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.

Applicant

SECOND SUPPLEMENTARY AFFIDAVIT OF WOLFGANG GERICKE
(Sworn May 14, 2013)

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

<u>Introduction</u>

1. I am the President and sole director of Terrace Bay Pulp Inc. ("**Terrace Bay**" or the "**Company**") and, as such, have knowledge of the matters deposed to in this affidavit. Where this affidavit is not based on my direct personal knowledge, it is based on information and belief and I verily believe such information to be true.

<u>Overview of Relief Sought</u>

2. This affidavit is sworn in addition to and supplementary to my affidavit sworn April 18, 2013 (the "**Gericke Affidavit**") in support of the Company's motion for an order, among other things, approving and authorizing the distribution of the

Interim Distribution Amount (as defined below) to the Trustee in trust for the Plan Note Beneficiaries under the Plan Note (as such terms are defined below), on account of the obligations of the Company under the Plan Note. A copy of the Gericke Affidavit (without Exhibits) is attached hereto as **Exhibit "A"**.

3. The purpose of this affidavit is to provide further support for the Company's request for an order approving and authorizing the distribution of the Interim Distribution Amount to the Trustee, in particular, to provide information to the Ontario Superior Court of Justice (Commercial List) (the "**Court**") with respect to the funds available for distribution.

4. Any capitalized terms not defined herein shall have the meanings ascribed to them in the Gericke Affidavit.

Funds Available for Interim Distribution

5. Attached as **Exhibit "B"** to this affidavit is a copy of the cash flow projections that were annexed as Appendix F to the Further Amended and Restated Eighth Report of the Monitor, dated April 19, 2013. As set forth in **Exhibit "B"**, Terrace Bay's forecasted cash balance at November 2, 2013 (following expiry of the Stay Period) was shown as being $2,890,811. This includes monies in the hands of Terrace Bay, as well as proceeds of sale held by the Monitor.

6. The Company has been made aware of certain financial obligations which may arise during the Stay Period that are not reflected in **Exhibit "B"**, for which reserves should be established, being a reference plan that Terrace Bay undertook

to provide to the land registrar in connection with the sale of the Non-Mill Property; the Company's property tax installment for Fall 2013; and a potential claim asserted by Hydro One, which the Company and the Monitor are currently investigating (the "**Potential Obligations**").

7. In addition to the Potential Obligations, the Monitor and the Company are of the view that certain additional reserves should be established with respect to various future contingencies, including:

(i) costs associated with the OHSA Proceedings;

(ii) costs in the event of opposition to, among other things, the Company's motion to discharge the Non-Mill Liens and vacate any and all registrations and claims for liens;

(iii) carrying costs relating to the remaining property and assets of Terrace Bay (the "**Non-Mill Assets**") pending their disposition;

(iv) costs relating to the completion of one or more transactions to dispose of the Non-Mill Assets;

(v) costs relating to the continuing administration of these proceedings, including, without limitation, to approve of a sale or sales of the Non-Mill Assets and for one or more vesting orders in relation thereto;

(vi) costs relating to the distribution of the remaining property and assets of Terrace Bay as ordered by this Court, for proceedings relating to the making of related orders and for coordination of the distributions ordered to be made; and

(vii) professional fees of the Monitor, counsel to the Monitor, and counsel for the Company in relation to this administration and its completion.

8. Allowing for appropriate amounts to be reserved having regard to the Potential Obligations and the above referenced contingencies and reserves, Terrace Bay is of the view that approximately $1,825,000 is available for interim distribution at this time (the "**Interim Distribution Amount**").

9. The Company anticipates being able to make further distributions as contingencies are resolved.

Plan Note Security

Plan Note

10. By Order dated March 11, 2009, Terrace Bay filed for and obtained protection from its creditors under the *Companies' Creditors Arrangement Act,* R.S.C., 1985, c. C-36 (the "**CCAA**"), to enable the Company to pursue a restructuring of its business for the benefit of its stakeholders (the "**First CCAA Proceeding**").

11. On May 21, 2011, Terrace Bay filed a plan of compromise and arrangement (as amended, the "**CCAA Plan**"), which was approved by affected creditors of Terrace Bay in accordance with the CCAA, and sanctioned by Order of the Honourable Mr. Justice Morawetz dated July 27, 2010 (the "**Sanction Order**").

12. The CCAA Plan required that the Company issue a promissory note (the "**Plan Note**") to Computershare Trust Company of Canada (the "**Trustee**"), to be held by the Trustee for and on behalf of the holders of Proven Unsecured Claims (as defined in the CCAA Plan) (collectively, the "**Plan Note Beneficiaries**").

13. In accordance with the CCAA Plan, the Plan Note was issued on September 15, 2010. The Plan Note is governed by a trust indenture between Terrace Bay and the Trustee providing for the issuance of the Plan Note, and a general security agreement (the "**Plan Note GSA**") granted in favour of the Trustee.

14. Terrace Bay's obligations under the Plan Note are secured by all assets, property and undertakings, real and personal, of the Company. Trustee registered a security interest against all present and after-acquired personal property under the *Personal Property Security Act* (Ontario) (the "**Plan Note Security Interest**") on September 14, 2010, and a charge/mortgage over all of Terrace Bay's real property (the "**Plan Note Charge**") on September 15, 2010.

15. Copies of the Sanction Order and the CCAA Plan are attached as Exhibits to the Gericke Affidavit

Plan Note Security

16. As set out at paragraphs 74 and 75 of the Sixth Report of the Monitor dated July 12, 2012 (the "**Sixth Report**"), a copy of which (without Exhibits) is attached hereto as **Exhibit "C"**, the Monitor instructed its counsel to conduct a review of certain security documents relating to the debts and obligations of Terrace Bay

pursuant to the Plan Note, including the Plan Note GSA and the Plan Note Charge.

17. Pursuant to the Sixth Report, the Monitor received an opinion from its counsel which states that, subject to the specific assumptions and qualifications set out in the Sixth Report, the Plan Note GSA and the Plan Note Charge are valid and enforceable against Terrace Bay in accordance with their respective terms.

18. This affidavit is sworn in support of the Company's motion for an order, among other things, approving the distribution of the Interim Distribution Amount, and for no other or improper purpose.

SWORN BEFORE ME at the City of Thunder Bay, in the Province of Ontario this 14th day of May, 2013	)))))	
A Commissioner etc. B. PAUL JASIURA		**WOLFGANG GERICKE**

This is **Exhibit "A"** referred to in the
Affidavit of Wolfgang Gericke sworn the
14th day of May, 2013

A Commissioner, etc.

B. PAUL JASIURA

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

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

Applicant

AFFIDAVIT OF WOLFGANG GERICKE
(Sworn April 18, 2013)

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

<u>Introduction</u>

1. I am the President and sole director of Terrace Bay Pulp Inc. ("**Terrace Bay**" or the "**Company**") and, as such, have knowledge of the matters deposed to in this affidavit. Where this affidavit is not based on my direct personal knowledge, it is based on information and belief and I verily believe such information to be true.

<u>Overview of Relief Sought</u>

2. This affidavit is sworn in support of the Company's motion for an order:

   (i) abridging the time for service of the Notice of Motion, the Motion Record and the Eighth Report of the Monitor, Ernst & Young Inc. (the

"**Monitor**") dated April 18, 2013 (the "**Eighth Report**"), and declaring that the motion is properly returnable on April 23, 2013;

(ii) approving an extension of the stay of proceedings (the "**Stay Period**"), provided for at paragraph 10 of the Order of the Honourable Mr. Justice Morawetz of the Ontario Superior Court of Justice (Commercial List) (the "**Court**"), dated January 25, 2012 (as amended and restated, the "**Initial Order**") to October 31, 2013;

(iii) declaring that the Disputed D&O Claim (as defined below) is not a claim in respect of an obligation or liability incurred by a director or officer of the Company within the meaning of paragraph 16 of the Initial Order ("**D&O Claim**") and is therefore not a claim secured by the Directors' Charge (as such terms are defined herein);

(iv) declaring that 1670721 Ontario Inc., operating under the business name Raymar Petroleum Service ("**Raymar**") is not a Plan Note Beneficiary (as defined herein);

(v) declaring that Liftcapital Corporation ("**Liftcapital**") has no claims against the Sale Proceeds and the Additional Cash on Hand (as defined herein) and any distributions can be made without regard to Liftcapital's registration under the *Personal Property Security Act* (Ontario) (the "**PPSA Registrations**"), and discharging Liftcapital's registration;

(vi) scheduling a motion in which the Company will seek an Order, among other things, fully and finally discharging the Directors' Charge and declaring that, other than in relation to and subject to the priority of the

Administration Charge and the claims secured by the Administration Charge, the security held by the Trustee (as defined herein) has priority over all other claims and security, liens and encumbrances of any kinds against the Sale Proceeds and the Additional Cash on Hand (as these terms are defined below), including, without limitation, the Mill Property Lien Claims (as defined below) (collectively, the "**Subordinate Claims**", which definition, for clarity, does not include any claims, liabilities or obligations secured by the Administration Charge) and permitting an interim distribution of the Sale Proceeds and Additional Cash on Hand, in amounts to be determined by this Court, to be paid to the Trustee without regard to and in priority to the Subordinate Claims;

(vii) scheduling a motion in which the Company will seek an Order pursuant to section 47(1) of the *Construction Lien Act* (Ontario) (the "**CLA**"), among other things, authorizing and directing the Land Registry Office to discharge the Non-Mill Liens (as defined below) and vacating any and all registrations and claims for lien related to the Non-Mill Liens;

(viii) scheduling a motion in which the Company will seek an order pursuant to section 11.1(4) of the *Companies' Creditors Arrangement Act* (the "**CCAA**") permanently staying the proceeding known as *R. v. Terrace Bay Pulp Inc. & Gino Leblanc*, brought by the Ministry of Labour, Legal Services Branch against the Company, commenced by Information sworn on January 10, 2012 in the Ontario Provincial Offences Court (Thunder

Bay) (the "**First OHSA Proceeding**"), and the proceeding known as *R. v. Terrace Bay Pulp Inc., Venshore Mechanical Ltd., Joseph Mykietyn, Arthur Szczepaniak & Alain Zborowski*, brought by the Ministry of Labour, Legal Services Branch against the Company, commenced by Information sworn October 15, 2012 in the Ontario Court of Justice, Thunder Bay (Criminal Division) (the **"Second OHSA Proceeding",** together with the First OHSA Proceeding, the "**OHSA Proceedings**")), in connection with alleged violations under the *Occupational Health and Safety Act* (Ontario), and granting an interim stay of proceedings of the OHSA Proceedings pending the disposition of such motion;

(ix) approving the Seventh Report of the Monitor dated October 23, 2012 (the "**Seventh Report**"), the Eighth Report, and the conduct and activities of the Monitor as described therein; and

(x) such further and other relief as the Company may request and this Court shall deem just.

Background

3. On January 25, 2012, Terrace Bay sought and obtained protection from its creditors CCAA pursuant to the Initial Order an order of the Honourable Mr. Justice Morawetz (as amended and restated, the "**Initial Order**").

4. Pursuant to the Initial Order, Ernst & Young Inc. was appointed as Monitor of the Company.

5. The purpose of this affidavit is to:

(i) update the Court on the Claims Procedure (as defined herein);

(ii) support the Company's request for an extension of the Stay Period until October 31, 2013;

(iii) support the Company's request for a declaration that the Disputed D&O Claim is not a valid D&O Claim;

(iv) support the Company's request for a declaration that Raymar is not a Plan Note Beneficiary (as defined herein);

(v) support the Company's request for a declaration that Liftcapital has no claims against the Sale Proceeds and the Additional Cash on Hand (as defined herein) and any distributions can be made without regard to Liftcapital's registration, and for a discharge of Liftcapital's registration;

(vi) support the Company's request to schedule a motion for a full and final discharge of the Directors' Charge, a declaration that, other than in relation to and subject to the priority of the Administration Charge and the claims secured by the Administration Charge, the security held by the Trustee (as defined herein) has priority over the Subordinate Claims, and for an interim distribution of the Sale Proceeds and Additional Cash on Hand to the Trustee without regard to and in priority to the Subordinate Claims;

(vii) support the Company's request to schedule a motion in which the Company will seek an Order pursuant to section 47(1) of the CLA, among other things, authorizing and directing the Land Registry office to discharge the Non-Mill Liens (as defined below) and vacating any and all registrations and claims for lien; and

(viii) to schedule a motion in which the Company will seek an Order pursuant to section 11.1(4) of the CCAA permanently staying the OHSA Proceedings, and granting an interim stay of the OHSA Proceedings pending such motion;

6. Any capitalized terms not defined herein shall have the meanings ascribed to them in the affidavit of Wolfgang Gericke sworn October 23, 2012, attached hereto without exhibits as **Exhibit "A"**.

