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

MOTION RECORD
(Returnable July 16, 2012)

July 10, 2012

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Lawyers for the Applicant

TO: **THE SERVICE LIST ATTACHED TO THE NOTICE OF MOTION**

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AND TO:	**UNITED STEELWORKERS, LOCAL 665** **Paul Gerlach** Email: uswlocal665@bellnet.ca	**AND TO:**	**INTERNATIONAL BROTHERHOOD OF ELECTRICAL WORKERS, LOCAL 1861** P.O. Box 565 Terrace Bay, ON P0T 2W0 **James Irwin** Tel: 807-825-9354 Email: irwinjames@hotmail.com
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AND TO	**XEROX CANADA LTD.** 5650 Yonge Street Toronto, ON M2N 4G7	AND TO	**LIFTCAPITAL CORPORATION** 300 The East Mall, Suite 401 Toronto, ON M9B 6B7
AND TO	**XEROX CANADA LTD.** 33 Bloor Street East, 3rd Floor Toronto, ON M4W 3H1 **Attn: Lucy Myers/Robert Bandiera**	AND TO	**EQUIPMENT WORLD INC.** 988 Alloy Drive Thunder Bay, ON P7B 6A5
	CONSTRUCTION LIEN CLAIMANTS		
AND TO:	**NORTH WEST INSTALLATIONS INC.** c/o Peter Hollinger 1204A Roland Street Thunder Bay, ON P7B 5MA Tel: 807-344-1340 Fax: 807-344-1313 Email: holinger@tbaytel.net	AND TO:	**FABMAR METALS INC.** c/o MacIvor Harris Roddy LLP 101 – 1151 Barton Street Thunder Bay, ON P7B 5N3 **T. Michael Harris** Tel: 807-623-1100 Fax: 807-623-1122 Email: mike@macivorlaw.com
AND TO:	**MILLS & MANUFACTURING ACRYLIC PRODUCTS LTD.** c/o Martin Scrimshaw Scott LLP 1 S. Cumberland Street Thunder Bay, ON P7B 2T1 **Laird S.S. Scrimshaw** Tel: 807-345-3600 Fax: 807-344-8152 Email: msslaw@tbaytel.net	AND TO:	**KMH ENGINEERING INC.** c/o Carrel + Partners LLP 1136 Allow Drive Thunder Bay, ON P7B 6M9 **Rod Johansen** Tel: 807-346-3000 Fax: 807-346-3600 Email: johansen@carrel.com
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AND TO:	**EKT 90 INC.** c/o Christie & Potestio 203 – 920 Tungsten Street Thunder Bay, ON P7B 5Z6 **Attention: David John Christie** Tel: 807-344-6651 Fax: 807-345-1105 Email: Christie@chrpot.on.ca	**AND TO:**	**LINK STEEL & MECHANICAL INC.** c/o MacIvor Harris Roddy LLP 101 – 1151 Barton Street Thunder Bay, ON P7B 5N3 **T. Michael Harris** Tel: 807-623-1100 Fax: 807-623-1122 Email: mike@macivorlaw.com
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AND TO	**DEPARTMENT OF JUSTICE CANADA** P.O. Box 36, Exchange Tower 130 King Street West, Suite 3400 Toronto, ON M5X 1K6 **Diane Winters**, General Counsel Tel: (416) 973-3172 Fax: (416) 973-0810 E-mail: diane.winters@justice.gc.ca	**AND TO**	**FINANCIAL SERVICES COMMISSION OF ONTARIO** 5160 Yonge Street P.O. Box 85 Toronto, ON M2N 6L9 **Mark Bailey** E-mail: Mark.Bailey@fsco.gov.on.ca **Deborah McPhail** E-mail: Deborah.McPhail@fsco.gov.on.ca **Stephen Scharbach** E-mail: Stephen.Scharbach@fsco.gov.on.ca
AND TO	**WORKPLACE SAFETY AND INSURANCE BOARD, HEAD OFFICE (ONTARIO)** 200 Front Street West Toronto, ON M5V 3J1 Fax: (416) 344-4684 E-mail: wsibcomm@wsib.on.ca	**AND TO**	**MINISTRY OF REVENUE** Revenue Collections Branch Insolvency Unit 33 King Street West, P.O. Box 627 Oshawa, ON L1H 8H5 **Larry Parent** – Insolvency Officer Tel: 1-866-668-8297 ext: 18562 Fax: (905) 436-4524 E-mail: larry.parent@fin.gov.on.ca

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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

I N D E X

TAB 1

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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

NOTICE OF MOTION
(Returnable July 16, 2012)

Terrace Bay Pulp Inc. (the "**Applicant**"), will make a motion to a Judge presiding over the Commercial List on Monday, the 16th day of July, 2012 at 10:00 a.m., or as soon after that time as the motion can be heard, at 330 University Avenue, 8th Floor, Toronto, Ontario.

PROPOSED METHOD OF HEARING: The motion is to be heard orally.

THE MOTION IS FOR an Order in the form attached as **Tab 3** to the Applicant's Motion Record:

(a) abridging the time for service of the Notice of Motion, the Motion Record and the Sixth Report of the Monitor, Ernst & Young Inc., (the "**Monitor**") dated as of the date indicated in the report (the "**Sixth Report**"), and declaring that the motion is properly returnable on July 16, 2012;

(b) approving the sale transaction (the "**Transaction**") contemplated by an asset purchase agreement dated as of July 5, 2012 (the "**Purchase Agreement**") between the Applicant, as Seller, and AV Terrace Bay Inc., as Purchaser (the "**Purchaser**");

(c) authorizing and directing the Applicant to take such additional steps and execute such additional documents as may be necessary to give effect to the Purchase Agreement;

(d) upon delivery of the Monitor's Certificate to the Purchaser, vesting all of the Applicant's right, title and interest in and to the Purchased Assets (as defined in the Purchase Agreement) absolutely in the Purchaser, free and clear of and from any and all liens, charges and encumbrances, except for the permitted encumbrances set out in the vesting order;

(e) approving the Fifth Report of the Monitor dated June 12, 2012 and the conduct and activities of the Monitor as described therein;

(f) declaring that the subdivision control provisions contained in the *Planning Act, R.S.O.* 1990, C.P.13 (the "***Planning Act***") 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;

(g) pursuant to clause 7(3)(c) of the Canada *Personal Information Protection and Electronic Documents Act*, S.C. 2000, c. 5 ("**PIPEDA**") authorizing and permitting the Applicant to disclose and transfer to the Purchaser all human resources and payroll information in the Applicant's records pertaining to its past and current employees, and all information relating to the customers of the Applicant;

(h) amending the Initial Order (as defined below) to extend the stay of proceedings herein to October 31, 2012; and

(i) such further and other relief as the Applicant may request and this Honourable Court shall deem just.

THE GROUNDS FOR THE MOTION ARE:

(a) On January 25, 2012, the Applicant sought and obtained protection from its creditors under the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the "**CCAA**") pursuant to an Order of Mr. Justice Morawetz (as amended and restated, the "**Initial Order**");

(b) Pursuant to the Initial Order, the Applicant was authorized to conduct, with the assistance of the Monitor, a sales process to solicit offers for, among other things, the Purchased Assets (the "**Sales Process**");

(c) In accordance with the Sales Process, the Applicant with the assistance of the Monitor and in consultation with the Province of Ontario (as represented by the Minister of Northern Development and Mines) conducted extensive discussions with a number of prospective purchasers, selected the optimal bid and entered into the Purchase Agreement;

(d) The Applicant has been and continues to operate in good faith and with due diligence, with a view to completing the Sales Process;

(e) Section 7(3)(c) of PIPEDA;

(f) Sections 11 & 36 of the CCAA;

(g) Section 100 of the *Courts of Justice Act,* R.S.O. 1990, C.C.43;

(h) the reasons described in the affidavit of Wolfgang Gericke sworn July 10, 2012 (the "**Gericke Affidavit**");

(i) the Sixth Report;

(j) Rules 2.03, 3.02, and 37 of the Ontario *Rules of Civil Procedure*, R.R.O. 1990, Reg. 194, as amended; and

(k) such further and other grounds as counsel may advise.

THE FOLLOWING DOCUMENTARY EVIDENCE will be used at the hearing of the motion:

(a) The Gericke Affidavit;

(b) The Report of the Proposed Monitor dated January 24, 2012 (the "**Report of the Proposed Monitor**"), the First Report of the Monitor dated January 27, 2012, (the "**First Report**"), the Second Report of the Monitor dated February 15, 2012 (the "**Second Report**"), the Third Report of the Monitor dated March 26, 2012 (the "**Third Report**"), the Fourth Report of the Monitor dated April 25, 2012 (the "**Fourth Report**")**,** the Fifth Report of the Monitor dated June 12, 2012 (the "**Fifth Report**") and the Sixth Report, filed;

(c) the pleadings and proceedings herein; and

(d) such further and other materials as counsel may advise and this Honourable Court may permit.

Date: July 10, 2012

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Lawyers for the Applicant

TO: THE SERVICE LIST AS ATTACHED TO THE MOTION RECORD

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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

NOTICE OF MOTION
(RETURNABLE JULY 16, 2012)

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TAB 2

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

AFFIDAVIT OF WOLFGANG GERICKE
(Sworn July 10, 2012)

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

Introduction

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.

Overview of Relief Sought

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

   (a) abridging the time for service of the Notice of Motion, the Motion Record and the Sixth Report of the Monitor, Ernst & Young Inc., (the "**Monitor**")

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dated as of the date indicated in the report (the "**Sixth Report**"), and declaring that the motion is properly returnable on July 16, 2012;

(b) approving the sale transaction (the "**Transaction**") contemplated by an asset purchase agreement dated as of July 5, 2012 (the "**Purchase Agreement**") between the Company, as Seller, and AV Terrace Bay Inc., as Purchaser (the "**Purchaser**");

(c) authorizing and directing the Company to take such additional steps and execute such additional documents as may be necessary to give effect to the Purchase Agreement;

(d) upon delivery of the Monitor's Certificate to the Purchaser, vesting in the Purchaser all of the right, title and interest of the Company in and to the Purchased Assets (as defined in the Purchase Agreement) free and clear from any and all liens, charges and encumbrances;

(e) approving the Fifth Report of the Monitor dated June 12, 2012 and the conduct and activities of the Monitor as described therein

(f) declaring that the subdivision control provisions contained in the *Planning Act, R.S.O.* 1990, C.P.13 (the "***Planning Act***") 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;

(g) pursuant to clause 73(c) of the Canada *Personal Information Protection and Electronic Documents Act*, S.C. 2000, c. 5 ("**PIPEDA**") authorizing and permitting the Company to disclose and transfer to the Purchaser all human resources and payroll information in the Company's records pertaining to its past and current employees, and all information relating to the customers of the Company;

(h) amending the Initial Order to extend the stay of proceedings herein to October 31, 2012; and

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

3. Reference is made herein to my affidavit sworn January 24, 2012 (the "**Gericke Affidavit**") in support of the Initial Order. A copy of the Gericke Affidavit without exhibits is attached hereto as **Exhibit "A"**. Unless defined herein, terms used herein have the meaning ascribed to them in the Gericke Affidavit.

4. On July 5, 2012, the Company gave notice to the Service List of the hearing scheduled on July 16, 2012 (the "**July 5 Letter**"). Attached hereto as **Exhibit "B"** is a copy of the July 5 Letter. Since the last extension of the stay of proceedings obtained on June 15, 2012, the Company, the Monitor and the Province have been engaged in lengthy negotiations with the Purchaser regarding the Transaction. During the week of July 2, 2012, the Company worked diligently to conclude and execute the Purchase Agreement with the Purchaser, which was entered into on July 5, 2012. The Company wishes to provide the Court with the most up to date information regarding the Transaction and the Purchase Agreement, which unfortunately resulted in short service of the Company's motion record.

Background

5. On January 25, 2012, Terrace Bay sought and obtained protection from its creditors under the *Companies' Creditors Arrangement Act* (the "**CCAA**") pursuant to the Initial Order, as amended and restated. In accordance with the Initial Order, Ernst & Young Inc. was appointed as Monitor of the Company.

6. Pursuant to the Initial Order, Terrace Bay was authorized to conduct, 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**"), a sales process to solicit offers for a sale of all or substantially all of the assets and properties of the Company used in connection with the pulp manufacturing business (the "**Sales Process**").

7. On January 30, 2012, Terrace Bay sought and obtained an order authorizing it to continue the GTP Project, and requiring Terrace Bay to pay all obligations incurred by it in connection with the GTP Project to any contractor or supplier, whether or not incurred prior to or after the date of the Initial Order, from funds received from Natural Resources Canada ("**NRC**") for such obligations, which funds are deemed to be held in trust for such contractors, and are not to be available to other creditors (the "**GTP Order**").

8. On February 2, 2012, Terrace Bay sought an order (the "**Supplemental Initial Order**") declaring that the Administration Charge and the Directors' Charge have priority over the security interests of The Corporation of the Township of Terrace

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Bay (the "**Township**"), the Construction Lien Claimants and the Trustee. Mr. Justice Morawetz granted the Supplemental Initial Order declaring that the Charges have priority over the security interests of the Construction Lien Claimants and the Township. The hearing of the relief against the Trustee was adjourned to February 7, 2012.

9. On February 7, 2012, Mr. Justice Morawetz granted the Second Supplemental Initial Order, which among other things, declared that the Charges have priority over the security interests of the Trustee and extended the Stay Period (as defined therein) to April 27, 2012.

10. On April 27, 2012, Mr. Justice Morawetz granted an Order extending the stay of proceedings contained in paragraph 10 of the Initial Order from April 27, 2012 to June 15, 2012.

11. On June 15, 2012, Mr. Justice Morawetz granted an Order extending the stay of proceedings contained in paragraph 10 of the Initial Order from April 27, 2012 to July 16, 2012.

12. The purpose of this affidavit is to provide the Court with the results of the Sales Process and to provide a description of the Transaction and the Purchase Agreement in support of the motion by Terrace Bay for approval of the Transaction, and to provide an update on certain ancillary matters in support of the motion by Terrace Bay for an extension of the Stay Period to October 31, 2012 in order to permit the Company to consummate the Transaction and continue the marketing of the Non-Business Assets.

Sale Process

13. The Initial Order authorized the Company, with the assistance of the Monitor and in consultation with the Province, to conduct the Sales Process in accordance with the sales process terms attached as Schedule "A" to the Initial Order (the "**Sales Process Terms**").

14. In furtherance of the Sales Process, the Company and the Monitor have conducted extensive discussions with a number of prospective purchasers, have responded to various due diligence inquiries from prospective purchasers, and have provided access to Terrace Bay's mill facilities and other information to facilitate due diligence by prospective purchasers.

15. The Sixth Report will contain a detailed summary of the Sales Process, and the Monitor recommends that the Court approve the Transaction.

16. The Company, with the assistance of the Monitor and in consultation with the Province, extended the deadline by which the Company was expected to identify a potential purchaser several times to allow for discussions to continue between Terrace Bay and certain potential purchasers who had submitted offers prior to the Bid Deadline (as defined below), including the Purchaser.

17. As a result of the extensions to the Sales Process granted to permit discussions with potential purchasers, the Company was able to conclude the Purchase Agreement with the Purchaser. As more particularly described below, the Purchase Agreement contemplates that Closing (as defined therein) will occur on

the second business day following the date of issuance of the Approval and Vesting Order (as defined therein), unless extended by the Purchaser, and requires that the Transaction be completed on or before July 31, 2012.

18. Since March 16, 2012, the date on which offers were received under the Sales Process Terms (the "**Bid Deadline**"), the Company, the Monitor and the Province have been engaged in extensive discussions with the Purchaser regarding the Transaction, whose offer was the most favourable offer proposing a restart of the Mill received by the Bid Deadline. Since the Bid Deadline, the Company and the Monitor continued to have discussions with other bidders who submitted bids prior to the Bid Deadline in the event that a transaction could not be completed with the Purchaser. In particular, the Company and the Monitor continued to have discussions with parties who had made decommissioning and/or liquidation offers in the event that a restart transaction with the Purchaser could not be concluded. It was disclosed to each of these bidders that the Company was in discussions with a lead bidder for a potential restart of the Mill, and that the Company would not be considering a decommissioning or liquidation of the Mill if a transaction could be concluded that would restart the Mill.

19. In addition, since the Bid Deadline, the Company has received non-binding expressions of interest from several additional parties who did not submit bids by the Bid Deadline, including certain expressions of interest received in the last several weeks. The Company and the Monitor, in consultation with the Province, have communicated to each of these parties that the expressions of interest were received after the Bid Deadline, that the Company was in advanced discussions

with a potential purchaser and that the expressions of interest would only be considered if a transaction could not be concluded with the potential purchaser.

20. The Transaction is the best offer received in the Sales Process. As more particularly described below, the effective consideration flowing to the Company as a result of the Transaction is in excess of $27,000,000, plus the value of the Assumed Liabilities. The Company expects that all conditions of Closing will be satisfied and the Transaction will close prior to the July 31, 2012.

Purchase Agreement

The Purchaser

21. The Company has entered into the Purchase Agreement (a copy of which is attached hereto as **Exhibit "C"**) with the Purchaser, an affiliate of the Aditya Birla Group. The Aditya Birla Group is a Fortune 500 company with employees in 25 countries. Through its affiliates, the Aditya Birla Group employs over 6000 people in Canada, including in the pulp mills operated in Atholville and Nackawic, New Brunswick. The direct shareholders of the Purchaser are Grasim Industries Limited and Thai Rayon Public Co. Ltd., both affiliates of the Aditya Birla Group.

Planned Conversion

22. As set out in the Gericke Affidavit, Terrace Bay ceased operating the Mill in October, 2011, and the Mill has remained idled during these proceedings. The Purchaser intends to make a significant investment to restart the Mill by October

2012. Thereafter, the Aditya Birla Group plans to invest more than $250 million in a phased manner to convert the Mill to produce dissolving grade pulp. The conversion is expected to be completed in the Purchaser's 2016 fiscal year.

Assets to be Acquired

23. Pursuant to the Purchase Agreement, the Company has agreed to sell and the Purchaser has agreed to purchase all of the Company's right, title and interest in, to and under all tangible and intangible assets, properties, rights, interests, claims and contracts of the Company related to the operation of the Mill, other than the Excluded Assets (as defined in the Purchase Agreement), free and clear of all Liens (as defined in the Purchase Agreement), other than certain permitted liens.

24. The Purchaser has advised that if it determines prior to Closing that it wishes to acquire any equipment subject to personal property leases, the Purchaser's interest in any such equipment will be subject to the security interests of any equipment lessors.

25. The Company will retain the Excluded Assets, including all accounts receivable (including all accounts receivable and amounts payable in respect of the GTP Project), all customer deposits and security deposits for rent, electricity, telephone and insurance, and the Excluded Real Property (as defined in the Purchase Agreement). The Excluded Assets include all or substantially all of the Non-Business Assets which will be marketed for sale separately by the Company.

26. Portions of the Excluded Real Property abut the real property upon which the Mill was operated or upon which infrastructure required for Mill operations is located, which real property comprises part of the Purchased Assets (the "**Purchased Real Property**"). The conveyance of the Purchased Real Property is necessary in order to provide the Purchaser with title to all or substantially all of the Mill assets required to restart and operate the Mill. I am advised by my counsel that, as portions of the Purchased Real Property abut the Excluded Real Property, the Purchased Real Property could not be conveyed to the Purchaser outside of these proceedings without complying with the subdivision control provisions of the *Planning Act* (Ontario). I am further advised that compliance with the *Planning Act* (Ontario) would require a severance consent application to the Committee of Adjustment for the Township, a process which could take several months to a year to complete. The Company does not have the time or funds available to proceed with a severance consent application.

27. I am advised by my counsel that the conveyance by way of vesting order addresses the issue. I am advised by my counsel that the Township is aware that the Company is proceeding in this manner and has not objected.

28. The Company is preparing to market and sell the Excluded Real Property as part of the sales process for the Non-Business Assets. The Excluded Real Property, if sold, will enhance the recovery to Terrace Bay's stakeholders. For all of these reasons, the Company has requested that the Court order and declare that the subdivision control provisions contained in the *Planning Act* (Ontario) do not apply to the vesting of title to the Purchased Real Property to the Purchaser by

Order of the Court (the "**Planning Act Order**"). If the Planning Act Order is not granted, the Company will be unable to complete the Transaction and convey the Purchased Real Property or realize on the Excluded Real Property, as it does not have the time or funds available to proceed with a severance consent application, to the detriment of the Company and its stakeholders.

Assumption of Liabilities

29. Pursuant to the Purchase Agreement, the Purchaser has agreed to assume and be responsible for and pay, perform, honour and discharge, as and when due, among other things, the following liabilities and obligations:

(a) all of the Company's liabilities and obligations under the Contracts (as defined in the Purchase Agreement) and in respect of the Purchased Assets accruing after the Closing;

(b) all liabilities for salaries, wages, bonuses, commissions, vacations, vacation pay and other compensation relating to employment with respect to Transferred Employees (as defined in the Purchase Agreement) arising and accruing after the Closing, and all accrued vacations and vacation pay owing to Transferred Employees arising and accruing prior to the Closing;

(c) all costs incurred by the Purchaser in providing a Transferred Employee with all of his or her legal entitlements upon termination of employment without cause (on the basis of recognition of all service with the Company);

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(d) all liabilities and obligations under the Collective Bargaining Agreements (as defined in the Purchase Agreement);

(e) the Seller Pension Plans (as defined in the Purchase Agreement) and all related liabilities and obligations; and

(f) all liabilities and obligations relating to the Environmental Condition (as defined in the Purchase Agreement), and any and all liabilities and obligations for the remediation of the soil and groundwater in, on, over, under or flowing through, onto or from the Real Property (as defined in the Purchase Agreement)

30. The Company will retain the Excluded Liabilities (as defined in the Purchase Agreement).

Consideration

31. The Purchase Price payable for the Purchased Assets pursuant to the Purchase Agreement is the aggregate of (i) $2,000,000, plus or minus adjustments on Closing, and (ii) the amount of the Assumed Liabilities (collectively, the "**Purchase Price**"). The cash portion of the Purchase Price is payable on Closing from the deposit paid by the Purchaser to the Monitor in connection with its offer pursuant to the Sales Process.

32. In addition, the obligation of the Company to consummate the Transaction is conditional upon, among other things, that all amounts owing by the Company to the Province pursuant to the Loan Agreement dated as of September 15, 2010

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shall have been forgiven by the Province and all related security has been discharged (the "**Province Loan Forgiveness**").

33. As set out in the Gericke Affidavit, the Company is currently indebted to the Province in the principal amount of $24,166,666, plus accrued interest, which loan was fully advanced as a condition of the implementation of the CCAA Plan of Terrace Bay of September 15, 2010. The Province is the first secured creditor of Terrace Bay. The Province Loan Forgiveness is an integral part of the structure of the Transaction. Taking into account the Province Loan Forgiveness, the effective consideration for the Transaction is in excess of $27,000,000, plus the value of the Assumed Liabilities.

34. As set out in the Gericke Affidavit, the Company has also granted security for its indebtedness owing under the Plan Note dated as of September 15, 2010, entered into as a condition of the implementation of the CCAA Plan. The indebtedness under the Plan Note is fully subordinated to prior payment of all obligations under the Province Loan Agreement. As a result of the Province Loan Forgiveness, the proceeds payable under the Purchase Agreement may be available for distribution to the noteholders under the Plan Note.

