity. For example, in 2009, it started the Yuanda project for the production of viscose staple fibre. This project featured advanced technology and equipment manufacturing capability, and allowed TS to initiate the industry's largest production line.

12. Tangshan is also currently negotiating a pulp mill conversion project in Russia similar to the one it contemplates constructing using the Terrace Bay assets.

13. Parent's viscose staple fibre business produces 280,000 tons of viscose staple fibre annually, which is forecasted to increase to 450,000 tons by the end of this year and 600,000 tons by 2015.

14. TS has over 3,400 employees.

15. Parent is publicly listed on the Shanghai stock exchange and controls 13 subsidiaries with broad business divisions. The total book value of the assets of the Parent is approximately RMB13 billion (approximately US$2 billion).

Tangshan's Involvement in the Terrace Bay Process

16. The court-ordered sale process for the Terrace Bay assets (the "Sale Process") contemplated submission of binding offers by March 16, 2012, and a target closing date of April 16, 2012. In fact, binding offers were not submitted by March 16th, and a binding offer appears not to have been signed until July 5th.

17. Tangshan was unaware of the Sale Process until May, 2012. In early May, representatives of Tangshan came to Canada to explore the possibility of making a pulp acquisition from another seller, and were informed at that time of the sales process by representatives of Life 3 Forestry Corp. As the third largest manufacturer of viscose staple fibre in the world, Tangshan would have been a logical potential acquirer for the Terrace Bay assets. However, Tangshan had not been contacted by the Monitor to particpate in the process.

18. During May and June, Tangshan was permitted by the Monitor to conduct due diligence on the Terrace Bay assets, including a site visit. As a result of that due diligence, Tangshan has concluded that the Terrace Bay assets present a superior opportunity relative to the other Canadian assets that Tangshan has considered purchasing. This is primarily due to the strategic fit into the Tangshan operations, expertise and pulp supply

needs. Tangshan conducted a detailed study and made a plan to retrofit the plant and equipment of Terrace Bay into a dissolving pulp plant. A copy of a summary of Tangshan's retrofit plan is attached hereto as Exhibit "B".

19. Tangshan was under the impression that since the Terrace Bay transaction had not closed by the target deadline of April 16, 2012, the process had not been successful, meaning that it was open for new bidders to conduct diligence and submit bids. The Monitor was cooperative with Tangshan in the conduct of its due diligence and preparation of its bid.

20. By early July, no sale transaction for the Terrace Bay assets had been announced and Tangshan was ready to proceed with making an offer. On July 4, 2012, Tangshan retained the financial advisory firm Recovery Partners and the legal firm Norton Rose Canada LLP to assist in making a direct proposal to acquire the Terrace Bay assets.

21. Recovery Partners contacted the Monitor on July 4, 2012 and requested that Tangshan be allowed into the Sale Process. I am advised by Alex Jurshevski of Recovery Partners that in telephone conversations the Monitor encouraged Tangshan to submit an offer.

22. Early in the morning on July 5, 2012, Tangshan submitted a non-binding offer letter dated July 4, 2012. A copy of the offer letter is attached as Appendix F to the Sixth Report of the Monitor in these proceedings.

23. The Monitor responded by an email dated July 5, 2012 that Tangshan's offer letter would not be considered. Further, the Monitor advised that an offer from a subsidiary of Aditya Birla Management Corporation Private Ltd. (the "AB Offer") had been accepted by Terrace Bay. This email is attached as Exhibit "C".

24. Also on July 5, 2012, the Ontario Government posted on its web site the announcement that the AB Offer had been selected as the best offer in the Sale Process. This announcement is attached as Exhibit "D".

25. Minimal details were publicly available about the AB Offer. However, there were rumours that the transaction included an Ontario Government concession or subsidy. By contrast, the Tangshan offer did not include any concession or subisdy.

26. While all indications suggested that the transaction contemplated by the AB Offer would proceed, Tangshan continued to be interested in purchasing the Terrace Bay assets and believed that its offer would provide substantially more value to creditors of Terrace Bay. Therefore on July 10, 2012, Tangshan sent a letter to the Monitor stating that it was willing to complete a purchase of the Terrace Bay assets on the same terms as the transaction contemplated by the AB Offer, the only exception being Tangshan's substantially higher purchase price which has been a term of Tangshan's deal from the outset. This letter is attached as Appendix H to the Sixth Report of the Monitor in these proceedings.

27. Early in the morning of July 12, 2012, Tangshan sent a firm binding offer to the Monitor that would provide cash consideration of $35 million (the "Tangshan Offer"). This offer is attached as Appendix I to the Sixth Report of the Monitor in these proceedings.

28. Upon becoming aware of the exact terms of the AB Offer through publicly available court filings, Tangshan realized that AB Offer provided little or no value to Terrace Bay's creditors generally. By contrast, the Tangshan offer would provide 100% recoveries for the CCAA Note and some recoveries for those next in line, even if there is no forgiveness of the loan payable to the Province of Ontario. If the loan payable to the Province of Ontario is foregiven under the Tangshan Offer as it is under the AB Offer, all creditors would be paid in full under the Tangshan Offer by comparison to the negligible recoveries to creditors under the AB Offer.

29. To date, Tangshan has invested in excess of $1,000,000 in internal and third party costs in connection with its bid for the Terrace Bay assets. This excludes the opportunity cost associated with Tangshan's decision to pursue a bid on the Terrace Bay assets to the exclusion of other Canadian investment opportunities.