Status of Claims Procedure

7. Pursuant to an order dated October 29, 2012, Justice Morawetz approved a procedure for the identification, resolution and barring of certain claims against the directors and officers of Terrace Bay (the "**Claims Procedure**"), in order to determine the quantum of claims, if any, secured by the Directors' Charge (the "**Claims Procedure Order**"). A copy of the Claims Procedure Order is attached hereto as **Exhibit "B".**

8. Pursuant to the Claims Procedure Order, the deadline for claimants to submit claims was 5:00 p.m. (Toronto time) on December 10, 2012 (the "**Claims Bar**

Date"). I am advised by the Monitor that 19 claims were submitted by the Claims Bar Date, and two claims were submitted after the Claims Bar Date. Further, two other claims were received by the Monitor prior to commencement of the claims process, but these claims were not submitted in connection with the Claims Procedure.

9. The Monitor and its counsel reviewed each of the claims submitted.

10. I am advised by Kristina Desimini, associate at the law firm of Blake, Cassels & Graydon LLP ("**Blakes**"), counsel to the Company, that the Monitor sent Notices of Revision or Disallowance to all 21 claimants that submitted D&O Claims pursuant to the Claims Procedure Order, disallowing all 21 claims in full.

11. The Claims Procedure Order states that if a Claimant disputes a Notice of Revision or Disallowance, such Claimant shall deliver a Notice of Dispute to the Monitor by no later than 5:00 p.m. (Toronto time) on the day which is fourteen days after the date of the Notice of Revision or Disallowance. If no Notice of Dispute is so delivered, the Claims Procedure Order states that the Claimant is deemed to accept the classification and amount of its D&O Claim as set out in the Notice of Revision or Disallowance.

12. I am also advised by the Monitor that it received Notices of Dispute from two D&O Claimants, John Hedican Enterprises ("**JHE**") and Milani Outdoor Fabrics Inc. ("**MOFI**"), by the deadline imposed in the Claims Procedure Order. Copies of such Notices of Dispute are attached hereto as **Exhibit "C"**.

13. MOFI withdrew its Notice of Dispute via e-mail to the Monitor, dated January 25, 2013. A copy of the e-mail is attached hereto as **Exhibit "D"**.

Disputed D&O Claim

14. JHE's D&O Claim is a trade claim that relates to the provision of portable toilets and ancillary services, provided by JHE to the Company and invoiced on October 24, 2011. The value of this claim is $791.00. A copy of Proof of D&O Claim is attached hereto as **Exhibit "E"**.

15. The Monitor supports Terrace Bay's determination that the JHE claim (the "**Disputed D&O Claim**") is not a claim properly made in the Claims Procedure, because (i) the claim relates to debts incurred prior to commencement of the within proceedings; and (ii) the claim does not demonstrate an existing or future right or claim against one or more of the Directors and/or Officers of the Company in respect of any obligations and liabilities which arose or were incurred after the commencement of the within proceeding. A copy of the Notice of Disallowance issued by the Monitor in respect of the Disputed D&O Claim is attached hereto as **Exhibit "F"**.

16. Paragraph 15 of the Claims Procedure Order provides that upon receipt of a Notice of Dispute, the Monitor may: (a) investigate the D&O Claim; (b) attempt to consensually resolve the D&O Claim; (c) deliver a Dispute Package to the Claims Officer together with instructions regarding the issues to be determined by the Claims Officer in relation to the D&O Claim; and/or (d) schedule a 9:30 a.m.

appointment with the Court for the purpose of scheduling a motion to resolve or determine the D&O Claim or any ancillary issues.

17. Notwithstanding the above, as there is only one Disputed D&O Claim, to reduce expense and for purposes of efficiency, Terrace Bay wishes to have the Disputed D&O Claim determined by the Court in the within motion. I am advised by Ms. Desimini that JHE was given adequate notice of the Company's motion.

First Interim Distribution

Sale Proceeds

18. Pursuant to an order dated July 19, 2012 (the "**Approval and Vesting Order**"), Justice Morawetz, among other things, approved a transaction involving the sale of substantially all of the assets of Terrace Bay relating to its business (the "**AVTB Transaction**") to AV Terrace Bay Inc. (the "**Purchaser**"). A copy of the Approval and Vesting Order is attached hereto as **Exhibit "G"**.

19. The AVTB Transaction closed on July 23, 2012. A copy of the Monitor's certificate certifying the same is attached hereto as **Exhibit "H"**.

20. Pursuant to the Approval and Vesting Order, on closing, the Purchaser paid the cash portion of the purchase price, being $1,917,625.95 (the "**Sale Proceeds**").

21. Pursuant to paragraph 5 of the Approval and Vesting Order, Sale Proceeds were paid by the Purchaser to the Monitor, in trust for Terrace Bay. The Company intends to seek one or more Orders permitting a distribution to be made by

Terrace Bay from the Sale Proceeds to the Trustee without regard to, and in priority to, the Subordinate Claims, but subject to appropriate reserves being maintained in relation to the continuing administration of this proceeding and the Administration Charge as are agreed to by the Company and the Monitor and/or ordered by the Court.

22. Pursuant to the asset purchase agreement between the Company and the Purchaser dated July 5, 2012 in connection with the AVTB Transaction (the "**Purchase Agreement**"), the total purchase price was paid as consideration for all or substantially all of the real and personal assets of the Company used in connection with its pulp mill, located at 21 Mill Road in the Township of Terrace Bay, Ontario (the "**Mill Property**") producing or capable of producing various blends of northern bleached softwood kraft pulp and northern bleached hardwood kraft pulp, together with certain other byproducts (collectively, the "**Business**").

23. The Mill Property Lien Claims (as defined below) purport to relate to work performed or services provided in respect of the Mill Property and the Business, which were transferred to the Purchaser in connection with the AVTB Transaction, free and clear of all liens and claims as more particularly set out in the Approval and Vesting Order, including any liens or claims asserted by the Mill Property Lien Claimants and the Non-Mill Property Lien Claimants (as defined below).

24. The purchase price was allocated among the purchased assets as set out in the allocation statement which was Schedule 3.3 to the Purchase Agreement (the "**Allocation Statement**") and is attached hereto as **Exhibit "I"**.

Additional Cash on Hand

25. Following the closing of the AVTB Transaction and the transfer of the Business to the Purchaser, the Company received refunds of certain customer deposits and security deposits which comprised excluded assets under the AVTB Transaction. A portion of the funds received have been used to meet the Company's ongoing expenses, and the remainder is cash on hand at the Company (the "**Additional Cash on Hand**").

26. The Company intends to seek one or more Orders permitting a distribution to be made by Terrace Bay from the Additional Cash on Hand to the Trustee without regard to, and in priority to, the Subordinate Claims, but subject to appropriate reserves being maintained in relation to the continuing administration of this proceeding and the Administration Charge as are agreed to by the Company and the Monitor and/or ordered by the Court.

Non-Mill Property

27. As described in greater detail below, the Company and the Monitor continue to work towards a sale of the Non-Mill Property (as defined below). As of the date of this affidavit, there are no proceeds with respect to the Non-Mill Property.

Court-Ordered Charges

Administration Charge

28. Pursuant to the Initial Order, the Court granted a charge in favour of the Monitor, counsel to the Monitor, and counsel to Terrace Bay, (the "**Administration Charge**") against the property of Terrace Bay up to a maximum amount of $750,000, as security for professional fees and disbursements before and after the Initial Order.

29. Pursuant to the Initial Order, the Administration Charge ranks in priority to all other security interests, trusts, liens, charges and encumbrances in respect of the Company's property.

30. The parties entitled to the benefit of the Administration Charge have rendered invoices to the Company from time to time, which have been paid in the ordinary course by the Company. The Company intends to keep current all invoiced amounts and for appropriate reserves to be maintained in connection with any distributions that are proposed to be made to the Trustee.

Directors and Officers' Charge

31. Pursuant to the Initial Order, the Directors' Charge is second in priority to the Administration Charge.

32. Terrace Bay has conducted the Claims Procedure detailed above. Other than the Disputed D&O Claim, there are no outstanding claims against the directors or officers of the Company that would be covered by the Directors' Charge.

33. As described above, the Company and the Monitor believe that the Disputed D&O Claim is without merit as a claim against directors or officers of Terrace Bay.

34. As described above, Terrace Bay sold and transferred its pulp mill and all or substantially all of the related business assets to the Purchaser in connection with the AVTB Transaction, and the Purchaser has continued the employment of substantially all of the former Terrace Bay employees. Terrace Bay is no longer operating any business and has no employees, so there is no practical risk of future claims against the directors and/or officers of Terrace Bay.

35. Consequently, if the Court finds that the Disputed D&O Claim is not a valid claim against the Directors' Charge, the Directors' Charge can be discharged.

Other Charges

36. Other than the Administration Charge and the Directors' Charge, there are no other priority charges against the property of Terrace Bay.

Secured Creditors

Province Loan

37. As at January 23, 2012, the principal amount of $24,166,666.00, together with interest accrued thereon to January 23, 2012 (the "**Province Loan Obligations**"), remained outstanding pursuant to the loan agreement between the Company and the Province dated September 15, 2010 (the "**Province Loan Agreement**").

38. The AVTB Transaction was structured to repay the Province Loan Obligations in full by way of loan forgiveness by the Province of Ontario, as represented by the Minister of Northern Development and Mines (formerly the Minister of Northern Development, Mines and Forestry) (the "**Province**"). The Purchase Agreement required that the Province discharge all security securing the Province Loan Obligations.

39. Taking into account the forgiveness of Province Loan Obligations, the effective consideration for the AVTB Transaction was in excess of $27,000,000.

40. As a result of the AVTB Transaction, the Province Loan Obligations have been repaid in full and all security held by the Province has been discharged.

Trustee under the 2010 Plan Note

41. By Order dated March 11, 2009, Terrace Bay filed for and obtained protection from its creditors under the CCAA, to enable the Company to pursue a

restructuring of its business for the benefit of its stakeholders (the "**First CCAA Proceeding**").

42. On May 21, 2011, Terrace Bay filed a plan of compromise and arrangement (as amended, the "**CCAA Plan**"), which was approved by affected creditors of Terrace Bay in accordance with the CCAA, and sanctioned by Order of the Honourable Mr. Justice Morawetz dated July 27, 2010 (the "**Sanction Order**"). A copy of the CCAA Plan and the Sanction Order are attached hereto as **Exhibit "J"**.

43. The Sanction Order authorized and directed the Company and the Monitor to take all steps and actions necessary or appropriate to implement the CCAA Plan. The CCAA Plan required that the Company issue a promissory note (the "**Plan Note**") to Computershare Trust Company of Canada (the "**Trustee**"), to be held by the Trustee for and on behalf of the holders of Proven Unsecured Claims (as defined in the CCAA Plan) (collectively, the "**Plan Note Beneficiaries**").

44. In accordance with the CCAA Plan, the Plan Note was issued on September 15, 2010. Terrace Bay's obligations under the Plan Note are secured by all assets, property and undertakings, real and personal, of the Company. The Trustee registered a security interest against all present and after-acquired personal property under the *Personal Property Security Act* (Ontario) (the "**PPSA**") (the "**Plan Note Security Interest**") on September 14, 2010, and a charge/mortgage over all of Terrace Bay's real property (the "**Plan Note Charge**") on September 15, 2010.

45. At the time of registration of the Plan Note Security Interest, the Plan Note Security Interest was a first priority security interest against all personal property of the Company, subordinate only to security taken by Terrace Bay's operating lender, Callidus Capital Corporation ("**Callidus**") and security taken by the Province.

46. At the time of registration of the Plan Note Charge, the Plan Note Charge was a first priority charge against all personal property of the Company, subordinate only to security taken by Callidus and the Province.

47. Both the Province and Callidus have since been paid in full and discharged all of their respective personal and real property security. As a result, except as set out below, the Trustee maintains a first priority security interest and charge against all the real and personal property of the Company, dating from September 15, 2010, the date of plan implementation.

48. The face amount of the Plan Note is $30 million. The repayment amount under the Plan Note was structured on a sliding scale based on Terrace Bay's cumulative net income following implementation of the 2010 Plan to permit greater recovery at higher levels of cumulative net income. The cumulative net income is calculated as of the maturity date under the Plan Note. As the Company's filing under the CCAA is an event of default under the Plan Note, the Plan Note matured on January 25, 2011 upon commencement of these proceedings.

49. Based on the cumulative net income of the Company to January 25, 2011, the amount payable under the Plan Note is $10 million. The obligations under the Plan Note do not bear interest.

Other Secured Creditors

50. The Company maintained its obligations for payroll, source deductions, and HST up to the closing of the AVTB Transaction. As at closing of the AVTB Transaction, the Company was current in respect of its income taxes.

51. All creditors who claim an interest in the real or personal property of the Company, including governmental creditors or others who may have deemed trust or statutory priority claims, will be served with materials in support of this motion.

52. Pursuant to paragraphs 30 to 32, inclusive, of the Initial Order, the Administration Charge and the Directors' Charge rank in priority to all security interests, trusts, liens, charges and encumbrances, claims of secured creditors, statutory or otherwise.

PPSA Creditors

53. The chart below details the personal property security registrations made against the Company in Ontario, Manitoba, Alberta, Quebec, New York, Wisconsin and District of Columbia. All registrations occurred after registration of the Plan Note Charge (as defined herein).