35. As further set out in the Gericke Affidavit, as of January 18, 2012, construction lien claims in the amount of $9,199,572.63 had been registered against Terrace Bay's real property. All of the construction lien claims were registered subsequent to (i) the security registered by the Province in relation to the Province Loan Agreement, and (ii) the security registered by the Plan Note Trustee in

relation to the Plan Note. Attached hereto as **Exhibit "D"** are copies of real property searches, current as of the date indicated, demonstrating that all of the construction liens were registered after September 15, 2010, and copies of searches under the *Personal Property Security Act*, current as of the date indicated.

36. As a result of the Province Loan Forgiveness, the Purchase Price, subject to the Administration Charge and the Directors' Charge, the Excluded Assets and any net proceeds generated from the sale of the Non-Business Assets, may result in a distribution being available to other creditors of Terrace Bay in the order of their priority. Any such distribution would be made upon further order of the Court. The Approval and Vesting Order contemplates that net proceeds received under or in connection with the Purchase Agreement will be held by the Monitor pending further Order or Orders of the Court, provided that, with the approval of the Monitor, payment of obligations secured by the Administration Charge granted under the Initial Order, and such amounts as may be required in connection with the market and sale of the Non-Business Assets, may be paid by the Monitor from the Net Proceeds, from time to time, without further Order of the Court.

Employees

37. The Purchase Agreement contemplates the continuation of employment with the Purchaser for all of the employees of Terrace Bay who are subject to the Collective Bargaining Agreements, all Non-Unionized Employees who accept

offers of employment prior to the Closing, and an assumption by the Purchaser of the Seller Pension Plans, as more particularly set out in the following paragraphs.

38. The Purchaser is required to offer employment to all Non-Unionized Employees (as defined in the Purchase Agreement to include all employees of Terrace Bay who are not subject to the Collective Bargaining Agreements, including all employees on an approved leave of absence, layoff or disability on the date immediately prior to the Closing) on terms and conditions that are no less favourable in the aggregate in terms of title, compensation, benefits, pension entitlements, hours of work and location, and with duties that are similar to the duties then being performed by such employees. The Purchaser is required to make such offers by no later than twenty days prior to the Closing Date. The Company understands that such offers are underway. The Company will retain all liabilities and obligations for any Non-Unionized Employee who does not accept an offer or is otherwise not transferred to the Purchaser on Closing.

39. With respect to each of the Transferred Employees, the Purchaser is required to recognize the most recent period of continuous employment with the Company for the purpose of pension and benefit entitlements, or for any recognized notice of termination, termination or severance costs in connection with any termination of employment by the Purchaser after the Closing.

40. The Purchaser is required to employ all of the Unionized Employees (as defined in the Purchase Agreement) effective as of the Closing and accept and be bound by the terms of the Collective Bargaining Agreements.

41. All of the rights, obligations and liabilities with respect to the Seller Pension Plans for the Non-Unionized Employees and the Unionized Employees are to be assumed by the Purchaser.

42. The Purchaser is required to establish or designate non-pension group benefit plans for the Transferred Employees on or after the Closing on the same terms and conditions of the existing non-pension group benefit plans maintained by the Company. The obligations and liabilities relating to the existing non-pension group benefit plans maintained by the Company are to be retained by the Company.

Material Conditions Precedent to Closing

43. The consummation of the Transaction by the Company is conditional upon, in addition to the Province Loan Forgiveness described above and customary closing conditions in a transaction of this nature, among other things, the Purchaser having obtained a five year extension to the Collective Bargaining Agreements on terms acceptable to the Purchaser, acting reasonably, on or before July 24, 2012. The Company understands that the Purchaser has had initial discussions with the unions representing the Unionized Employees regarding the extension and has been advised by the Purchaser that it expects to be able to satisfy this condition of Closing in advance of the July 24, 2012 deadline. In the event that the condition is not satisfied by July 24, 2012, the Company is entitled to terminate the Purchase Agreement and conclude a transaction with another interested party pursuant to the Sales Process.

44. The consummation of the Transaction by the Purchaser is conditional upon, among other things, the Purchaser having entered into a binding term sheet with the Province of Ontario setting out certain other conditions precedent. The Company has received confirmation that the term sheet has been executed and delivered by the Purchaser and the Province of Ontario and that this condition to Closing has been satisfied as of the date of this affidavit.

45. The Company believes that all conditions of Closing will be satisfied prior to the deadline of July 31, 2012 set out in the Purchase Agreement.

Sale of Non-Business Assets

46. Paragraph 37 of the Initial Order authorizes the Company, with the assistance of the Monitor, to market for sale the Non-Business Assets. The Company is requesting an extension of the stay until October 31, 2012 to, among other things, allow for the marketing and sale of the Non-Business Assets. The marketing and sale of the Non-Business Assets will be conducted following the completion of the Sales Process. The Company, with the assistance of the Monitor, is currently preparing marketing materials for the Non-Business Assets and has made initial efforts to make contact with prospective purchasers.

GTP Project Update

47. On March 27 2012, Terrace Bay sought and obtained an order (the "**Second GTP Order**") in respect of the GTP Project (as defined in the affidavit of Aaron Blazina sworn March 26, 2012 (the "**Blazina Affidavit**")). Specifically, the

Second GTP Order authorized Terrace Bay to pay from its cash resources, among other things, the Phase I Holdback (as defined in the Blazina Affidavit) and any further holdback in respect of invoices submitted to NRC in relation to Phase I, in the event that Terrace Bay completes tasks for Phase I in addition to the Phase I Tasks, with the approval of the Monitor and NRC.

48. On March 31, 2012, Terrace Bay and Venshore Mechanical Ltd. ("**Venshore**") entered into the Venshore Contract (as defined in the Blazina Affidavit) for completion of the Phase II Tasks. The Phase II tasks were completed the week of June 22nd, 2012.

49. On June 26, 2012, the Company made the final payment to Venshore under the Venshore Contract in the amount of $1,210,292.25 (the "**Final Payment**"), comprised of the amount of the Phase II Holdback and associated HST. On the same date, the Company filed its final report with NRC. NRC has advised that they were processing the Company's final report and the Company expects that the Phase II Holdback will be released by NRC and paid to Terrace Bay by the end of July.

<u>Revised Cash Flow</u>

50. A copy of the Company's revised Cash Flow Projection (the "**Revised Cash Flow Projection**") will be attached to the Sixth Report. The Revised Cash Flow Projection reflects that Terrace Bay anticipates that it will have adequate cash flow to consummate the Transaction during the Stay Period, if the requested extension is granted.

Good Faith & Due Diligence

51. For the reasons described above, Terrace Bay is requesting an extension of the stay of proceedings to and including October 31, 2012. Terrace Bay has been and continues to operate in good faith and with due diligence, with a view to completing the Transaction on or before July 31, 2012, and thereafter, in relation to the marketing for sale of the Non-Business Assets.

52. The continuation of the stay of proceedings is necessary to provide the stability needed to continue the activities which have been ongoing following the granting of the Initial Order. Such stability is required while the Company works to consummate the Transaction. The continuation of the Transaction would result in a restart of the Mill prior to October 2012, a significant investment being made to covert the Mill to a dissolving pulp mill, continuation of the employment of the employees of the Company who become Transferred Employees, obtaining the Province Loan Forgiveness and maximizing value for the benefit of the Company's stakeholders.

53. This Affidavit is made in support of the Company's motion for an order, among other things, approving the Transaction and extending the stay of proceedings and for no other or improper purpose.

SWORN BEFORE ME at the City of Thunder Bay, in the Province of Ontario this 10th day of July, 2012	)))))	
A Commissioner etc.		**WOLFGANG GERICKE**

B. PAUL JASIURA

TAB A

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This is **Exhibit "A"** referred to in the
Affidavit of Wolfgang Gericke sworn the
10th day of July, 2012

A Commissioner, etc.

B. PAUL JASIURA

Court File No.

ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)

IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT,* R.S.C. 1985, C. C-36, AS AMENDED

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

Applicant

AFFIDAVIT OF WOLFGANG GERICKE
(Sworn January 24, 2012)

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

Introduction

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.

Nature of Application and Overview of Relief Sought

2. This affidavit is sworn in support of the Company's application for relief under the *Companies' Creditors Arrangement Act* (Canada) (the "CCAA"). This is the Company's second application under the CCAA. Terrace Bay previously filed for CCAA protection on March 11, 2009, and emerged from those proceedings on September 15, 2010 following creditor and court approval of the Company's plan

of compromise and arrangement, as more fully described below (the "First CCAA Proceedings").

3. Terrace Bay is the operator of a pulp mill (the "Mill") in the Town of Terrace Bay, on the north shore of Lake Superior. The pulp produced by Terrace Bay is sold to major pulp users in both the North American and offshore markets. Pulp is produced primarily from wood chips which form the raw fibre input to the Mill. These wood chips are either produced by the Mill from purchased pulpwood or purchased from (i) sawmills as a residual from the production of lumber or (ii) suppliers who manufacture wood chips.

4. The Mill is supported by the woodlands operations companies in the region which employ people from more than 15 communities. Many regional towns, communities and First Nations are reliant on the Mill to support employment and the local economy. These towns, communities and First Nations include Thunder Bay, Nipigon, Jellicoe, Beardmore, Longlac, Nakina, Geraldon, Caramat, Manitouwadge, Dubreuilville, Terrace Bay, Schreiber, Pays Plat First Nation, Lake Helen First Nation, Sand Point First Nation, Rocky Bay First Nation, Lake Nipigon Ojibway First Nation, Ginoogaming First Nation, Long Lake #58 First Nation and Aroland First Nation.

5. The town of Terrace Bay as well as the adjacent town of Schreiber are reliant on the Mill, both as a direct and indirect source of employment for the majority of the local population. In addition, the pump house for the water supply for the Township of Terrace Bay is located on property owned by the Company.

6. The Company ceased normal course operations following the explosion of a blow tank on October 31, 2011 (the "October 31 Accident"), which resulted in the death of a Mill employee and a consequent Ministry of Labour investigation. Equipment necessary for the efficient operation of the Mill was damaged in the explosion.

7. Prior to the October 31 Accident, the Mill had completed its annual major shutdown (the "Annual Shutdown"), which was for a longer duration than originally planned. No finished goods inventory could be produced during the Annual Shutdown. Soon after production resumed following the Annual Shutdown, the October 31 Accident occurred, which caused the unexpected shutdown of the Mill at a time when it was vulnerable due to the additional expenses and lack of production resulting from the Annual Shutdown.

8. The unexpected shutdown following the October 31 Accident created a major liquidity crisis at a time when pulp prices were declining. The combination of the declining market conditions, the liquidity issues caused by the unexpected shutdown and the upward impact on costs of production due to the loss of equipment damaged by the October 31 Accident resulted in a decision to idle the Mill. As a result of the liquidity crisis, the Company was not in a financial position to replenish raw materials necessary to resume permanent operations.

9. The Mill resumed limited operations after the October 31 Accident for the sole purpose of converting the remaining raw materials to finished goods while it

sought additional financing to deal with the liquidity issues; however, no additional financing was achieved.

10. In order to preserve cash, only necessary expenses have been paid. The Company is running out of cash and is facing an immediate liquidity crisis. The Company is in default to its primary secured lender, 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"), which has security over all of the Company's real and personal property.

11. Terrace Bay is seeking CCAA protection to obtain a stay of proceedings in order to permit Terrace Bay an opportunity to realize on its current inventory and to pursue a sale of its assets and properties for the benefit of all stakeholders in a controlled, court-supervised process. With the assistance of the Proposed Monitor (as defined below), the Company intends to immediately commence the Sales Process (as defined below).

12. It is intended that the Company will continue limited operations of the Mill during the CCAA proceedings, including selling existing pulp inventory, and collecting receivables. The Company will also continue the GTP Project (as defined below), as well as continuing to pursue repair and/or replacement of the blow tank and the damaged equipment and structures, and related insurance claims.

13. Limited operations are necessary to keep the Mill warm to ensure that the Mill and the equipment are protected from the deteriorating effects of the winter

weather, and to minimize the cost of restarting operations for any purchaser of the Mill.

14. It is imperative that the Sales Process commence as soon as possible, as based on the Projected Cash Flow (as defined below), Terrace Bay will run out of cash before the end of April. If a transaction is not concluded in this time frame, the Company will be required to use remaining available funds to implement a complete shutdown and decommissioning of the Mill.

The First CCAA Application

15. The Mill was previously idled on February 23, 2009 as a result of a decline in demand for its product and the effects of the global economic downturn. On March 11, 2009, Terrace Bay filed for and obtained protection from its creditors under the CCAA pursuant to an Order of Mr. Justice Morawetz to enable the Company to pursue a restructuring of its business for the benefit of its stakeholders. Ernst & Young Inc. ("E&Y") was appointed Monitor of Terrace Bay (the "Monitor").

16. On December 18, 2010, the Company obtained an order approving a claims process (the "Claims Process"). On May 21, 2011, Terrace Bay filed a plan of compromise and arrangement (as amended, the "CCAA Plan"). Affected creditors of Terrace Bay approved the CCAA Plan in accordance with the CCAA, and the CCAA Plan was sanctioned by the Court on July 27, 2010 pursuant to an Order of Mr. Justice Morawetz. A copy of the CCAA Plan is attached hereto as Exhibit "A".

17. In accordance with the CCAA Plan, on September 15, 2010 (the "Effective Date"), the Monitor filed a certificate certifying that the conditions set out in Section 8.2 of the CCAA Plan were satisfied (the "Monitor's Certificate").

18. Accordingly, on the Effective Date, Terrace Bay emerged from creditor protection and the Plan became effective in accordance with its terms. The Mill resumed full operations on October 4, 2010. However, the Monitor has not yet been discharged as certain matters relating to the Claims Process remain outstanding.

Business Overview

19. Terrace Bay is an Ontario corporation. The Mill was first constructed in 1948 by the Kimberly-Clark Corporation and has been producing pulp on the northern shore of Lake Superior for over 60 years.

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

21. Terrace Bay is the only pulp mill owned and operated by the Buchanan Group. It was acquired in 2006 from Neenah Paper Inc., which had acquired Terrace Bay from the Kimberly-Clark Corporation in 2004.

22. Terrace Bay is capable of producing various blends of northern bleached softwood kraft pulp and northern bleached hardwood kraft pulp, together with certain other byproducts.

Operational Facilities

23. The corporate head offices of Terrace Bay are located in Thunder Bay, Ontario. The Mill is located at 21 Mill Road, Terrace Bay, Ontario, on real property owned by Terrace Bay. The Mill is a state-of-the-art facility with two fully integrated pulp lines, and three integrated pulp machines, each capable of producing various hardwood and softwood blends.

24. Terrace Bay, when in full operation, operates 24 hours a day, 7 days a week, excluding maintenance shut-downs. The Mill has a rated capacity of approximately 550,000 air-dried metric tonnes of pulp per year for hardwood and softwood combined.

25. Heat for the facility is generated by a steam plant that produces steam on the burning of diesel fuel and hog fuel, generated in the milling process by Terrace Bay. Continued heating of the facilities through the winter months until approximately the end of May is necessary in order to ensure that equipment is not damaged or deteriorated by the winter weather. Decommissioning of the Mill could have significant negative consequences on the value of the Mill and the equipment, and would greatly increase the cost of resuming operations in the event that a going concern sale was completed.

26. Notwithstanding the liquidity crisis of Terrace Bay, certain functions of the Mill need to be maintained, in order that the property and equipment are protected and to remain in compliance with the Company's environmental obligations.

Employees of the Business

27. There are approximately 375 hourly and salaried employees of Terrace Bay, of which 50 are salaried non-union and 325 are hourly employees. Hourly employees are represented by two unions (the "Unions"), the United Steelworkers Association, Local 665, and the International Brotherhood of Electrical Workers, Local 1861. The Company's current collective agreements with its employees are five year contracts agreed to in August 2006, on the acquisition of the business, which have been extended for a further one year period. The Company enjoys positive labour relations.

28. As a result of the idling of the Mill, most of the employees are currently on layoff.

29. Terrace Bay provides its employees with a defined contribution pension plan. As of December 31, 2011, Terrace Bay was up to date with respect to all of its contributions. On the acquisition of Terrace Bay, all of its unfunded legacy pension obligations and post-employment benefit obligations of former employees who retired prior to the purchase of the Mill were retained by the vendor and, as a result, Terrace Bay does not have any unfunded liabilities.

30. During the First CCAA Proceedings, Terrace Bay and the Unions entered into separate Memoranda of Settlement both dated June 11, 2010, both of which were

approved by the Court. Both Memoranda of Settlement provided releases in favour of Terrace Bay for claims against the Company arising out of the relevant collective agreement and/or the *Employment Standards Act* which are based on circumstances that exist or are alleged to exist as of the date of the relevant Memorandum of Settlement.

31. Taras Sawula, Russell York, Aaron Blazina and I are employees of and are paid by Buchanan Sales Inc. ("<u>BSI</u>") and perform various executive functions at Terrace Bay, and will continue to perform such functions that will be central to the Sales Process and the ongoing activities of Terrace Bay. It is contemplated that BSI will be reimbursed by Terrace Bay for such services at rates of $75 - $100/hour, and that Terrace Bay will enter into an agreement substantially in the form of the temporary services agreement attached hereto as Exhibit "B" (the "<u>Temporary Services Agreement</u>"). The Temporary Services Agreement is substantially similar to the agreement entered into between BSI and Terrace Bay in the First CCAA Proceedings in this regard.

<u>Financial Position</u>

32. A true copy of the Company's audited financial statements for the fiscal year ended April 30, 2011 are attached hereto as Exhibit "C". True copies of the interim internal financial statements for the months ended May 30, 2011 to December 31, 2011 are attached here as Exhibit "D" (collectively, the "<u>Interim Statements</u>"). Certain of the schedules to the Interim Statements (the "<u>Schedules</u>") have been removed from the Interim Statements. Such Schedules

contain commercially sensitive information, including detailed information regarding pricing and costs of production.

Assets

33. The Company's assets, as disclosed in its interim financial statements as of December 31, 2011, consist of the following:

Current Assets:	(Canadian dollars)
Cash and cash equivalents	$4,086,310
Receivables, net	$10,376,041
Inventories, net	$15,474,401
Prepaids/Other current assets	$559,855
Total current assets	$30,496,608
Capital	$15,794,000
Total assets	$46,290,607

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

34. Finished inventory is comprised of approximately 3800 air dried metric tonnes of pulp as at January 23, 2012. It is located at the Mill, as well as in warehouses in Thunder Bay, Quebec and Wisconsin. All warehouse costs are fully paid up, as these are paid by BSI, as part of its services provided to Terrace Bay.

Liabilities

Secured Debt of the Company

35. The CCAA Plan was conditional on, among other things, obtaining financing for the Mill's operations. Prior to the Effective Date, financing was obtained from

Callidus Capital Corporation ("Callidus") and the Province. As of the date hereof, all amounts owing to Callidus under an operating facility have been repaid and/or cash collateralized, and Terrace Bay does not intend to make any further borrowings under the Callidus facility. The Company will obtain discharges of the Callidus security in the ordinary course, as and when needed.

The Province

36. The Province advanced $25,000,000 to the Company pursuant to a loan agreement dated September 15, 2010 (the "Province Loan Agreement"). Interest is payable monthly at the annual rate of 7.761%. Attached as Exhibit "E" is a copy of the Province Loan Agreement.

37. The indebtedness of the Company under the Province Loan Agreement is secured by security over all of assets and undertaking of the Company pursuant to a General Security Agreement dated September 15, 2010 (the "General Security Agreement"), and registered under the Ontario *Personal Property Security Act*. Attached as Exhibit "F" is a copy of the General Security Agreement.

38. The indebtedness is also secured by a collateral mortgage dated September 15, 2010 registered against the Company's real property, a copy of which is attached as Exhibit "G".

39. Terrace Bay is in default under the Province Loan Agreement as, among other things, scheduled payments under the Province Loan Agreement have not been made to the Province for the months of December and January. As of January 23,

2012, the principal amount of $24,166,666.00, together with interest accrued thereon to January 23, 2012, remains outstanding under the Province Loan Agreement.

The Plan Noteholders

40. In accordance with the CCAA Plan, on the Effective Date, the Company issued a promissory note in the principal amount of $30,000,000 (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). The amount payable under the Plan Note is dependant on the cumulative total net income of the Company from the Effective Date to the maturity date.

41. The Plan Note matures on the earlier of:

(a) six (6) years from the Effective Date of the Plan, or

(b) one year following repayment by the Company of all amounts owing to the Province under the Province Loan Agreement and the agreement between, among others, the Company and the Province with respect to unpaid stumpage fees payable by certain members of the Buchanan Group dated as of September 15, 2010 (the "Stumpage Agreement").

42. However, the Company's filing under the CCAA is an event of default under the Plan Note, entitling the Trustee to accelerate the amount payable under the Plan Note. The amount owing under the Plan Note upon acceleration would be based on the total net income of the Company from the Effective Date to the date of acceleration. Based on the total net income of Company from the Effective Date

to the date hereof, the amount payable under the Plan Note is $10 million. The obligations under the Plan Note do not bear interest.

43. The obligations under the Plan Note are secured by all assets, property and undertaking of the Company.

Priorities

44. Pursuant to Section 3.4 of the Plan Note Indenture dated as of September 15, 2010 (the "Plan Note Indenture") governing the Plan Note, no payment may be made under the Plan Note until, among other things, all obligations of the Company under the Province Loan Agreement and the Stumpage Agreement have been paid in full and all commitments under the Province Loan Agreement have been terminated. As such, there will be no recovery under the Plan Note unless proceeds raised from the Sales Process exceed the total indebtedness owing to the Province. A true copy of the Plan Note Indenture is attached hereto as Exhibit "H".

Other Secured Creditors

45. In addition to Callidus, the Province and the Trustee, security registrations have also been made against the Company by Nexcap Finance Corporation in Alberta and Manitoba. As no obligations are owing to Nexcap Finance Corporation, the Company is in the process of obtaining discharges.

46. Attached hereto as Exhibit "I" is a summary of personal property security registrations made against the Company in Ontario, Manitoba, Alberta, Quebec, New York, Wisconsin and District of Columbia.

47. Pursuant to the Settlement Agreement dated August 13, 2010 between the Company and The Corporation of the Township of Terrace Bay, the Company has agreed to make payment of certain deferred municipal realty taxes and accrued interest by December 31, 2012. The approximate amount of $571,000 is currently owing to the Township with respect to the deferred municipal realty taxes. Other than the deferred municipal realty taxes, the Company is current on all other municipal realty taxes.

48. Terrace Bay is also aware of four (4) *Repair and Storage Lien Act* liens registered by Thunderpine Leasing Inc. ("Thunderpine") against a certain piece of equipment owned by Terrace Bay and repaired by Thunderpine, which is a party related to the Buchanan Group.

Unsecured Liabilities

49. The Company has approximately $14.5 million of trade liabilities as of December 31, 2011 (including intercompany payables described below). Of that amount, $9,199,572.63 relates to construction lien claims that have been registered against Terrace Bay's real property (collectively, the "Construction Lien Claimants") as of January 18, 2012. Many of the Construction Lien Claimants will be paid from funds received from Natural Resources Canada ("NRC") in connection with the GTP Project (defined below).

50. The Company also has intercompany payables owing to other members of the Buchanan Group for the supply of goods and services. As of December 31, 2011, the amount owing by Terrace Bay was approximately $432,000.

51. The Company, when in full operation, incurs payroll expenses of approximately $1 million bi-weekly. The Company will have severance and termination obligations to employees in the event that Terrace Bay is unsuccessful in achieving a going concern sale resulting in the continued operation of the Mill.