30. Tangshan has proceeded in this Sales Process in a transparent fashion and in good faith. Tangshan is not a bidder that has been waiting to see the terms of the "winning bid" in the Sale Process only to submit a last minute offer that is incrementally better. Rather, once provided the opportunity and information necessary to participate in the Sale Process, Tangshan has done so diligently and has produced an offer that is many multiples higher than the cash value of the AB Offer. Tangshan would have preferred to participate in the earlier stages of the Sale Process, but Tangshan was not aware of the process and had no ability to participate in accordance with its terms

Tangshan's Offer

31. The following chart compares the Tangshan Offer to the AB Offer:

Terms	Tangshan Offer	AB Offer
Cash Purchase Price	$35,000,000	$2,000,00
Ontario Government Concession	Unknown	Approximately $25 million
Funds Available for Creditors other than Ontario Government	$10 million plus the amount of any voluntary concession by the Ontario Government.	Nil
Conversion Program Timing	Investment of $220 million, target completion date of 18 months after acquisition.	Information on the size of the investment unavailable, target completion date of 4 years after acquisition.
Production during conversion	Semi-dissolving pulp (to be used by Tangshan in its existing operations).	Paper pulp (declining and uncertain market).
Production after Conversion	At least 360,000 tons	280,000 tons
Market after Conversion	Tangshan's own use in the production of pulp-based textile products	Information not available
Planned Employment	Tangshan intends to retain current management and substantially all of the existing work force, with potential expansion to the work force as production volumes increase	According to an article attached hereto as Exhibit "F", the workforce will be reduced by 75 jobs (or over 20% of the pre-shut down workforce).
Conditions	Same as AB Offer, except no Ontario Government concession is required	As set out in the signed Assets Purchase Agreement
Deposit	$3,500,000	$2,700,000
Documentation	If an auction is commenced for the Terrace Bay assets, Tangshan would agree to bid using substantially the same documents and agreements that were included in the AB Offer.	Asset Purchase Agreement attached to Monitor's Report.
Guarantees	Parent is prepared to guarantee the obligations under the Tangshan Offer.	No parent company guarantees are provided.

32. Tangshan has received a letter of support in connection with the Terrace Bay bid from the Government of China, a copy of which is attached as Exhibit "E" hereto.

33. Information provided in the Sixth Monitor's Report shows that there is approximately $1.1 million in cash available at Terrace Bay, which appears sufficient to meet Terrace Bay's short term needs. There would appear to be no immediate financial reason why the Sale Process cannot be extended to enable the participation of Tangshan. Nonetheless, Tangshan is willing (as set forth in their letter dated July 10th) to advance funding necessary to cover any net cash outflows from Terrace Bay until the final purchaser is selected.

34. It was reported in the Chronicle-Journal dated July 14, 2012 that the union representing laid-off workers at Terrace Bay's idled pulp mill reached a tentative agreement on July 13th on a new contract with the proposed purchaser under the AB Offer. Final voting by the union on this agreement is set for July 16, 2012 at 2 p.m. This news article is attached as Exhibit "F".

Tangshan's Business Plan

35. As discussed in the Tangshan Offer, Tangshan's business plan includes the following key elements:

    (a) Tangshan will convert the Terrace Bay plant from producing paper grade pulp to semi-dissolving pulp to dissolving pulp for use in Tangshan's textile product operations in China;

    (b) Tangshan's conversion plans would also accommodate viscose staple fibre production at the Terrace Bay facilities within 18 months.

    (c) Tangshan intends to restart the number 2 production line at the Terrace Bay facilities immediately after closing for semi-dissolving pulp production.

    (d) Investment of approximately $220 million in addition to the acquisition price of $35 million.

Commitments to Stakeholders

36. It is not apparent from the AB Offer that any legally binding commitments have been made by the parties submitting the AB Offer to (a) employ any specific number of

Terrace Bay's current employees; (b) continue production at the Terrace Bay facility for any specific period of time; or (c) achieve any minimum production levels.

37. I believe that the Tangshan Offer demonstrates increased certainty on the above points for the following reasons:

(a) Tangshan has very strong existing internal demand for the output of the Terrace Bay mills due to the vertically integrated nature of its operating group. This internal demand would easily absorb the increased output from the mills and provides a strong incentive for Tangshan to follow through with its plans to increase the long term production capacity of the facilities.

(b) If the Tangshan Offer is accepted, Tangshan will have invested $35 million cash in this transaction, providing increased incentive to move forward with its production plans to recover full value from its investment. By contrast, due to the low cash purchase price in the AB Offer, the parties submitting the AB Offer effectively have acquired a very low cost option to operate the Terrace Bay facilities. This consideration is of increased importance when one considers that the AB Offer contemplates a 4 year conversion period.

(c) In the short-term, Tangshan will utilize the Terrace Bay facilities to produce semi-dissolved pulp during the conversion process. This type of pulp has a far higher demand than the paper grade pulp that the AB Offer contemplates producing during its 4 year conversion period.

(d) It must be emphasized that Tangshan is a credible international producer of products that depend upon the output of pulp mills, such as the Terrace Bay facilities. TSBC has the support of its parent companies as well as the Government of China in its efforts to conclude the proposed transaction.

Certainty of Closing

38. The rationale advanced by stakeholders in support of the AB Offer boils down to a "bird in the hand is worth two in the bush" argument. However, the Tangshan offer is significantly financially superior to the AB Offer, including the provision of a deposit that itself exceeds the cash value of the AB Offer. This alone would fully mitigate any perceived closing risks. Further, the Tangshan Offer is subject to the same closing conditions as the AB Offer. The certainty of closing is at least as strong in the case of

the Tangshan Offer. In the circumstances, the Tangshan Offer amounts to a second "bird in the hand" with financially superior terms.