Secured Party	Description
Trustee	Registrations filed in Ontario, Quebec, New York, Wisconsin and the District of Columbia between September 14-16, 2010, against all assets of Terrace Bay. The Ontario and Quebec registrations expire September 14, 2020.
Xerox Canada Ltd.	Registered in Ontario on October 1, 2010 against "Equipment" and "Other". Expiry date: October 1, 2014
	Registered in Ontario on October 4, 2010 against "Equipment" and "Other". Expiry date: October 4, 2013
	Registered in Ontario on January 6, 2011 against "Equipment" and "Other". Expiry date: January 6, 2017.
Liftcapital Corporation	Registered in Ontario on December 8, 2010 against material handling equipment. Expiry date: December 8, 2014.

Xerox

54. Xerox Canada Ltd. ("**Xerox**") has three PPSA registrations against Terrace Bay in respect of certain copy equipment subject to a lease in favour of Xerox.

55. On April 16, 2013, Ms. Desimini sent a letter to Xerox, requesting that Xerox indicate whether any amounts are owing to Xerox by Terrace Bay, and if not, requesting that Xerox discharge its registrations against Terrace Bay. A copy of the Xerox letter is attached hereto as **Exhibit "K"**.

Liftcapital

56. Liftcapital Corporation ("**Liftcapital**") has a PPSA registration against Terrace Bay in respect of a used 2007 Toyota truck, which is subject to a lease in favour of Liftcapital.

57. The Company believes that all obligations owing to Liftcapital have been paid in full.

58. Accordingly, the Company seeks a declaration from the Court that Liftcapital has no claims against the Sale Proceeds and the Additional Cash on Hand and that any distributions can be made without regard to Liftcapital's registration. The Company also seeks an Order discharging Liftcapital's registration.

Real Property Secured Creditors

59. As described above, the Trustee maintains a charge against the real property of Terrace Bay. The Plan Note Charge was registered prior to the registration of all other charges against the real property of Terrace Bay.

Construction Lien Claims

Overview

60. As described in my affidavit sworn January 24, 2012 (the "**Gericke Affidavit**"), a copy of which is attached hereto (without Exhibits) as **Exhibit "L"**, various parties registered construction lien claims against Terrace Bay's real property pursuant to the CLA. As described in greater detail below, certain parties have registered construction lien claims against the Mill Property (the "**Mill Property Lien Claimants**"), while certain parties, including certain of the Mill Property Lien Claimants, have registered construction lien claims (the "**Non-Mill Liens**") against the Non-Mill Property (as defined below).

Mill Property Lien Claims

61. The claims of the Mill Property Lien Claimants fall into three categories:

(i) claims relating to two projects approved and funded by Natural Resources Canada ("**NRC**") under the Pulp and Paper Green Transformation Program aimed at improving the environmental performance of the Mill Property and increasing the power generated from renewable resources at the Mill (each a "**GTP Claim**");

(ii) claims that relate to the repair and/or replacement of the blow tank and the damaged equipment and structures caused by an incident which occurred at the Mill Property on or about October 31, 2011 (each a "**Repair Claim**"); and

(iii) claims that relate to work performed in connection with the Mill Property, relating mainly to the annual shutdown of the Mill Property (each a "**General Claim**"; all General Claims, together with the GTP Claims and the Repair Claims, are collectively referred to as the **"Mill Property Lien Claims,** and those with Mill Property Lien Claims are referred to as "**Mill Property Lien Claimants**").

62. The Mill Property Lien Claims are registered on title to the Mill Property, which, as described above, was sold to the Purchaser. An updated copy of a title search of the Mill Property will be filed with the Court prior to the return of the motion described in paragraph 2(vi) above.

63. Based on the information provided to me by Aaron Blazina, the Controller of Terrace Bay, information contained in the books and records of Terrace Bay, the Monitor, Ms. Desimini and the Mill Property Lien Claimants, the claims of the

Mill Property Lien Claimants, including the current amount owing on each claim, are detailed in the chart below:

Lien Claimant	Description of Original Claim[1]	Work Period[2] (M/D/Y)	Date of registration of Construction Lien (M/D/Y)	Amount Paid pursuant to GTP Project	Amount of Repair Claim Paid	Amount of Remaining Claim[3]
North West Installations Inc.	GTP Claim : $26,768.57 Supply of transition pieces - fully assembled with expansion joint ¼" blanking plate to be installed in upper bolted flange of expansion joint, ¼" blanking plank; expansion joint as per flakt drawing c26090 carbon steel, additional items for expansion joints, 400' 1/8" x 1 – ½" flatbar supplied in 10' pieces, gaskets re: expansion joint	09/29/11 to 10/18/11	11/30/11	$23,689	n/a	$3,079.57 **[Terrace Bay]**
Fabmar Metals Inc.	General Claim: $75,505.80 Supply of services, material and labour to complete work required by Terrace Bay in order to fabricate metal plates and grates for various	09/15/11 to 10/19/11	12/02/11	n/a	n/a	$75,505.80 **[Terrace Bay]**

[1] As described in the affidavit of Taras Sawula sworn January 27, 2012.
[2] Time period during which goods and/or services were provided.
[3] Where the claimant and the Company are in disagreement of the amount of the remaining claim, this is indicated in square brackets below.

Lien Claimant	Description of Original Claim[1]	Work Period[2] (M/D/Y)	Date of registration of Construction Lien (M/D/Y)	Amount Paid pursuant to GTP Project	Amount of Repair Claim Paid	Amount of Remaining Claim[3]
	equipment					
Mills & Manufacturing Acrylic Products Ltd.	General Claim: $47,484.42 Labour and material costs with respect to repair of brown stock high density tank, and resurfacing of reclaim floor	10/12/11 to 10/25/11	12/05/11	n/a	n/a	$47,484.42 **[Terrace Bay]**
KMH Engineering Inc.	General Claim: $12,976.36 Engineering services	06/06/11 to 10/21/11	12/05/11	n/a	n/a	$12,976.36 **[Terrace Bay]**
TISI Canada Inc.	Repair Claim: $7,091.88; General Claim: $378,542.81 Destructive testing services	09/06/11 to 11/07/11	12/05/11	n/a	$7,091.17 paid	$378,542.81 **[Terrace Bay]**
Vector Construction Ltd.	GTP Claim: $9,276.17; General Claim: $249,613.19 Supply of labour, materials, equipment in connection with general repairs and maintenance to	10/17/11 to 10/24/11	12/08/11	$7,741.83 and $461.17	n/a	$250,680.36 **[Terrace Bay]** $258,889.36 plus accrued interest and costs **[Claimant]**

Lien Claimant	Description of Original Claim[1]	Work Period[2] (M/D/Y)	Date of registration of Construction Lien (M/D/Y)	Amount Paid pursuant to GTP Project	Amount of Repair Claim Paid	Amount of Remaining Claim[3]
	the plant at 21 Mill Road, Terrace Bay, Ontario, including repairs to boilers 1, 2 and 3, refractory repairs to kiln #2 and repairs to recovery boiler #2					
FRP Systems Ltd.	GTP Claim: $2,888.69; General Claim: $126,559.23 Supply of materials and labour for bleach plant maintenance	09/30/11 to 10/25/11	12/09/11	$2,325.26 and $231.10	n/a	$126,370.41 **[Terrace Bay]**
EKT 90 Inc.	General Claim: $534,958.16 Supply of services and labour	10/14/11 to 10/31/11	12/13/11	n/a	n/a	$534,958.16 **[Terrace Bay]** $670,140.30 including interest and excluding legal fees **[Claimant]**

Lien Claimant	Description of Original Claim[1]	Work Period[2] (M/D/Y)	Date of registration of Construction Lien (M/D/Y)	Amount Paid pursuant to GTP Project	Amount of Repair Claim Paid	Amount of Remaining Claim[3]
Link Steel & Mechanical Inc.	GTP Claim: $334,148.33; General Claim: $519,236.59 Necessary services, material and labour so as to complete the work required by Terrace Bay to maintain and repair boiler #2, boiler #3, boiler #4, and the precipitator at Terrace Bay	10/20/11 to 11/22/11	12/19/11	$188,240.05, $76,350.32, $17,094.64 and $14,021.46	n/a	$566,231.39 **[Terrace Bay]** $853,384.92 **[Claimant]**
North American Kiln Service Inc.	General Claim: $100,036.95 Maintenance, repairs and labour to lime kiln	11/02/11 (no completion date indicated in lien)	12/19/11	n/a	n/a	$100,036.95 **[Terrace Bay *and* Claimant]**
Skyway Canada Limited	GTP Claim: $361,306.80; Repair Claim: $52,578.36; General Claim: $332,494.08 Labour and equipment related to scaffolding	09/30/11 to 11/29/11	01/04/12	$46,966.12, $243,455.94, $9,432.75 and $19,885.63	$52,578.36 paid	$411,896.40 **[Terrace Bay]**; $412,127.18 **[Claimant]**

Lien Claimant	Description of Original Claim[1]	Work Period[2] (M/D/Y)	Date of registration of Construction Lien (M/D/Y)	Amount Paid pursuant to GTP Project	Amount of Repair Claim Paid	Amount of Remaining Claim[3]
Venshore Mechanical Ltd.	GTP Claim: $680,256.66; General Claim: $625,733.11 Supply of materials, labour, tools, equipment, supervision and instrumentation, for the GTP Project, to complete miscellaneous rebuilds and replacements of existing plant equipment, to fabricate and replace worn blow line sections, to repair existing blow tanks and hot water accumulators, to replace effluent piping, and to modify, fabricate, and install ESP support steel	06/20/11 to 11/29/11	01/05/12	$562,518.52, $3,568.96 and $35,909.57	**n/a**	$703,992.70 **[Terrace Bay]**
Venasky-Pouru Electric Limited	GTP Claim: $214,289.10; Repair Claim: $81,120.73; General Claim: $47,379.14 Supply of labour, supervision and materials to install new lightning arrestors, repair hydro lines, assist the GTP Project, work on Precip	09/12/11 to 11/24/11	01/05/12	$160,524.88, $11,303.38 and $16,585.04	$81,120.73 paid	$57,866.03 **[Terrace Bay]**

Lien Claimant	Description of Original Claim[1]	Work Period[2] (M/D/Y)	Date of registration of Construction Lien (M/D/Y)	Amount Paid pursuant to GTP Project	Amount of Repair Claim Paid	Amount of Remaining Claim[3]
	SIR and controls, work on recovery boiler overgate burners, beck dampers and data, assist sub-trades and work on high voltage cables					
Alstom Power & Transport Canada Inc.	GTP Claim: $2,291,616.73; General Claim: $358,665.88 Supply of engineering and manufacturing, and the installation of boiler and environmental equipment upgrades	08/17/11 to 11/23/11	01/09/12	$1,300,986.84, $250,522.63, $216,471.58 and $250,800	n/a	$373,854.37 **[Terrace Bay]**
Keating Insulation Inc.	GTP Claim: $136,716.81; Repair Claim: $36,569.53; General Claim: $39,336.74 Supply of services and labour	10/06/11 to 11/28/11	01/10/12	$90,189.36, $16,351.61, and $14,447.35	$36,569.53 paid	$55,979.05 **[Terrace Bay]** $59,463.89 including interest and excluding legal fees **[Claimant]**

Lien Claimant	**Description of Original Claim[1]**	**Work Period[2] (M/D/Y)**	**Date of registration of Construction Lien (M/D/Y)**	**Amount Paid pursuant to GTP Project**	**Amount of Repair Claim Paid**	**Amount of Remaining Claim[3]**
A.H. Lundberg Systems Limited	GTP Claim: $1,516,421.81 Supply of materials, equipment, engineering design and analysis (mechanical and process) drawings and technical specifications for an odour abatement system	06/23/11 to 12/30/11	01/12/12	$1,234,482.22, $74,492.45 and $33,025	n/a	$195,628.39 **[Terrace Bay]**

64. I am advised by Ms. Desimini that Alstom Power & Transport Canada Inc. served a Notice of Discontinuance of its claim on April 2, 2013. A copy of the Notice of Discontinuance is attached hereto as **Exhibit "M"**.

65. As set out above, the Mill Property Lien Claims relate to services and materials provided in respect of the Mill Property between June and December 2011. Based on the books and records of Terrace Bay, the earliest provision of services or materials occurred on or about June 6, 2011.

66. Further, no certificates of substantial performance were issued to any parties with Mill Property Lien Claims, and the contracts that gave rise to the Mill Property Lien Claims were not subject to a payment certification process.

67. I am advised by Ms. Desimini that nine of the Mill Property Lien Claimants are also Plan Note Beneficiaries who would be entitled to a distribution under the Plan Note in respect of their claim in the 2010 Plan if a distribution was made to the Trustee.

68. The Plan Note Charge was registered on title to Terrace Bay's real property on September 15, 2010. This was prior to the registration of any other interest against the real or personal property of Terrace Bay including the registration of any of the Mill Property Lien Claims (the first registration occurred on November 30, 2011), and prior to the time when any work was commenced in respect of any of the Mill Property Lien Claims (on or about June 6, 2011).

69. I am advised by Ms. Desimini that as a result of the timing of the registrations and commencement of work with respect to the Mill Property Lien Claims described above, pursuant to the CLA, the Trustee has priority over the Sale Proceeds arising from the sale of the Mill Property to the extent of the actual value of the Mill Property at the time when the first lien arose in respect of the Mill Property Lien Claims.