52. On January 6, 2012, Terrace Bay was charged with offences under the *Occupational Health and Safety Act* (the "OHSA") in connection with an accident that occurred in January, 2011. Certain members of the management team have been charged in connection with this accident (collectively, the "OHS Employees") and require independent legal counsel. Given that these are key employees who will be needed in order to restart the Mill, it is contemplated that their defence will be funded by Terrace Bay. As such, the Projected Cash Flow contemplates a retainer in the amount of $20,000 be paid to the independent legal counsel of the OHS Employees. The October 31 Accident is still under investigation, and it is not known whether any charges will be laid in connection therewith.

Priority Statutory Liabilities

53. The Company has maintained its obligations for payroll, source deductions, and HST throughout, and is not in arrears in respect of these items. The Company is current in respect of its income taxes.

Insurance

54. Terrace Bay maintains general liability insurance and property, boiler and machinery insurance in connection with the Mill, which insurance expires on January 31, 2012 (the "Insurance"). The Company's insurer has indicated its intention not to renew the Insurance. Terrace Bay is diligently pursuing various avenues in order to obtain adequate insurance.

Need for Stay

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

Steps Proposed under the CCAA

56. Terrace Bay intends to pursue a sales process for the sale of all or substantially all of the assets and properties of Terrace Bay (the "Sales Process") under the supervision of E&Y, the proposed court-appointed monitor (in such capacity, the "Proposed Monitor"). The Sales Process will propose a deadline of February 15, 2012 for the receipt of letters of intention to purchase the assets and properties of Terrace Bay, and propose a deadline of April 16, 2012 to consummate a transaction with a purchaser identified in the Sales Process. The Company will consider offers from financial and strategic parties, including liquidators. The terms and conditions of the Sales Process are attached hereto as Exhibit "J".

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

58. Certain ancillary assets not used in connection with Terrace Bay's business, including a golf course and certain lake front real estate (the "Non-Business Assets") will be marketed by Terrace Bay in an appropriate manner and with the assistance of the Proposed Monitor. Any proposed sale of a Non-Business Asset will be subject to court approval.

Payments

59. A projected cash flow of the Company has been prepared for the purposes of these proceedings, from January 22, 2012 through the week of May 5, 2012 (the "Projected Cash Flow"). A copy of the Projected Cash Flow, along with management's Report on Cash Flow Statement, is attached hereto as Exhibit "K". The Company intends to make current payments as set out in the draft Initial Order and Projected Cash Flow while in CCAA protection.

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

Financing During the Process

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

62. The Company has had discussions and has met on several occasions with the Province to discuss its current financial difficulties and consider a potential forbearance agreement or other arrangement with the Province outside of an insolvency proceeding. No arrangement was successfully completed.

GTP Project

63. The Company has obtained funding from NRC under the Pulp and Paper Green Transformation Program, which provides financing for approved capital projects that offer demonstrable environmental benefits, such as improvements to their energy efficiency or their capacity to produce alternative energy.

64. Specifically, NRC has approved two projects targeting certain capital investments to improve the environmental performance of the Mill by reducing greenhouse gas emissions as well as particulates and sulphur dioxide emissions, and increasing the power generated from renewable resources at the Mill (the "GTP Project"). The completion of the GTP Project is required by March 31, 2012, when the Pulp and Paper Green Transformation Program expires. New emissions rules coming into effect in 2013 necessitate the GTP Project. As such, the

completion of the GTP Project is necessary to preserve the value of the Terrace Bay business and to make the Mill more attractive to potential purchasers.

65. Pursuant to the GTP Project, the Company hires contractors and/or utilizes its own tradespeople to complete the work and submits the invoices received to Natural Resources Canada for reimbursement. There is approximately $420,000 owing to contractors hired to complete the GTP Project for work performed to October 31, 2011. Subject to Court approval, Terrace Bay intends to pay the contractors for the work performed to October 31, 2011 from its cash resources, as it is already in receipt of payment from NRC.

66. In addition, approximately $5 million is owed to GTP Project contractors for work performed in November and December, which expenses have been submitted to NRC for reimbursement. Subject to Court approval, and provided the Company obtains the continued cooperation of NRC, the amounts owing for November and December, once received by Terrace Bay, will be directed to the applicable contractors.

67. The costs to continue the GTP Project, subject to approval and cooperation of NRC, will be funded wholly by NRC and, as such, will not prejudice stakeholders. Stakeholders will benefit from the completion of the GTP Project, which will also enhance the value of the Mill.

Insurance and Repairs

68. As noted above, the explosion of the blow tank on October 31, 2011 damaged certain equipment and structures necessary for the efficient operation of the Mill. The Company intends to pursue repair or replacement of the necessary equipment and related structures from available cash. The Company is currently assessing the necessary repair and replacement expense and will be making an insurance claim for reimbursement. A further claim under the Company's business interruption insurance is also being pursued, which may result in additional cash flow for the Company.

The Proposed Monitor

69. E&Y has agreed to act as court-appointed monitor in these proceedings. It is proposed that this Honourable Court authorize E&Y, in its sole discretion, to suspend performance of any of its remaining duties as the Monitor of the Company in the First CCAA Proceedings. As well, Terrace Bay will seek an order providing that the liabilities and obligations of the Company to E&Y pursuant to paragraph 23 of the Order made by this Court on July 27, 2010 in the First CCAA Proceedings remain in full force and effect, shall be paid by the Company and are to be secured by the Administration Charge (defined below).

Officers and Directors

70. In order to continue to carry on business during these proceedings, the Company requires at least one director (the "Director"). Although the Company intends to

comply with applicable laws with respect to matters affecting it, including, without limitation, wages, employee source deductions, vacation pay, HST, provincial sales tax and regulatory trust fund requirements, the failure to successfully complete the Sales Process may result in significant personal liabilities for the Director.

71. While the Director has the benefit of a D&O liability insurance policy, there may liabilities for which insurance coverage is not available, including certain environmental liabilities. As such, the Company requests an unlimited charge (the "Directors' Charge") to indemnify the Director in respect of any such liabilities as the Director may incur in these proceedings in the event that coverage under the current insurance policy is inadequate. As the sole Director, I have indicated to the Company that, due to the potential personal exposure associated with Terrace Bay, I will not continue my service with Terrace Bay unless the Initial Order grants such a charge on the Company's property.

Administration Charge

72. In order to protect the fees and expenses of the Proposed Monitor, counsel to the Proposed Monitor, and counsel to Terrace Bay, the Company seeks a charge in the amount of $750,000 (the "Administration Charge") in favour of such professionals to secure payments of their reasonable fees, expenses and disbursements incurred in the period prior to filing for the Initial Order, and the fees, expenses and disbursements to be incurred post-filing. It is requested that

the Administration Charge have first priority against the property of the Company, subject to certain limitations as contained in the draft Initial Order.

Conclusion

73. The Initial Order sought will provide an immediate stay and an opportunity for Terrace Bay to immediately pursue the Sales Process that will seek to preserve the business as a going concern for the benefit of all stakeholders. It will also permit Terrace Bay to maximize value for creditors by providing a stable environment in which it can convert log and chip inventory to finished product and sell it, if an economic arrangement can be reached, recover on its existing pulp inventory, and collect its outstanding receivables.

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

SWORN BEFORE ME at the City of Thunder Bay, in the Province of Ontario this 24th day of January	)))))	
A Commissioner, etc. B. PAUL JASIURA		WOLFGANG GERICKE

Court File No.

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

Applicant

ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST

Proceeding commenced at Toronto

AFFIDAVIT OF WOLFGANG GERICKE
(Sworn January 24, 2012)

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

Pamela Huff LSUC# 27344V
Tel: (416) 863-2958
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Tel: (416) 863-3174
Fax: (416) 863-2653

Lawyers for the Applicant

TAB B

This is **Exhibit "B"** referred to in the Affidavit of Wolfgang Gericke sworn the 10^{th} day of July, 2012

A Commissioner, etc.

B. PAUL JASIURA

Blake, Cassels & Graydon LLP
Barristers & Solicitors
Patent & Trade-mark Agents
199 Bay Street
Suite 4000, Commerce Court West
Toronto ON M5L 1A9 Canada
Tel: 416-863-2400 Fax: 416-863-2653

Kristina Desimini
Dir: 416-863-2255
kristina.desimini@blakes.com

July 5, 2012

Reference: 71942/4

VIA E-MAIL

Attached Service List

Re: Terrace Bay Pulp Inc. - Sale Approval and Stay Extension

To the Service List:

We are very pleased to advise the Service List that Terrace Bay Pulp Inc. (the "**Applicant**") has entered into an Asset Purchase Agreement with AV Terrace Bay Inc., an affiliate of Aditya Birla Group.

We wish to provide you with this notice that the Applicant will make a motion to a Judge presiding over the Commercial List on July 16, 2012 at 10:00 a.m. seeking, among other things, an approval and vesting order with respect to the sale contemplated by the Asset Purchase Agreement, and an extension of the stay of proceedings. At the same time, the Applicant will be seeking approval of the transfer to the Township of Terrace Bay (the "**Town**") of lands on which the pumphouse is situated, and the grant of an easement to the Town for related pumphouse infrastructure over adjoining lands.

The Applicant's motion materials in support of this relief will be provided to the Service List early next week.

Sincerely,

Kristina Desimini

Attachment

12575741.2

TAB C

This is **Exhibit "C"** referred to in the Affidavit of Wolfgang Gericke sworn the 10th day of July, 2012

Jasiura

A Commissioner, etc.

B. PAUL JASIURA

ASSET PURCHASE AGREEMENT

by and between

Terrace Bay Pulp Inc.

(as the Seller)

AND

AV Terrace Bay Inc.

(as the Purchaser)

Dated as of July 5, 2012

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This **ASSET PURCHASE AGREEMENT** dated as of July 5, 2012 (the "Execution Date") is made by and between Terrace Bay Pulp Inc. (the "Seller"), and AV Terrace Bay Inc. (the "Purchaser").

WHEREAS:

Prior to its shutdown in October, 2011, the Seller operated a pulp mill located at 21 Mill Road in the Township of Terrace Bay, Ontario (the "Mill") 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");

Pursuant to the order of the Court (as defined herein) dated January 25, 2012 (as amended and restated, the "Initial Order"), the Seller filed for and obtained protection under the *Companies' Creditors Arrangement Act* (the "Proceedings") and Ernst & Young Inc. was appointed as the court-appointed monitor (the "Monitor");

Pursuant to the Initial Order, the Seller, with the assistance of the Monitor, was authorized to conduct a sales process for the solicitation of offers in accordance with the Sales Process Terms (as defined therein) to, among other things, market the sale of the Mill and the Purchased Assets (as defined herein);

Pursuant to the offer dated March 16, 2012 (the "Offer") submitted by the Purchaser to the Seller, the Purchaser made an offer to purchase all of the assets of the Seller related to the Mill, subject to, among other things, consummation of this Agreement;

The Seller has selected the Offer as the Accepted Offer (as defined in the Sales Process Terms) and desires to sell, transfer and assign to the Purchaser, and the Purchaser desires to acquire and assume from the Seller, the Purchased Assets and the Assumed Liabilities (as defined herein) on the terms and conditions more particularly set forth in this Agreement; and

The transactions contemplated by this Agreement and the Ancillary Agreements (as defined herein) are subject to the approval of the Court and will be consummated only pursuant to the Approval and Vesting Order (as defined herein) to be entered in the Proceedings.

NOW THEREFORE, in consideration of the foregoing and their respective representations, warranties, covenants and agreements herein contained, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and intending to be legally bound hereby, the Seller and the Purchaser hereby agree as follows:

ARTICLE 1
DEFINITIONS

1.1 Certain Terms Defined. As used in this Agreement, the following terms have the following meanings:

"Accounts Receivable" means all monies, sums and amounts owed to the Seller arising from, relating to or in connection with all accounts receivable, trade receivables, bills receivable, trade accounts, book debts, notes receivables, rebates, refunds and other receivables and rights to the payment of money relating to the operation of the Business which remain uncollected or unreceived as of the Closing Date, whether current or overdue, together with all interest accrued on such items.

"Agreement" means this Asset Purchase Agreement, including all Schedules hereto, as may be amended from time to time in accordance with the terms hereof.

"Allocation Statement" has the meaning set forth in Section 3.3(a).

"Ancillary Agreements" means the Bill of Sale, the Assignment and Assumption Agreement and any other agreement, document or instrument contemplated in this Agreement or that the Seller or the Purchaser enter into in connection with the consummation of the transactions contemplated hereby.

"Approval and Vesting Order" means an order issued by the Court approving this Agreement, the transactions contemplated by this Agreement, and conveying to the Purchaser all of the Seller's right, title and interest in and to the Purchased Assets free and clear of all Liens (other than Permitted Liens) in substantially the form attached hereto as Schedule 1.1(a).

"Assignment and Assumption Agreement" means an assignment and assumption agreement in form and substance satisfactory to the parties to this Agreement, acting reasonably, evidencing the assignment to and assumption by the Purchaser of all of the Assumed Liabilities, including the rights and obligations under the Contracts of the Seller.

"Assumed Liabilities" has the meaning set forth in Section 2.3.

"Bill of Sale" means a bill of sale in form and substance satisfactory to the parties to this Agreement, acting reasonably, duly executed by the Seller, conveying to the Purchaser, all of the Seller's right, title and interest in and to the Purchased Assets.

"Business" has the meaning set forth in the recitals.

"Business Day" means any day other than Saturday, Sunday and any day that is a legal holiday or a day on which banking institutions in the Province of Ontario are authorized by Law or other governmental action to close.

"Capital Stock" means any and all shares, interests, participations or other equivalents (however designated) of capital stock of a corporation and any and all ownership interests in a person (other than a corporation), including membership interests, limited liability company interests, partnership interests, joint venture interests and beneficial interests, and any and all warrants, options or other rights to purchase any of the foregoing.

"Cash Purchase Price" has the meaning set forth in Section 3.1(a)(i).

"Casualty" has the meaning set forth in Section 6.5.

"Closing" has the meaning set forth in Section 10.1.

"Closing Date" means (i) the second Business Day following the date of issuance of the Approval and Vesting Order, as may be extended by the Purchaser, or (ii) if a stay or injunction or other order or ruling contemplated by Section 9.1(d) or Section 9.2(d) is granted in respect of the Approval and Vesting Order, the second Business Day immediately following the date on which such stay and/or injunction or such other order or ruling has been dismissed, withdrawn, vacated or otherwise disposed of, as may be extended by the Purchaser, but in any event no later than July 31, 2012 in any such case.

"Collective Bargaining Agreements" means the Steelworkers Agreement and the IBEW Agreement and all, letters of understanding and letters of intent or similar agreements incorporated into or forming part of the Steelworkers Agreement and the IBEW Agreement.

"Contract" means an agreement, contract, Lease, sublease, purchase order, arrangement, license, commitment or other binding arrangement or understanding, listed in Schedule 1.1(b), and any amendments, modifications or supplements thereto and includes any confidentiality agreement entered into by any Person (other than the Purchaser) under or pursuant to the Sales Process.

"Court" means the Ontario Superior Court of Justice (Commercial List).

"Deposit" has the meaning set forth in Section 3.2(a).

"Documents" means all files, documents, instruments, papers, books, reports, records, tapes, microfilms, photographs, letters, budgets, forecasts, ledgers, journals, title policies, customer lists, invoices, regulatory filings, operating data and plans, technical documentation (design specifications, functional requirements, operating instructions, repair data, manuals, flow charts, etc.), user documentation (installation guides, user manuals, training materials, release notes, working papers, etc.), marketing documentation (sales brochures, flyers, pamphlets, web pages, etc.), cost of pricing information, business plans, quality control records and procedures, blueprints, accounting and tax files, all files, customer files and documents (including credit information), personnel files for employees, supplier lists, records, literature and correspondence, including all records relating to the Seller Pension Plans, materials relating to Inventories, services, marketing, advertising, promotional materials, Intellectual Property, and other similar materials to the extent related to, used in, held for use in, or with respect to, the Purchased Assets in each case whether or not in electronic form, whether or not physically located at the Mill, but excluding any solicitor-client privileged documents and any materials exclusively related to any Excluded Assets.

"Employee" means any Unionized Employee or Non-Unionized Employee.

"Environmental Condition" has the meaning set forth in Section 4.4.

"Excluded Assets" has the meaning set forth in Section 2.2.

"Excluded Real Property" means, collectively, the land, facilities, Improvements, appurtenances, buildings, structures and fixtures of every nature other than the Real Property, including as set forth in Schedule 1.1(c) hereof.

"Execution Date" has the meaning set forth in the preamble.

"Filing Date" means January 25, 2012.

"FF&E" means all equipment, machinery, fixtures, furniture, motor vehicles, computers, printers, tools, telephone systems, furnishings, artwork and plates and any related capitalized items and other tangible property of every kind, nature and description (unless sold to any third party in the ordinary course of business and not in violation of this Agreement), used or useful in the operation of the Purchased Assets, including any of the foregoing in possession of suppliers, customers and other third parties (including all such property that is damaged).

"General Intangibles" means all intangible assets now owned (or acquired by the Seller prior to the Closing Date), including all right, title and interest the Seller has in or under any Contract, all payment intangibles, interest in business associations, licenses, Permits, approvals and authorizations which the Seller holds for the Purchased Assets from any Governmental Authority that relate to the Purchased Assets, proprietary or confidential information, technical information, or procedures.

"Governmental Authority" means any foreign or domestic federal, state, county, provincial, district, municipal, territorial, local, court, tribunal, governmental department, agency, board, ministry or commission, instrumentality, arbitrator, arbitral body, self regulatory organization, regulatory or supervisory authority, or other administrative, governmental or quasi-governmental body, subdivision or instrumentality.

"IBEW Agreement" means the Collective Bargaining Agreement dated August 29, 2006, as amended, between the Seller and the International Brotherhood of Electrical Workers, Local 1861.

"Improvements" means all buildings, structures, systems, facilities, easements, rights-of-way, privileges, improvements, licenses, hereditaments, appurtenances and all other rights and benefits.

"Initial Order" has the meaning set forth in the recitals.

"Intellectual Property" means all rights in and to (a) patents, patent applications and patent disclosures, together with all reissuances, continuations, continuations in part, revisions, extensions, reexaminations, provisionals, divisions, renewals, revivals, and foreign counterparts thereof and all registrations and renewals in connection therewith, (b) trademarks, service marks, trade dress, logos, trade names and corporate names and other indicia of origin and corporate branding, together with all translations, adaptations, derivations and combinations thereof and including all goodwill associated therewith, and all applications, registrations and renewals in connection therewith, (c) works of authorship, copyrightable works, copyrights and all applications, registrations and renewals in connection therewith, (d) mask works and all applications, registrations and renewals in connection therewith, (e) trade secrets, inventions and confidential business information (including ideas, research and development, know-how, formulas, compositions, manufacturing and production processes and techniques, technical data, designs, drawings, specifications, customer and supplier lists, pricing and cost information, business and marketing plans and proposals, assembly, test, installation, service and inspection instructions and procedures, technical, operating and service and maintenance manuals and data, hardware reference manuals and engineering, programming, service and maintenance notes and logs), (f) Software, (g) internet addresses, uniform resource locaters, domain names, websites, internet service provider contracts, e-mail accounts and web pages, (h) any and all other intellectual property and proprietary rights, (i) company-wide telephone numbers, and (j) goodwill related to all of the foregoing, in each case to the extent used or useful in the operation of or related to the Purchased Assets.

"Inventories" means all inventories of stock-in-trade and merchandise including raw materials, supplies, work-in-process, tooling, service parts, finished goods, wrapping, supply and packaging items related to the Purchased Assets, and located at the Mill and also including the inventory of logs listed in Schedule 1.1(d), owned by the Seller on the Closing.

"Law" means any federal, state, provincial, county, territorial, district, municipal, local, foreign, supranational or international law, statute, ordinance, regulation, by-law, rule, code, treaty or rule of common law or otherwise of, or any order, judgment, injunction, decree or similar authority enacted, issued, promulgated, enforced or entered by, any Governmental Authority.

"Lease" means any lease on any portion or component of the real or personal property used in connection with the Purchased Assets under which the Seller is the lessee.

"Leased Property" means the real property leased, subleased or licensed by the Seller as tenant, subtenant or licensee which is used in connection with the Purchased Assets, including the Seller's interest in land, facilities, Improvements, appurtenances, buildings, structures and fixtures located thereon.

"Lien" means all "Claims" and "Encumbrances", as such terms are defined in the Approval and Vesting Order.

"Loss" has the meaning set forth in Section 6.6.

"Mill" has the meaning set forth in the recitals.

"Monitor" has the meaning set forth in the recitals.

"Monitor's Certificate" means the certificate to be delivered on Closing and thereafter filed by the Monitor with the Court certifying that all conditions of Closing have been satisfied or waived.

"Non-Pension Benefit Plan" has the meaning set forth in Section 6.4(d).

"Non-Transferred Employee" has the meaning set forth in Section 6.4(a).

"Non-Unionized Employee" means any employee employed by the Seller on the date immediately prior to the Closing Date whose employment is not subject to the terms of any of the Collective Bargaining Agreements, and includes any individual who was on an approved leave of absence, layoff or disability on the date immediately prior to the Closing Date, which list of employees shall be confirmed by the Purchaser prior to the Closing.

"Offer" has the meaning set forth in the recitals.

"Permits" means all certificates of occupancy or other certificates, permits, authorizations, filings, approvals and licenses used, useable and useful in the operation of the Mill or the use or enjoyment or benefit of the Purchased Assets.

"Permitted Liens" means: (a) Liens for current and future Taxes, assessments or other governmental charges not yet due or payable, or which are being contested in good faith by appropriate proceedings but not including any Taxes in arrears or any penalties thereon, and specifically excluding all arrears and penalties for any municipal taxes; (b) statutory Liens arising in the ordinary course of business that are not overdue and that do not materially affect the value or use of the affected asset; (c) pledges or deposits in connection with workers' compensation, unemployment insurance and other social security legislation; (d) easements, rights-of-way, servitudes, restrictions, zoning, building codes or other land use Laws, development agreements, development permits, building covenants, encroachment agreements, reciprocal access agreements, by-laws, municipal agreements, license agreements and other similar encumbrances other than monetary encumbrances, judgments and monetary Liens that in each case do not in any case materially detract from the value or use of the property subject thereto or materially interfere with the ordinary conduct of the Mill or the Purchased Assets; (e) minor title defects or irregularities consisting of minor survey exceptions, restrictions in the original grant from the Crown or any other Governmental Authority and other minor unregistered restrictions as to the use of the Real Property that in each case do not materially detract from the value or use of the property subject thereto or materially interfere with the ordinary conduct of the Mill or the Purchased Assets; and (f) Liens identified on Schedule 1.1(f).

"Person" means any individual, corporation, partnership, limited liability company, firm, joint venture, association, joint stock company, trust, unincorporated organization, Governmental Authority or other entity.

"Proceedings" has the meaning set forth in the recitals.

"Purchase Price" has the meaning set forth in Section 3.1(a).

"Purchased Assets" means the tangible and intangible assets, properties, rights, interests, claims and Contracts of the Seller related to the operation of the Mill (other than Excluded Assets), wherever located, as of the Closing, including the following assets, to the extent related to the operation of the Mill, if any:

(a) all Inventories;

(b) the Real Property;

(c) all rights of the Seller under or pursuant to the Contracts;

(d) all FF&E;

(e) all Intellectual Property to the extent assignable under applicable Law;

(f) all Documents;

(g) all Permits, to the extent such Permits are assignable under applicable Law;

(h) all rights under or arising out of all insurance policies relating to the Purchased Assets and all claims thereunder, unless non-assignable as a matter of law;

(i) all rights under non-disclosure or confidentiality, non-compete, or non-solicitation agreements with Employees and/or agents or with third parties;

(j) any rights, claims or causes of action for claims arising out of the operation of the Mill;

(k) all rights under or pursuant to all warranties, representations and guarantees made by suppliers, manufacturers and contractors to the extent relating to products sold, or services provided, in connection with the Mill or to the extent affecting any Purchased Asset;

(l) all goodwill and other General Intangibles associated with the Mill and the Purchased Assets, including customer and supplier lists; and

(m) all proceeds of any or all of the foregoing received or receivable after the Closing Date.