SWORN BEFORE ME at the City of Toronto, on July 15, 2012. Commissioner for Taking Affidavits	YU HANJIANG

唐山三友
sanyou-group

创业守成 事在人为

Tangshan Sanyou Group Xingda Chemical Fibre Co., LTD

This is Exhibit A referred to in the affidavit of YU HANJIANG sworn before me, this 15th day of July, 2012

A COMMISSIONER FOR TAKING AFFIDAVITS

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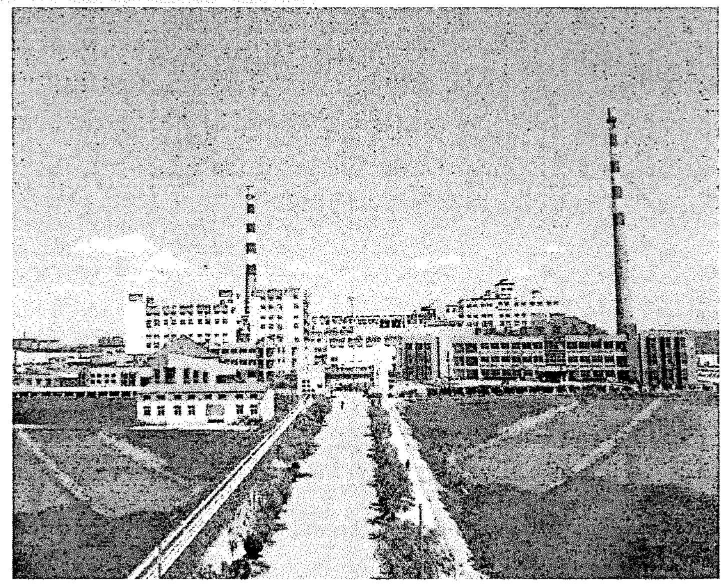
About Tangshan Sanyou Group (“Sanyou”)

- The 3rd largest manufacturer of chemical fibre in the world
- The biggest chemical industry group and chemical fibre producer in China
- One of the 10 leading state-owned companies in Hebei Province of China
- Parent for 13 subsidiaries with broad business divisions covering viscose staple fibre, soda ash, caustic soda, PVC, organic silicon.

唐山三友
sanyou-group

创业守成 事在人为

About Tangshan Sanyou Group Xingda Chemical Fibre Co., LTD ("Xinda")



One of Sanyou's subsidiaries

Total asset value of 4.3 billion yuan (US$680 million)

Annual production capacity of 280,000 tons, will be increased to 450,000 tons by the end of this year and 600,000 tons by 2015

Xinda’s Bid

- Matches all of the operational commitments and economic undertakings of Grasim
- Offers substantial premium to the Grasim bid with all financing in the place with no financing conditions
- Strong financial commitment for working capital requirements for interim period and in a long run, backed by its parent and Chinese government

Proposed Size of Investment by Xinda

- Terrace Bay Pulp Inc will be Xinda's first production base overseas, which will attract significant investment of our money and resources.
- Substantial premium to the Grasim bid in price
- Additional input of approximately C$220 million of investment to retrofit assets, implement significant plant expansion, and fund business's working capital requirements
- Fully supported by China Development Bank and Chinese government

Xinda's Future Development Plan

- Conversion plan
  - •Paper grade pulp to semi-dissolving pulp to dissolving pulp
  - •Restart No.2 production line immediately after closing for semi-dissolving pulp production. All products shall be shipped back to China for Xinda's own chemical fibre manufacturing plant
  - •Conversion of existing facilities to accommodate VSF production shall be completed within 18 months
- Employment plan
  - •Retain current management team and employees
  - •Creating more employment opportunities
  - •Local hires for timber cutting

唐山三友 sanyou-group

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	Tangshan Sanyou	AV Terrace Bay
Purchase Price	$35M	$2M
Repayment of Debt	Full repayment of Ontario government loan Substantial repayment of secured notes	Ontario government loan forgiven No repayment for any creditors
Conversion Timing	18 months	4 years
Production during conversion	Semi-dissolving pulp (to be used by Tangshan Sanyou)	Paper pulp (declining and uncertain market)
Production after Conversion	360,000 tons (may be expanding)	280,000 tons
Market for after Conversion	for Tangshan Sanyou's own use	?
Investment	Will be only mill owned by Tangshan	Have other mills (4) overseas
Employment	Retain current management	?

CONCEPTUAL STUDY FOR PRODUCTION OF DISSOLVING PULP

This is Exhibit B referred to in the
affidavit of YU HANJIANG
sworn before me, this 15th
day of July, 2012

A COMMISSIONER FOR TAKING AFFIDAVITS

Contents

Tangshan Sanyou Group ,china

1 INTRODUCTION

The aim of this document is to identify the achievable production, for Terrace bay pulp mill For the conversion to produce dissolving pulp.

Also, the process modifications, expected working conditions and the steam and power balances for the dissolving pulp production.

The investment estimate and operation cost also presented in this report.

2 DESIGN BASIS

2.1 Raw material

Wood species used are soft and hard wood

2.2 Department Design Criteria

2.2.1 Wood and fibre losses

		Paper Grade	Dissolving
Debarking loss	%	1.5	1.5
Chip screening loss	%	0.5	0.5
Chip storage loss	%	0	0
Cooking yield in blowline (for indicated kappa)	%	50	36
Knots rejects in blow line (knots re-cooked)	%	3.0 (recooked)	1.0 (dumped)
Brown stock screening rejects	%	0.5 (recooked)	1.0 (dumped)
O_2 delignification loss	%	2.0	2.0
Bleaching loss	%	2.5	2.5
Bleached stock screening loss	%	0.5	0.5

2.2.2 Wood handling

		Paper Grade/ Dissolving Grade
Wood species eucalyptus	%	100
Basic density of wood mix, avg.	BD kg/m^3 sub	468
Moisture content of wood mix, avg. humid basis	%	50
Bark content (volume basis) at mill gate, avg.	%	12
Basic density of bark, avg.	BD kg/m^{3}s	330
Operating time	d/a	350

2.2.3 Fiberline

Cooking

		Paper Grade	Dissolving
Cooking degree	kappa	18	11
Effective Alkali charge on BD wood	% NaOH	18.8 (estim.)	23
Yield in blowline (for indicated kappa)	%	53.4	39
Direct steam to cooking	kg/ADt	220	1400 minimum (1000 used for main dim)

Direct steam to cooking kg/ADt 220 1400 minimum (1000 used for main dim)