70. Accordingly, and in the interests of not incurring unnecessary costs and expenses and the Court's time, neither the Company nor the Monitor have, to date, vetted the Mill Property Lien Claims for quantum and timeliness and reserve the right to do so should it become necessary.

Valuation of the Mill Property

71. On or about September 29, 2006, Suncorp Valuations Ltd. ("**Suncorp**") conducted an appraisal of the Mill (excluding land) for the purpose of determining the replacement cost of such property (the "**Appraisal**"). A copy of the Appraisal is attached hereto as **Exhibit "N."**

72. Pursuant to the Appraisal, the replacement cost of Terrace Bay's mill (referred to as "building construction" in the Appraisal) as of September 29, 2006 was $184,911,000. No environmental audit was conducted in connection with the Appraisal.

73. Pursuant to the Allocation Statement, the portion of the Purchase Price allocated to Terrace Bay's real property was $500,000.

74. On or about March 19, 2010, True Grit Consulting Ltd. prepared a report detailing the Company's environmental issues and offering a preliminary cost analysis relating to environmental remediation liabilities associated with the Mill (the "**True Grit Report**"). The purpose of the True Grit Report was to provide with a reliable estimate of the most likely cost associated with bringing the Mill Property into compliance with applicable environmental regulatory requirements based on previously documented areas of environmental liability. Pursuant to the True Grit Report, the most likely value for the remediation of the 10 areas of liability as identified in the True Grit Report and the probable cost for the demolition and restoration as at March of 2010, exclusive of other costs, such as engineering, management and supervision costs, was approximately $44,072,000. A copy of the True Grit Report is attached hereto as **Exhibit "O."**

75. Further, the land transfer tax statements filed in connection with the AVTB Transaction indicates that the total consideration was $500,000, and this entire amount was allocated to the value of land, building, fixtures and goodwill. A copy of the land transfer tax statements is attached hereto as **Exhibit "P"**.

76. Pursuant to municipal tax bills issued to Terrace Bay by the Township of Terrace Bay, the assessment of Mill Property in 2010, 2011 and 2012 was $22,684,029, $22,892,015 and $23,100,000 respectively. Copies of the municipal tax bills are attached hereto as **Exhibit "Q"**.

The Non-Mill Property Lien Claims

77. Certain of the Mill Property Lien Claimants (the "**Non-Mill Property Lien Claimants**") also have made and continue to maintain registrations under the CLA asserting lien claims against real property owned by Terrace Bay which is unrelated to the Mill and the Business and is currently being marketed by the Company and the Monitor including:

(i) a 9-hole golf course located in the Township of Terrace Bay (the "**Township**"), adjacent to the Aguasabon River, Lake Superior and the commercial centre of the Township (the "**Golf Course**"). The Golf Course is situated next to vacant lands that could be subdivided for residential use;

(ii) an airstrip (the "**Airstrip**") that is currently being leased to the Township. The Airstrip, which is approximately 199 acres in area, is north of the centre of the Township and abuts the mill site;

(iii) approximately 800 acres of vacant lands with approximately 5 kilometres of lakefront exposure (the "**Eastern Lands**"). These Eastern Lands are located to the south and east of the centre of the Township and are located directly on Lake Superior; and

(iv) lands, totaling approximately 3,600 acres to the south and west of the mill site (the "**Western Lands**", and together with the Airstrip, Golf Course and Eastern Lands, the "**Non-Mill Property**").

78. On March 19, 2013, Ms. Desimini sent a letter to the Non-Mill Property Lien Claimants asserting claims against the Non-Mill Property setting out the Company's position that all work or services provided by these claimants was

performed solely on or in relation to assets which were sold to the Purchaser pursuant to the AVTB Transaction (the "**Lien Claimant Letter**"). A copy of the Lien Claimant Letter is attached hereto as **Exhibit "R"**.

79. Pursuant to the Lien Claimant Letter, Terrace Bay advised that it saw no basis upon which any of the Non-Mill Property Lien Claimants could maintain any valid registrations against the Non-Mill Property. Accordingly, Terrace Bay requested that the Non-Mill Property Lien Claimants indicate what amounts (if any) were owing by Terrace Bay pursuant to their claims, and immediately discharge and vacate any and all registration against the Non-Mill Property.

80. As at the date of this affidavit, eight of the 16 Non-Mill Property Lien Claimants have responded to the Lien Claimants Letter, copies of which are attached hereto as **Exhibit "S"** and reflected in the below chart. Currently, two of the Non-Mill Property Lien Claimants have agreed to discharge their registrations against title to the Non-Mill Property.

81. Accordingly, on this motion, the Company seeks to schedule a motion in which the Company will seek an Order pursuant to section 47(1) of the CLA, among other things, authorizing and directing the Land Registry Office to discharge the liens relating to the Non-Mill Property Lien Claims (the "**Non-Mill Liens**") and vacating any and all registrations and claims for lien related to the Non-Mill Liens. An updated title search of the Non-Mill Property will be filed with the Court prior to the return of this motion.

Raymar Claim

82. On December 18, 2009, Justice Morawetz granted an order approving a claims process for the determination of claims of Terrace Bay's creditors, (as amended, the "**Claims Order**") in connection with the First CCAA Proceeding.

83. Raymar submitted a claim pursuant to the Claims Order for $10,194.30 which remains unproven (the "**Raymar Claim**").

84. The Raymar Claim relates to outstanding invoices owing by Buchanan Forest Products Ltd., a corporation which was adjudged bankrupt on October 22, 2009. The Raymar Claim therefore does not relate to debts properly owing by Terrace Bay. As a result, Raymar does not have a valid claim against Terrace Bay.

85. By letter from Ms. Desimini dated January 25, 2013, Terrace Bay notified Raymar of the within proceeding (the "**Raymar Letter**"), and advised Raymar of its position that Raymar does not have a valid claim against Terrace Bay. A copy of the Raymar Letter is attached hereto as **Exhibit "T"**.

86. The Raymar Letter indicates that if Raymar disputes the position taken by Terrace Bay, Raymar should respond to Terrace Bay, outlining its position, no later than by February 1, 2013.

87. I am advised by Ms. Desimini that the Raymar Letter was mailed to the address provided by Raymar, along with the Raymar Claim.

88. On February 11, 2013, Ms. Desimini sent a copy of the Raymar Letter to the address listed as the registered office and mailing address for Raymar in its corporation profile report obtained from the Ontario Ministry of Government Services. A copy of the corporation profile report for Raymar is attached hereto as **Exhibit "U"**.

89. On February 11, 2013, Ms. Desimini also sent a copy of the Raymar Letter to the address indicated in Raymar's corporation profile report for its director, Guy Santorelli, which letter was returned due to "no such address."

90. As at the date of this affidavit, Terrace Bay has not received a response to the Raymar Letter.

91. The Company is seeking a declaration that that 1670721 Ontario Inc., operating under the business name Raymar, is not a Plan Note Beneficiary (as defined herein).

Other Plan Note Beneficiary Claims

92. If a distribution is made to the Trustee, the Company may seek further orders from the Court with respect to the claims of certain Plan Note Beneficiaries.

<u>OHSA Proceedings</u>

93. The First OHSA Proceeding relates to an incident which occurred on Terrace Bay's former operating premises on or about January 13, 2011.

94. On October 10, 2012, Terrace Bay received a summons to appear before the Ontario Court of Justice (Thunder Bay) in connection with the Second OHSA Proceeding, which relates to an incident which occurred on Terrace Bay's former operating premises on or about October 31, 2011.

95. By letters dated October 23, 2012, November 16, 2012 and January 18, 2013, Marc Flynn of Blakes advised Line Forestier, Crown Counsel, Ministry of Labour ("**Crown Counsel**") and the Ontario Court of Justice (Thunder Bay) of the existence of the within proceeding, and Terrace Bay's position that claims being made in the OHSA Proceedings are creditor claims and therefore subject to the stay of proceedings (the "**OHSA Letters**"). Copies of the OHSA Letters (without exhibits) are attached hereto as **Exhibit "V"**.

96. The purpose of the OHSA Proceedings is to determine whether certain penalties under the OHSA can be applied against Terrace Bay. Terrace Bay is concerned that responding to the issues raised in the OHSA Proceedings would involve significant time and resources, and would deplete the funds available for distribution to creditors of Terrace Bay. Any financial obligation incurred in responding to the OHSA Proceedings would only assist the Ministry of Labour in quantifying its claim against Terrace Bay, and provides no benefit to other creditors of Terrace Bay.

97. The OHSA Proceedings are very complex, as they involve incidents which occurred on Mill Property and which caused injury and (in the case of the Second OHSA Proceeding) loss of life. The OHSA Proceedings involve multiple

defendants and will require review of considerable documentation, as well as expert evidence.

98. In the OHSA Letters, Terrace Bay takes the position that if a conviction is entered against Terrace Bay in the OHSA Proceedings, the associated remedy is wholly financial or monetary in nature. If the statutory penalties were levied against Terrace Bay, the Ministry of Labour would be a creditor of Terrace Bay for the quantum ordered in connection with the OHSA Proceedings.

99. Terrace Bay further advised in the OHSA Letters that even if the Ministry of Labour was able to obtain a conviction such that the statutory penalties would apply, the stay of proceedings in the within proceeding would continue to prevent the Ministry of Labour from taking steps to enforce its rights as a creditor against Terrace Bay. Further, any claim of the Ministry of Labour against Terrace Bay, as a result of the OHSA Proceedings or otherwise, is an unsecured claim in the CCAA proceedings in respect of Terrace Bay, and is subordinate to the claims of Terrace Bay's secured creditors.

100. By letters dated October 24, 2012 and November 22, 2012 respectively, Crown Counsel provided a response to Terrace Bay's position as set out in the OHSA Letters. Copies of these letters are attached hereto as **Exhibit "W".**

101. I am advised by Ms. Desimini that the First OHSA Proceeding and the Second OHSA Proceeding have been adjourned to May 3, 2013 and May 29, 2013, respectively.

102. Terrace Bay intends to bring an application under Section 11.1(4) to permanently stay the OHSA Proceedings. In the interim, it requests that the Court order an interim stay so that it is not prejudiced by any interim step in the proceedings. All parties to the OHSA Proceedings will be served with materials for this motion.

Revised Cash Flow

103. Attached as Appendix F to the Eighth Report is a copy of the Company's revised Cash Flow Projection (the "**Revised Cash Flow Projection**"). The Company has sufficient resources to continue to market its remaining assets, and the stay of proceedings is in place until April 30, 2013.

Good Faith & Due Diligence

104. For the reasons described above, Terrace Bay is requesting an extension of the Stay Period to and including October 31, 2013. Terrace Bay has been and continues to operate in good faith and with due diligence, with a view to completing the sale of the Non-Mill Property, adhering to the Claims Procedure, and distributing the Sale Proceeds, subject to further direction of the Court as may be required.

105. This affidavit is made in support of the Company's motion for an order, among other things, approving an extension of the Stay Period until October 31, 2013, and for no other or improper purpose.

SWORN BEFORE ME at the City of Thunder Bay, in the Province of Ontario this 18 day of April, 2013)))))

A Commissioner etc.

WOLFGANG GERICKE

B. PAUL JASIURA

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

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 WOLFGANG GERICKE
(Sworn April 18, 2013)

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Lawyers for the Applicant

This is **Exhibit "B"** referred to in the Affidavit of Wolfgang Gericke sworn the 14th day of May, 2013

BP Jasiura

A Commissioner, etc.

B. PAUL JASIURA

APPENDIX “F”
REVISED CASH FLOW FORECAST

Terrace Bay Pulp Inc.
CCAA Cash Flows

Week	1	2	3	4	5	6	7	8	9	10
Beginning of Week	**7-Apr-07**	**14-Apr-07**	**21-Apr-07**	**28-Apr-07**	**5-May-07**	**12-May-07**	**19-May-07**	**26-May-07**	**2-Jun-07**	**9-Jun-07**
End of Week	**13-Apr-13**	**20-Apr-13**	**27-Apr-13**	**4-May-13**	**11-May-13**	**18-May-13**	**25-May-13**	**1-Jun-13**	**8-Jun-13**	**15-Jun-13**
Bank balance, beginning of week	**2,189,853**	**2,174,853**	**2,146,937**	**2,028,321**	**2,018,821**	**2,002,821**	**1,986,821**	**1,970,821**	**1,810,821**	**1,805,321**
Block account receipts:										
Other Receipts (Note 1)	-	-	-	10,500	-	-	-	-	10,500	-
Total cash receipts from all sources	-	-	-	10,500	-	-	-	-	10,500	-
Expected cash outlays during the week:										
Restructuring Cost (Note 2)	(15,000)	(15,000)	(117,616)	(15,000)	(15,000)	(15,000)	(15,000)	(150,000)	(15,000)	(15,000)
Other income/expenses (Note 3)	-	(1,000)	(1,000)	(5,000)	(1,000)	(1,000)	(1,000)	(10,000)	(1,000)	(1,000)
Property taxes (Note 4)	-	(11,916)	-	-	-	-	-	-	-	-
Total Cash outlays	(15,000)	(27,916)	(118,616)	(20,000)	(16,000)	(16,000)	(16,000)	(160,000)	(16,000)	(16,000)
Bank balance, end of week	2,174,853	2,146,937	2,028,321	2,018,821	2,002,821	1,986,821	1,970,821	1,810,821	1,805,321	1,789,321
Funds Held in Trust by the Monitor	1,955,990	1,955,990	1,955,990	1,955,990	1,955,990	1,955,990	1,955,990	1,955,990	1,955,990	1,955,990
Total Cash Balance, end of the week	4,130,842	4,102,926	3,984,311	3,974,811	3,958,811	3,942,811	3,926,811	3,766,811	3,761,311	3,745,311

Notes

1. Other receipts primarily represent tax refunds due to the Applicant.

2. Restructuring costs represent disbursements to the Company's counsel and the Monitor.

3. Other expenses represent miscellaneous disbursements.

4.. Property taxes reprsent disbursements to the the Township of Terrace Bay.