"Purchaser" has the meaning set forth in the preamble.

"Real Property" means, collectively, all of the land, facilities, Improvements, appurtenances, buildings, structures, and fixtures of every nature whatsoever (including, without limitation, the Mill) and the Leased Property located at the legal description set forth in Schedule 1.1(g).

"Replacement Plan" has the meaning set forth in Section 6.4(e).

"Representatives" means, with respect to any Person, the directors, officers, employees, agents, consultants, and professional advisors and solicitors of such Person.

"Salaried Pension Plan" has the meaning set forth in Section 6.4(f).

"Sales Process" has the meaning set forth in the Initial Order.

"Schedules" means, collectively, the schedules set forth in this Agreement.

"Seller" has the meaning set forth in the preamble.

"Seller Pension Plans" means, collectively, the Union Pension Plan and the Salaried Pension Plan.

"Seller's Severance Costs" means the costs incurred by the Seller in providing a Non-Transferred Employee with all of his or her legal entitlements upon termination of employment without cause (on the basis of recognition of full Service) including, accrued and outstanding wages, vacation pay and other compensation through the last date of the employee's employment; statutory notice or pay in lieu of such notice and severance pay under applicable employment standards legislation; reasonable notice or pay in lieu of such notice under the common law; and benefit continuation or compensation in lieu of benefit continuation through the applicable statutory or common law notice period.

"Service" means the most recent period of continuous employment with the Seller.

"Settlement Agreement" means the agreement to be entered into between the Township of Terrace Bay and the Seller with respect to amounts which may be owing by the Seller to the Township of Terrace Bay in respect of treated water for the period prior to the Closing.

"Severance Costs" means the costs incurred by the Purchaser in providing a Transferred Employee with all of his or her legal entitlements upon termination of employment without cause (on the basis of recognition of full Service) including, accrued and outstanding wages, vacation pay and other compensation through the last date of the employee's employment; statutory notice or pay in lieu of such notice and severance pay under applicable employment standards legislation; reasonable notice or pay in lieu of such notice under the common law; and benefit continuation or compensation in lieu of benefit continuation through the applicable statutory or common law notice period.

"Software" means any computer program, operating system, application, system, firmware or software of any nature, point-of-entry system, peripherals, and data whether operational, active, under development or design, nonoperational or inactive, including all object code, source code, comment code, algorithms, processes, formulae, interfaces, navigational devices, menu structures or arrangements, icons, operational instructions, scripts, commands, syntax, screen designs, reports, designs, concepts, visual expressions, technical manuals, tests scripts, user manuals and other documentation therefor, whether in machine-readable form, virtual machine-readable form, programming language, modeling language or any other language or symbols, and whether stored, encoded, recorded or written on disk, tape, film, memory device, paper or other media of any nature, and all databases necessary or appropriate in connection with the operation or use of any such computer program, operating system, application, system, firmware or software.

"Steelworkers Agreement" means the Collective Bargaining Agreement dated August 29, 2006, as amended, between the Seller and the United Steelworkers Association, Local 665.

"Tax" or "Taxes" means any federal, state, provincial, municipal, territorial, county, district, local or foreign taxes, charges, fees, levies or other assessments, all taxes, however denominated, including any interest, fines and penalties (civil or criminal) or additions to tax that may become payable in respect thereof, imposed by any Governmental Authority, whether payable by reason of contract, assumption, transferee liability or operation of law, which taxes shall include all taxes levied on net income, gross income, payroll and employee withholding, employment and unemployment insurance, social security (or similar), sales and use, goods and services, harmonized sales, excise, ad valorem, franchise, gross receipts, occupation, real and personal property, stamp, transfer, land transfer, gains, profits, capital stock, workers' compensation, customs duties, registration, documentary, value-added, alternative or add-on minimum, estimated, environmental and other assessments or obligations of the same or a similar nature, whether arising before, on or after the Closing Date.

"Tax Return" means any report, return, information return, election, agreement, declaration, filing or other information, including any schedules, exhibits or attachments thereto, and any amendments to any of the foregoing required to be filed or maintained with any applicable Governmental Authority in connection with the calculation, determination, assessment or collection of any Taxes (including estimated Taxes).

"Transaction Taxes" has the meaning set forth in Section 7.1.

"Transferred Employees" has the meaning set forth in Section 6.4(a).

"Unionized Employee" means any employee employed by the Seller on the date immediately prior to the Closing Date whose employment is subject to the terms of a Collective Bargaining Agreement, and includes any individual who was on layoff, disability or on an approved leave of absence on the date immediately prior to the Closing Date, which list of employees shall be confirmed by the Purchaser prior to the Closing.

"Union Pension Plan" has the meaning set forth in Section 6.4(f).

1.2 Interpretation.

(a) When a reference is made in this Agreement to a section or article, such reference shall be to a section or article of this Agreement unless otherwise clearly indicated to the contrary.

(b) Whenever the words "include", "includes" or "including" are used in this Agreement they shall be deemed to be followed by the words "without limitation".

(c) The words "hereof", "herein", "hereunder" and "herewith" and words of similar meaning shall, unless otherwise stated, be construed to refer to this Agreement as a whole and not to any particular provision of this Agreement, and article, section, paragraph and schedule references refer to the articles, sections, paragraphs and Schedules of this Agreement unless otherwise specified.

(d) The meaning assigned to each term defined herein shall be equally applicable to both the singular and the plural forms of such term. Where a word or phrase is defined herein, each of its other grammatical forms shall have a corresponding meaning.

(e) A reference to any party to this Agreement or any other agreement or document shall include such party's successors and permitted assigns; provided, however, that nothing contained in this clause (e) is intended to authorize any assignment or transfer not otherwise permitted by this Agreement.

(f) A reference to any legislation or to any provision of any legislation shall include any amendment to, and any modification or reenactment thereof, any legislative provision substituted therefor and all regulations and statutory instruments issued thereunder or pursuant thereto.

(g) When calculating the period of time before which, within which or following which any act is to be done or step taken pursuant to this Agreement, the date that is the reference date in calculating such period shall be excluded. If the last day of such period is a non-Business Day, the period in question shall end on the next succeeding Business Day.

(h) Any reference in this Agreement to "$" or "Canadian Dollars" shall mean the lawful currency of Canada.

(i) The parties hereto have participated jointly in the negotiation and drafting of this Agreement and, in the event an ambiguity or question of intent or interpretation arises, this Agreement shall be construed as jointly drafted by the parties hereto and no presumption or burden of proof shall arise favoring or disfavoring any party by virtue of the authorship of any provision of this Agreement.

1.3 Payments. All payments required to be made hereunder shall be paid in cash, by certified cheque, bank draft, wire transfer or other immediately available funds in Canadian Dollars.

ARTICLE 2
PURCHASE AND SALE OF THE PURCHASED ASSETS

2.1 Purchase and Sale of Purchased Assets. On the terms and subject to the conditions set forth in this Agreement, at the Closing, the Purchaser shall purchase, acquire and accept from the Seller, and the Seller shall sell, transfer, assign, convey and deliver to the Purchaser, all of the Seller's right, title and interest in, to and under the Purchased Assets, which will be, pursuant and subject to the Approval and Vesting Order, free and clear of all Liens (other than Permitted Liens).

2.2 Excluded Assets. Notwithstanding anything to the contrary in this Agreement, nothing herein shall be deemed to sell, transfer, assign or convey the assets set forth in Schedule 2.2 and any of the following assets (collectively, the "Excluded Assets"):

(a) cash, cash equivalents and marketable securities;

(b) any Accounts Receivable;

(c) any asset that otherwise would constitute a Purchased Asset but for the fact that it is conveyed, leased or otherwise disposed of in the ordinary course of business prior to the Closing Date not in violation of this Agreement;

(d) the corporate books and records of internal corporate proceedings, Tax records, work papers and other records (other than the Documents) that the Seller is required by Law to retain, provided that copies of such books and records will be made available to the Purchaser from and after the Closing;

(e) the rights of the Seller under this Agreement or any Ancillary Agreements and all cash and non-cash consideration payable or deliverable to the Seller under this Agreement or any Ancillary Agreements;

(f) the Capital Stock of the Seller;

(g) bank accounts of the Seller;

(h) all deposits (including the Deposit, except for the portion that shall be paid by the Monitor to the Purchaser in accordance with Section 3.2(a) hereof) and, with respect to the Purchased Assets, customer deposits and security deposits (whether maintained in escrow or otherwise) for rent, electricity, telephone, insurance or otherwise) and prepaid charges and expenses as they relate to the Purchased Assets;

(i) the Excluded Real Property;

(j) income tax refunds and other Tax refunds receivable by the Seller and all tax attributes of the Seller, including any HST refunds; and

(k) all causes of action which arise from loss, damage or facts occurring prior to the Closing and any insurance proceeds or claims payable for losses or damages incurred prior to the Closing, other than any insurance proceeds or rights thereto assigned to the Purchaser in accordance with Section 6.5 or as otherwise provided in Schedule 2.2.

2.3 Assumption of Liabilities. Upon the terms and subject to the conditions of this Agreement, the Purchaser agrees, effective at the time of the Closing, to assume and be responsible for and thereafter pay, perform, honor and discharge, as and when due, the following liabilities and obligations (collectively, the "Assumed Liabilities"):

(a) all of the Seller's liabilities and obligations under the Contracts arising and accruing from and after the Closing and any payments or obligations required to be paid, performed or discharged to effect assignment of such Contracts, but only to the extent that such Contracts are effectively assigned to the Purchaser;

(b) all ordinary course liabilities and obligations with respect to the Purchased Assets arising and accruing from and after the Closing to the extent relating to the operation of the Mill and/or ownership of the Purchased Assets from and after the Closing;

(c) all liabilities for salaries, wages, bonuses, commissions, vacations, vacation pay and other compensation relating to employment with respect to Transferred Employees arising and accruing after the Closing (including those arising as a result of this transaction), all accrued vacations and vacation pay owing to Transferred Employees arising and accruing prior to the Closing, and all Severance Costs;

(d) all liabilities and obligations under the Collective Bargaining Agreements;

(e) the Seller Pension Plans and all related liabilities and obligations;

(f) all commitments of the Seller as of the Closing to sell and deliver Inventory under the Contracts after the Filing Date;

(g) all Transaction Taxes arising from or relating to the purchase by the Purchaser of the Purchased Assets hereunder; and

(h) all liabilities and obligations relating to the Environmental Condition, and any and all liabilities and obligations for the remediation of the soil and groundwater in, on, over, under or flowing through, onto or from the Real Property or any part thereof.

2.4 Excluded Liabilities. The Purchaser shall not assume or be liable for any Liens or any other liabilities and obligations of any nature whatsoever, other than the Assumed Liabilities and the Permitted Liens and the other liabilities to Employees which may accrue to the Purchaser by operation of law. For the avoidance of doubt, the Purchaser shall not assume or be liable for any liabilities and obligations that are the subject of litigation or arbitration or charges of discrimination filed with any Governmental Authority as of the Closing Date, or that arose prior to the Closing Date and are asserted thereafter, other than such liabilities or obligations that otherwise would be Assumed Liabilities.

2.5 Assignment and Assumption of Contracts.

(a) Subject to any rights of consent by counterparties thereto, the terms and conditions of this Section 2.5, the Assignment and Assumption Agreement and the Approval and Vesting Order, the Contracts of the Seller shall form part of the Purchased Assets assigned and transferred to the Purchaser at Closing, the consideration for which is included in the Purchase Price.

(b) The Purchaser will assume and agree to perform and discharge the Assumed Liabilities under the Contracts pursuant to this Agreement and the Assignment and Assumption Agreement.

(c) At or prior to Closing, the Seller shall use commercially reasonable efforts to assist the Purchaser in obtaining all necessary consents and approvals to assign the Contracts of the Seller to the Purchaser.

2.6 Non-Assignment of Contracts. Notwithstanding anything contained herein to the contrary, this Agreement shall not constitute an agreement to assign any Contract to the extent that such Contract is not assignable under applicable Law without the consent of any other Person party thereto, where the consent of such Person has not been given or received. For greater certainty, if such consent or approval is required but not obtained, neither the Seller nor the Purchaser shall be in breach of this Agreement nor shall the Purchase Price be adjusted or the Closing delayed.

ARTICLE 3
CONSIDERATION

3.1 Purchase Price.

(a) In consideration for the sale of the Purchased Assets to the Purchaser, and upon the terms and subject to the conditions hereinafter set forth, the purchase price for the Purchased Assets shall be the aggregate of (collectively, the "Purchase Price"):

(i) $2,000,000.00, plus or minus the adjustments referred to in Section 3.4 hereof (the "Cash Purchase Price"); and

(ii) the amount of the Assumed Liabilities.

3.2 Payment of the Purchase Price. The Purchase Price shall be paid and satisfied as follows:

(a) on Closing, a portion of the deposit in the amount of $2,700,000.00 (the "Deposit") paid by the Purchaser pursuant to the Offer to the Monitor in trust for the benefit of the Seller and the Purchaser, as applicable, in accordance with this Agreement shall be applied against the Cash Purchase Price in accordance with the terms of this Agreement, and the balance of the Deposit, after deduction of the Cash Purchase Price, shall be paid by the Monitor to the Purchaser and shall not form part of the Purchase Price.

(b) on Closing, an amount equal to the amount of the Assumed Liabilities shall be satisfied by the Purchaser at Closing by execution and delivery by the Purchaser of the Assignment and Assumption Agreement.

3.3 Allocation of Purchase Price.

(a) The Purchase Price shall be allocated among the Purchased Assets as set forth in Schedule 3.3 (the "Allocation Statement").

(b) The parties to this Agreement hereby agree to (i) report an allocation of the Purchase Price among the Purchased Assets in a manner entirely consistent with the Allocation Statement, (ii) act in accordance with the Allocation Statement in connection with the preparation, filing and audit of any Tax Return, and (iii) take no position inconsistent with the Allocation Statement in the preparation of financial statements or for any Tax purpose (including, without limitation, in any audit, judicial, administrative or Tax proceeding).

3.4 Real Property Adjustments. Adjustments as of the Closing Date shall be made to the Purchase Price at Closing for any realty Taxes, local improvement rates and charges, assessment rates, utilities, fuel, licenses necessary for the operation of the Real Property and all other items normally adjusted between a vendor and a purchaser in respect of the sale of property similar to the Real Property. For greater certainty, the Seller shall also be responsible for any arrears or penalties associated with any of the foregoing for any period prior to January 1, 2012, provided that no adjustments shall be made to the Purchase Price for such amounts or any other amounts which arose or became due and owing prior to the Filing Date. The Purchaser acknowledges that pursuant to the Settlement Agreement, all amounts owing by the Seller to the Township of Terrace Bay for treated water to the date of Closing shall be fully discharged, and from and after the Closing the Purchaser shall be responsible for all amounts owing for treated water at the prevailing rates or such other rates as may be negotiated by the Purchaser with the Township of Terrace Bay.

ARTICLE 4
REPRESENTATIONS AND WARRANTIES OF THE SELLER

The Seller hereby represents and warrants to the Purchaser, as of the date hereof and as of the Closing Date:

4.1 Authorization of Agreement. Subject to the granting of the Approval and Vesting Order:

(a) the Seller has, or at the time of execution will have, all necessary corporate power and authority to execute and deliver this Agreement and each Ancillary Agreement to which the Seller is or will become a party and to perform its obligations hereunder and thereunder;

(b) this Agreement and each Ancillary Agreement to which the Seller is or will become a party have been, or when executed will be, duly and validly executed and delivered by the Seller and (assuming the due authorization, execution and delivery by the Purchaser) this Agreement and each Ancillary Agreement to which the Seller is or will become a party constitute, or will constitute, when executed and delivered, valid and binding obligations of the Seller enforceable against the Seller in accordance with their respective terms;

(c) other than the Approval and Vesting Order and the consents, Permits and approvals that the Seller or the Purchaser will attempt to obtain under this Agreement, no order, consent, approval, Permit or authorization or declaration or filing or registration with any Governmental Authority is required on the part of the Seller in connection with the execution, delivery and performance by the Seller of this Agreement and any other agreement, document or instrument contemplated hereby or thereby to which it is or will become a party, the compliance by the Seller with any of the provisions hereof and thereof, the consummation of the transactions contemplated hereby or thereby, or the assignment or conveyance of the Purchased Assets.

4.2 HST Registration. The Seller is registered for harmonized sales tax purposes under Part IX of the *Excise Tax Act* (Canada) with the following registration number: (#854715729RT001).

4.3 Canadian Tax Residency. The Seller is not a non-resident of Canada for purposes of Section 116 of the *Income Tax Act* (Canada).

4.4 As-Is, Where-Is; Warranties Are Exclusive. The Purchaser acknowledges that it is relying entirely upon its own judgment, investigation and inspection in proceeding with the transactions contemplated hereunder. Notwithstanding any other provision of this Agreement, the Purchaser acknowledges and agrees that it is purchasing the Purchased Assets on an "as is, where is" basis, that it accepts the Purchased Assets in their current state, condition and location, that the Seller has made no representations, warranties, terms, conditions, understandings or collateral agreements, express or implied, statutory or otherwise, with respect to the title, merchantability, physical or financial condition, description, fitness for purpose, use or zoning, environmental condition (including the presence or existence of any contaminant in, on or under, or flowing onto or from the Real Property or any part thereof, or in the air, surface or groundwater flowing through, onto or from the Real Property or any part thereof (the "Environmental Condition")), existence of latent defects, quality, quantity or any other thing affecting any of the Purchased Assets, or in respect of any other matter or thing whatsoever, including any and all conditions, warranties or representations expressed or implied pursuant to any applicable Law in any jurisdiction, which the Purchaser confirms do not apply to this Agreement and are hereby waived in their entirety by the Purchaser. The Purchaser acknowledges and confirms that any description of the Purchased Assets in this Agreement (including the Schedules hereto) or otherwise provided pursuant to the Sales Process is for identification purposes only. No representation, warranty or condition has or will be given by the Seller concerning the completeness or accuracy of such descriptions, including the existence of any asset or property right described therein. The Purchased Assets are being purchased on an "as is, where is" basis as they exist as of the date of the Closing and the Purchaser acknowledges and confirms that no adjustment of the Purchase Price will be made for any change in condition, value, quantity or quality of any of the Purchased Assets from the Execution Date to the Closing or otherwise. The Purchaser further acknowledges that all written and oral information obtained from the Seller or its Representatives with respect to the Purchased Assets has been obtained for the convenience of the Purchaser only, and that the Seller has not made any representation or warranty, express or implied, statutory or otherwise, as to the accuracy and completeness of any such information. The Purchaser agrees that the Seller shall not have any liability for any representations, express or implied, contained in, or omitted from, any written or oral communications transmitted to the Purchaser in the course of the Sales Process, negotiation of this Agreement, the Ancillary Agreements, or in the course of any of the Purchaser's investigations of the Purchased Assets. The provisions of this Section 4.4 shall survive Closing.

4.5 No Brokers. No broker, agent or other intermediary has acted for or on behalf of the Seller in connection with the negotiation or consummation of this Agreement or the transactions contemplated hereby.

ARTICLE 5
REPRESENTATIONS AND WARRANTIES OF THE PURCHASER

The Purchaser represents and warrants to the Seller as follows:

5.1 Corporate Organization. The Purchaser is a corporation duly organized, validly existing and in good standing under the Laws of the Province of New Brunswick and has all requisite power and authority to own its properties and assets and to conduct its businesses as now conducted.

5.2 Authorization and Validity. The Purchaser has, or at the time of execution will have, all necessary corporate power and authority to execute and deliver this Agreement and any Ancillary Agreements to which the Purchaser is or will become a party, and to perform its obligations hereunder and thereunder. The execution and delivery of this Agreement and any Ancillary Agreements to which the Purchaser is or will become a party and the performance of the Purchaser's obligations hereunder and thereunder have been, or at the time of execution will be, duly authorized by all necessary action by the board of directors, managers or applicable governing bodies of the Purchaser, and no other corporate proceeding on the part of the Purchaser is necessary to authorize such execution, delivery and performance. This Agreement and each Ancillary Agreement to which the Purchaser is or will become a party have been, or at the time of execution will be, duly executed by the Purchaser and constitute, or will constitute, when executed and delivered, the Purchaser's valid and binding obligations, enforceable against the Purchaser in accordance with their respective terms, except as enforcement may be limited by Laws of general application and bankruptcy, insolvency and other similar laws affecting creditors' rights generally and general principles of equity.

5.3 No Conflict or Violation. The execution, delivery and performance by the Purchaser of this Agreement and any Ancillary Agreements to which the Purchaser is or will become a party do not or will not at the time of execution (a) violate or conflict with any provision of the organizational documents of the Purchaser, (b) violate any provision of applicable Law, or any order, writ, injunction, judgment or decree of any court or Governmental Authority applicable to the Purchaser, or (c) violate or result in a breach of or constitute (with due notice or lapse of time, or both) an event of default or default under any contract to which the Purchaser is a party or by which the Purchaser is bound or to which the Purchaser's properties or assets are subject.

5.4 Consents and Approvals. Except for the Approval and Vesting Order and as set forth on Schedule 5.4, no consent, waiver, authorization or approval of any Person and no declaration to or filing or registration with any Governmental Authority is required in connection with the execution and delivery by the Purchaser of this Agreement and each Ancillary Agreement to which the Purchaser is or will become a party or the performance by the Purchaser of its obligations hereunder or thereunder.

5.5 Financing. The Purchaser has available, or prior to the Closing Date will have available, sufficient funding to enable the Purchaser to consummate the purchase of the Purchased Assets from the Seller on the terms set forth herein and otherwise to perform all of the Purchaser's obligations under this Agreement.

5.6 Litigation. There is no action, suit, proceeding or claim that is pending or, to the Purchaser's knowledge, threatened in any court or by or before any Governmental Authority that would adversely affect the Purchaser's ability to perform its obligations under this Agreement on a timely basis.

5.7 HST Registration. The Purchaser is registered for harmonized sales tax purposes under Part IX of the *Excise Tax Act* (Canada) with the following registration number: (#805413481 RT 0001).

5.8 Real Property. The Real Property transferred pursuant to this Agreement (a) is being purchased by the Purchaser as principal for its own account and is not being purchased by the Purchaser as an agent, trustee or otherwise on behalf of any other Person, and (b) does not constitute a supply of a residential complex made to an individual for the purposes of paragraph 221(2)(b) of the *Excise Tax Act*.

5.9 Canadian Tax Residency. The Purchaser will not be a non-resident of Canada for purposes of Section 116 of the *Income Tax Act* (Canada) effective on or prior to Closing.

5.10 Investment Canada Act. The Purchaser is not a "non-Canadian" within the meaning of the *Investment Canada Act* (Canada) or, if the Purchaser is a "non-Canadian", the Purchaser is a "WTO Investor" within the meaning of the *Investment Canada Act* (Canada).

5.11 No Brokers. No broker, finder, agent or other intermediary has acted for or on behalf of the Purchaser in connection with the negotiation or consummation of this Agreement or the transactions contemplated hereby.