Cases		Kraft pulp	Dissolving pulp with available digesters	Displacement cooking
digester volume	m^3			
digester amount	pcs	**18**	**18**	**18**
Chip fill	min	**15**	**15**	**15**
Pre-steaming	min	**N/A**	**35**	35
Prehydrolysis	min	**N/A**	**30**	30
Relief (depressurization)	min	**N/A**	**30**	0
Neutralization		**0**	**0**	30
Liquor fill	min	**12**	**30**	30
Heating	min	**60**	**60**	incl. below
Cooking	min	**50**	**90**	60
Displacement	min	**0**	**0**	55
Discharge	min	**20**	**20**	30
Opening/Closing	min	**7**	**7**	**0**
Spare time	min	**10**	**10**	**10**
Total	min	174	327	295
Cycle time - total	**min**	**174**	**330**	**310**
Cooks per day		**148**	**75.8**	**82**
Target Kappa		18	11	12
chip loose density	kg OD/m^3	**185**	**185**	**185**
packing degree	ratio	**1.1**	**1.1**	**1.1**
packed chip density	kg OD/m^3	204	204	204
cooking yield	%	**50**	**39.0**	**39.0**
pulp prod/cook, as blown pulp	ADT/blow			
pulp prod/cook, as blown pulp	ADT/d			1228
Loss in deknotting	%	**3**	**1**	**1**
Loss in screening	%	**2**	**1**	**1**
Loss in oxygen stage	%	**2**	**2**	**2**
Loss in bleaching	%	**2.5**	**2.5**	**2.5**

Cases		Kraft pulp	Dissolving pulp with available digesters	Displacement cooking
Loss in bleached stock screening	%	**0.5**	**0.5**	**0.5**
Losses after digester, total	%	9.6	6.8	6.8
efficiency	%	**89**	**90**	**91**
total achievable bleached production	ADt/d			**1129**
Average production, bleached	**ADt/d**			**1028**
Operating days	**d/a**			**350**
Annual production	ADt/a			360000

Washing

Dilution factor at last BS washer	t/ADt	2.5	2.5
Spills in fibreline (estimated from balance)	t/ADt	0.6	0.7

Knot separation / Screening

Knots to re-cook	%	3	1 (dumped)

Oxygen delignification

Delignification degree	kappa	12.5	3-4
Alkali charge (ox. WL + NaOH)	kg/ADt	20	20
Oxygen charge for delignification	kg/ADt	18	18

Screening

Screening rejects to re-cook	%	2	1 (dumped)

Bleaching

Sequence ECF:		D-EO-D-Ep-D	D-EOp-D-Po-A
Target brightness	% ISO	90	90

Chemicals charges

D0- stage			
ClO_2	kg/ADt	14	7
H_2SO_4	kg/ADt	not known	6 (for pH control)
EO stage			
O_2	kg/ADt	3.6	3.6
H_2O_2	kg/ADt	3.0	3.0
NaOH	kg/ADt	15	15
D1- stage			

ClO_2	kg/ADt	5	3
P-stage			
H_2O_2	kg/ADt	N/A	4
NaOH	kg/ADt	N/A	9

Pulp Dryer and Bale Handling

Dryness after press section, anticipated	%	51	51
Dryness after the dryer	%	88	90
Grammage	BDg/m_2	980 – 1050	750 – 850

2.3 **Recovery island**

No changes to current operation necessary.

The following were used for design purposes:

Evaporation plant contingency for washing and spills	%	10
Lime availability	%	85

2.4 **Main Department Dimensioning**

2.4.1 **General**

Dissolving pulp will be standard grade (staple fiber for viscose manufacture).

2.5 **Production capacity of the mill**

	Paper grade (2010 No.2line) data)	**Dissolving standard grade**

Annual production	ADtB/a		360 000
Production days	d/a		350
Average production	ADtB/d		1028
Overall Efficiency	%	89	90
Design capacity	ADtB/d	1170	1142

2.5.1 Woodhandling

		Current MSR	Dissolving, Design
Specific wood consumption	m^3 sub/ADt	4. 8	6. 58
Woodyard production rate	t sub/d	5620	6764
~~Chipping production rate~~	~~m3sob/h~~		

2.5.2 Water and Effluent

Main changes to water balance are in bleach plant water usage. It is estimated that ~~10.5 m^3/ADt of hot demi-water and 2 m^3/ADt cold demi-water are needed for the~~ bleaching lines and the drying machine water use to replace current hot and cold water. This is to ensure the pulp quality parameters related to salt content (Ca, Fe etc.).

Specific figures for ETA & ETE		Paper pulp ~~MSR~~	Dissolving case
Water intake (ETA) not including raw water	m3/ADt	55 – 60	60
Effluent flow to ETE (design)	m3/Adt	60	50 - 55
Effluent COD load to ETE	kg/Adt	55	43 - 45

2.6 Steam and Energy Balance

Energy balances for dissolving pulp production , cogeneration plant with new high press bio-mass boiler and new turbo-generator make sure 100% energy self .

The basis for the balance figures are taken from mill balance of the 2008 data and ~~also updated specific consumption data from 2010.~~ Main changes for steam and energy generation and consumption are:

- Low cooking yield produces more solids for RB firing
- ~~Cooking plant steam consumption increased to 2700 kg/ADt (prehydrolysis)~~
- Bleached pulp screening modification (+1 MW)
- Additional demi water production (reverse osmosis assumed)

2.7 Pulp quality specification for dissolving pulp

Quality specifications	Standard	Units	Value
R18	(ISO – R 699; DIN 54355)	%	95.0
R10	(ISO – R 699; DIN 54355)	%	90.0
Viscosity	(ISO 5351.1, Cuen	ml/g	380 – 520

Brightness	(ISO 2470)	%	89.0
pH			4.5 – 5.5
Dirt count		mm^2/kg	< 1.5
Extractives	(ISO 14453)	%	< 0.15
Ash	(ISO 1762)	%	< 0.1
Ca	Tappi 266om 02	ppm	< 50
Fe	ICP	ppm	<5
Mg	Tappi 266om 02	ppm	< 70
Mn	ICP	ppm	< 0.5
SiO_2	Tappi 266om 02	ppm	< 50

3 REQUIRED MODIFICATIONS BY DEPARTMENTS

The capacity by mill department is summarized.The required actions foreach mill department are

3.1 Woodhandling

Specific wood consumption will increase considerably from today's 4.8 m^3/ADt to ~~about 6.58 m^3/ADt. However pulp production will be so much low~~er that absolute wood consumption will decrease a litter. Therefore capacity of woodhandling will be sufficient also for dissolving pulp production.