Terrace Bay Pulp Inc.
CCAA Cash Flows

Week	11	12	13	14	15	16	17	18	19	20	21	22
Beginning of Week	16-Jun-07	23-Jun-07	30-Jun-07	7-Jul-07	14-Jul-07	21-Jul-07	28-Jul-07	4-Aug-07	11-Aug-07	18-Aug-07	25-Aug-07	1-Sep-07
End of Week	22-Jun-13	29-Jun-13	6-Jul-13	13-Jul-13	20-Jul-13	27-Jul-13	3-Aug-13	10-Aug-13	17-Aug-13	24-Aug-13	31-Aug-13	7-Sep-13
Bank balance, beginning of week	1,789,321	1,773,321	1,613,321	1,607,821	1,591,821	1,575,821	1,550,821	1,474,821	1,458,821	1,442,821	1,417,821	1,341,821
Block account receipts:												
Other Receipts (Note 1)	-	-	10,500	-	-	-	-	-	-	-	-	-
Total cash receipts from all sources	-	-	10,500	-	-	-	-	-	-	-	-	-
Expected cash outlays during the week:												
Restructuring Cost (Note 2)	(15,000)	(150,000)	(15,000)	(15,000)	(15,000)	(15,000)	(75,000)	(15,000)	(15,000)	(15,000)	(75,000)	(15,000)
Other income/expenses (Note 3)	(1,000)	(10,000)	(1,000)	(1,000)	(1,000)	(10,000)	(1,000)	(1,000)	(1,000)	(10,000)	(1,000)	(1,000)
Property taxes (Note 4)	-	-	-	-	-	-	-	-	-	-	-	-
Total Cash outlays	(16,000)	(160,000)	(16,000)	(16,000)	(16,000)	(25,000)	(76,000)	(16,000)	(16,000)	(25,000)	(76,000)	(16,000)
Bank balance, end of week	1,773,321	1,613,321	1,607,821	1,591,821	1,575,821	1,550,821	1,474,821	1,458,821	1,442,821	1,417,821	1,341,821	1,325,821
Funds Held in Trust by the Monitor	1,955,990	1,955,990	1,955,990	1,955,990	1,955,990	1,955,990	1,955,990	1,955,990	1,955,990	1,955,990	1,955,990	1,955,990
Total Cash Balance, end of the week	3,729,311	3,569,311	3,563,811	3,547,811	3,531,811	3,506,811	3,430,811	3,414,811	3,398,811	3,373,811	3,297,811	3,281,811

Notes

1. Other receipts primarily represent tax refunds due to the Applicant.

2. Restructuring costs represent disbursements to the Company's counsel and the Monitor.

3. Other expenses represent miscellaneous disbursements.

4.. Property taxes reprsent disbursements to the the Township of Terrace Bay.

Terrace Bay Pulp Inc.
CCAA Cash Flows

Week	23	24	25	26	27	28	29	30
Beginning of Week	8-Sep-07	15-Sep-07	22-Sep-07	29-Sep-07	6-Oct-07	13-Oct-07	20-Oct-07	27-Oct-07
End of Week	14-Sep-13	21-Sep-13	28-Sep-13	5-Oct-13	12-Oct-13	19-Oct-13	26-Oct-13	2-Nov-13
Bank balance, beginning of week	1,325,821	1,309,821	1,293,821	1,277,821	1,192,821	1,176,821	1,160,821	1,144,821
Block account receipts:								
Other Receipts (Note 1)	-	-	-	-	-	-	-	-
Total cash receipts from all sources	-	-	-	-	-	-	-	-
Expected cash outlays during the week:								
Restructuring Cost (Note 2)	(15,000)	(15,000)	(15,000)	(75,000)	(15,000)	(15,000)	(15,000)	(200,000)
Other income/expenses (Note 3)	(1,000)	(1,000)	(1,000)	(10,000)	(1,000)	(1,000)	(1,000)	(10,000)
Property taxes (Note 4)	-	-	-	-	-	-	-	-
Total Cash outlays	(16,000)	(16,000)	(16,000)	(85,000)	(16,000)	(16,000)	(16,000)	(210,000)
Bank balance, end of week	1,309,821	1,293,821	1,277,821	1,192,821	1,176,821	1,160,821	1,144,821	934,821
Funds Held in Trust by the Monitor	1,955,990	1,955,990	1,955,990	1,955,990	1,955,990	1,955,990	1,955,990	1,955,990
Total Cash Balance, end of the week	3,265,811	3,249,811	3,233,811	3,148,811	3,132,811	3,116,811	3,100,811	2,890,811

Notes

1. Other receipts primarily represent tax refunds due to the Applicant.

2. Restructuring costs represent disbursements to the Company's counsel and the Monitor.

3. Other expenses represent miscellaneous disbursements.

4.. Property taxes reprsent disbursements to the the Township of Terrace Bay.

This is **Exhibit "C"** referred to in the Affidavit of Wolfgang Gericke sworn the 14th day of May, 2013

A Commissioner, etc.

B. PAUL JASIURA

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.

SIXTH REPORT OF THE MONITOR DATED JULY 12, 2012

INTRODUCTION

1. On January 25, 2012, Terrace Bay Pulp Inc. ("**Terrace Bay**" or the "**Applicant**") filed for and obtained protection under the *Companies' Creditors Arrangement Act* (the "**CCAA**"). Pursuant to an Order of this Court dated January 25, 2012, as amended and restated (the "**Initial Order**"), Ernst & Young Inc. ("**EYI**") was appointed as Monitor (the "**Monitor**") in this CCAA proceeding. The Initial Order initially provided for a stay of proceedings through February 24, 2012, which stay period has since been extended to July 16, 2012 (the "**Stay Period**").

2. In addition to providing a stay of proceedings, the Initial Order authorized Terrace Bay, with the assistance of the Monitor and in consultation with the Province of Ontario, as represented by the Minister of Northern Development and Mines (formerly, the Minister of Northern Development, Mines and Forestry) (the "**Province**") to commence a sales and marketing process to sell the property and assets used by Terrace Bay in connection with its pulp manufacturing business (the "**Sales Process**"). A copy of the Court-approved Sales Process terms (the "**Sales Process Terms**") is attached as Appendix "A" to this Report.

PURPOSE

3. The purpose of this sixth report of the Monitor (the "**Sixth Report**") is to advise the Court with respect to the following:

(a) Terrace Bay's motions returnable on July 16, 2012 (the "**July 16 Motions**") seeking orders:

(i) approving the sale transaction (the "**Transaction**") to AV Terrace Bay Inc. ("**AVTB**"), the purchaser identified in the Sales Process, for all or substantially all of the assets related to the pulp mill (the "**Mill Assets**") as provided for in the asset purchase agreement entered into between Terrace Bay and AVTB on July 5, 2012 (the "**Purchase Agreement**"), a copy of which is attached as Appendix "**B**" to this Sixth Report;

(ii) upon delivery of the Monitor's Certificate (as defined in the Purchase Agreement) to the Purchaser, vesting in AVTB all of the right, title and interest of the Applicant in and to the Mill Assets, free and clear from the liens, charges and encumbrances specified in the vesting order;

(iii) declaring that the subdivision control provisions contained in the *Planning Act* (Ontario) do not apply to the vesting of title to the Real Property (as defined in the Purchase Agreement) in the Purchaser and that such vesting is not, for the purposes of Section 50(3) of the *Planning Act*, a conveyance by way of deed or transfer;

(iv) approving a transfer of certain lands owned by Terrace Bay to The Corporation of the Township of Terrace Bay (the "**Township**") upon which the Township's water treatment facility and pumphouse is located, and vesting all of Terrace Bay's right, title and interest in such lands absolutely in the Township, free and clear of and from the liens, charges and encumbrances specified in the vesting order;

(v) extending the Stay Period to October 31, 2012;

(vi) obtaining an appropriate sealing order with respect to a confidential appendix to this Sixth Report; and

(vii) approving the Monitor's fifth report dated June 12, 2012 (the "**Fifth Report**");

(b) An overview of the Sales Process;

(c) An overview of the Purchase Agreement and AVTB;

(d) The Monitor's review of the security held by the Province over the assets of Terrace Bay;

(e) The status of the marketing for sale of certain non-core assets owned by Terrace Bay which are not part of the Mill Assets and, as such, not subject to the Purchase Agreement;

(f) An update on the status of the GTP Projects (as reviewed in previous reports of the Monitor and as defined below);

(g) Terrace Bay's actual cash flow results from June 3, 2012 through June 30, 2012 (the "**Reporting Period**");

(h) Terrace Bay's revised cash flow forecast through November 3, 2012;

(i) Terrace Bay's request to extend the Stay Period to October 31, 2012; and

(j) The Monitor's recommendations regarding the relief being sought by Terrace Bay at the July 16 Motions.

TERMS OF REFERENCE

4. In preparing this Sixth Report, EYI has been provided with and in making the comments herein it has relied upon, unaudited financial information, Terrace Bay's books and records, financial information prepared by Terrace Bay, and discussions with management of Terrace Bay. EYI has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of such information and, accordingly, EYI expresses no opinion or other form of assurance in respect of such information contained in this Sixth Report. Some of the information referred to in this Sixth Report consists of

forecasts and projections. An examination or review of the financial forecast and projections, as outlined in the Canadian Institute of Chartered Accountants Handbook, has not been performed. Future oriented financial information referred to in this Sixth Report was prepared based on management's estimates and assumptions. Readers are cautioned that since projections are based upon assumptions about future events and conditions that are not ascertainable, the actual results will vary from the projections, even if the assumptions materialize, and the variations could be significant.

BACKGROUND

5. Prior to its shutdown in December, 2011, Terrace Bay produced northern bleached softwood kraft ("**NBSK**") pulp at its facility. The mill has the capacity to produce up to 450,000 air dried metric tonnes of pulp annually. Historically, its products are used for such end uses as printing and writing paper, consumer tissue, and flexible paper products (such as paper bags). Terrace Bay is one of the largest pulp manufacturing facilities in North America.

6. The NBSK pulp market in North America is highly competitive and subject to the following market dynamics:

   (a) Pulp markets are highly cyclical and significant changes in pricing are very common. As such, it is necessary to be well capitalized to withstand cyclical downturns in the market;

   (b) Many producers have significant power infrastructure as part of their mill in order to reduce costs. Terrace Bay is not energy self-sufficient and its mill is not located on a natural gas line. As a result, it has higher energy costs than many of its competitors; and

   (c) A number of pulp mills in Canada have recently been (or are in the process of being) converted to dissolving pulp mills, whereby their production output will be sold into the textile industry as an input for rayon production, rather than be used in the printing and writing paper industry, which has experienced a sectoral decline.

7. On March 11, 2009, Terrace Bay filed for and obtained protection under the CCAA (the "**First CCAA Proceeding**"). Pursuant to the Initial Order made by the Court in the First CCAA Proceeding on March 11, 2009, EYI was appointed as Monitor. During the First CCAA Proceeding, Terrace Bay did not operate its mill due to weak pulp market conditions, as well as a lack of liquidity. Nonetheless, Terrace Bay was able to pay off its secured debt by converting its working capital assets into cash and was also able to fund the maintenance and heating of its mill equipment pending a strengthening of pulp market conditions. Pulp market conditions did improve in 2010, which enabled Terrace Bay to secure new financing and to negotiate a restructuring plan with its creditors.

8. Terrace Bay received creditor and court approval for the plan of compromise and arrangement it filed in the First CCAA Proceeding (the "**CCAA Plan**"). The CCAA Plan was implemented on September 15, 2010, after which Terrace Bay immediately resumed its operations.

9. In order to fund its emergence from the First CCAA Proceeding, on September 15, 2010, Terrace Bay entered into an asset-based loan facility with Callidus Capital Corporation, a Toronto-based financier (the "**Callidus Loan**"). The Callidus Loan was secured by security against all of the property and assets of Terrace Bay. The Callidus Loan was guaranteed by certain related parties to Terrace Bay. The Monitor has been advised by Terrace Bay that all obligations of Terrace Bay under the Callidus Loan have been satisfied and the security held by Callidus against Terrace Bay has been discharged.