5.12 No Other Representations and Warranties. Except for the representations and warranties contained in this Article 5, neither the Purchaser nor any other Person makes any other express or implied representation or warranty on behalf of the Purchaser and any such other representations and warranties are hereby expressly disclaimed and none shall be implied at law or in equity.

ARTICLE 6
COVENANTS AND OTHER AGREEMENTS

6.1 Pre-Closing Covenants of the Seller. The Seller covenants to the Purchaser that, during the period from and including the Execution Date through and including the Closing Date or the earlier termination of this Agreement:

(a) Permits. The Seller shall, without payment of funds to counterparties, use commercially reasonable efforts to assist the Purchaser in obtaining, any Permits required for the consummation of the transactions contemplated hereby or the restart of the Mill by the Purchaser from and after the Closing in the ordinary course of business. For greater certainty, if any Permit is required but not obtained, neither the Seller nor the Purchaser shall be in breach of this Agreement nor shall the Purchase Price be adjusted or the Closing delayed.

(b) Access to Records and Properties. The Seller shall, subject to any confidentiality or safety restrictions, (i) provide the Purchaser and its Representatives, at the Purchaser's sole and exclusive risk, reasonable access during normal business hours upon reasonable notice to the Mill, to the offices and personnel of the Seller and to the computers, books and records of the Seller related to the Purchased Assets or otherwise reasonably requested by the Purchaser if reasonably necessary to comply with the terms of this Agreement or the Ancillary Agreements or any applicable Law, including access to perform field examinations and inspections of the Purchased Assets, (ii) furnish the Purchaser with such financial and operating data and other information with respect to the condition (financial or otherwise), businesses, assets, properties or operations of the Seller as the Purchaser shall reasonably request, to the extent in the Seller's possession or control, (iii) provide the Purchaser and its Representatives reasonable access, to the extent permitted by applicable Law, to personnel files of Employees, and (iv) to the extent permitted by applicable Law, permit the Purchaser to make such reasonable inspections and copies thereof as the Purchaser may require; provided, however, that the Purchaser shall indemnify the Seller and any of its Representatives from and against any claims arising from the Purchaser's access in accordance with this Section 6.1(b).

(c) Conduct Prior to Closing.

(i) Without the Purchaser's prior written consent, the Seller shall not offer, agree or commit (in writing or otherwise) to any of the Purchased Assets becoming subject, directly or indirectly, to any Lien, except for Liens existing on the Execution Date and Permitted Liens.

(ii) Without the Purchaser's prior written consent, the Seller shall not quitclaim, waive or release any right of the Seller that constitutes a Purchased Asset.

6.2 Pre-Closing Covenants of the Purchaser. The Purchaser covenants to the Seller that, during the period from the Execution Date through and including the Closing Date or the earlier termination of this Agreement:

(a) Cooperation. The Purchaser shall take, or cause to be taken, all commercially reasonable actions and to do, or cause to be done, all things necessary or proper, consistent with applicable Law, to consummate and make effective as soon as possible the transactions contemplated hereby.

(b) Orders. The Purchaser shall take such actions as may be reasonably requested by the Seller to assist the Seller in obtaining the Court's issuance of the Approval and Vesting Order and any other order of the Court reasonably necessary to consummate the transactions contemplated by this Agreement.

(c) Sufficient Funds. The Purchaser shall ensure that, on the Closing Date, the Purchaser will have sufficient funds to pay the Purchase Price and all of its fees and expenses incurred in connection with the transactions contemplated hereby.

(d) Permits and Contracts. The Purchaser shall use commercially reasonable efforts to obtain or consummate the transfer to the Purchaser of any Permit or Contract required to own or operate the Purchased Assets under applicable Laws.

(e) IESO and other Security Deposits. The Purchaser shall make the necessary arrangements to replace any letters of credit or other security deposits posted by the Seller with the Independent Electricity System Operator and any other counterparty on or prior to Closing.

6.3 Other Covenants of the Seller and the Purchaser.

(a) Personally Identifiable Information. The Purchaser shall honour and observe, in connection with the transactions contemplated by this Agreement, all applicable privacy Laws with respect to the collection, use, transfer and disclosure of personal information about Employees, including any Transferred Employees, or customers of the Business.

(b) Access to Records after Closing. Following Closing, the Purchaser and the Seller agree to permit their Representatives to have access, at reasonable times and in a manner so as not to unreasonably interfere with their normal business operations, to the books and records of the Seller or relating to the Business or the Purchased Assets so as to enable the Purchaser and the Seller to prepare Tax, financial or court filings or reports, to pursue causes of action which form part of the Excluded Assets, to respond to court orders, subpoenas or inquiries, investigations, requests, notices, audits or other proceedings of Governmental Authorities, to prosecute and defend legal actions or for other like purposes, and for the purposes of winding-down or administering the estates of the Seller. If either party desires to dispose of any such records, such party shall, prior to such disposition, provide the other party with a reasonable opportunity to remove such of the records to be disposed of at the removing party's expense. For the purposes of this Section, a Seller Representative shall include any trustee in bankruptcy appointed in respect of the Seller.

(c) Reference Plans. The Purchaser shall cooperate with the Seller in connection with the Seller obtaining any reference plans or other legal descriptions necessary to convey the Real Property including, if necessary, following the Closing.

(d) Accounts Receivable. Any Accounts Receivable paid to or collected by the Purchaser shall be, upon receipt, promptly forwarded to and paid over to the Seller in accordance with Seller's rights to the Accounts Receivable under this Agreement.

6.4 Employee Covenants; Benefit Plan.

(a) All Employees who accept an offer of employment with or become employed by the Purchaser are referred to herein as "Transferred Employees". All Employees who do not accept an offer of employment from or who otherwise do not become employed by the Purchaser are referred to herein as "Non-Transferred Employees".

(b) Effective as of the Closing Date, the Purchaser shall offer employment to all Non-Unionized Employees on terms and conditions of employment which are no less favourable in the aggregate in terms of title, compensation, benefits, pension entitlements, hours of work and location, and with duties that are similar to the duties then being performed by such Non-Unionized Employees. The Purchaser shall make such offers by no later than twenty (20) days prior to the Closing Date. With respect to each Non-Unionized Employee who becomes a Transferred Employee, the Purchaser shall recognize all past Service for the purpose of pension and benefit entitlement or for any required notice of termination, termination or Severance Costs in connection with the Purchaser's termination of the employment of any such Non-Unionized Employees after the Closing Date.

(c) Effective as of the Closing Date, the Purchaser shall employ all of the Unionized Employees, and shall become the successor employer for the purposes of and accept and be bound by the terms of the Collective Bargaining Agreements applicable to the Unionized Employees.

(d) Effective as of the Closing Date, the Seller shall retain all obligations and liabilities with respect to the non-pension group benefit plans maintained by the Seller (being the medical, dental, long-term disability, short-term disability, life and accidental death and dismemberment benefits, and such other benefits provided by the Seller which will be disclosed to the Purchaser within five days of the Execution Date) immediately prior to Closing including any insurance policy or other funding medium, administrative services, recordkeeping, claims management or similar agreement relating to such plans (collectively, the "Non-Pension Benefit Plans") and, for greater certainty, the Purchaser shall not assume any obligations and liabilities with respect to the Non-Pension Benefit Plans.

(e) The Purchaser shall establish or designate non-pension group benefit plans for the Transferred Employees on or after the Closing Date on the same terms and conditions as the Non-Pension Benefit Plans (the "Replacement Plans"). Each Transferred Employee who participates in the Replacement Plan shall cease to participate in and be covered under the Non-Pension Benefit Plans and shall commence immediate participation in and coverage under and receive benefits under the Replacement Plans without interruption, notwithstanding any pre-existing conditions, exclusions or waiting period.

(f) Effective as of the Closing Date, the Seller shall assign and transfer to the Purchaser all of its rights, obligations, and liabilities with respect to the Pension Plan for the Union Employees of the Seller, including its related funding medium (the "Union Pension Plan") and the Pension Plan for the Salaried Employees of the Seller, including its related funding medium (the "Salaried Pension Plan"). Effective as of the Closing Date, the Purchaser shall accept such assignment and transfer and assume all of the obligations, liabilities, duties, and responsibilities required of it as the successor sponsor and administrator of the Seller Pension Plans pursuant to the terms thereof and applicable Law.

(g) The Purchaser agrees to do all things required of it under applicable Law to establish that the Purchaser is the successor sponsor and administrator to the Seller under the terms of the Seller Pension Plans. Without limiting the generality of the foregoing, the Purchaser agrees to cause to be filed with the applicable federal and provincial regulatory authorities, as soon as practicable following the Closing Date, such documentation as may be required to establish the Purchaser in such capacity. The Seller shall issue a direction to the funding agent of the Union Pension Plan and the funding agent of the Salaried Pension Plan to act on instructions from the Purchaser on and after the Closing Date.

(h) For greater certainty, from and after the Closing Date, the Purchaser shall be responsible for any expenses relating to the administration and investment of the Seller Pension Plans except to the extent that such expenses are payable from the assets held in connection with the Seller Pension Plans.

(i) The Seller shall be responsible for satisfying any and all governmental reporting and/or disclosure requirements applicable to the Seller Pension Plans that arise or are due prior to the Closing Date and the Purchaser shall be responsible for satisfying any and all governmental reporting and/or disclosure requirements applicable to the Seller Pension Plans which arise or are due on or after the Closing Date.

(j) The Seller shall retain all liabilities and obligations in respect of Non-Transferred Employees under applicable Laws.

(k) On the Closing Date, the Purchaser shall deliver a closing certificate executed by the Purchaser, in a form satisfactory to the Seller, acting reasonably, certifying the list of all of the Employees who constitute, as of the Closing Date, Transferred Employees. To the extent permitted by applicable Law, the Seller shall transfer to the Purchaser all of the Seller's employment files pertaining to the Transferred Employees on the Closing Date.

(l) Notwithstanding anything to the contrary in this Agreement, the Purchaser shall be responsible and liable for Severance Costs in respect of any Transferred Employee whose employment is terminated by the Purchaser after the Closing Date.

(m) Notwithstanding anything to the contrary in this Agreement, the Seller shall be responsible and liable for any Seller's Severance Costs in respect of any Non-Transferred Employee whose employment is terminated by the Seller after the Closing Date.

6.5 Casualty. If, between the Execution Date and the Closing, a material portion of the Purchased Assets shall be destroyed, damaged or rendered inoperable in whole or in part by casualty or any other cause (collectively, "Casualty"), then the Purchaser shall have the option to still acquire such Purchased Assets on an "as is" basis and take an assignment from the Seller of all insurance proceeds payable, if any, to the Seller in respect of the Casualty or to terminate this Agreement in accordance with Section 11.1.

6.6 Expropriation. If, between the Execution Date and the Closing, any Real Property shall be condemned or taken by any federal, state, provincial, municipal, county or local government under the exercise or threatened exercise of the power of expropriation (any of the foregoing being referred to as a "Loss"), then the Purchaser shall acquire the applicable Real Property, or such portions thereof as have not previously been taken by the Loss, in accordance with this Agreement, in which case the Purchaser shall receive all expropriation awards or other proceeds for the applicable Real Property, or the portions thereof that are the subject of the Loss, and the Seller shall assign to the Purchaser all rights of the Seller in and to any expropriation awards or other proceeds payable by reason of the Loss.

6.7 Planning Act. This Agreement shall be effective to create an interest in the Real Property only if the subdivision control provisions of the *Planning Act* (Ontario) are complied with.

ARTICLE 7
TAXES

7.1 Taxes Related to Purchase of Purchased Assets. All sales, use, goods and services, harmonized sales, value-added, land transfer and similar transfer taxes in connection with the transfer of the Purchased Assets, and all recording, registration and filing fees (collectively, "Transaction Taxes"), that are imposed by reason of the sale, transfer, assignment and delivery of the Purchased Assets shall be borne by the Purchaser in addition to the Purchase Price.

7.2 HST Elections. If applicable, at the Closing, the Seller and the Purchaser shall execute jointly an election under Section 167 of the *Excise Tax Act* (Canada) to have the sale of the Purchased Assets take place on a HST-free basis under Part IX of the *Excise Tax Act* (Canada). The Purchaser shall file the election in Form 44 in the manner and with its GST/HST return for the reporting period in which the sale of the Purchased Assets takes place, and within the time prescribed by the relevant legislation. If the election under Section 167 is not available, with respect to the purchase by the Purchaser of the Real Property, the Purchaser will remit directly to the Receiver General of Canada the HST payable and file the prescribed Form GST/HST 60 pursuant to section 228(4) of the *Excise Tax Act* (Canada) in connection with the purchase of Real Property, described in this Agreement, and with respect to the other Purchased Assets, the Seller will collect from the Purchaser and remit the applicable HST. Notwithstanding anything to the contrary in this Agreement, the Purchaser shall indemnify and hold the Seller harmless in respect of any GST, HST, penalties, interest and other amounts which may be assessed against the Seller as a result of the transactions under this Agreement not being eligible for such elections or as a result of the Purchaser's failure to file the elections within the prescribed time. This Section 7.2 shall survive Closing.

7.3 Income Tax Elections in Respect of Assumed Future Obligations. If applicable, the Purchaser and the Seller shall jointly execute and file an election under subsection 20(24) of the *Income Tax Act* (Canada) in the manner required by subsection 20(25) of the *Income Tax Act* (Canada) and under the equivalent or corresponding provisions of any other applicable provincial or territorial statute, in the prescribed manners and within the time period permitted under the *Income Tax Act* (Canada) and under any other applicable provincial or territorial statute, as to such amount paid by the

Seller to the Purchaser for assuming future obligations. In this regard, the Purchaser and the Seller acknowledge that a portion of the Purchased Assets transferred by the Seller pursuant to this Agreement and having a value equal to the amount elected under subsection 20(24) of the *Income Tax Act* (Canada) and the equivalent provisions of any applicable provincial or territorial statute, is being transferred by the Seller as a payment for the assumption of such future obligations by the Purchaser.

7.4 Other Tax Elections. The Purchaser and the Seller shall also execute and deliver such other Tax elections and forms as they may mutually agree upon.

ARTICLE 8
MOTION FOR APPROVAL AND VESTING ORDER

8.1 Motion for Approval and Vesting Order.

(a) Pursuant to and subject to the terms of the Sales Process, the Seller shall file with the Court, within five (5) Business Days after the execution and delivery of this Agreement, a motion or motions seeking the Court's issuance of the Approval and Vesting Order, and affixing a true and complete copy of this Agreement to such motion(s), subject to any redaction to protect confidential information in accordance with Section 12.10 hereof.

8.2 Procedure. The Seller agrees to diligently seek the granting of the Approval and Vesting Order. In the event that the Approval and Vesting Order shall be appealed and/or subject to a stay, the Seller, acting reasonably, shall defend and the Purchaser shall cooperate in a defense of such appeal.

ARTICLE 9
CONDITIONS PRECEDENT TO PERFORMANCE BY THE PARTIES

9.1 Conditions Precedent to Performance by the Seller. The obligation of the Seller to consummate the transactions contemplated by this Agreement is subject to the fulfillment, at or before the Closing, of the following conditions, any one or more of which may be waived by the Seller, in its sole discretion:

(a) Representations and Warranties of the Purchaser. The representations and warranties of the Purchaser made in this Agreement shall be true and correct in all material respects.

(b) Performance of the Obligations of the Purchaser. The Purchaser shall have performed in all material respects all obligations required under this Agreement or any Ancillary Agreements to which it is party that are to be performed by it on or before the Closing Date, and shall have paid the Purchase Price in accordance with the terms of this Agreement on the Closing Date.

(c) Court Approval. The Approval and Vesting Order shall have been issued and entered by the Court and shall not be subject to a stay.

(d) No Violation of Orders. No final or nonappealable order, decree, ruling, injunction or any other action by any court or Governmental Authority or Law that prevents the consummation of the transactions contemplated hereby or otherwise prohibit the transfer of the Purchased Assets contemplated hereby shall be in effect.

(e) Province Loan Forgiveness. All obligations owing by the Seller to the Province of Ontario under or in connection with the Loan Agreement dated as of September 15, 2010 shall have been forgiven by the Province of Ontario and the Province of Ontario shall have agreed to release or discharge all related security on terms and conditions satisfactory to the Seller, except as otherwise agreed to by the Province of Ontario and the Seller with the consent of the Monitor, provided that the Seller shall not waive the conditions contained in Section 9.1(e) without the prior consent of the Monitor.

(f) Collective Agreements. On or before July 24, 2012, the Purchaser shall have obtained a five (5) year extension of the existing Collective Bargaining Agreements on terms acceptable to the Purchaser, acting reasonably.

For avoidance of doubt, there shall be no conditions precedent to the Seller's obligation to consummate the transactions contemplated by this Agreement, except for those conditions precedent specifically set forth in this Section 9.1.

9.2 Conditions Precedent to Performance by the Purchaser. The obligations of the Purchaser to consummate the transactions contemplated by this Agreement are subject to the fulfillment, at or before the Closing, of the following conditions, any one or more of which may be waived by the Purchaser, in its sole discretion:

(a) Representations and Warranties of the Seller. The representations and warranties of the Seller made in this Agreement shall be true and correct in all material respects.

(b) Performance of the Obligations of the Seller. The Seller shall have performed in all material respects all obligations required under this Agreement or any Ancillary Agreements to which it is party that are to be performed by it on or before the Closing Date.

(c) Court Approval. The Approval and Vesting Order shall have been issued and entered by the Court and shall not be subject to a stay.

(d) No Violation of Orders. No final or nonappealable order, decree, ruling, injunction or any other action by any court or Governmental Authority or Law that prevents the consummation of the transactions contemplated hereby or otherwise prohibit the transfer of the Purchased Assets contemplated hereby shall be in effect.

(e) Collective Agreements. On or before July 24, 2012, the Purchaser shall have obtained a five (5) year extension of the existing Collective Bargaining Agreements on terms acceptable to the Purchaser acting reasonably.

(f) [Intentionally Deleted].

(g) Term Sheet with the Province of Ontario. The Purchaser shall have entered into a binding term sheet with the Province of Ontario setting out certain other conditions precedent, in form and substance satisfactory to the Purchaser, acting reasonably.

For avoidance of doubt, there shall be no conditions precedent to the Purchaser's obligation to consummate the transactions contemplated by this Agreement, except for those conditions precedent specifically set forth in this Section 9.2.

9.3 Non-Satisfaction of Conditions. If any of the conditions set out in Section 9.1 or Section 9.2 is not satisfied or performed on or before the Closing Date (or, with respect to Section 9.1(f) or 9.2(e), July 24, 2012), the applicable party hereto may (i) terminate this Agreement by written notice to the other party hereto delivered on or before the Closing Date (or on July 24, 2012, as applicable) in accordance with Section 11.1 hereof, in which case no party shall be under any further obligation to the other to complete the transactions contemplated by this Agreement or (ii) except in the case of the conditions contained in Sections 9.1(c) and 9.2(c), waive compliance with any such condition without prejudice to its right of termination of this Agreement in respect of non-satisfaction or performance of any other condition.

Each party shall use commercially reasonable efforts to satisfy the closing conditions set forth herein that are within its reasonable control.

All conditions to be satisfied on Closing shall be deemed to be satisfied if Closing occurs.

ARTICLE 10
CLOSING AND DELIVERIES

10.1 Closing. The consummation and effectuation of the transactions contemplated hereby pursuant to the terms and conditions of this Agreement (the "Closing") shall be held on the Closing Date at 10:00 a.m., local time, in the offices of Blake, Cassels & Graydon LLP, 199 Bay Street, Suite 4000, Commerce Court West, Toronto, Ontario, Canada, or on such other date or at such other place and time as may be mutually agreed to in writing by the parties. All proceedings to be taken and all documents to be executed and delivered by all parties at the Closing shall be deemed to have been taken and executed simultaneously and no proceedings shall be deemed to have been taken nor documents executed or delivered until all have been taken, executed and delivered.

10.2 Seller's Deliveries. At the Closing,

(a) the sale, transfer, assignment, conveyance and delivery by the Seller of the Purchased Assets to the Purchaser, free and clear of any Liens (other than Permitted Liens), shall be effected by the issued and entered Approval and Vesting Order and by execution and delivery by the Seller of (i) the Bill of Sale, (ii) the Assignment and Assumption Agreement, and (iii) such additional bills of sale, endorsements, assignments and other instruments of transfer and conveyance reasonably required by the Purchaser;

(b) the Seller shall execute and deliver to the Purchaser, to the extent reasonably required by the Purchaser, any Ancillary Agreements;

(c) the Seller shall deliver possession of all of the Purchased Assets pursuant to the Approval and Vesting Order, free and clear of all Liens (other than Permitted Liens), including the Inventory identified in Schedule 1.1(d), all keys to the facilities, combinations to any safes thereon and passwords for all computers thereon and any security devices therein which are reasonably available or known to the Seller on an "as is, where is" basis in accordance with Section 4.4, provided that delivery shall occur and possession shall be taken by the Purchaser in situ wherever such Purchased Assets are located on the Closing Date;

(d) the Seller shall make the elections referred to in Sections 7.2, 7.3 and 7.4, to the extent applicable;

(e) the Seller shall deliver a true copy of the Approval and Vesting Order and the Monitor's Certificate;

(f) the Seller shall deliver a closing certificate executed by the Seller, in a form satisfactory to the Purchaser, acting reasonably, certifying that all of the representations and warranties of the Seller hereunder remain true and correct in all material respects as of the Closing Date; and

(g) the Seller, without expense or payment of funds by the Seller, shall deliver the Permits in accordance with and subject to Section 6.1(a).

10.3 Purchaser's Deliveries. At the Closing,

(a) the Purchaser shall make the payments referred to in Section 3.2;

(b) the Purchaser shall execute and deliver to the Seller the Assignment and Assumption Agreement and, to the extent reasonably required by the Seller, each Ancillary Agreement;

(c) the Purchaser shall make the elections referred to in Sections 7.2, 7.3 and 7.4, to the extent applicable;

(d) the Purchaser shall deliver a closing certificate executed by the Purchaser, in a form satisfactory to the Seller, acting reasonably, certifying the Employees who constitute, as of the Closing, Transferred Employees; and

(e) the Purchaser shall deliver a closing certificate executed by the Purchaser in a form satisfactory to the Seller, acting reasonably, certifying that all of the representations and warranties of the Purchaser hereunder remain true and correct in all material respects as of the Closing Date.

ARTICLE 11
TERMINATION

11.1 Conditions of Termination. This Agreement may be terminated only in accordance with this Section 11.1. This Agreement may be terminated at any time before the Closing as follows:

(a) by mutual written consent of the Seller and the Purchaser;

(b) automatically and without any action or notice by either the Seller or the Purchaser, if any of the conditions set out in Sections 9.1(c), 9.1(d), 9.2 (c), or 9.2(d) are not satisfied on or before Closing;

(c) by the Purchaser or the Seller if the Closing shall not have occurred by 5:00 p.m. (Toronto time) on July 31, 2012, provided that the Purchaser may not terminate this Agreement if its default is the reason for such failure;

(d) by the Purchaser, in the event of a Casualty or if any of the conditions set out in Sections 9.2(a), 9.2(b), or 9.2(g) are not satisfied or performed on or before the Closing Date, or the condition set out in Section 9.2(e) is not satisfied before July 24, 2012;

(e) by the Seller, if the condition set out in Section 9.1(e) is not satisfied or performed on or before the Closing Date, or the condition set out in Section 9.1(f) is not satisfied before July 24, 2012; or

(f) by the Seller, if any of the conditions set out in Sections 9.1(a) or 9.1(b) are not satisfied or performed on or before the Closing Date.

