Court File No. CV-09-8062-OOCL

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.

TENTH REPORT OF ERNST & YOUNG INC.

DATED FEBRUARY 18, 2010

INTRODUCTION

1. On March 11, 2009, Terrace Bay Pulp Inc. ("**Terrace Bay**" or the "**Applicant**") filed for and obtained protection under the *Companies' Creditors Arrangement Act* (the "**CCAA**"). Pursuant to an Order of this Honourable Court dated March 11, 2009 (the "**Initial Order**"), Ernst & Young Inc. ("**EYI**") was appointed as Monitor (the "**Monitor**") in this proceeding (the "**CCAA Proceeding**"). The Initial Order provided a period of time during which proceedings against the Applicant and its property were stayed (the "**Stay Period**"). The initial Stay Period expired on April 10, 2009, but has been extended from time to time, most recently by Order of this Honourable Court made on November 20, 2009. Absent a further extension, the Stay Period will expire on February 26, 2010.

PURPOSE

2. The purpose of this tenth report of the Monitor (the "**Tenth Report**") is to update this Honourable Court in relation to the activities of Terrace Bay and the Monitor since the eighth report of the Monitor to this Honourable Court dated November 19, 2009 (the "**Eighth Report**") and to report on the following:

   (a) The status of Terrace Bay's restructuring efforts;

(b) The ongoing activities of the Monitor and the Applicant in relation to the claims process (the "**Claims Process**") authorized by the Order of this Honourable Court dated December 18, 2009, as amended by the Order of this Honourable Court dated December 22, 2009 (collectively, the "**Claims Process Order**");

(c) The receipts and disbursements for the week ending November 9, 2009 through February 7, 2010;

(d) The revised cash flow forecast;

(e) A proposed insurance premium financing arrangement; and

(f) A proposed extension of the Stay Period.

TERMS OF REFERENCE

3. In preparing this Tenth Report, EYI has been provided with and in making the comments herein it has relied upon, unaudited financial information, Terrace Bay's books and records, financial information prepared by Terrace Bay, and discussions with management of Terrace Bay. EYI has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of such information and, accordingly, EYI expresses no opinion or other form of assurance in respect of such information contained in this Tenth Report. Some of the information referred to in this Tenth Report consists of forecasts and projections. An examination or review of the financial forecast and projections, as outlined in the Canadian Institute of Chartered Accountants ("**CICA**") Handbook, has not been performed. Future oriented financial information referred to in this Tenth Report was prepared based on management's estimates and assumptions. Readers are cautioned that since projections are based upon assumptions about future events and conditions that are not ascertainable, the actual results will vary from the projections, even if the assumptions materialize, and the variations could be significant.

STATUS OF TERRACE BAY'S RESTRUCTURING EFFORTS

4. As previously reported in the Eighth Report, the Government of Ontario and the Applicant reached an agreement on a term sheet outlining the basis upon which the Province is prepared to extend a term loan in the principal amount of $25,000,000 (the "**Term Sheet**"). The Term Sheet contains various conditions, including the requirement that Terrace Bay procure operating financing from another lender and the successful implementation of a plan of arrangement in this CCAA Proceeding (the "**Plan**")

5. As contemplated by the Term Sheet agreed to with the Government of Ontario, the Applicant has commenced a process to raise the operating financing required for it to restart the mill. The Applicant and a funding provider executed a Letter of Intent on January 20, 2010 (the "**LOI**"). The LOI sets out the terms of an asset-based revolving credit facility that the Applicant believes will provide it with the necessary operating funding, in conjunction with the term loan, to enable it to propose a Plan, exit from this CCAA Proceeding and restart the mill's operations. The LOI also contains various conditions, including the successful implementation of the Plan.

6. The funding provider is currently in the process of completing due diligence, following which, if it agrees to proceed, a loan agreement would need to be prepared and negotiated.