10. On emergence from the First CCAA Proceeding, Terrace Bay also entered into a term loan (the "**Province Loan**") with the Province in the principal amount of $25 million. The Province Loan was fully advanced on implementation of the CCAA Plan, is secured against the real and personal property assets of Terrace Bay and has a term of six years. The Monitor understands that the first two scheduled payments due under the Province Loan were made by Terrace Bay to the Province prior to commencing the current CCAA proceedings, and that the current outstanding principal balance under the Province Loan, excluding interest and costs, is approximately $24.2 million.

11. The CCAA Plan provided that unsecured creditors of Terrace Bay who were holders of a Proven Unsecured Claim (as defined in the CCAA Plan) (the "**Beneficiaries**"), were to participate (on a *pro rata* basis) in a promissory note (the "**Plan Note**") issued by Terrace Bay on plan implementation. Pursuant to a trust indenture dated September 15, 2010 (the "**Trust Indenture**") between Terrace Bay and Computershare Trust Company of Canada ("**Computershare**"), the Plan Note and certain security was given by Terrace Bay to Computershare, to be held in trust by Computershare for the Beneficiaries. By its terms, and as provided for in the Trust Indenture, the amount payable on maturity of the Plan Note is between \$10 million and \$30 million, with the actual amount payable under the Plan Note to be determined based on certain cumulative net income of Terrace Bay following its emergence from the First CCAA Proceeding. The term of the Plan Note is six years, although certain provisions of the Plan Note allow for earlier repayment and acceleration. The Plan Note is secured in favour of Computershare, on behalf of the Beneficiaries, by a charge against all of the personal and real property assets of Terrace Bay.

12. Payment under the Plan Note is expressly subordinated to payment of "Senior Indebtedness", as defined under the Trust Indenture, to include, among other things, indebtedness under the Province Loan, and indebtedness under the Callidus Loan (which as set out in a preceding paragraph, has been repaid in full).

13. Subsequent to emergence from the First CCAA Proceeding, Terrace Bay restarted the mill. The mill operated until October 31, 2011, at which time a blow tank in the mill exploded. The explosion resulted in an employee fatality and significant damage to certain operating equipment. The mill was idled for an investigation at that time. Subsequently, the mill was restarted for a period of time to permit production and consumption of existing raw materials. However, due to a lack of liquidity, in part due to the shutdown resulting from the accident, the mill was again idled on December 4, 2011. Since then there have been no operations at the mill.

THE SALES PROCESS

14. Prior to the issuance of the Initial Order, Terrace Bay determined that in order to best position the mill for survival for the long term, it must be sold to a better capitalized operator who could fund the necessary capital needs of the business. Additionally, Terrace Bay recognized that its cash resources were limited and there could be complexities in finalizing a sale to a party that would be interested in operating the mill. Aware of these dynamics, Terrace Bay obtained approval to conduct the Sales Process at the commencement of the CCAA proceeding. The Sales Process and the Sales Process Terms were approved by the Court as part of the Initial Order.

15. The Sales Process contemplated the following steps as detailed in EYI's report dated January 25, 2012 (the "**Pre-Filing Report**") and as Schedule "A" to the Initial Order:

Activity	Timeline
Solicitation of potential purchasers	Competed by February 15, 2012
Submission of non-binding letters of intent	February 15, 2012
Identification of qualified bidders	Notified by February 17, 2012
Management presentations	February 21 to February 24, 2012
Further due diligence	February 17 to March 16, 2012
Submission of binding offers	March 16, 2012
Identification of purchaser	March 19, 2012
Target closing date	April 16, 2012

16. The Monitor and Terrace Bay undertook a number of activities in furtherance of the Sales Process. These activities are summarized below:

(a) Developed a "teaser" document and a confidentiality agreement (the "**CA**") for interested parties to review and execute if they were interested in pursuing the Terrace Bay opportunity;

(b) Contacted 110 parties that, in the Monitor's view, may have had an interest in purchasing the assets of Terrace Bay to restart the mill and for use as a going concern, or as a liquidation/demolition opportunity. The parties contacted included Canadian, U.S. and globally based forestry companies, private equity firms who have previously been interested in forestry assets and liquidation/decommissioning firms;

(c) Developed a confidential information memorandum (the "**CIM**") for parties to review once they had signed a CA. The CIM was provided to 37 parties after they each signed a CA;

(d) Maintained an electronic data room (the "**Data Room**") for potential purchasers to obtain information (after executing a CA) regarding Terrace Bay's assets and operations. The Data Room was regularly updated as further information became available and pursuant to bidder requests;

(e) Facilitated mill tours for interested parties (a "**Mill Tour**"). Included as part of a Mill Tour was a formal management presentation providing information regarding the mill;

(f) Provided a template asset purchase agreement to potential purchasers. Potential purchasers were asked to provide a blackline to the template asset purchase agreement when submitting a binding offer;

(g) Facilitated meetings between certain bidders and the Province with respect to fibre supply availability for the mill; and

(h) Held conference calls to further clarify the bids presented by each party.

17. News regarding the Sales Process was reported on the website www.foresttalk.com, a well known forestry industry website. The first such article was on January 26, 2012 and it included details regarding the Sales Process.

18. As a result of the above activities, the Monitor received 13 non-binding letters of intent (each an "**LOI**") by the Sale Process Terms deadline of February 15, 2012. The Monitor provided a summary of the LOIs for review by the Province as required by the Sales Process Terms. All of the parties that submitted LOIs were invited to do further due

diligence and submit a binding offer for the assets of Terrace Bay by the March 16, 2012 deadline provided for in the Sales Process Terms (the "**Bid Deadline**").

19. Prior to the Bid Deadline, the Monitor sent a communication to the 13 parties that had submitted LOIs by February 15, 2012. Attached as Appendix "**C**" to this Sixth Report is a copy of the form of communication sent to each bidder. Also sent, but not included as part of Appendix "**C**" to this Sixth Report, was a copy of the Sales Process Terms.

20. After February 15, 2012 and prior to the Bid Deadline, the Monitor facilitated Mill Tours and management presentations for any party who had submitted an LOI. Eight parties attended for such Mill Tours and presentations. In addition, the Monitor and Terrace Bay responded to a significant volume of ongoing due diligence requests from interested parties.

21. On March 8, 2012, the Monitor sent to all parties who submitted an LOI (unless a party had provided notice to the Monitor that it was dropping out of the process) an email notice that reminded these parties of the March 16 Bid Deadline for the submission of binding offers. This email attached a copy of a draft asset purchase agreement, which was already posted in the Data Room, and provided details with respect to the submission of offers. A copy of the form of notice is attached as Appendix "**D**" to this Sixth Report.

22. By the Bid Deadline, the Monitor received eight binding offers for the purchase of the assets of Terrace Bay. These offers included two offers from parties interested in restarting the pulp mill for the purpose of operating it as a going concern, as well as offers from six liquidation or decommissioning firms. One of the going concern bids was in the form of a non-binding letter of intent and was subject to significant further due diligence and conditions.

23. A summary of offers received pursuant to the Sales Process, is attached as a Confidential Appendix "**E**" to this Sixth Report that will be provided to the Court prior to the hearing of the July 16 Motions. It is intended for this summary to be provided to the Court, only, as disclosure of the confidential information could impact on the Sales Process.

24. Subsequent to the Bid Deadline, the Monitor and Terrace Bay undertook a process to clarify certain of the bids with the offering parties. In addition to reviewing the draft asset purchase agreement submitted by each bidder, the Monitor also held conference calls with each prospective purchaser.

25. The Monitor presented a summary of the offers received to the Province and consulted with the Province.

26. Based on the analysis of the offers submitted, the Monitor and Terrace Bay, in consultation with the Province, agreed that the offer submitted by AVTB was the superior offer, and provided the best opportunity to position the mill, once restarted, as a viable going concern operation for the long term.

27. In assessing the various bids prior to selecting AVTB as the successful bidder, the Monitor and Terrace Bay, in consultation with the Province, considered the following factors:

(a) the value of the consideration proposed in the transaction;

(b) the level of due diligence required to be completed prior to closing;

(c) the conditions precedent to the closing of a sale transaction;

(d) the impact on the Township, the surrounding community, and other stakeholders;

(e) the bidder's intended use for the mill site including any future capital investment into the mill site; and

(f) the ability to close the transaction as soon as possible, given the minimal cash resources of Terrace Bay.

28. The deadline set out in the Sales Process Terms by which the Monitor and Terrace Bay were to select a potential purchaser was extended several times. The purpose of these extensions was to allow for Terrace Bay to hold discussions with potential purchasers who had submitted offers prior to the Bid Deadline, including AVTB.

29. In parallel with discussions with potential going concern purchasers, the Monitor also had meetings or conference calls with a number of the liquidation/decommissioning firms that had submitted offers in the Sales Process. The purpose of these calls was to fully understand the liquidation/decommissioning bids in the event that a transaction could not be finalized to restart the mill. Those providing liquidation/decommissioning bids were informed of this fact.

Late Bids

30. In addition to the bidders participating in the Sales Process as described above, a number of other parties (collectively, the "**Late Bidders**") expressed an interest in Terrace Bay after the deadlines set out in the Sales Process Terms approved by the Court in the Initial Order. One of these late bids was submitted by Tangshan Sanyou Xingda Chemical Fibre Co. Ltd. ("**Tangshan**") and is discussed separately below.

31. The Monitor informed each of the Late Bidders that they could conduct due diligence, but their interest would only be entertained in the event that Terrace Bay could not complete a transaction with the parties who submitted their offers in accordance with the Sales Process Terms.

32. There were four Late Bidders, including Tangshan, two of which submitted deposits to the Monitor. Of the four Late Bidders, three expressed an interest in operating Terrace Bay's mill as a pulp production facility while one had an interest in converting the mill to a biomass facility.

33. The Monitor reviewed materials submitted by each of the Late Bidders. All of the offers made by the Late Bidders, other than Tangshan, were in the form of non-binding letters of intent and were subject to additional due diligence or other conditions.

34. The Monitor and Terrace Bay, in consultation with the Province, considered the merits of each of the bids made by the Late Bidders (the "**Other Late Bidders**"), the nature and terms of the AVTB offer, the advanced discussions which had already occurred between AVTB and certain key stakeholders who support the AVTB Transaction, the risk of a

non-binding LOI not being finalized into a binding offer, the remaining cash resources of Terrace Bay being depleted if the Sales Process was varied, the potential for closing of a transaction to be further delayed. The Monitor and the Applicant, in consultation with the Province, determined that it was in the best interests of stakeholders to proceed with the Transaction.

Late Tangshan Offer

35. On July 5, 2012, Terrace Bay and the Monitor were sent a non-binding letter of intent (the "**July 5 Tangshan LOI**") by Recovery Partners Ltd. ("**Recovery Partners**") on behalf of Tangshan. Recovery Partners had previously phoned the Monitor and had been advised that the deadline for the submission of letters of intent had passed months previously and that any letter of intent submitted would be a late bid that would not be considered, as Terrace Bay was far advanced in settling a purchase agreement with a bidder who had submitted an offer in accordance with the Sale Process Terms. As noted above, the Sales Process Terms required that bidders submit non-binding letters of intent by February 15, 2012 and that "Qualified Bidders" submit irrevocable formal offers capable of acceptance, with a proper deposit, by March 16, 2012. Attached as Appendix "**F**" to this Sixth Report is a copy of this email correspondence and attaching the July 5 Tangshan LOI.

36. Later that morning, Terrace Bay executed the Purchase Agreement with AVTB. On that same day, the Monitor responded by email to Recovery Partners advising, again, that the deadline for filing LOIs in accordance with the Sales Process Terms had been several months ago and that an announcement had been made that morning that Terrace Bay had entered into an asset purchase agreement with a bidder who had made an offer within the provisions of the Sales Process Terms. The Monitor further advised Recovery Partners that Terrace Bay was proceeding to obtain approval of the Transaction on July 16, 2012 with a closing shortly afterwards. A copy of this email is attached as Appendix "**G**" to this Sixth Report.

37. The July 5 Tangshan LOI was non-binding, the terms were subject to change and was conditional on the following:

(a) Tangshan would need to negotiate with Terrace Bay's stakeholders, including former employees, the First Nations, the Township and certain former management employees;

(b) Tangshan would have to receive final approval to enter into any transaction from regulatory authorities in China;

(c) A form of asset purchase agreement would have to be negotiated;

(d) Tangshan would have to conduct environmental and employee-related due diligence; and

(e) Tangshan would have to obtain necessary regulatory and third party approvals and licences, including certifications and approvals that are required to operate the business.

38. On July 10, Recovery Partners submitted a second non-binding LOI on behalf of Tangshan (the "**July 10 Tangshan LOI**") and requested that the Sales Process be re-opened to a formal auction. A copy of this email, attaching the July 10 Tangshan LOI is attached as Appendix "**H**" to this Sixth Report. The July 10 Tangshan LOI was, again, a non-binding LOI increasing the proposed "purchase price" to $35 million and purporting to use the same agreement as AVTB had negotiated and on the same closing conditions as AVTB.