Item to be checked is the sand content of incoming wood. Sand is very harmful component in dissolving pulp. Log washing system should be operating efficiently. to improve log washing support dissolving pulp production.

3.2 Chip screening

Due to high amount of knots and rejects and the fact that dissolving pulp production does not allow recooking of knots, the chip screening should be improved. Thickness screening system has proved to be an efficient way in reducing the amount of knots and rejects. Thickness screening system is included in the investment cost estimate.

3.3 Cooking

Cooking plant capacity calculation can be seen in chapter 2.2.3. As can be seen, 18 Resistance corrosion digesters are needed due to long cycle time requirement caused by the added pre-hydrolysis stage.

The pre-hydrolysis stage is carried out in vapour phase and after sufficient time has been reached, a pressure relief phase will be done to reduce the pressure in thedigester to approximately 3 bar (g). In this stage the vent gas will be condensed in the relief gas condenser. The condensate from this condenser can be mixed with the foul condensate from the blow heat recovery system.

After the pressure relief, the digester will be filled with a mixture of white and black liquor. The acidic pre-hydrolysate that remains in the digester will be neutralized and this consumes a part of the alkali charged to the digester during liquor fill.

The alkali charge is estimated to be 23 % EA as NaOH on dry wood. Cooking yield is estimated to be 39% for design. These factors will cause the dissolved solids to increase considerably, which increases the recovery boiler loading.

After the liquor fill the cooking process proceeds as normal (existing operation).

Displacement batch cooking alternative

As an alternative, a displacement type of batch cooking process could be considered (i.e. Superbatch or RDH). It will considerably lower the heat consumption in the digester plant. The cooking cycle total time is somewhat lower than for conventional cooking (assuming capping valves are installed) but the maximum production rate of the mill will be roughly similar (no change in yield).

3.3.1 Required Investments

New investments in cooking plant are required for the dissolving pulp conversion with conventional cooking method:

- 18 digesters (m^3) and related piping
- Cladding or welding of existing digesters to improve corrosion resistance, or possibly electrical shielding.
- Low pressure steam connection to each digester (this will save some energy when MP steam is replaced with LP for a part of the steam used for pre-hydrolysis)
- A new relief gas condenser (approx 250 m^2 heat transfer area).

3.4 Fiberline

As the production rate will drop there are no capacity problems in the fibreline No.2. On the Dissolving pulp is a bit more difficult to screen and wash. However due to lower production rate no modifications to screening or washing are foreseen.

Final brightness of dried dissolving pulp is + 90 % ISO. Therefore bleaching should be converted to 4-stage bleaching. The mill already has all equipment in place so no major investments are required.

Since the ClO_2 consumption will be significantly lower due to lower kappa level, Sulphuric acid should be used for pH control of D_0 stage.

3.4.1 Required Investments

No major investments in the fibreline are required.Reactivation of 4th bleaching stage is required.

3.5 Bleached stock screening and Drying machine

3.5.1 Capacity

Required capacity of the drying machine will decrease as summarised below:

		MSR 2010	DISSOLVING
Capacity	ADt/d	1170	1028
Basis weight	BDg/m2	980 – 1050	750 – 850
Machine width	mm		
Speed	m/min	101 – 108	77 – 87
Specific load	ADt/d/m	170	105
Dryness after press section	%	51	50 – 51
Dryness after dryer	%	88	90
Evaporation	t/h	37.8	24.1 – 25.2

The main Operation changes for the drying machine would be:

Lower speed due to lower production rate
Lower basis weight 750 – 850 BDg/m2, because dissolving pulp has typically lower basis weight required by viscose plant
Lower nip loads for presses to prevent formation of strong bonds and to maintain

Lower web strength due to hindered bonding
High web thickness compared to paper pulp with the same basis weight, but this is somewhat compensated by lowered basis weight in this case

Lower nip loads and thicker web in the dryer may lower dryness after press section and make evaporation in the dryer more difficult. This is compensated by significantly lower production rate and speed and lower evaporation need in the dryer. In addition to this there seems to be some margin left in the vacuum pumps to compensate this further at the end of the wire section if needed.