11.2 Effect of Termination. In the event of termination pursuant to Section 11.1, this Agreement shall become null and void and have no effect and no party to this Agreement shall have any liability to any other party, except that (i) the Seller shall be liable to return the Deposit to the Purchaser if the Agreement is terminated by the Purchaser pursuant to Section 11.1(c) or 11.1(d), by the Seller pursuant to Section 11.1(e), or by either party pursuant to Section 11.1(a) or Section 11.1(b),; and (ii) the

Purchaser shall forfeit the Deposit to the Seller if the Agreement is terminated by the Seller pursuant to Sections 11.1(c) or 11.1(f), as a genuine estimate of liquidated damages and not as a penalty.

ARTICLE 12
MISCELLANEOUS

12.1 Survival. No representations, warranties, covenants and agreements of the Seller or the Purchaser made in this Agreement shall survive the Closing Date except where, and only to the extent that, the terms of any such covenant or agreement expressly provide for rights, duties or obligations extending after the Closing, or as otherwise expressly provided in this Agreement. For greater certainty, Sections 3.3(b), 4.4, 6.1(b) 6.3 (including all subsections thereto), 6.4 (including all subsections thereto) and Article 7 (including all sections thereto) shall survive Closing.

12.2 Further Assurances. At the request and the sole expense of the requesting party, the Purchaser or the Seller, as applicable, shall execute and deliver, or cause to be executed and delivered, such other documents as the Purchaser or the Seller, as applicable, or their respective counsel may reasonably request to effectuate the purposes of this Agreement and the Ancillary Agreements.

12.3 Successors and Assigns.

(a) Without the prior written consent of the Seller, which may be withheld in the Seller's sole discretion, the Purchaser shall not assign this Agreement or any of its rights or obligations hereunder and any such assignment shall be void and of no effect.

(b) This Agreement shall inure to the benefit of and shall be binding upon the successors and permitted assigns of the parties hereto, including any trustee in bankruptcy appointed with respect to the Seller or its property.

12.4 Governing Law; Jurisdiction. This Agreement shall be construed, performed and enforced in accordance with, and governed by, the Laws of the Province of Ontario and the federal laws of Canada applicable therein. The parties irrevocably elect, as the sole judicial forum for the adjudication of any matters arising under or in connection with the Agreement, and consent to the exclusive jurisdiction of, the Court.

12.5 Expenses. Except as otherwise provided in this Agreement, each of the parties shall pay their own expenses in connection with this Agreement and the transactions contemplated hereby, including any legal and accounting fees and commissions or finder's fees, whether or not the transactions contemplated hereby are consummated.

12.6 Severability. In the event that any part of this Agreement is declared by any court of competent jurisdiction to be null, void or unenforceable, a suitable and equitable provision shall be substituted therefor in order to carry out, so far as may be valid and enforceable, the intent and purpose of such invalid or unenforceable provision, said provision shall survive to the extent it is not so declared, and all of the other provisions of this Agreement shall remain in full force and effect only if, after excluding the portion deemed to be unenforceable and the application of any provision so substituted, the remaining terms shall provide for the consummation of the transactions contemplated hereby in substantially the same manner as originally set forth at the later of (a) the Execution Date, and (b) the date this Agreement was last amended.

12.7 Notices.

(a) All notices, requests, demands, consents and other communications under this Agreement shall be in writing and shall be sent via overnight courier, e-mail (including by way of PDF format) or facsimile. If the notice is received on a Business Day before 5:00 PM local time the notice will be deemed to have been received at such time. If the notice is received other than on a Business Day or after 5:00 PM local time, the notice will be deemed to have been received the following Business Day. Notices shall be sent to the following addresses, as applicable:

If to the Seller:

Terrace Bay Pulp Inc.
1120 Premier Way
Thunder Bay, Ontario
P7B 0A3
Attention: Taras Sawula, CA
Facsimile: 807-346-0453
E-mail: taras@bls-tb.com

- and to -

Blake, Cassels & Graydon LLP
199 Bay Street, Suite 4000
Commerce Court West
Toronto, Ontario M5L 1A9
Attention: Marc Flynn
Facsimile: (416) 863-2685
E-mail: marc.flynn@blakes.com

With a copy (which shall not constitute notice) to:

Ernst & Young Inc.
Ernst & Young Tower
222 Bay Street, P.O. Box 251
Toronto, Ontario M5K 1J7
Attention: Alex Morrison
Facsimile: (416) 943-3300
E-mail: alex.f.morrison@ca.ey.com

If to the Purchaser:

AV Terrace Bay Inc.
175 Mill Road
Atholville, New Brunswick E3N 4S7
Attention: Vice-President and COO
Facsimile: (506) 789-4137
E-mail: sv.sharda@avg.adityabirla.com

- and to -

Cox & Palmer
P.O. Box 1324
Saint John, New Brunswick E2L 4H8
Attention: Peter R. Forestell, Q.C.
Facsimile: (506) 632-8809
E-mail: pforestell@coxandpalmer.com

- and to -

Weiler, Maloney, Nelson
1001 William Street, Suite 201
Thunder Bay, Ontario P7B 6M1
Attention: B. Paul Jasiura
Facsimile: (807) 623-4947
Email: pjasiura@wmnlaw.com

(b) Any party may change its address or facsimile number for the purpose of this Section 12.7 by giving the other parties written notice of its new address in the manner set forth above.

12.8 Amendments; Waivers. This Agreement may be amended or modified, and any of the terms, covenants, representations, warranties or conditions hereof may be waived, only by a written instrument executed by the Purchaser and the Seller, or in the case of a waiver, by the party waiving compliance. Any waiver by any party of any condition, or of the breach of any provision, term, covenant, representation or warranty contained in this Agreement, in any one or more instances, shall not be deemed to be or construed as a furthering or continuing waiver of any such condition, or of the breach of any other provision, term, covenant, representation or warranty of this Agreement.

12.9 Entire Agreement. This Agreement and the Ancillary Agreements contain the entire understanding between the parties with respect to the transactions contemplated hereby and supersede and replace all prior and contemporaneous agreements and understandings, oral or written with regard to such transactions, including the Offer. All Schedules hereto and any documents and instruments delivered pursuant to any provision hereof are expressly made a part of this Agreement as fully as though completely set forth herein.

12.10 Confidentiality. The parties shall treat as confidential the terms of this Agreement, except for disclosures which may be required by Law or as the Seller considers appropriate in connection with obtaining the Approval and Vesting Order. All information provided to a party by the other party or its Representatives shall be kept by the receiving party in the strictest confidence and shall not be disclosed to any third party or used by the receiving party except for the purpose of consummating the transactions under this Agreement. The foregoing restriction does not apply to any information which is or becomes generally available to the public, or was known to the receiving party prior to receipt of information from the other party or which such party obtained from an independent third party who obtained the information lawfully and was under no obligation of confidentiality with respect to such information.

12.11 Headings. The article and section headings in this Agreement are for reference purposes only and shall not affect the meaning or interpretation of this Agreement.

12.12 Counterparts. This Agreement may be executed in any number of counterparts and by the undersigned in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same instrument. Delivery of an executed signature page to this Agreement by any of the undersigned by facsimile or "pdf" e-mail transmission shall be as effective as delivery of a manually executed copy of this Agreement by such undersigned.

12.13 No Third Party Beneficiaries. Nothing in this Agreement shall be construed to create any rights for any Persons not party to this Agreement, as third party beneficiaries or otherwise.

[Signatures on following pages]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their respective officers thereunto duly authorized as of the date first above written.

PURCHASER:

AV TERRACE BAY INC.

By: ______________________
Name: Frank Dottori
Title: Chairman

AV TERRACE BAY INC.

By: ______________________
Name: Peter R. Forestell, Q.C.
Title: Secretary

SELLER

TERRACE BAY PULP INC.

By: ______________________________

Name: Wolfgang Gericke

Title: Director

Schedule 1.1(a)

Form of Approval and Vesting Order

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

ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST

THE HONOURABLE	)	•, THE •
	)	
MR. JUSTICE MORAWETZ	)	DAY OF •, 2012

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.

APPROVAL AND VESTING ORDER

THIS MOTION, made by Terrace Bay Pulp Inc. (the "Debtor") for an order approving the sale transaction (the "Transaction") contemplated by an agreement of purchase and sale (the "Sale Agreement") between the Debtor and [•] (the "Purchaser") dated [DATE] and appended to the [•] Report of Ernst & Young Inc., in its capacity as monitor (the "Monitor") dated [DATE] (the "Report"), and vesting in the Purchaser the Debtor's right, title and interest in and to the Purchased Assets (as defined in the Sale Agreement), was heard this day at 330 University Avenue, Toronto, Ontario.

ON READING the Report and on hearing the submissions of counsel for the Debtor and the submissions of counsel for the Monitor, [NAMES OF OTHER PARTIES APPEARING], no one appearing for any other person on the service list, although properly served as appears from the affidavit of [NAME] sworn [DATE] filed:

1. THIS COURT ORDERS AND DECLARES that the time for service of this notice of motion and motion record is hereby abridged, such that this motion is properly returnable today, that the manner of service is hereby approved and validated, and that all parties entitled to notice of this motion have been properly served with notice of this motion, and service on any other parties is hereby dispensed with.

2. THIS COURT ORDERS AND DECLARES that the Transaction is hereby approved, and the execution of the Sale Agreement by the Debtor is hereby authorized and approved, with such minor amendments as the Debtor may deem necessary. The Debtor is hereby authorized and directed to take such additional steps and execute the Ancillary Agreements (as defined in the Sale Agreement) and such additional documents as may be necessary or desirable for the completion of the Transaction and for the conveyance of the Purchased Assets to the Purchaser.

3. THIS COURT ORDERS AND DECLARES that upon the delivery of a Monitor's certificate to the Purchaser substantially in the form attached as Schedule A hereto (the "Monitor's Certificate"), all of the Debtor's right, title and interest in and to the Purchased Assets (including the Purchased Assets set out in Schedule B hereto) shall vest absolutely in the Purchaser, free and clear of and from any and all security interests (whether contractual, statutory, or otherwise), hypothecs, mortgages, trusts or deemed trusts (whether contractual, statutory, or otherwise), liens, executions, levies, charges, or other financial or monetary claims, whether or not they have attached or been perfected, registered or filed and whether secured, unsecured or otherwise (collectively, the "Claims") including, without limiting the generality of the foregoing: (i) any encumbrances or charges created by the Order of the Honourable Mr. Justice Morawetz dated January 25, 2012, as amended and restated; (ii) all charges, security interests or claims evidenced by registrations pursuant to the *Personal Property Security Act* (Ontario) or any other personal property registry system; and (iii) those Claims listed on Schedule C hereto (all of which are collectively referred to as the "Encumbrances", which term shall not include the permitted encumbrances, easements and restrictive covenants listed on Schedule D) and, for greater certainty, this Court orders that all of the Encumbrances affecting or relating to the Purchased Assets are hereby expunged and discharged as against the Purchased Assets.

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4. THIS COURT ORDERS that upon the registration in the Land Registry Office for the Land Titles Division of Thunder Bay (No. 55) of:

(a) an Application for Vesting Order in the form prescribed by the *Land Titles Act*, the Land Registrar for the said Land Titles Division is hereby directed to enter the Purchaser as the owner of the subject real property identified in Part 1 of Schedule B hereto in fee simple, and

(b) an Application to Amend Based on Court Order in the form prescribed by the *Land Titles Act*, the Land Registrar for the said Land Titles Division is hereby directed to enter the Purchaser as the owner of the leasehold estate in the real property identified in Part 2 of Schedule B hereto (the said real property identified in Part 1 of Schedule B hereto and the said leasehold estate in the real property identified in Part 2 of Schedule B being referred to, collectively, as the "Real Property"),

and the said Land Registrar is hereby directed to delete and expunge from title to the Real Property all of the Claims listed in Schedule C hereto.

5. THIS COURT ORDERS that the net cash proceeds of the sale of the Purchased Assets, inclusive of the deposit paid pursuant to the Sale Agreement (the "Net Proceeds"), shall be paid by the Purchaser to the Monitor, and that, effective from and after the time of delivery of the Monitor's Certificate to the Purchaser, for the purposes of determining the nature and priority of Claims, the Net Proceeds shall stand in the place and stead of the Purchased Assets, and that all Claims and Encumbrances shall attach to the Net Proceeds with the same priority as they had with respect to the Purchased Assets immediately prior to the sale, as if the Purchased Assets had not been sold and remained in the possession or control of the person having that possession or control immediately prior to the sale. The Net Proceeds shall be held by the Monitor pending further Order or Orders of the Court, provided that, with the approval of the Monitor, payment of obligations secured by the Administration Charge granted under the Initial Order may be paid by the Monitor from the Net Proceeds, from time to time, without further Order of this Court.

6. THIS COURT ORDERS AND DIRECTS the Monitor to file with the Court a copy of the Monitor's Certificate, forthwith after delivery thereof.

7. THIS COURT ORDERS that, pursuant to clause 7(3)(c) of the Canada *Personal Information Protection and Electronic Documents Act*, the Debtor is authorized and permitted to disclose and transfer to the Purchaser all human resources and payroll information in the

Debtor's records pertaining to the Debtor's past and current employees, and all information relating to customers of the Debtor. The Purchaser shall maintain and protect the privacy of such information and shall be entitled to use the personal information provided to it in a manner which is in all material respects identical to the prior use of such information by the Debtor.

8. THIS COURT ORDERS that, notwithstanding:

(a) the pendency of these proceedings;

(b) any applications for a bankruptcy order now or hereafter issued pursuant to the *Bankruptcy and Insolvency Act* (Canada) in respect of the Debtor and any bankruptcy order issued pursuant to any such applications; and

(c) any assignment in bankruptcy made in respect of the Debtor;

the vesting of the Purchased Assets in the Purchaser pursuant to this Order shall be binding on any trustee in bankruptcy that may be appointed in respect of the Debtor and shall not be void or voidable by creditors of the Debtor, nor shall it constitute nor be deemed to be a settlement, fraudulent preference, assignment, fraudulent conveyance, transfer at undervalue, or other reviewable transaction under the *Bankruptcy and Insolvency Act* (Canada) or any other applicable federal or provincial legislation, nor shall it constitute oppressive or unfairly prejudicial conduct pursuant to any applicable federal or provincial legislation.

9. THIS COURT ORDERS AND DECLARES that

(i) the Transaction is exempt from the application of the *Bulk Sales Act* (Ontario), and

(ii) the subdivision control provisions contained in the *Planning Act* (Ontario) do not apply to the vesting of title to the Real Property in the Purchaser and that such vesting is not, for the purposes of section 50(3) of the *Planning Act* (Ontario), a conveyance by way of deed or transfer.

10. THIS COURT HEREBY REQUESTS the aid and recognition of any court, tribunal, regulatory or administrative body having jurisdiction in Canada or in the United States to give effect to this Order and to assist the Debtor and the Monitor and their respective agents in carrying out the terms of this Order. All courts, tribunals, regulatory and administrative bodies are hereby respectfully requested to make such orders and to provide such assistance to the

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Debtor, as may be necessary or desirable to give effect to this Order or to assist the Debtor and the Monitor and their respective agents in carrying out the terms of this Order.

____

Schedule A – Form of Monitor's Certificate

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.

MONITOR'S CERTIFICATE

RECITALS

A. Pursuant to an Order of the Court dated [DATE], the Court approved the agreement of purchase and sale made as of [DATE OF AGREEMENT] (the "Sale Agreement") between the Debtor and [NAME OF PURCHASER] (the "Purchaser") and provided for the vesting in the Purchaser of the Debtor's right, title and interest in and to the Purchased Assets, which vesting is to be effective with respect to the Purchased Assets upon the delivery by the Monitor to the Purchaser of a certificate confirming (i) the payment by the Purchaser of the Purchase Price for the Purchased Assets; (ii) that the conditions to Closing as set out in • of the Sale Agreement have been satisfied or waived by the Debtor and the Purchaser; and (iii) the Transaction has been completed to the satisfaction of the Monitor.

B. Unless otherwise indicated herein, terms with initial capitals have the meanings set out in the Sale Agreement.

THE MONITOR CERTIFIES the following:

1. The Purchaser has paid and the Monitor has received the Purchase Price for the Purchased Assets payable on the Closing Date pursuant to the Sale Agreement;

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2. The Debtor and the Purchaser have confirmed that the conditions to Closing as set out in section ● of the Sale Agreement have been satisfied or waived.

3. The Transaction has been completed to the satisfaction of the Monitor.

4. This Certificate was delivered by the Monitor at [TIME] on _____ [DATE].

ERNST & YOUNG INC., in its capacity as court-appointed Monitor of TERRACE BAY PULP INC., and not in its personal or corporate capacity

Per: ______________________________

Name:

Title:

Schedule B – Purchased Assets

PART 1
FREEHOLD

PIN: 62456-0120 (LT)

PCL 8876 SEC TBF; PART LOCATION JK 315 SYINE WITHIN THE LIMITS OF THE TOWNSHIP OF SYINE AS IN PPA5365 EXCEPT LPA42665; DISTRICT OF THUNDER BAY

PIN: 62456-0122 (LT)

PCL 8876 SEC TBF; LOCATION JK 316 SYINE AS IN LPA5365 EXCEPT LPA42665; S/T LPA83730; DISTRICT OF THUNDER BAY

PIN: 62457-0728 (LT)

PCL PLAN-1 SEC M329; LT 117 PLAN M329 STREY; TERRACE BAY

PIN: 62457-0815 (LT)

PCL PLAN-1 SEC M329; BLOCK C PLAN M329 STREY; TERRACE BAY

PIN: 62457-0954 (LT)

PCL PLAN-1 SEC M329; BLOCK D PLAN M329 STREY; TERRACE BAY

PIN: 62457-0956 (LT)

PCL PLAN-1 SEC M329; BLOCK F PLAN M329 STREY; TERRACE BAY

PIN: 62457-1000 (LT)

PCL 12860 SEC TBF; PART LT 11 PLAN M225 STREY PART 2 55R5587; TERRACE BAY

PIN: 62457-1024 (LT)

PCL 12860 SEC TBF; PART LT 25 PLAN M225 STREY PART 1 55R9343; TERRACE BAY

PIN: 62457-1025 (LT)

PCL 12860 SEC TBF; LT 26 PLAN M225 STREY; TERRACE BAY

PIN: 62457-1026 (LT)

PCL 12860 SEC TBF; LT 27 PLAN M225 STREY; TERRACE BAY

PIN: 62457-1033 (LT)

PCL 12860 SEC TBF; BLOCK A PLAN M225 STREY; TERRACE BAY

PIN: 62457-1034 (LT)

PCL 12860 SEC TBF; BLOCK B PLAN M225 STREY; TERRACE BAY

PIN: 62457-1041 (LT)

PCL 12860 SEC TBF; BLOCK I PLAN M225 STREY; TERRACE BAY

PIN: 62457-1048 (LT)

PCL 23484 SEC TBF; PART SPUR LINE RD PLAN M225 STREY PART 6 55R6668 CLOSED BY LT222763; S/T LT235181; TERRACE BAY

PIN: 62457-1082 (LT)

PCL 20408 SEC TBF; PT LT 314 PL M121 STREY PT 1 56R732 EXCEPT PT 2 55R4506 & PT 1 55R8043; TERRACE BAY

PIN: 62457-1105 (LT)

PCL 8464 SEC TBF; PART CANADIAN PACIFIC RAILWAY BALLAST PIT STREY PART 2, 3, 6, 7, 55R11735; TERRACE BAY

PIN 62457-1117 (LT)

PCL 8757 SEC TBF; WATER LOT JK304 STREY IN LAKE SUPERIOR OPPOSITE PT OF LOCATION JK 300 AS IN PPA5345; TERRACE BAY

PART of PIN: 62457-1118 (LT)

PCL 8624 SEC TBF; LOCATION JK 306 STREY AS IN PPA5277 EXCEPT LPA39779, EXCEPT PARTS 1, 3 AND 4, PLAN 55R4355, S/T LPA43496 PARTIALLY RELEASED BY LT152053; TERRACE BAY

PIN: 62457-1121 (LT)

PCL 8505 SEC TBF; PART LOCATION JK 300 STREY BEING THE ROW FOR HIGHWAY AS IN PPA5218 EXCEPT LPA39779, LPA32991; TERRACE BAY

PIN: 62457-1202 (LT)

PCL 8876 SEC TBF; PART LOCATION JK 315 STREY WITHIN THE LIMITS OF STREY TOWNSHIP AS IN PPA5365 EXCEPT LPA42665; S/T LPA83730; TERRACE BAY

PART of PIN: 62457-1206 (LT)

ALL AND SINGULAR that certain parcel or tract of land and premises situate, lying and being in the Geographic Township of Strey, Township of Terrace Bay, District of Thunder Bay and in the Province of Ontario, being composed of part of Location JK 300, being all of PIN 62457-1206

SAVING AND EXCEPTING

FIRSTLY, that portion of JK-300 described as Parts 1 and 2, as shown on a reference plan of survey deposited in the Land Registry Office for the District of Thunder Bay as 55R-13391,

SECONDLY, that portion of JK-300 more particularly described as follows:

PREMISING that the bearings are referred to the east limit of JK 300 having a bearing of North $0^{0}02$' West as shown on Plan of Survey of JK 300, by J.K. Benner O.L.S. and attached to document registered in the Land Registry Office for the District of Thunder Bay as PPA5174,

COMMENCING at a point in the east limit of said JK 300 where it is intersected by the south limit of the Canadian Pacific Railway Right-of-Way as registered in said Land Registry Office as Plan Number 88, and shown on said Plan of Survey of JK 300,

THENCE, South $0^{0}02$' East along the said east limit of JK 300 387 meters, more or less to the northerly shore of Lake Superior,

THENCE, in a general westerly direction and following said shore in all its windings to a point where it is intersected by the limit between JK 300 and plan of subdivision registered in the said Registry Office M-122 (formerly the east limit of Mineral Location 1, Salter's Survey),

THENCE, northerly along the said limit between JK 300 and RP M-122, to the southerly limit of Lot 566 as shown on plan of subdivision registered in the said Land Registry Office as M-143,

THENCE, easterly along the south limit of said Lot 566, 149.56 meters, more or less, to the Southeast corner of said Lot 566, also being an angle point in the west limit of Lot 567 in said plan of subdivision M-143,

THENCE, southerly along the west limit of said Lot 567, 366.48 meters, more or less, to the Southwest corner of said Lot 567,

THENCE, easterly along the south limit of said Lot 567, 676.58 meters, more or less, to the Southeast corner of said Lot 567,

Thence, northerly along east limit of said Lot 567, 273.54 meters more or less, to the south limit of Lot 314 as shown on plan of subdivision registered in the said Land Registry Office as M-121,

THENCE, easterly along the south limit of Lot 314 and Lot 315 in said plan of subdivision M-121, 475.54 meters, more or less, to the Southeast corner of said Lot 315,

Thence, northerly along east limit of said Lot 315, also being the limit between JK 300 and RP M-121, 568.29 meters, more or less, to the southeasterly limit of Highway Number 17 as widened by Plan P-2803-18-A, registered in said Land Registry Office as LPA58436, THENCE, northeasterly along said limit of Highway Number 17, 481.66 meters, more or less, to the southerly limit of the said Canadian Pacific Railway Right-of-Way,

THENCE, easterly along the said limit of the CPR Right-of-Way on a curve to the left having a radius of 1776.88 meters, arc measurement of 228.40 meters, the chord equivalent being North 86^{0}42'35" East, 228.25 meters, more or less, to an iron bar

THENCE, North 83^{0}00'20" East, along said limit of the CPR Right-of-Way 218.05 meters, more or less to an iron bar

THENCE, continuing along the said limit of the CPR Right-of-Way on a curve to the right having a radius of 1715.90 meters, arc measurement of 443.25 meters, the chord equivalent being South 89^{0}35'40" East, 442.02 meters, more or less, to an iron bar

THENCE, South 82^{0}11'40" East, along said limit of the CPR Right-of-Way 826.09 meters , more or less, to an iron bar,

THENCE, easterly along the said limit of the CPR Right-of-Way on a curve to the right having a radius of 408.26 meters, arc measurement of 201.16 meters, the chord equivalent being South 83^{0}41'20" West, 199.13 meters, more or less to the POINT OF COMMENCEMENT.