7. Accordingly, the Applicant is seeking an extension of the Stay Period through to April 30, 2010 to permit it, with the assistance of the Monitor, to pursue, develop and execute the arrangements required to fulfill the requirements of the Term Sheet and the LOI. These arrangements include, among other things, the raising of equity capital to help satisfy the conditions of the Term Sheet, the negotiation and development of a Plan, and the completion of the Claims Process to facilitate creditor approval and the implementation of such Plan.

UPDATE ON THE CLAIMS PROCESS

8. The Claims Process is described in the ninth report of the Monitor dated December 15, 2009 (the "**Ninth Report**"). Capitalized terms not defined in this section of this Report are as defined in the Claims Process Order. The Claims Process Order called for the filing of a Proof of Claim against the Applicant:

   (a) for Claims which arose prior to March 11, 2009 (each a "**Pre-Filing Claim**"); and

   (b) for claims arising as a result of, or in connection with, the repudiation, termination or restructuring by Terrace Bay of any contract, lease or other agreement after March 11, 2009 (each a "**Restructuring Claim**").

   Pursuant to the Claims Process Order, unionized and non-unionized employees were not required to file a Proof of Claim in respect of a Claim in his or her capacity as an employee, with such claims being included in the definition of an "**Excluded Claim**".

9. Pursuant to the Claims Process Order, the Monitor took the following steps:

   (a) published a notice to creditors of Terrace Bay in the Globe and Mail (National Edition), the Thunder Bay Chronicle-Journal and the Terrace Bay/Schreiber News, in accordance with the Claims Process Order;

   (b) sent a Claims Package, including in some instances a Claim Amount Notice, to Known Creditors of Terrace Bay;

   (c) sent a Claims Package to those parties who had filed construction lien claims against real property of Terrace Bay;

   (d) sent a Claims Package to those parties known by Terrace Bay to have ongoing litigation with Terrace Bay;

   (e) sent a Claims Package to persons with potential Restructuring Claims;

   (f) sent a Claims Package to certain governmental and/or taxing agencies to whom Terrace Bay may be indebted; and

   (g) posted a copy of the Claims Process Order, a blank Proof of Claim and the Instruction Letter on its website.

10. A Claim Amount Notice was sent to 320 Known Creditors in relation to their Pre-Filing Claims. The Claims Process Order provides that if a creditor who receives a Claim

Amount Notice does not dispute the nature or amount of the claim as set forth therein by filing a Proof of Claim by the Claims Bar Date, then such creditor's Pre-Filing Claim shall be as set forth in the Claim Amount Notice for voting and distribution purposes under the Plan.

11. The Claims Bar Date was 5:00 p.m. on February 8, 2009. As at February 13, 2009, the Monitor had received approximately 102 Proofs of Claim from creditors of Terrace Bay. The value and quantum of claims against Terrace Bay, as detailed in either an undisputed Claim Amount Notice or submitted in a Proof of Claim, is detailed in the chart below:

Claim Type	**# of Claims**		**Filed Claim Amount**
Trade/Government	346	$	59,362,416
Lien	15	$	4,601,784
Restructuring	4	$	6,767,177
Employee	8	$	-
Total	**373**	**$**	**70,731,377**

12. Of the 373 claims reflected above, 102 claims arise from the Proofs of Claim that the Monitor has received pursuant to the Claims Process, 23 of which were filed for the exact same nature and amount as had been reflected in the Claim Amount Notice. The balance of the claims reflected above are from creditors who did not dispute the Claim Amount Notice that was sent to them. Eight individuals with claims relating to their capacity as an employee submitted claims with no value. As noted above, while such claims are referenced in the above chart, they are not currently part of the Claims Process.

13. As contemplated by the Claims Procedure Order, the Monitor is reviewing the Proofs of Claim submitted by creditors and, in consultation with the Applicant, will either accept, revise or disallow each claim for voting and/or distribution purposes under the Plan in accordance with the Claims Process Order.