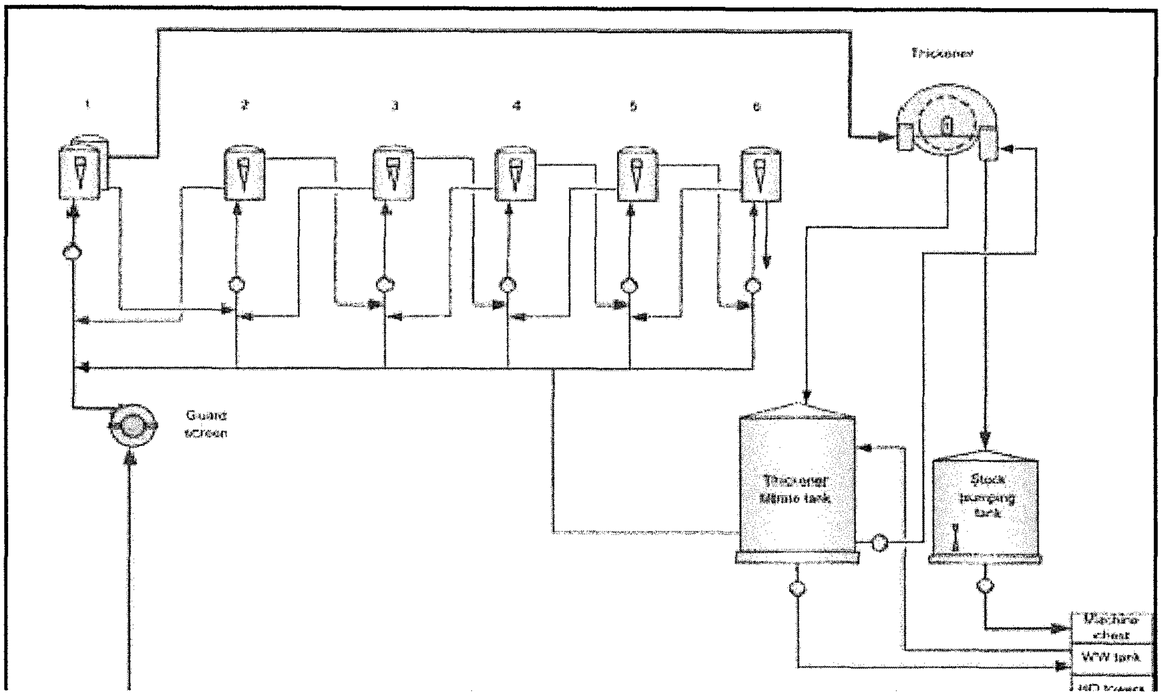
3.5.2 Required Investments

Hydrocyclone cleaning system is needed to reach the high purity requirements of dissolving pulp. In dissolving pulp operation the existing bleached stock screening would be bypassed. Hydrocyclone system would be located in a building because of layout reasons. In the process the system would be located between HD towers and machine chests and could consist of 6 stage hydrocyclone system and thickener with associated pumps, tanks etc. as shown in the picture below.

Chemical showers including small chemical storage tank and associate pumps for applying chemicals on web between press section and dryer are needed. The chemical (e.g. Berol) ensures good desintegrability of the sheets at the viscose plant, by preventing formation of strong bonds.

The cost estimate is based on the assumptions that the mill will be producing dissolving pulp only and web profile is good enough from customers' point of view.

3.6 Evaporation plant



The capacity of the evaporation plant is sufficient for dissolving pulp production.

It should be noted that during dissolving production, the black liquor residual alkali levels may increase to high levels of 15-20 g/l NaOH depending on the supplier's

technology for the digester. Because of this the black liquor solids level where duplex material is required to avoid corrosion drops from ~ 75 – 78 %-DS to as low as ~69 - 70%-DS. In case where dissolving liquor should be evaporated to more than 70%-DS the materials in the evaporation plant should be checked vs. the digester supplier's black liquor quality guarantee.

3.7 Recovery boiler

The dissolving pulp production limit is given by the MSR production of the recovery boilers. Thus, no additional measures are needed to reach the 360 000 ADt/a

3.8 **Recausticizing and lime kiln**

No actions required, as the plant capacity is sufficient.

The lime kiln will run at maximum capacity at the selected production level.

3.9 **Turbogenerators, Reducing stations**

The steam load of the turbogenerators is similar with current operation, so no changes are seen necessary compared to existing plant.

3.10 **Water treatment (ETA)**

The current water treatment capacity will be sufficient.

Demineralization

A new water softening plant is needed to supply wash and make-up water to the bleach plant and drying machine. A reverse osmosis plant with capacity 700m^3/h is proposed.

3.11 **Effluent treatment (ETE)**

Effluent volume flow , COD and BOD load to treatment will be lower than for paper pulp production. No changes are seen necessary.

4 SPECIFIC CONSUMPTIONS

The most significant difference will be in wood consumption. Specific wood consumption will increase from 4.8 m^3sub/ADt to 6.5 m^3sub/ADt.

Specific electrical power consumption will increase in the fiberlines as they will be operating at90 % of MSR. Recovery area departments will operate at their normal level (as today) but specific power consumption relative to pulp production will increase as pulp production rate will be smaller.

Chemicals consumptions that will change from the existing operation are summarized below:

Chemicals	Dissolving pulp

O_2	kg/ADt	21.6
ClO_2	kg/ADt as ClO_2	10
NaOH	kg/ADt	24 (not including make-up, only bleach plant)

5 INVESTMENT COST ESTIMATE

5.1 Methodology

The project has been broken-down into direct and indirect cost areas, as follow:

5.1.1 Direct Costs

The Direct Costs has been based on data bank, taking into account adjustments due to the specific characteristics of this project, compound by complete packages, that includes inside battery limits:

All process equipment;
Process piping;
Utilities piping;
Supports and connections to the external pipe bridge;
Area transformers;
Low voltage bus duct;
Low voltage switchgears (Power distribution centers);
MCC's;
Motors;
Cables;
Lighting;
Grounding and lightning;

Control valves;
Power and control cables;
Connections to terminal points;
Trays and conduits;
All associated material for erection /installation;
Shipping and transportation to the mill;
Civil works;
Concrete works;
Building structures;
Steel structures related to the package;
HVAC;
Fire protection;
Floor drains ;
Mill air;
Sealing water.
Underground piping inside the package area;
Erection;
Painting;
Insulation;
Engineering and start-up services
Training.

5.1.2 Indirect Costs

Indirect costs have been estimated using the feedback information from similar projects, such as:

Temporaries facilities
Engineering and management
Pre-operation and start-up costs
Insurance during construction

5.1.3 Contingency

To cover minor changes in the technical concept and to compensate for possible inaccuracies in the calculation, an average contingency of 20% on direct and indirect costs has been added.

The capital cost estimate has been based on data bank, taking into account adjustments due to the specific characteristics of this project.

The accuracy degree for this estimate is: Order of magnitude (± 25%).

The costs have been estimated as follows:

5.2.1 Price Level and Exchange Rate

The overall cost level for the investment estimate is Jun 2012,

5.2.2 Main Process Departments

The costs of main process departments were considered as "EPCs Packages", as listed below:

Woodhandling;
Cooking (displacement cooking was considered);
Fiberline;
Bleached Pulp Screening;
Demi Water Plant.

5.2.4 Exclusions

The following costs are not included in this study:

Land;
Forestry;
Interest during construction;
Project financing and related fees;
Escalation;
Allowance for currency exchange variation;
Sunk costs (pre-engineering and feasibility study).