<u>EXCEPTING</u>

FIRSTLY: all that portion of JK 300 as described in document registered in said Land Registry Office as LPA33775,

SECONDLY: all that portion of JK 300 as described in document registered in said Land Registry Office as LPA62030,

THIRDLY: all that portion of JK 300 as described in document registered in said Land Registry Office as LPA65839,

FOURTHLY: Parts 1, 2, and 4, as shown on a reference plan of survey deposited in the said Land Registry Office as 55R-2142,

FIFTHLY: Part 4, as shown on a reference plan of survey deposited in the said Land Registry Office as 55R-2424,

SIXTHLY: Part 3, as shown on a reference plan of survey deposited in the said Land Registry Office as 55R-3211,

SEVENTHLY: Parts 1, 9, 10, AND 11, as shown on a reference plan of survey n deposited in the said Land Registry Office as 55R-3612,

EIGTHLY: Parts 3, 5, and 8, as shown on a reference plan of survey deposited in the said Land Registry Office as 55R-4166,

NINTHLY: Parts 2 and 3, as shown on a reference plan of survey deposited in the said Land Registry Office as 55R-4338, TENTHLY: Part 2, as shown on a reference plan of survey deposited in the said Land Registry Office as 55R-4604,

ELEVENTHLY: Part 2, as shown on a reference plan of survey deposited in the said Land Registry Office as 55R-8897,

TWELFTHLY: Part 2, as shown on a reference plan of survey deposited in the said Land Registry Office as 55R-9593,

THIRTEENTHLY: Parts 2, 3, 5, 8, 9, 10, 11, 12, 14, 16, 18, 19, 20, and 21, as shown on a reference plan of survey deposited in the said Land Registry Office as 55R-13405.

SUBJECT TO an easement over a portion of the above described land in JK 300, being Part 5 55R-3612, as described in document registered in the said Land Registry Office as LT148631,

SUBJECT TO an easement over a portion of the above described land in JK 300, as described in document registered in the said Land Registry Office as LT148632,

SUBJECT TO an easement over a portion of the above described land in JK 300 as described in document registered in the said Land Registry Office as LPA49848,

SUBJECT TO an easement over a portion of the above described land in JK 300 as described in document registered in the said Land Registry Office as F65076,

TOGETHER WITH an easement over a portion of land in JK 300 as described in document registered in the said Land Registry Office as LT148629,

TOGETHER WITH an easement over a portion of land in Registered Plan M-329 as described in document registered in the said Land Registry Office as LT169283,

TOGETHER WITH an easement over a portion of land in Registered Plan M-225 as described in document registered in the said Land Registry Office as F117275.

PART of PIN: 62501-0003 (LT)

PCL 8686 SEC TBF; ISLANDS IN LAKE SUPERIOR IN FRONT OF TWP SYINE UNSURVEYED TERRITORY WHICH SAID ISLANDS ARE MORE PARTICULARLY ENUMERATED AND DESCRIBED AS FOLLOWS J.D.2126, J.D.2128, J.D.2129, J.D.2130; DISTRICT OF THUNDER BAY

PIN: 62501-0090 (LT)

PCL 8877 SEC TBF; WATER LT JK-317 SYINE BEING LAND AND LAND UNDER THE WATERS OF MOBERLEY BAY OF LAKE SUPERIOR OPPOSITE LOCATION JK-316 IN SYINE TOWNSHIP AS IN PPA5366; S/T LPA53820; DISTRICT OF THUNDER BAY

PART 2
SUBLEASEHOLD

PART of PIN: 62457-1149 (LT)

A SUBLEASEHOLD INTEREST IN PCL 1260 SEC TBL; PART OF LOCATION JK305 STREY DESIGNATED AS PARTS 1, 2, 3, 4 AND 5 ON PLAN 55R-1944; THUNDER BAY/TERRACE BAY; PURSUANT TO A SUBLEASE OF LAND BETWEEN ONTARIO HYDRO, AS SUB-LESSOR, AND KIMBERLY-CLARK OF CANADA LIMITED, AS SUB-LESSEE WHICH WAS REGISTERED AS A NOTICE OF SUBLEASE, ON APRIL 22, 1976 AS NO. LT120340.

Schedule C to the Approval and Vesting Order -
Claims to be deleted and expunged from title to Real Property

REAL PROPERTY LIENS TO BE DISCHARGED

The following claims are to be deleted and expunged from all the Freehold PINS listed under Part 1 of Schedule B:

1. A charge registered on September 15, 2010 as No. TY108158 in favour of Her Majesty the Queen in Right of the Province of Ontario, as represented by the Minister of Northern Development, Mines and Forestry.

2. A charge registered on September 15, 2010 as No. TY108162 in favour of Computershare Trust Company of Canada.

3. A construction lien registered on December 13, 2011 as No. TY132002 by EKT 90 Inc.

4. A construction lien registered on January 5, 2012 as No. TY132979 by Venshore Mechanical Ltd.

5. A construction lien registered on January 5, 2012 as No. TY132984 by Venasky-Pouru Electric Limited.

6. A construction lien registered on January 9, 2012 as No. TY133102 by Alstom Power & Transport Canada Inc.

7. A construction lien registered on January 10, 2012 as No. TY133201 by Keating Insulation Inc.

8. A construction lien registered on January 12, 2012 as No. TY133355 by A. H. Lundberg Systems Limited.

9. An application to register Court Order registered on January 27, 2012 as No. TY134036 to which is attached a certificate of action re: TY132002.

10. A certificate registered on February 17, 2012 as No. TY135090 to which is attached a certificate of action re: TY133355.

11. A certificate registered on February 17, 2012 as No. TY135091 to which is attached a certificate of action re: TY132979.

12. A certificate registered on February 17, 2012 as No. TY135103 to which is attached a certificate of action re: TY132984.

13. A certificate registered on February 21, 2012 as No. TY135174 to which is attached a certificate of action re: TY133102.

14. An application to register Court Order registered on February 24, 2012 as No. TY135375 to which is attached a certificate of action re: TY133201.

In addition, the following claims are to be deleted and expunged from Part of Freehold PINS 62457-1118 (LT) and 62457-1206 (LT) as set out under Part 1 of Schedule B:

15. A construction lien registered on November 30, 2011 as No. TY131319 by North West Installations Inc.

16. A construction lien registered on December 2, 2011 as No. TY131507 by Fabmar Metals Inc.

17. A construction lien registered on December 5, 2011 as No. TY131541 by Mills & Manufacturing Acrylic Products Ltd.

18. A construction lien registered on December 5, 2011 as No. TY131567 by KMH Engineering Inc.

19. A construction lien registered on December 5, 2011 as No. TY131596 by TISI Canada Inc.

20. A construction lien registered on December 8, 2011 as No. TY131806 by Vector Construction Ltd.

21. A construction lien registered on December 9, 2011 as No. TY131889 by FRP Systems Ltd.

22. A construction lien registered on December 19, 2011 as No. TY132336 by Link Steel & Mechanical Inc.

23. A construction lien registered on December 19, 2011 as No. TY132337 by North American Kiln Service Inc.

24. A certificate registered on December 28, 2011 as No. TY132731 to which is attached a certificate of action re: No. TY131567.

25. A certificate registered on December 28, 2011 as No. TY132732 to which is attached a certificate of action re: No. TY131889.

26. A construction lien registered on January 4, 2012 as No. TY132967 by Skyway Canada Limited.

27. A certificate registered on January 11, 2012 as No. TY133232 to which is attached a certificate of action re: No. TY131541

28. A certificate registered on January 11, 2012 as No. TY133239 to which is attached a certificate of action re: No. TY131319

29. A certificate of action registered on January 13, 2012 as No. TY133386 to which is attached a certificate of action re: No. TY131596.

30. A certificate registered on January 20, 2012 as No. TY133709 to which is attached a certificate of action re: No. TY131806

31. A certificate registered on January 31, 2012 as No. TY134274 to which is attached a certificate of action re: No. TY132967.

In addition, the following claims are to be deleted and expunged from the following PIN as set out under Part 2 of Schedule B:

Part of PIN 62457-1149(LT)

32. A notice of charge of lease registered on September 15, 2010 as No. TY108159 in favour of Her Majesty the Queen in Right of the Province of Ontario, as represented by the Minister of Northern Development, Mines and Forestry relating to LT120340.

33. A notice of charge of lease registered on September 15, 2010 as No. TY108161 in favour of Callidus Capital Corporation relating to LT120340.

34. A notice of charge of lease registered on September 15, 2010 as No. TY108163 in favour of Computershare Trust Company of Canada relating to LT120340.

Additional Registrations

Together with such further claims as may arise and/or be registered against title to any of the real property described in Schedule B up to and including the time of closing of the Transaction (as set out in more detail by way of solicitor's statement or affidavit annexed to the Application for Vesting Order or Application to Amend Based on Court Order, as the case may be).

Schedule D
Permitted Encumbrances and Easements related to the Real Property

Part 1
Freehold

PIN 62456-0122 (LT)

1. An easement registered on October 9, 1968 as No. LPA83730 in favour of The Hydro-Electric Power Commission of Ontario.

PIN 62457-1048 (LT)

2. An easement registered on September 30, 1988 as No. LT235181 relating to a watermain over Part 6 on Plan 55R-6668 in favour of The Corporation of The Township of Terrace Bay.

PIN 62457-1082 (LT)

3. An agreement registered on February 11, 1982 as No. LT174387 between Kimberly-Clark of Canada Limited and The Corporation of The Township of Terrace Bay.

PIN 62457-1105 (LT)

4. An order registered on September 26, 1947 as No. LPA32578 made by the Ontario Municipal Board under the Municipal Act incorporating the Improvement District of Terrace Bay.

PIN 62457-1117 (LT)

5. A plan and description of proposed water intake registered on March 31, 1947 as No. LPA31804 under The Navigable Waters Protection Act.

6. A water line easement in favour of The Corporation of the Township of Terrace Bay over a portion of the above described land, being Part 6 on Plan 55R-13405, as described in document registered in the Land Registry Office prior to the registration of the vesting order in favour of Purchaser.

PIN 62457-1121 (LT)

7. An order registered on September 26, 1947 as No. LPA32578 made by the Ontario Municipal Board under the Municipal Act incorporating the Improvement District of Terrace Bay.

PIN 62457-1202 (LT)

8. An easement registered on October 9, 1968 as No. LPA83730 in favour of The Hydro-Electric Power Commission of Ontario.

PIN 62501-0090 (LT)

9. An easement registered on July 21, 1958 as No. LPA53820 in favour of The Hydro-Electric Power Commission of Ontario.

Part of PIN 62457-1118 (LT)

10. An order registered on September 26, 1947 as No. LPA32578 made by the Ontario Municipal Board under the Municipal Act incorporating the Improvement District of Terrace Bay.

11. An application registered on June 11, 1952 as No. LPA40453 made by Longlac Pulp and Paper Company Limited relating to parts of a highway commonly known as Old Highway No. 17 which were transferred to the applicant and form part of Parcel 8624.

12. An easement as set out in transfer of easement registered on January 22, 1954 as No. LPA43496 in favour of The Hydro-Electric Power Commission of Ontario.

13. A release by Ontario Hydro registered on July 18, 1979 as No. LT152053 partially releasing easement LPA43496.

14. An application registered on October 30, 1980 as No. LT164282 by Kimberly-Clark of Canada Limited to which is attached revised provisional certificate of approval waste disposal site No. A591404 issued by the Ministry of the Environment on September 18, 1980.

15. A notice registered on April 18, 1986 as No. LT209729 being an application by Kimberly-Clark of Canada Limited to which is attached provisional certificate of approval waste disposal site No. A591404 issued by the Ministry of the Environment on June 27, 1985.

16. A certificate registered on January 24, 2003 as No. F116935 being a certificate of prohibition for a waste disposal site, provisional certificate of approval No. A591404 by the Ministry of the Environment.

17. A Land Registrar's order registered on October 6, 2004 as No. F137148 to amend the thumbnail description.

18. An application registered on September 30, 2010 as No. TY109044 to record the name of Ontario Power Generation Inc. on title relating to No. LPA43496.

Part of PIN 62457-1206(LT)

19. An order registered on September 26, 1947 as No. LPA32578 made by the Ontario Municipal Board under the Municipal Act incorporating the Improvement District of Terrace Bay.

20. An easement registered on November 26, 1956 as No. LPA49848 as set out and illustrated on transfer of right-of-way and easement in favour of The Hydro-Electric Power Commission of Ontario.

21. An easement registered March 15, 1979 as No. LT148631 in favour of The Corporation of The Township of Terrace Bay for purposes relating to a sewer line.

22. An easement registered March 15, 1979 as No. LT148632 in favour of The Corporation of The Township of Terrace Bay for purposes relating to a hydro line.

23. An order registered on July 26, 1988 as No. LT233066 made under the Planning Act, 1983 as to zoning, use of land and erection and use of buildings or structures.

24. An easement registered on September 20, 1996 as No. F65076 in favour of The Corporation of The Township of Terrace Bay for purposes relating to sewers, drains and watercourses, pipes for water and gas, conduits for wires of all kinds and of street lights.

25. A Land Registrar's order registered on October 6, 2004 as No. F137183 to amend the thumbnail description.

26. An application to amend register registered on November 25, 2004 as No. TY238 relating to No. LT169283.

27. A Land Registrar's order registered on January 11, 2005 as No. TY2293 to amend the thumbnail description.

28. A Land Registrar's order registered on June 22, 2012 as No. TY141651 to amend the thumbnail description.

29. A water line easement in favour of The Corporation of the Township of Terrace Bay over a portion of the above described land in JK 300, being Parts 2, 3, 5 and 16 on Plan 55R-13405, as described in document registered in the said Land Registry Office prior to the registration of the vesting order in favour of Purchaser.

Part 2
Subleasehold

PIN 62457-1149 (LT)

30. A water power lease agreement, recorded as a Crown Patent registered on February 15, 1954 as No. ML1517 being a 99 year lease between Her Majesty the Queen, in right of Ontario, represented by the Minister of Lands and Forests and The Hydro-Electric Power Commission of Ontario.

31. An application deposited under The Navigable Waters Protection Act on April 2, 1969 as No. LPA85177 being land required for the purposes of the Ontario Department of Public Works Plan as illustrated on Plan No. 405-7E.

32. A notice of sublease registered on April 22, 1976 as No. LT120340 on Parts 1, 2, 3, 4 and 5 on Plan 55R-1994 being among Ontario Hydro, Kimberly-Clark of Canada Limited and Her Majesty the Queen, in right of Ontario, represented by the Ministry of Natural Resources and relating to ML1517.

33. A notice being a partial surrender of lease relating to ML1517 registered on October 18, 1985 as No. LT205291.

34. A transfer of easement in favour of Her Majesty the Queen in right of Canada as represented by the Minister of Transport registered on March 13, 1987 as No. LT218861.

35. A notice of assignment of sublease registered on April 30, 1993 as No. F34714 being between Kimberly-Clark Canada Inc. and 1007234 Ontario Inc. (amended by articles of amalgamation registered as No. F94628) relating to Nos. ML1517 and LT120340.

36. A notice of assignment of lessee interest in lease registered on November 30, 2004 as No. TY457 being between Kimberly-Clark Inc. and Neenah Paper Company of Canada relating to Nos. LT120340 and F34714.

37. A notice of assignment of lessee interest in lease registered on August 29, 2006 as No. TY32369 being between Neenah Paper Company of Canada and Terrace Bay Pulp Inc. and relating to LT120340.

38. An application to change name – owner registered on September 27, 2010 as No. TY108816 from The Hydro-Electric Power Commission of Ontario to Ontario Power Generation Inc.

Schedule 1.1(b)

Contracts

Water Supply Agreement with the Ontario Ministry of Environment dated December 15, 2006

Amendment to VPSA Oxygen Supply Agreement and License Agreement dated September 14, 2010

Agreement with Oxy Canada Sales, Inc. re: Purchase of Liquid Caustic Soda dated September 20, 2010

All confidentiality agreements entered into by Terrace Bay Pulp Inc. in connection with the sales process approved by the order of the Ontario Superior Court of Justice dated January 25, 2012, as amended and restated.

License Agreement made September 23, 1954 between The Hydro-Electric Power Commission of Ontario, Longlac Pulp and Paper Company Limited and Her Majesty the Queen in right of Ontario, represented by the Minister of Lands and Forests.

Sublease made October 1, 1974 between Ontario Hydro, Kimberly-Clark of Canada Limited and Her Majesty the Queen in right of Ontario, represented by the Ministry of Natural Resources (the "Crown"), as assigned by Neenah Paper Company of Canada (a successor in interest to Kimberly-Clark of Canada Limited) to the Seller, as consented to by Ontario Power Generation Inc. (a successor in interest to Ontario Hydro) and the Crown.

Electricity Related Agreement with the Ontario Energy Board dated December 15, 2006

Software Licence Agreement between CCS Central Computer Services INC. and Terrace Bay Pulp Inc. dated February 12, 2009

Agreement with Erco Worldwide, a Division of Superior Plus LP re: Purchase of Sodium Chlorate dated August 31, 2010

Agreement with Superior Propane, a Division of Superior Plus LP re: Fuel Supply and Equipment dated September 16, 2010

Amendment to VPSA Oxygen Supply Agreement and License Agreement dated September 14, 2010

Agreement with Oxy Canada Sales, Inc. re: Purchase of Liquid Caustic Soda dated September 20, 2010

Bunker C Related Agreements with Imperial Oil dated September 22, 2010

Bunker C Related Agreement Extension with Imperial Oil dated September 21, 2011

Agreement with NORFALCO SALES INC. re: Purchase of Sulphuric Acid dated October 1, 2011 new agreement required

Agreement with Superior Propane, a Division of Superior Plus LP re: Fuel Supply and Equipment dated October 31, 2011

Master Contract 000004115 between Canadian Pacific Railway Company, Soo Line Railroad and Kimberly-Clark, Inc., dated November 1, 2003

Metering Service Provider Agreement between Neenah Paper Company of Canada and Thunder Bay Hydro Electricity Distribution Inc. dated August 15, 2005, Assigned to Terrace Bay Pulp Inc. August 30, 2006

Transmission Connection Agreement between Kimberly-Clark Inc. and Hydro One Networks Inc. dated April 30, 2002

Ontario Elevating Device License, Technical Standards and Safety Authority, Installation No. 001490, 030721, 030724, 022094

Ontario Ministry of Consumer & Commercial Relations, The Boilers and Pressure Vessels Act 1102200, Certificate "M" File

Ontario Certificate of Inspection, Boilers & Pressure Vessels, Regulations - No. 1 Oxygen Reactor and No. 2 Oxygen Reactor, Power/High Pressure Boiler - Steam Generator 5.1077614, Water Tube - CRN E4231.5 and Pressure Vessel

Certificates of Authorization: No. QA 01751, No. QA 01752, No. QA 01753, No. QA 01754, and No. QA 01755

License to Operate a Propane Refill Centre - Cylinder & Motor Fill (Private), No. 000076641731

Canadian Nuclear Safety Commission, Nuclear Substances & Radiation Devices License

License No. 13691-1-09.

Ontario Certificate of Registration of a Plant, TTSA, High Pressure Power Plant

Atomic Energy Control Board, Radioisotopes License #05-11703-99 (Rev 5)

Commercial Vehicle Operators Registration No. 112-226-609

License of Agreement between Hydro-Electric Power Commission of Ontario, Longlac Pulp & Paper Company Limited and Her Majesty the Queen in the right of Ontario, represented by the Minister of Lands & Forests dated September 23, 1954

National Pollutant Registry Inventory (NPRI) Reporting ID Number 02607

Sublease of part of Water Power Lease No. 22

Access Agreement dated May 4, 1998 between Canadian Pacific Railway Company and 1007234 Ontario Inc. (doing business as Kimberly Clark Forest Products Inc)

Agreement for New Siding dated January 29, 1960 between Canadian Pacific Railway Co and Kimberly-Clark Canada Limited as amended by an Amending Agreement dated February 8, 1980 between Canadian Pacific limited and Kimberly Clark of Canada Limited

Agreement for New Siding dated September 1, 1941 between Canadian Pacific Railway Company and Longlac Pulp & Paper Company, Limited as amended by a Memorandum of Agreement dated September 1, 1948, a supplementary letter patent, dated August 30, 1957 and a memorandum of Agreement, dated January 9, 1961 and subsequently assigned to NPI (assignment number 70311002A) on June 20, 2005

Access Agreement dated December 1, 1978 between Canadian Pacific Limited and Kimberly Clark of Canada Ltd.

Agreement for the Placing of Poles, Cables and Wires dates, May 19, 1998 between Canadian Pacific Railway Company and Kimberly Clark Forest Products Inc.