39. On July 12, 2012, the Monitor received from Recovery Partners a "binding offer" (the "**July 12 Tangshan Offer**") on behalf of Tangshan through 0945328 B.C. Ltd., using the form of the AVTB Purchase Agreement. Attached at Appendix "**I**" to this Sixth Report is a copy of the correspondence from Recovery Partners attaching the July 12 Tangshan Offer. The form of the signed AVTB Purchase Agreement is not duplicated in this Appendix.

40. On the afternoon of July 12, 2012 the Monitor, its counsel and counsel for the Province met with Tangshan, its counsel and Recovery Partners. At this meeting, the Monitor indicated to Tangshan that the July 5 Tangshan LOI, the July 10 Tangshan LOI and the

July 12 Tangshan Offer had not been submitted in accordance with the Sales Process Terms and could not be considered by Terrace Bay, but would be reported to the Court.

Monitor's Analysis of the July 12 Tangshan Offer

41. In the view of the Monitor, it is not appropriate to vary the Sales Process Terms at this date or to recommend to the Court the July 12 Tangshan Offer for the following reasons:

(a) Terrace Bay, in consultation with the Province has entered into a binding purchase agreement with AVTB, which does not permit termination by Terrace Bay to entertain a new offer.

(b) The fairness and integrity of the Sales Process is paramount to these proceedings and to alter the terms of the court-approved Sales Process Terms at this point would be unfair to AVTB and all of the other parties who participated in the Sales Process in compliance with the Sales Process Terms. For the Sales Process to be fair and have integrity, all bidding parties must be subject to the same rules.

(c) The Sales Process Terms have been widely known by all bidders and interested parties since the outset of the Sales Process in January 2012. Tangshan and its previous representatives had used the Data Room and had conducted a Mill Tour on or about May 16, 2012.

(d) The Sales Process Terms provide no bid protections for AVTB as the potential purchaser. AVTB has relied upon the protections of the court-approved Sales Process Terms, and the oversight of the Monitor, to ensure that the Sales Process is fair to all parties and that a bidder cannot not be "out-bid" at the last moment once the terms of its offer are made public.

(e) AVTB has incurred, and continues to incur, significant expenses in negotiating and fulfilling conditions under the Purchase Agreement. Terrace Bay has advised the Monitor that there is a significant risk that AVTB would drop out of the Sales Process if there was an attempt to amend the Sales Process Terms to pursue an open auction at this late stage.

(f) To consider any new bids at this stage may result in a delay in the timing of the sale of the Mill Assets. In the view of the Monitor this poses a risk due to Terrace Bay's minimal cash position.

(g) The Province, with whom Terrace Bay is required to consult under the Sales Process Terms, and which has entered into an agreement with AVTB, supports the completion of the Transaction with AVTB.

(h) AVTB has been making progress satisfying the conditions to closing, including meeting with Terrace Bay's employees and negotiating collective bargaining agreements with the unions.

42. Based on the foregoing, particularly the need to preserve the integrity of the Court supervised Sales Process, the Monitor recommends that the motion to approve the Transaction proceed and confirms its recommendation that the Transaction with AVTB be approved by the Court.

SUMMARY OF AVTB'S OFFER

Background on AVTB

43. AVTB is an entity newly incorporated for the express purpose of purchasing the assets of Terrace Bay. Its ultimate parent company is Aditya Birla Management Corporation Private Ltd. ("**Birla**"). Birla is one of the largest conglomerates in India.

44. Founded in 1857, Birla owns and operates a number of lines of business in India and around the world, including the United Kingdom, Germany, Brazil, France, Canada and the United States. Birla's revenue for its last year end was approximately US$35 billion and it employs approximately 133,000 employees around the world.

45. Birla operates a number of lines of business. One such line is the production of viscose staple fibre ("**VSF**") used in the production of textiles and other non-woven applications. Birla is the world's largest producer of VSF. In order to support this line of business, it operates three plants in India (with a fourth under construction), as well as one plant in

each of Thailand, Indonesia and China. The Monitor understands that another such plant is to be constructed in Turkey.

46. One of the key inputs into VSF is dissolving pulp. In order to provide raw materials for the production of VSF, Birla operates four dissolving pulp facilities around the world. Plants are located in India, Sweden and New Brunswick (two facilities). The two facilities in New Brunswick were acquired in 1998 (AV Cell Inc., or "**AV Cell**") and 2005 (AV Nackawic Inc. or "**AV Nackawic**"). Each of AV Cell and AV Nackawic were converted from traditional pulp facilities into those capable of producing dissolving pulp.

Dissolving Pulp

47. Although the mill at Terrace Bay's facility currently produces pulp for use in traditional products, such as paper and absorbent products (such as diapers), AVTB plans to convert the Terrace Bay mill into a facility that produces dissolving pulp.

48. In order to convert a traditional pulp mill to one that produces dissolving pulp, a significant capital investment is required.

49. Dissolving pulp is used in the production of rayon, which is itself a replacement for cotton fibre in textile production. AVTB intends to sell the dissolving pulp produced from the mill to Birla affiliates for use in their textile manufacturing business around the world.

50. As dissolving pulp is ultimately used in the manufacturing of textile products, it will likely be a much more stable and less cyclical product than the NBSK pulp that Terrace Bay has historically produced.

51. In addition to the Birla facilities in New Brunswick, several other conversions of dissolving pulp mills in North America have occurred over the last several years, including:

(a) Tembec converted a mill in Temiscaming, Quebec to a 160,000 tonne dissolving pulp mill. The total capital expenditure was approximately $190 million;

(b) Fortress Specialty Cellulose ("**Fortress**") converted a mill in Thurso, Quebec and spent approximately $153 million to convert it to a facility capable of producing dissolving pulp. This mill is capable of producing approximately 200,000 tonnes of dissolving pulp per annum. The mill was converted to dissolving pulp in 2011; and

(c) Fortress has plans to convert another mill in Level-sur-Quevillon, Quebec. Capital expenditures will be approximately $222 million for a mill that will be capable of producing 236,000 tonnes of dissolving pulp per year. Fortress announced the closing of the acquisition of this mill in June, 2012.

52. AVTB has announced through public press releases that it will be spending up to $250 million in capital investment to convert Terrace Bay's mill into a dissolving pulp facility and to improve its efficiency and cost structure. This will be a significant capital project for the local economy in Northwestern Ontario and will provide significant spin-off effects to the local economy.

<u>Background to the Transaction</u>

53. The Monitor and Terrace Bay, after consulting with the Province, determined that the bid submitted by AVTB was the superior bid submitted in the Sales Process, and also provides an outcome that will help to ensure the long term viability of the Terrace Bay mill.

54. A copy of the Purchase Agreement is attached as Appendix "**B**" to this Sixth Report.

55. As noted in the preceding paragraphs, AVTB intends to convert the mill to a dissolving pulp mill. It anticipates that the conversion to a dissolving pulp mill will take approximately 2 to 3 years to complete. In the interim, the mill will continue to produce NBSK pulp. AVTB has advised that it intends to reopen the mill for NBSK pulp production in October, 2012.

Assets to be Purchased

56. The following summarizes the Transaction:

(a) AVTB will be purchasing substantially all of the Mill Assets. Such assets include, but are not limited to, the following:

(i) inventories;

(ii) the real property attributable to the production of pulp (the "**Real Property**", which excludes the Excluded Real Property, as defined below);

(iii) the equipment, machinery, furniture and fixtures relating to the assets being purchased;

(iv) rights of Terrace Bay under certain contracts;

(v) substantially all equipment owned by Terrace Bay;

(vi) certain intellectual property, to the extent that it is assignable under the applicable law; and

(vii) goodwill and intangible assets relating to the assets being purchased.

Excluded Assets

57. As more particularly set out in the Purchase Agreement, certain assets are excluded from the sale to AVTB (the "**Excluded Assets**"). These include, but are not limited to, the following:

(a) cash and cash equivalents;

(b) accounts receivable;

(c) the corporate books and records of Terrace Bay;

(d) the capital stock of Terrace Bay;

(e) the bank accounts of Terrace Bay;

(f) deposits currently maintained by Terrace Bay;

(g) certain real property (i.e. the Excluded Real Property, as defined below);

(h) income or other tax refunds;

(i) proceeds from insurance related to the blow tank explosion; and

(j) causes of action which arise from loss, damage or facts occurring prior to the closing of the sale to AVTB, other than certain rights to insurance.

Assumed Liabilities

58. As more particularly set out in the Purchase Agreement, AVTB will be assuming certain liabilities as part of the sale. These include, but are not limited to, the following:

(a) All of Terrace Bay's liabilities under certain assumed contracts after the closing of the Transaction;

(b) All liabilities for salaries, wages, and other amounts owing with respect to the Transferred Employees (as such term is defined in the Purchase Agreement) from and after the closing of the Transaction;

(c) All liabilities under or relating to Terrace Bay's various collective bargaining agreements;

(d) Terrace Bay's pension plans for union and salaried employees;

(e) All taxes related to the transaction; and

(f) Any and all environmental liabilities associated with the Mill Assets.

Excluded Liabilities

59. As more particularly set out in the Purchase Agreement, the following liabilities of Terrace Bay have been excluded from those being assumed pursuant to the Purchase Agreement:

(a) AVTB will not be liable for any liabilities other than the "Assumed Liabilities" as detailed in the Purchase Agreement;

(b) AVTB will only be liable for "Permitted Liens" as detailed in the Purchase Agreement and will not be liable for any other liens; and

(c) AVTB shall not assume liabilities in respect of litigation or arbitration or charges of discrimination filed with certain governmental agencies.

Purchase Price

60. The purchase price payable under the Purchase Agreement is the aggregate of (a) the sum of $2,000,000, subject to closing adjustments relating to the Real Property (the "**Cash Purchase Price**"), and (b) the amount of the Assumed Liabilities, as described above. The Cash Purchase Price is to be funded from deposit funds currently held in trust with the Monitor.

61. It is a condition of the Purchase Agreement, and part of the effective consideration under the Transaction, that all obligations under the Province Loan Agreement, as defined later herein, will be forgiven and the Province shall release or discharge the security it holds to secure such obligations. This condition cannot be varied without the consent of the Monitor. The amount of the Province Loan outstanding at the commencement of the CCAA proceeding was approximately $24.2 million, plus accrued interest and costs (the "**Province Debt Obligations**").

62. Forgiveness of the Province Debt Obligations is a key condition under the Purchase Agreement. The Province is the senior secured creditor of Terrace Bay, subject to any super-priority claims, including potential claims of the Township against the Real

Property. As the net sale proceeds, subject to any super-priority claims, flow to the Province in priority to other creditors upon completion of the Transaction, the effective consideration for the purchase of the Mill Assets is the aggregate of the Cash Purchase Price, forgiveness of the Province Debt Obligations and the amount of the Assumed Liabilities.

63. As set out below, the Monitor has received a report from its counsel, McMillan LLP, on the security held by the Province in relation to the Province Loan.

64. The Purchase Agreement requires that, on or before closing, AVTB provide replacement prudential support to the Independent Electricity System Operator in order for Terrace Bay to receive a refund of the prudential support pledged by Terrace Bay to support its obligations. The refund of prudential support will provide Terrace Bay with an additional source of funds in connection with the marketing and sale of the Excluded Assets.

65. Taking the above factors into account, the total cash or cash equivalent consideration under the Transaction is approximately $27 million, subject to closing adjustments relating to the Real Property. In addition, there is considerable value derived by Terrace Bay in relation to the Assumed Liabilities.

Representations and Warranties

66. The sale is on an "as is, where is" basis with limited representations and warranties by Terrace Bay.

Conditions Precedent

67. The following represent certain material conditions precedent to the closing of the transaction contemplated by the Purchase Agreement:

(a) The Purchase Agreement is conditional on the Court approving the transaction and the issuance of a vesting order;

(b) The Province shall have forgiven the Province Debt Obligations and released or discharged all related security;

(c) AVTB shall have entered into a five year collective bargaining agreement with the unions currently in place at Terrace Bay's mill. The deadline to reach this agreement is July 24, 2012; and

(d) AVTB shall have entered into a satisfactory term sheet with the Province in respect of certain support (the "**Province Term Sheet**"). The Monitor understands that the Province Term Sheet has been finalized, such that this condition will not impact closing.

Employee Matters

68. The following summarizes certain aspects of AVTB's offer that affect employees:

(a) AVTB is required to negotiate new five-year collective bargaining agreements with Terrace Bay's unions. As such, AVTB will be assuming all of the liabilities in respect of Terrace Bay's unionized employees. This includes wages, benefits, credit for years of service with Terrace Bay, pensions and other employment-related amounts;

(b) AVTB is required by the Purchase Agreement to offer employment to all non-unionized employees of Terrace Bay. Such employment shall be on terms that are consistent with those currently in place between Terrace Bay and the relevant employee;

(c) AVTB is required by the Purchase Agreement to establish new benefit plans for the unionized and non-unionized employees. Such benefits shall be substantially similar to those already in place; and

(d) should AVTB terminate the employment of either the unionized or non-unionized employees, past years of service with Terrace Bay will be credited to the relevant employee.