5.3 Results

5.3.1 The investment:

The investment estimates are presented summarized in the following table:
Summary by Areas

Area	Description	Unite	TOTAL
501	Wood preparation	US$1,000	7370
502	Cooking	US$1,000	56,448
504	Fiberline	US$1,000	4,000
5013	Bleaching stock screening	US$1,000	23,708
601	Cogeneration plant	US$1,000	31,000
701	Demi water plant	US$1,000	15,760
	DCS control system		10,000
Total	Direct cosT		148286
	Temporrare facilites		1,657
	Enginering and management		16,588
	Pro-operation and start-up cost		2,210
	Insurance during constrction		663
Total	Indirect cost		21,118
	contingencies		20,674
	working capital		30,000

Total investment (direct+indirect + contingencies+ working capital): 220,078

5.3.2. Operation cost :

Operation cost estimates are presented summarized in the following table:

ite : US$/admt.

od t	chemocals	Energy-biomass	Energy-oil	Energy eleectricity	Labor and Salary cost	Maintennaance And contractors	Supplies &other fixed cost	Tax& insurance	administration	Tot cos
[illegible]	60	14	35	40	132	34	42	7	3	63(

Total:delivered cash cost to Tangshan of China--730 US$/admt.

The end

This is Exhibit C referred to in the affidavit of YU HANJIANG sworn before me, this 15th day of July, 2012

A COMMISSIONER FOR TAKING AFFIDAVITS

From: Alex.F.Morrison@ca.ey.com [mailto:Alex.F.Morrison@ca.ey.com]
Sent: July-05-12 1:31 PM
To: alex
Cc: michael trepanier; pamela huff; MARC FLYNN; tara; McIntyre, David; Lee, Janet; Sheryl Seigel; Alex Ilchenko; Todd.J.Ambachtsheer@ca.ey.com; Roger.F.Leslie@ca.ey.com
Subject: Re: Terrace Bay Sales Process - Tangshan Strictly Confidential

Alex,

Thank you for interest. As you know the deadline for LOI's was several months ago. This morning an announcement was made that Terrace Bay has entered into an Asset Purchase Agreement with a bidder who made an offer within the Court approved deadlines. We are proceeding to obtain approval of this transaction on July 16, and we expect that the deal will close shortly thereafter.

We will be in contact with you, if the circumstances should require.

Give me a call, if you would like to discuss further.

Thanks,

Sent from my BlackBerry Wireless Handheld (www.BlackBerry.net)

From: "Alex Jurshevski" [alex@recoverypartners.biz]
Sent: 07/05/2012 01:06 AM AST
To: Alex Morrison
Cc: <michael.trepanier@ca.ey.com>; <pamela.huff@blakes.com>; <marc.flynn@blakes.com>; <tara@bls-tb.com>; "'McIntyre, David'" <David.McIntyre@nortonrose.com>; "'Lee, Janet'" <Janet.Lee@nortonrose.com>
Subject: Terrace Bay Sales Process - Tangshan Strictly Confidential

Hi Alex

Further to our conversation and emails, I take pleasure in forwarding to you the LOI from our client Tangshan Sanyou Xingda Chemical Fibre Co., Ltd. as promised earlier.

You will note that this document reflects the substance of what we communicated to you as regards the quality of the bidder and their sincere intention to bring value to the table on an expedited basis.

We very much appreciate this opportunity. Please call us at your earliest convenience.

Best Regards,

Alex Jurshevski
Recovery Partners

Fast, Effective Relief for any Debt,
Restructuring or Asset Management Problem

Cell 647 287 2995
Office 866 889 7882

e-mail: alex@recoverypartners.biz
blog: www.recoverypartners.biz/blog
web: www.recoverypartners.biz
Skype: recoveryprtnrs
Twitter: @recoveryprtnrs

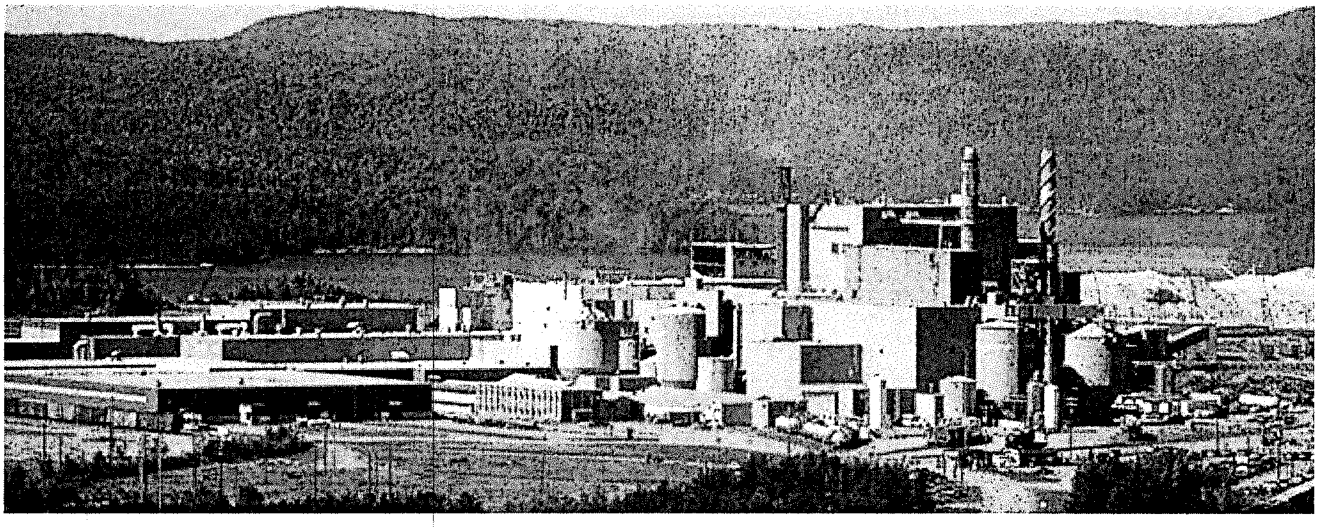
Download Recovery Partners Handy 1 page Service Offering Brochure here

This is Exhibit D referred to in the affidavit of YU HANJIANG sworn before me, this 15th day of JULY, 2012

A COMMISSIONER FOR TAKING AFFIDAVITS

Ontario

Agreement Reached To Purchase Terrace Bay Mill



July 5, 2012 10:30 AM

McGuinty Government Is Helping To Preserve More Than 275 Direct Jobs

The Terrace Bay Mill in Northwestern Ontario is returning to operation, supporting more than 1,900 jobs across the province.