Private Crossing Agreement (XF 70311285A) between Neenah Paper Co and of Canada and Canadian Pacific Railway Company dated August 30, 2005

Agreement for New Siding dated August 19, 1968 between Kimberly Clark Limited and Canadian Pacific Limited subsequently assigned to NPI (assignment number L35342) on June 20, 2005

Agreement for Laying of Pipelines, Conduits, etc on Railway Lands Crossing the Railway dated, May 19, 1998 between Canadian Pacific Railway Company and Kimberley Clark Forest Products Inc (Agreement No. XP70310978A)

Agreement for Laying of Pipelines, Conduits, etc on Railway Lands Crossing the Railway dated, May 19, 1998 between Canadian Pacific Railway Company and Kimberley Clark Forest Products Inc (Agreement No. XP70310984A)

Application for Electricity Wholesaler License EB-2004-0479 between Ontario Energy Board and Neenah Paper Company of Canada dated March 17, 2005

Agreement for New Siding dated May 1, 1946 between Canadian Pacific Railway Company and Longlac Pulp and Paper Company Limited

Ontario Ministry of the Environment & Energy, Authorization of PCB storage for site # 60188A216 dated May 16, 1994

Agreement with NORFALCO SALES INC. re: Purchase of Sulphuric Acid dated October 1, 2011 new agreement required

Agreement with Superior Propane, a Division of Superior Plus LP re: Fuel Supply and Equipment dated October 31, 2011

Master Contract 000004115 between Canadian Pacific Railway Company, Soo Line Railroad and Kimberly-Clark, Inc., dated November 1, 2003

Schedule 1.1(c)

Excluded Real Property

All of PIN 62457-1118(LT) other than the part of PIN 62457-1118(LT) that is described in Schedule 1.1(g) hereof

All of PIN 62457-1206(LT) other than the part of PIN 62457-1206(LT) that is described in Schedule 1.1(g) hereof

All of PIN 62501-0003(LT) other than the part of PIN 62501-0003(LT) that is described in Schedule 1.1(g) hereof

All of PINs 62457-0432(LT), 62457-0492(LT), 62457-1083(LT), 62457-1091(LT), 62457-1096(LT), 62457-1116(LT), 62457-1119(LT), 62457-1120(LT), 62458-0523(LT), 62458-0533(LT), 62458-0534(LT), 62458-0578(LT), 62458-0579(LT), 62458-0591(LT), 62501-0002(LT) and 62458-0314(LT)

Schedule 1.1(d)

Logs

Area	Source	Product	Volume	SFL	Balance o/s
MANI	Broadsword	FT - TL	85	Big Pic	85
MANI	Broadsword	16 FOOT	74	Big Pic	74
MANI	Diane	FT - TL	44	Big Pic	44
MANI	Dianthus	CT - TL	103	Big Pic	103
MANI	Gaffhook	CT - TL	1,154	Big Pic	1,154
MANI	Gene	CT - TL	653	Big Pic	653
MANI	Hillsport Siding	CT - TL	33	Big Pic	33
MANI	Hillsport Siding	16 FOOT	1	Big Pic	1
MANI	Hillsport Siding	PULP	1,410	Big Pic	1,410
MANI	Kassagiming	CT - TL	250	Big Pic	250
MANI	Pistol Man	CT - TL	536	Big Pic	536
MANI	Pistol Man	16 FOOT	330	Big Pic	330
MANI	Pistol Man	PULP	133	Big Pic	133
MANI	Seagram	CT - TL	431	Big Pic	431
MANI	TOTAL		5,237		5,237
OGOK	Axel	CT - TL	494	Ogoki	494
OGOK	Beaton Lake	2 CT - TL	144	Ogoki	144
OGOK	Caribou Lake	CT - TL	218	Ogoki	218
OGOK	Caribou Lake	16 FOOT	8,165	Ogoki	8,165
OGOK	Caribou Lake	PULP	3,589	Ogoki	3,589
OGOK	Gilhully North	PULP	37	Ogoki	37
OGOK	Painter	CT - TL	854	Ogoki	854
OGOK	TOTAL		13,501		13,501
KENO	Blockville	CT - TL	1,308	Kenogami	1,308
KENO	Blockville	FT - TL	22	Kenogami	22
KENO	Blueberry Mile	10 PULP	17	Kenogami	17
KENO	Castlebar	CT - TL	2,598	Kenogami	2,598
KENO	Castlebar	PULP	1,754	Kenogami	1,754
KENO	Chisel	FT - TL	221	Kenogami	221
KENO	Club South	16 FOOT	25	Kenogami	25
KENO	Club South	PULP	526	Kenogami	526
KENO	Hammer	FT - TL	76	Kenogami	76
KENO	Hopwood	CT - TL	3	Kenogami	3
KENO	Jemar	HARDWOOD	492	Kenogami	492
KENO	Kowkash	CT – TL	9	Kenogami	9
KENO	Kowkash	HARDWOOD	1,027	Kenogami	1,027
KENO	Maun Rd (mi 42)	HARDWOOD	660	Kenogami	660
KENO	McCrey	CT - TL	25	Kenogami	25
KENO	Meta	FT - TL	129	Kenogami	129
KENO	Muriel	CT - TL	90	Kenogami	90
KENO	Murkey South	FT - TL	4	Kenogami	4
KENO	Nakina Stock Pile	CT - TL	16	Kenogami	16
KENO	Nakina Stock Pile	PULP	28	Kenogami	28
KENO	Ogoki Pit	CT - TL	117	Kenogami	117
KENO	Rayner	CT - TL	1,309	Kenogami	1,309
KENO	Spike Block	PULP	458	Kenogami	458
KENO	Storm N.E.	CT - TL	1,273	Kenogami	1,273
KENO	Suni	CT - TL	484	Kenogami	484
KENO	Suni	FT - TL	13	Kenogami	13
KENO	Suni	HARDWOOD	4,450	Kenogami	4,450
KENO	West Boyce	LLWI			
Purchased Wood		PULP	596	Kenogami	596
KENO TOTAL			17,730		17,730
JELL	Wildgoose	FT - TL	1,483	Lake Nipigon	1,483
JELL	Wildgoose	HARDWOOD	3,966	Lake Nipigon	3,966
JELL TOTAL			5,449		5,449
GRAND TOTAL			41,917		41,917

Schedule 1.1(e)

[Intentionally Deleted.]

Schedule 1.1(f)

Permitted Liens

Part 1
Freehold

PIN 62456-0122 (LT)

1. An easement registered on October 9, 1968 as No. LPA83730 in favour of The Hydro-Electric Power Commission of Ontario.

PIN 62457-1048 (LT)

2. An easement registered on September 30, 1988 as No. LT235181 relating to a watermain over Part 6 on Plan 55R-6668 in favour of The Corporation of The Township of Terrace Bay.

PIN 62457-1082 (LT)

3. An agreement registered on February 11, 1982 as No. LT174387 between Kimberly-Clark of Canada Limited and The Corporation of The Township of Terrace Bay.

PIN 62457-1105 (LT)

4. An order registered on September 26, 1947 as No. LPA32578 made by the Ontario Municipal Board under the Municipal Act incorporating the Improvement District of Terrace Bay.

PIN 62457-1117 (LT)

5. A plan and description of proposed water intake registered on March 31, 1947 as No. LPA31804 under The Navigable Waters Protection Act.

6. A water line easement in favour of The Corporation of the Township of Terrace Bay over a portion of the above described land, being Part 6 on Plan 55R-13405, as described in document registered in the Land Registry Office prior to the registration of the vesting order in favour of Purchaser.

PIN 62457-1121 (LT)

7. An order registered on September 26, 1947 as No. LPA32578 made by the Ontario Municipal Board under the Municipal Act incorporating the Improvement District of Terrace Bay.

PIN 62457-1202 (LT)

8. An easement registered on October 9, 1968 as No. LPA83730 in favour of The Hydro-Electric Power Commission of Ontario.

PIN 62501-0090 (LT)

9. An easement registered on July 21, 1958 as No. LPA53820 in favour of The Hydro-Electric Power Commission of Ontario.

Part of PIN 62457-1118 (LT)

10. An order registered on September 26, 1947 as No. LPA32578 made by the Ontario Municipal Board under the Municipal Act incorporating the Improvement District of Terrace Bay.

11. An application registered on June 11, 1952 as No. LPA40453 made by Longlac Pulp and Paper Company Limited relating to parts of a highway commonly known as Old Highway No. 17 which were transferred to the applicant and form part of Parcel 8624.

12. An easement as set out in transfer of easement registered on January 22, 1954 as No. LPA43496 in favour of The Hydro-Electric Power Commission of Ontario.

13. A release by Ontario Hydro registered on July 18, 1979 as No. LT152053 partially releasing easement LPA43496.

14. An application registered on October 30, 1980 as No. LT164282 by Kimberly-Clark of Canada Limited to which is attached revised provisional certificate of approval waste disposal site No. A591404 issued by the Ministry of the Environment on September 18, 1980.

15. A notice registered on April 18, 1986 as No. LT209729 being an application by Kimberly-Clark of Canada Limited to which is attached provisional certificate of approval waste disposal site No. A591404 issued by the Ministry of the Environment on June 27, 1985.

16. A certificate registered on January 24, 2003 as No. F116935 being a certificate of prohibition for a waste disposal site, provisional certificate of approval No. A591404 by the Ministry of the Environment.

17. A Land Registrar's order registered on October 6, 2004 as No. F137148 to amend the thumbnail description.

18. An application registered on September 30, 2010 as No. TY109044 to record the name of Ontario Power Generation Inc. on title relating to No. LPA43496.

Part of PIN 62457-1206(LT)

19. An order registered on September 26, 1947 as No. LPA32578 made by the Ontario Municipal Board under the Municipal Act incorporating the Improvement District of Terrace Bay.

20. An easement registered on November 26, 1956 as No. LPA49848 as set out and illustrated on transfer of right-of-way and easement in favour of The Hydro-Electric Power Commission of Ontario.

21. An easement registered March 15, 1979 as No. LT148631 in favour of The Corporation of The Township of Terrace Bay for purposes relating to a sewer line.

22. An easement registered March 15, 1979 as No. LT148632 in favour of The Corporation of The Township of Terrace Bay for purposes relating to a hydro line.

23. An order registered on July 26, 1988 as No. LT233066 made under the Planning Act, 1983 as to zoning, use of land and erection and use of buildings or structures.

24. An easement registered on September 20, 1996 as No. F65076 in favour of The Corporation of The Township of Terrace Bay for purposes relating to sewers, drains and watercourses, pipes for water and gas, conduits for wires of all kinds and of street lights.

25. A Land Registrar's order registered on October 6, 2004 as No. F137183 to amend the thumbnail description.

26. An application to amend register registered on November 25, 2004 as No. TY238 relating to No. LT169283.

27. A Land Registrar's order registered on January 11, 2005 as No. TY2293 to amend the thumbnail description.

28. A Land Registrar's order registered on June 22, 2012 as No. TY141651 to amend the thumbnail description.

29. A water line easement in favour of The Corporation of the Township of Terrace Bay over a portion of the above described land in JK 300, being Parts 2, 3, 5 and 16 on Plan 55R-13405, as described in document registered in the said Land Registry Office prior to the registration of the vesting order in favour of Purchaser.

Part 2
Subleasehold

PIN 62457-1149 (LT)

30. A water power lease agreement, recorded as a Crown Patent registered on February 15, 1954 as No. ML1517 being a 99 year lease between Her Majesty the Queen, in right of Ontario, represented by the Minister of Lands and Forests and The Hydro-Electric Power Commission of Ontario.

31. An application deposited under The Navigable Waters Protection Act on April 2, 1969 as No. LPA85177 being land required for the purposes of the Ontario Department of Public Works Plan as illustrated on Plan No. 405-7E.

32. A notice of sublease registered on April 22, 1976 as No. LT120340 on Parts 1, 2, 3, 4 and 5 on Plan 55R-1994 being among Ontario Hydro, Kimberly-Clark of Canada Limited and Her Majesty the Queen, in right of Ontario, represented by the Ministry of Natural Resources and relating to ML1517.

33. A notice being a partial surrender of lease relating to ML1517 registered on October 18, 1985 as No. LT205291.

34. A transfer of easement in favour of Her Majesty the Queen in right of Canada as represented by the Minister of Transport registered on March 13, 1987 as No. LT218861.

35. A notice of assignment of sublease registered on April 30, 1993 as No. F34714 being between Kimberly-Clark Canada Inc. and 1007234 Ontario Inc. (amended by articles of amalgamation registered as No. F94628) relating to Nos. ML1517 and LT120340.

36. A notice of assignment of lessee interest in lease registered on November 30, 2004 as No. TY457 being between Kimberly-Clark Inc. and Neenah Paper Company of Canada relating to Nos. LT120340 and F34714.

37. A notice of assignment of lessee interest in lease registered on August 29, 2006 as No. TY32369 being between Neenah Paper Company of Canada and Terrace Bay Pulp Inc. and relating to LT120340.

38. An application to change name – owner registered on September 27, 2010 as No. TY108816 from The Hydro-Electric Power Commission of Ontario to Ontario Power Generation Inc.

Schedule 1.1(g)

Legal Description of the Real Property

PART 1
FREEHOLD

PIN: 62456-0120 (LT)

PCL 8876 SEC TBF; PART LOCATION JK 315 SYINE WITHIN THE LIMITS OF THE TOWNSHIP OF SYINE AS IN PPA5365 EXCEPT LPA42665; DISTRICT OF THUNDER BAY

PIN: 62456-0122 (LT)

PCL 8876 SEC TBF; LOCATION JK 316 SYINE AS IN LPA5365 EXCEPT LPA42665; S/T LPA83730; DISTRICT OF THUNDER BAY

PIN: 62457-0728 (LT)

PCL PLAN-1 SEC M329; LT 117 PLAN M329 STREY; TERRACE BAY

PIN: 62457-0815 (LT)

PCL PLAN-1 SEC M329; BLOCK C PLAN M329 STREY; TERRACE BAY

PIN: 62457-0954 (LT)

PCL PLAN-1 SEC M329; BLOCK D PLAN M329 STREY; TERRACE BAY

PIN: 62457-0956 (LT)

PCL PLAN-1 SEC M329; BLOCK F PLAN M329 STREY; TERRACE BAY

PIN: 62457-1000 (LT)

PCL 12860 SEC TBF; PART LT 11 PLAN M225 STREY PART 2 55R5587; TERRACE BAY

PIN: 62457-1024 (LT)

PCL 12860 SEC TBF; PART LT 25 PLAN M225 STREY PART 1 55R9343; TERRACE BAY

PIN: 62457-1025 (LT)

PCL 12860 SEC TBF; LT 26 PLAN M225 STREY; TERRACE BAY

PIN: 62457-1026 (LT)

PCL 12860 SEC TBF; LT 27 PLAN M225 STREY; TERRACE BAY

PIN: 62457-1033 (LT)

PCL 12860 SEC TBF; BLOCK A PLAN M225 STREY; TERRACE BAY

PIN: 62457-1034 (LT)

PCL 12860 SEC TBF; BLOCK B PLAN M225 STREY; TERRACE BAY

PIN: 62457-1041 (LT)

PCL 12860 SEC TBF; BLOCK I PLAN M225 STREY; TERRACE BAY

PIN: 62457-1048 (LT)

PCL 23484 SEC TBF; PART SPUR LINE RD PLAN M225 STREY PART 6 55R6668 CLOSED BY LT222763; S/T LT235181; TERRACE BAY

PIN: 62457-1082 (LT)

PCL 20408 SEC TBF; PT LT 314 PL M121 STREY PT 1 56R732 EXCEPT PT 2 55R4506 & PT 1 55R8043; TERRACE BAY

PIN: 62457-1105 (LT)

PCL 8464 SEC TBF; PART CANADIAN PACIFIC RAILWAY BALLAST PIT STREY PART 2, 3, 6, 7, 55R11735; TERRACE BAY

PIN 62457-1117 (LT)

PCL 8757 SEC TBF; WATER LOT JK304 STREY IN LAKE SUPERIOR OPPOSITE PT OF LOCATION JK 300 AS IN PPA5345; TERRACE BAY

PART of PIN: 62457-1118 (LT)

PCL 8624 SEC TBF; LOCATION JK 306 STREY AS IN PPA5277 EXCEPT LPA39779, EXCEPT PARTS 1, 3 AND 4, PLAN 55R4355, S/T LPA43496 PARTIALLY RELEASED BY LT152053; TERRACE BAY

PIN: 62457-1121 (LT)

PCL 8505 SEC TBF; PART LOCATION JK 300 STREY BEING THE ROW FOR HIGHWAY AS IN PPA5218 EXCEPT LPA39779, LPA32991; TERRACE BAY

PIN: 62457-1202 (LT)

PCL 8876 SEC TBF; PART LOCATION JK 315 STREY WITHIN THE LIMITS OF STREY TOWNSHIP AS IN PPA5365 EXCEPT LPA42665; S/T LPA83730; TERRACE BAY

PART of PIN: 62457-1206 (LT)

ALL AND SINGULAR that certain parcel or tract of land and premises situate, lying and being in the Geographic Township of Strey, Township of Terrace Bay, District of Thunder Bay and in the Province of Ontario, being composed of part of Location JK 300, being all of PIN 62457-1206

SAVING AND EXCEPTING

FIRSTLY, that portion of JK-300 described as Parts 1 and 2, as shown on a reference plan of survey deposited in the Land Registry Office for the District of Thunder Bay as 55R-13391,

SECONDLY, that portion of JK-300 more particularly described as follows:

PREMISING that the bearings are referred to the east limit of JK 300 having a bearing of North $0^0$02' West as shown on Plan of Survey of JK 300, by J.K. Benner O.L.S. and attached to document registered in the Land Registry Office for the District of Thunder Bay as PPA5174,

COMMENCING at a point in the east limit of said JK 300 where it is intersected by the south limit of the Canadian Pacific Railway Right-of-Way as registered in said Land Registry Office as Plan Number 88, and shown on said Plan of Survey of JK 300,

THENCE, South $0^0$02' East along the said east limit of JK 300 387 meters, more or less to the northerly shore of Lake Superior,

THENCE, in a general westerly direction and following said shore in all its windings to a point where it is intersected by the limit between JK 300 and plan of subdivision registered in the said Registry Office M-122 (formerly the east limit of Mineral Location 1, Salter's Survey), THENCE, northerly along the said limit between JK 300 and RP M-122, to the southerly limit of Lot 566 as shown on plan of subdivision registered in the said Land Registry Office as M-143,

THENCE, easterly along the south limit of said Lot 566, 149.56 meters, more or less, to the Southeast corner of said Lot 566, also being an angle point in the west limit of Lot 567 in said plan of subdivision M-143,

THENCE, southerly along the west limit of said Lot 567, 366.48 meters, more or less, to the Southwest corner of said Lot 567,

THENCE, easterly along the south limit of said Lot 567, 676.58 meters, more or less, to the Southeast corner of said Lot 567,

Thence, northerly along east limit of said Lot 567, 273.54 meters more or less, to the south limit of Lot 314 as shown on plan of subdivision registered in the said Land Registry Office as M-121,

THENCE, easterly along the south limit of Lot 314 and Lot 315 in said plan of subdivision M-121, 475.54 meters, more or less, to the Southeast corner of said Lot 315,

Thence, northerly along east limit of said Lot 315, also being the limit between JK 300 and RP M-121, 568.29 meters, more or less, to the southeasterly limit of Highway Number 17 as widened by Plan P-2803-18-A, registered in said Land Registry Office as LPA58436,

THENCE, northeasterly along said limit of Highway Number 17, 481.66 meters, more or less, to the southerly limit of the said Canadian Pacific Railway Right-of-Way,

THENCE, easterly along the said limit of the CPR Right-of-Way on a curve to the left having a radius of 1776.88 meters, arc measurement of 228.40 meters, the chord equivalent being North $86^0 42'35"$ East, 228.25 meters, more or less, to an iron bar

THENCE, North $83^0 00'20"$ East, along said limit of the CPR Right-of-Way 218.05 meters, more or less to an iron bar

THENCE, continuing along the said limit of the CPR Right-of-Way on a curve to the right having a radius of 1715.90 meters, arc measurement of 443.25 meters, the chord equivalent being South $89^0 35'40"$ East, 442.02 meters, more or less, to an iron bar

THENCE, South $82^0 11'40"$ East, along said limit of the CPR Right-of-Way 826.09 meters , more or less, to an iron bar, THENCE, easterly along the said limit of the CPR Right-of-Way on a curve to the right having a radius of 408.26 meters, arc measurement of 201.16 meters, the chord equivalent being South $83^{0}41'20"$ West, 199.13 meters, more or less to the POINT OF COMMENCEMENT.

EXCEPTING

FIRSTLY: all that portion of JK 300 as described in document registered in said Land Registry Office as LPA33775,

SECONDLY: all that portion of JK 300 as described in document registered in said Land Registry Office as LPA62030,

THIRDLY: all that portion of JK 300 as described in document registered in said Land Registry Office as LPA65839,

FOURTHLY: Parts 1, 2, and 4, as shown on a reference plan of survey deposited in the said Land Registry Office as 55R-2142,

FIFTHLY: Part 4, as shown on a reference plan of survey deposited in the said Land Registry Office as 55R-2424,

SIXTHLY: Part 3, as shown on a reference plan of survey deposited in the said Land Registry Office as 55R-3211,

SEVENTHLY: Parts 1, 9, 10, AND 11, as shown on a reference plan of survey n deposited in the said Land Registry Office as 55R-3612,

EIGTHLY: Parts 3, 5, and 8, as shown on a reference plan of survey deposited in the said Land Registry Office as 55R-4166,

NINTHLY: Parts 2 and 3, as shown on a reference plan of survey deposited in the said Land Registry Office as 55R-4338,

TENTHLY: Part 2, as shown on a reference plan of survey deposited in the said Land Registry Office as 55R-4604,

ELEVENTHLY: Part 2, as shown on a reference plan of survey deposited in the said Land Registry Office as 55R-8897,

TWELFTHLY: Part 2, as shown on a reference plan of survey deposited in the said Land Registry Office as 55R-9593, THIRTEENTHLY: Parts 2, 3, 5, 8, 9, 10, 11, 12, 14, 16, 18, 19, 20, and 21, as shown on a reference plan of survey deposited in the said Land Registry Office as 55R-13405.

SUBJECT TO an easement over a portion of the above described land in JK 300, being Part 5 55R-3612, as described in document registered in the said Land Registry Office as LT148631,

SUBJECT TO an easement over a portion of the above described land in JK 300, as described in document registered in the said Land Registry Office as LT148632,

SUBJECT TO an easement over a portion of the above described land in JK 300 as described in document registered in the said Land Registry Office as LPA49848,

SUBJECT TO an easement over a portion of the above described land in JK 300 as described in document registered in the said Land Registry Office as F65076,

TOGETHER WITH an easement over a portion of land in JK 300 as described in document registered in the said Land Registry Office as LT148629,

TOGETHER WITH an easement over a portion of land in Registered Plan M-329 as described in document registered in the said Land Registry Office as LT169283,

TOGETHER WITH an easement over a portion of land in Registered Plan M-225 as described in document registered in the said Land Registry Office as F117275.

PART of PIN: 62501-0003 (LT)

PCL 8686 SEC TBF; ISLANDS IN LAKE SUPERIOR IN FRONT OF TWP SYINE UNSURVEYED TERRITORY WHICH SAID ISLANDS ARE MORE PARTICULARLY ENUMERATED AND DESCRIBED AS FOLLOWS J.D.2126, J.D.2128, J.D.2129, J.D.2130; DISTRICT OF THUNDER BAY

PIN: 62501-0090 (LT)

PCL 8877 SEC TBF; WATER LT JK-317 SYINE BEING LAND AND LAND UNDER THE WATERS OF MOBERLEY BAY OF LAKE SUPERIOR OPPOSITE LOCATION JK-316 IN SYINE TOWNSHIP AS IN PPA5366; S/T LPA53820; DISTRICT OF THUNDER BAY

PART 2
SUBLEASEHOLD

PART of PIN: 62457-1149 (LT)

A SUBLEASEHOLD INTEREST IN PCL 1260 SEC TBL; PART OF LOCATION JK305 STREY DESIGNATED AS PARTS 1, 2, 3, 4 AND 5 ON PLAN 55R-1944; THUNDER BAY/TERRACE BAY; PURSUANT TO A SUBLEASE OF LAND BETWEEN ONTARIO HYDRO, AS SUB-LESSOR, AND KIMBERLY-CLARK OF CANADA LIMITED, AS SUB-LESSEE WHICH WAS REGISTERED AS A NOTICE OF SUBLEASE, ON APRIL 22, 1976 AS NO. LT120340.

Schedule 2.2

Specifically Identified Excluded Assets[1]

Category	Nature	Description
Accounts Receivable	Payable under the Northern Industrial Energy Rebate Program	All credits earned and/or payable prior to Closing.
Cash/Deposits	IESO security deposit	All funds and/or Tbills held by the IESO in respect of energy usage account 423-0083927
Accounts Receivable	Payable under the Pulp and Paper Green Transformation Fund	All funds receivable from Natural Resources Canada relating to the Seller's programs commenced under the Pulp and Paper Green Transformation Fund
Insurance Proceeds	Blow tank explosion	All amounts receivable by the Seller under all of its policies of insurance in respect of claims made by the Seller in connection with the blow tank explosion including claims under business interruption insurance, unless all repairs or replacements to the blow tank have not been completed prior to the Closing or the blow tank has not been certified operational, in which case the Purchaser shall take an assignment of any property and casualty insurance specifically related to the blow tank.

[1] Without limitation to the definition of Excluded Assets in the Agreement.

Schedule 3.3

Allocation Statement

Equipment - $1.5 million
Real Property - $0.5 million.

Schedule 5.4

Purchaser's Consents and Approvals

None.