The Monitor's Recommendation With Respect to the Purchase Agreement

69. In making its recommendation the Monitor has considered the following benefits of the Transaction:

(a) the conversion of the Terrace Bay mill to produce dissolving pulp will bring significant capital investment to Northwestern Ontario. It is expected that the level of capital expenditure will be up to $250 million during the conversion;

(b) the Terrace Bay mill will be owned by a large well capitalized multinational organization making a large investment in Northern Ontario. This will significantly improve the financial strength and long term viability of the mill;

(c) as noted elsewhere in this Sixth Report, the conversion of the Terrace Bay facility to a dissolving pulp facility may bring long term, stable employment to the local area. The output of dissolving pulp will be used by Birla in its textile mills globally, which will provide a much more secure and stable market for the mill's output compared to the past;

(d) AVTB will enter into a new collective bargaining agreements with the unionized employees of Terrace Bay prior to July 24, 2012, as a condition precedent to closing and will offer employment to all the salaried employees;

(e) the Purchase Agreement requires that the Transaction close prior to July 31, 2012, which is essential, as Terrace Bay's cash resources are minimal;

(f) the mill is anticipated to recommence operations in October, 2012;

(g) the other bids submitted in compliance with the Sales Process Terms did not result in the Province Loan being fully repaid; and

(h) the Province and Birla have entered into a binding term sheet setting out certain other preconditions and this condition to closing has been satisfied.

70. Based on the criteria outlined paragraph 69, the offer from AVTB was selected as the best offer received pursuant to the Sales Process. Detailed negotiations to finalize a definitive agreement were conducted on that basis.

71. The Cash Purchase Price to be paid to Terrace Bay at closing is approximately $2.0 million together with the assumption of certain liabilities as detailed in the Purchase Agreement. Furthermore, the Province Loan will be forgiven upon closing of the Transaction contemplated by the Purchase Agreement. As a result, the effective cash and cash equivalent value of the Transaction is approximately $27 million, subject to closing adjustments relating to the Real Property, plus the value of the Assumed Liabilities.

SECURITY HELD BY THE PROVINCE AND COMPUTERSHARE

72. The Monitor's counsel has completed its review of certain security documents relating to the debts and obligations of Terrace Bay to the Province under the Province Loan and the provisions of a loan agreement dated September 15, 2010 (the "**Province Loan Agreement**"). Under the terms of the Province Loan Agreement, the Province agreed to make a non-revolving single draw loan to Terrace Bay in the aggregate principal amount of $25 million. The Province Loan is evidenced by a Promissory Note (the "**Province Note**") also dated September 15, 2010 in the amount of $25 million. The principal balance unpaid by the Debtor to the Province under the Province Note is shown as $24,166,666.00.

73. The Monitor has received an opinion from its counsel, McMillan LLP, which states that, subject to the specific assumptions and qualifications as set out therein, which are customary for an opinion of this nature, that a general security agreement dated September 15, 2010 granted in favour of the Province by Terrace Bay (the "**Province GSA**") and a real property charge granted by Terrace Bay in favour of the Province and registered against title to the real property of Terrace Bay on September 15, 2010 (the "**Province Real Property Charge**") are valid and enforceable against Terrace Bay in accordance with their respective terms.

74. The Monitor's counsel has also completed its review of certain security documents relating to the debts and other obligations of Terrace Bay to the Trustee pursuant to the Plan Note. The Plan Note is governed by the Trust Indenture and a general security agreement in favour of Computershare (the "**Plan Note GSA**"), each dated September 15, 2010, as well as a real property charge (the "**Plan Note Real Property Charge**") registered on title to the real property of Terrace Bay on September 15, 2010.

75. The Monitor has received an opinion from its counsel which states that, subject to the specific assumptions and qualifications set out therein, which are customary for an opinion of this nature, the Plan Note GSA and the Plan Note Real Property Charge are valid and enforceable against Terrace Bay in accordance with their respective terms. The Trust Indenture and the CCAA Plan provide that all security granted to Computershare to secure the amounts owing by Terrace Bay under the Plan Note is expressly subordinated in all respects to all of the indebtedness, liabilities and obligations of Terrace Bay under the Province Loan Agreement, the Province Note, the Province GSA and the Province Real Property Charge.

OTHER MATTERS

76. The Monitor also wishes to report to the Court on the following other matters:

(a) The approval of the transfer sought by Terrace Bay to the Township as part of the relief it is seeking at the July 16 Motions is based on a long-standing understanding between the Township and Terrace Bay in connection with the Township's construction of a water treatment facility and pumphouse on lands owned by Terrace Bay. The Monitor understands that Terrace Bay is receiving easements over certain lands in consideration of the transfer. Such transfer will enable the Township to provide a critical service, potable piped water, to the community. The Monitor understands that the lands to be transferred to the Township have little or no value for anyone but the Township.

(b) The Monitor understands that certain construction liens have been registered against the real property owned by Terrace Bay. These construction liens were registered in late 2011 or in 2012 after the granting of the security described above to the Province and Computershare in 2010. Terrace Bay has advised the Monitor that it is not aware of any factual basis for such liens having, or being determined to have, any priority over the security granted to the Province and Computershare, pursuant to the *Construction Lien Act,* or otherwise.

(c) Terrace Bay has advised the Monitor that is has been invoiced by the Township for treated water provided to the Mill. Terrace Bay has disputed the amounts of the invoices, and Terrace Bay and the Township have engaged in discussions to settle the water invoices. Terrace Bay expects that a settlement will be concluded shortly and in advance of the closing contemplated by the Purchase Agreement.

SALE OF NON-CORE ASSETS

77. In addition to the Mill Assets subject to the Transaction with AVTB, Terrace Bay owns a number of non-core assets. Such assets include, but are not limited to, the following:

(a) A 9-hole golf course located in the Township;

(b) An airstrip that is currently being leased to the Township;

(c) Vacant lands with lakefront exposure; and

(d) Lands to the south and west of the mill site (collectively, the "**Excluded Real Property**").

78. On May 29, 2012, the Monitor toured the Excluded Real Property, along with management of Terrace Bay, with a view to assessing potential options to market the Excluded Real Property to generate further realizations for the benefit of Terrace Bay's creditors. The Monitor will shortly commence a marketing process, with the assistance of Terrace Bay, for the sale of the Excluded Real Property.

UPDATE ON THE STATUS OF THE GTP PROJECTS

79. As previously reported by the Monitor in the Fifth Report, and as described in paragraphs 47 through 49 of the Wolfgang Gericke dated July 10, 2012 (the "**July 10 Gericke Affidavit**"), certain projects related to Terrace Bay's Pulp and Paper Green Transformation Program (the "**GTP Projects**") have been ongoing over the last several months.

80. The Fifth Report detailed two transactions that remained to be completed in relation to the GTP Projects. The first, which was a payment of $1,210,293 to Venshore Mechanical Limited (the "**Final Payment**"), has been made. The only remaining transaction related to the GTP Projects is the reimbursement from Natural Resources Canada ("**NRC**") of a portion of the Final Payment.

81. NRC does not reimburse HST relating to this Final Payment. As such, the reimbursement from NRC, as reflected in the cash flow forecasat contained in Appendix "**J**" described below, is $1,071,055. As noted in paragraph 49 of the July 10 Gericke Affidavit, Terrace Bay expects that this reimbursement will be paid by NRC to Terrace Bay by the end of July, 2012.

ACTUAL RECEIPTS AND DISBURSEMENTS FOR THE REPORTING PERIOD

82. Attached as Appendix "**K**" to this Sixth Report is a summary of Terrace Bay's actual receipts and disbursements for the Reporting Period. Below is a summary of the reasons for some of the larger variances incurred during the Reporting Period:

    (a) Disbursements related to *Utilities, Fuel and Chemicals* were approximately $239,000 less than forecast. The reason for this variance is that less electricity than forecast was used by Terrace Bay and that less hog fuel was required than had been forecast.

    (b) Disbursements related to *Blow tank repairs* were approximately $322,000 less than forecast due to the fact that the contractor performing the work has not yet submitted all of the necessary support to enable Terrace Bay to pay for work done to date.

REVISED CASH FLOW FORECAST

83. Attached as Appendix "**J**" to this Sixth Report is a revised cash flow forecast prepared by Terrace Bay (the "**Revised Forecast**").

84. The closing cash balance as at November 3, 2012 is forecast to be approximately $3.8 million. The Revised Forecast contemplates a closing of the Purchase Agreement on July 31, 2012. As such, certain cash flows related to such closing have been included in the Revised Forecast.

85. The Revised Forecast indicates that Terrace Bay will have sufficient liquidity, absent any negative variances, through the extension of the Stay Period now being sought to October 31, 2012.

86. The Revised Forecast was prepared by management of Terrace Bay for the purpose of the CCAA Proceeding, using probable and hypothetical assumptions set out in notes to the Revised Forecast. The Revised Forecast reflects receipts and disbursements to be received or paid over the 18-week projection period in Canadian dollars.

87. The Monitor's review of the Revised Forecast consisted of inquiries, analytical procedures and discussion related to information supplied to the Monitor by certain of the management and employees of Terrace Bay. Since hypothetical assumptions need not be supported, the Monitor's procedures with respect to them were limited to evaluating whether they were consistent with the purpose of the Revised Forecast. The Monitor has also reviewed the support provided by management of Terrace Bay for the probable assumptions, and the preparation and presentation of the Revised Forecast.

88. Based on the Monitor's review, nothing has come to our attention to cause us to believe that, in all material respects:

    (a) the hypothetical assumptions are not consistent with the purpose of the Revised Forecast;

(i) as at the date of this Sixth Report, the probable assumptions developed by management are not suitably supported and consistent with the plans of Terrace Bay or do not provide a reasonable basis for the Revised Forecast, given the hypothetical assumptions; or

(ii) the Revised Forecast does not reflect the probable and hypothetical assumptions.

89. As described in the Terms of Reference above, since the Revised Forecast is based on assumptions regarding future events, actual results will vary from the information presented, even if the hypothetical assumptions occur, and the variations may be material. Accordingly, the Monitor expresses no assurance as to whether the Revised Forecast will be achieved.

90. The Revised Forecast has been prepared solely for the purpose described above, and readers are cautioned that they may not be appropriate for other purposes.

EXTENSION OF THE STAY PERIOD TO OCTOBER 31, 2012

91. Terrace Bay is requesting an extension of the Stay Period to October 31, 2012.

92. An extension of the Stay Period to October 31, 2012 is necessary to accomplish the following:

(a) consummate the transaction with AVTB; and

(b) further market the Excluded Real Property.

93. Based on the foregoing, the Monitor supports of Terrace Bay's motion to extend the Stay Period to October 31, 2012.

RECOMMENDATION

94. Prior to seeking Court approval of the Transaction with AVTB, the market was broadly canvassed by Terrace Bay, with the assistance of the Monitor. Pursuant to the Sales Process, approximately 110 parties were contacted by the Monitor.

95. The Purchase Agreement will result in a Cash Purchase Price of $2 million, subject to closing adjustments relating to the Real Property, and will see the Province Loan in the amount of $24.2 million, plus accrued interest and costs, forgiven. This purchase price is superior to any other offer received in accordance with the Sales Process Terms.

96. The Transaction contemplated by the Purchase Agreement and subsequent conversion to a dissolving pulp mill will result in significant employment in the region, as well as resulting in a substantial capital investment which will benefit the community of Terrace Bay and surrounding communities for years to come.

97. The Transaction will also see a major multinational corporation acquiring the mill, and purchasing the pulp produced by the mill (once converted to a dissolving pulp mill) as a production input into its global textile manufacturing business, This will greatly improve the stability of Terrace Bay's mill operations.

98. The Transaction will also see the mill scheduled to be reopened in October, 2012 and AVTB will be rehiring the employees of the mill.

99. The Monitor is aware of the Late Bids, including the July 12 Tangshan Offer and has consulted with the Province and Terrace Bay in relation to same. The Sales Process was conducted in accordance with the Sales Process Terms and provided an adequate opportunity for interested parties to participate, conduct due diligence and submit binding purchase agreements and deposits within the Court-approved deadlines. Several factors including, without limitation, the importance of maintaining the fairness and integrity of the Sales Process in relation to all parties, including AVTB, the terms of the Purchase Agreement, the fact that it has taken many weeks to negotiate various issues and the importance of certainty in relation to closing and the closing date have all been considered by the Monitor.

100. The Monitor is of the view that approval of the sale of Terrace Bay's Mill Assets to AVTB is appropriate in the circumstances and recommends that the Transaction be approved by the Court.

101. Terrace Bay continues to act in good faith and with due diligence.

102. The Monitor is further of the view that an extension of the Stay Period to October 31, 2012 is appropriate in the circumstances, as such an extension will allow the sale of Terrace Bay's assets to AVTB to close. An extension of the Stay Period will also allow Terrace Bay and the Monitor to commence a process to sell the Excluded Real Property.

All of which is respectfully submitted, this 12th day of July, 2012.

ERNST & YOUNG INC.
In its capacity as the Court-Appointed
Monitor of Terrace Bay Pulp Inc.

Per:

Alex Morrison
Senior Vice President

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

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

SECOND SUPPLEMENTARY AFFIDAVIT OF WOLFGANG GERICKE
(Sworn May 14th, 2013)

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