Aditya Birla Group has agreed to purchase the assets of the idled mill, subject to court approval, and plans to invest more than $250 million to convert the facility to dissolve wood pulp for rayon fibre.

The investment would support more than 275 direct mill jobs, 335 woodland jobs and an estimated 1,300 indirect jobs province-wide.

Supporting a successful forestry sector is part of the McGuinty government's plan to create jobs for Ontarians and strengthen the economy. A strong economy protects the services that mean most to families - health care and education.

QUICK FACTS

- The forestry sector supports almost 200,000 jobs across over 260 Ontario communities.
- In 2011, Ontario ranked first of all major jurisdictions in North America in foreign direct investment per capita, according to fDi Intelligence (*Financial Times Ltd*).
- Ontario attracted 840 foreign direct investment projects between 2003-2011, accounting for about $50 billion and over 97,500 jobs, according to fDi Intelligence (*Financial Times Ltd*).

LEARN MORE

- Learn more about Ontario forests.
- Find out more about Ontario Wood.

CONTACTS

- Media calls only: Maya Gorham
  Minister's Office
  416-314-2198
- Media calls only: Media Desk
  Communications Services Branch
  416-314-2106

Ministry of Natural Resources
ontario.ca/natural-resources

"Our government is thrilled that this investment will offer new life to the mill at Terrace Bay, the community and the region. This is a boost for long-term prosperity in Northwestern Ontario, one that will help lead the way for the transformation of the forest industry to the new bio-economy. At the same time, it will support jobs for the region."

– Michael Gravelle
Minister of Natural Resources

"Our government has and will continue to explore opportunities to build Northern Ontario communities. We are working with Northerners to strengthen this great region, and today's announcement is in keeping with our unwavering commitment."

– Rick Bartolucci
Minister of Northern Development and Mines

"Investments like this one demonstrate the strong and dynamic economy we have in Ontario that is spurring economic growth and creating jobs. This is an exciting investment being made by Aditya Birla that creates jobs in Terrace Bay and finds an innovative use for one of the oldest resources in Ontario."

– Brad Duguid
Minister of Economic Development and Innovation

"I am delighted to hear that the Terrace Bay Mill will re-open. This is great news for our community and I want to thank the provincial government for its efforts and leadership in making this opportunity a reality. On behalf of the community I would like to welcome the Birla Group, who I am confident will find Terrace Bay and the northwest region a great place to work and live."

– Mike King
Mayor of Terrace Bay

"The acquisition of Terrace Bay Mill and its subsequent conversion into a dissolving grade pulp mill is a major strategic move for our business where we are global leaders. The Terrace Bay Mill upon conversion will provide superior quality pulp for our viscose staple fibre business. The provincial government and communities in the Northwest have been very supportive and welcoming. We have about a 6,000 strong workforce operating in Canada and we look forward to furthering this productive and meaningful relationship."

– Kumar Mangalam Birla
Chairman of the Aditya Birla Group

Site Sub-Navigation

Site Help

Notices

LAST MODIFIED: JULY 12, 2012

中华人民共和国驻多伦多总领事馆经济商务室
Economic & Commercial Section
The Consulate General of the P.R.China in Toronto
240 St. George St. Toronto On. M5R 2N5 Tel: 1-416-324-6462 Fax: 1-416-324-9013
Email: toronto@mofcom.gov.cn

Attn: Ernst & Young

Toronto, July 11, 2012

To whom it may concern,

I am writing to seek your assistance in Tangshan Sanyou Group's bid for Terrace Bay Pulp Inc. in Canada.

Tangshan Sanyou Group Co., Ltd is one of leading companies in China's soda ash and chemical fiber industry, as well as key enterprise in Hebei Province. Recently, In order to meet the demand of raw materials, the company is searching resources overseas. Tangshan Sanyou Group has a real and strong willingness to be part of bidding for Terrace Bay Pulp Inc.

Your positive considerations will be highly appreciated.

Best regards.

This is Exhibit E referred to in the affidavit of YU HANJIANG sworn before me, this 15th day of JULY, 2012

A COMMISSIONER FOR TAKING AFFIDAVITS

Yu Jianwei
Commercial Counselor
Consulate General of the People's Republic of China in Toronto

The Chronicle Journal
THE NEWSPAPER OF THE NORTHWEST

Laid-off workers to vote on deal

The Chronicle-Journal
Saturday, July 14, 2012 - 08:00
in News

The union representing laid-off workers at Terrace Bay's idled pulp mill reached a tentative agreement Friday on a new contract.

The deal is expected to be a key part of getting the plant back in production under a new owner by October.

Steelworkers staff rep Herb Daniher said details won't be released until after the agreement has been ratified. Final voting is set for Monday at 2 p.m.

The tentative deal was reached following four days of intense negotiations in Thunder Bay between the Steelworkers and the plant's intended new owner, India-based Aditya Birla Group.

According to new provincial court documents filed this week regarding the insolvent Terrace Bay mill, it was imperative that the Birla Group reach a five-year agreement with the Steelworkers by July 24.

Birla's proposal to acquire the mill is expected to close by July 31.

When its $250-million plan for the Terrace Bay plant was announced last week, Birla said it would create 275 direct jobs — about 75 fewer than the workforce at the plant when the operation was idled late last fall.

Like 13 likes. Sign Up to see what your friends like.

This is Exhibit "F" referred to in the affidavit of YU HANJIANG sworn before me, this 15th day of JULY, 2012

A COMMISSIONER FOR TAKING AFFIDAVITS

Court File No. CV-12-9566-00CL

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.

ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)

PROCEEDINGS COMMENCED AT TORONTO

AFFIDAVIT OF YU HANJIANG

(Sworn 15 July 2012)

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Lawyers for Birchwood Trading, Inc.