14. The Monitor will further update this Honourable Court as the Claims Process continues.

RECEIPTS AND DISBURSEMENTS THROUGH FEBRUARY 7, 2010

15. Attached as Appendix **"A"** to this Tenth Report is a summary of Terrace Bay's actual receipts and disbursements from November 9, 2009 to February 7, 2010 (the "**Reporting Period**"). Current cash on hand is approximately $10,041,000, exclusive of a $2,400,000 funded reserve for charges created under the Initial Order.

16. Details of the receipts and disbursements, as well as a variance analysis against the Applicant's cash flow forecast submitted in the Eighth Report (the **"Forecast"**), are provided below:

(a) *Customer receipts* – Customer receipts totalled approximately $637,000 compared to an amount of $1,064,000 projected in the Forecast, resulting in a negative variance of $427,000. This variance is principally due to a delay in settlement of an outstanding insurance claim relating to an inventory loss. The receipt of this amount is currently expected to occur in March, 2010.

(b) *Freight and sales agent* – Payments to Terrace Bay's freight and sales agent totalled approximately $4,000 during the Reporting Period. This resulted in a negative variance of $4,000.

(c) *Salaries, wages and payroll withholdings* – Disbursements for salaries, wages and payroll withholdings of approximately $620,000 were lower than forecast by approximately $87,000.

(d) *Operating expenses* – Disbursements of approximately $667,000 were higher than forecast by approximately $262,000 due to the conversion of a boiler to an alternative fuel that is expected to result in cost savings. This variance is permanent. While this variance is permanent, the Monitor is advised by Terrace Bay that this conversion is expected to yield cost savings going forward.

(e) *Benefits and pension* – Payments for benefits and pensions were forecast to be approximately $114,000 compared to actual payments of approximately $160,000. This resulted in a negative variance of approximately $46,000.

(f) *Utilities and fuel* – The Applicant made payments for utilities or fuel during the Reporting Period of approximately $965,000. Forecast disbursements totalled approximately $687,000, resulting in a negative variance of approximately $278,000. This was the result of a short term mechanical breakdown of a boiler that resulted in the purchase of additional higher priced fuel.

(g) *Insurance* – Disbursements of approximately $693,000 were higher than forecast by approximately $123,000 due to the 35% down payment related to the policy renewal financing as discussed further herein.

(h) *Foreign exchange* – A positive variance to forecast of approximately $7,000 was experienced as a result of foreign exchange transactions.

(i) *Restructuring costs* – Expenses were approximately $51,000 lower than forecast.

REVISED CASH FLOW FORECAST

17. Attached as Appendix **"B"** is an updated cash flow forecast for the period ending May 2, 2010 (the **"Revised Forecast"**) prepared by Terrace Bay, with the assistance of the Monitor.

18. The closing cash balance at May 2, 2010 is forecast to be approximately $6,598,000. In addition, Terrace Bay maintains a funded reserve for the CCAA charges of $2,400,000. The Revised Forecast indicates that Terrace Bay should have adequate liquidity to fund its operations through April 30, 2010.

INSURANCE PREMIUM FINANCING

19. Attached as Appendix **"C"** is a copy of the insurance premium financing agreement (the "**Premium Finance Agreement**") between Terrace Bay and CAFO Inc. ("**CAFO**"),

substantially in CAFO's standard form, as amended by the parties as referenced by the initialled pages. The Premium Finance Agreement is subject to the approval of this Honourable Court. Proceeding with the Premium Finance Agreement will permit Terrace Bay to finance the insurance premiums due in relation to the renewal of certain of Terrace Bay's insurance policies, including those covering property and general liability (the "**Policies**").

20. The Premium Finance Agreement allows Terrace Bay to defer immediate payment of approximately 65% of the premiums relating to the Policies that would otherwise be due on renewal, which premiums total approximately $2,207,000. Pursuant to the Premium Finance Agreement, Terrace Bay will instead have monthly instalment obligations of approximately $208,000 commencing in February, 2010 and ceasing in August, 2010 at which time the premiums will be fully paid.

21. The provider of the Premium Finance Agreement, CAFO, has requested that this Honourable Court approve of the Premium Finance Agreement and make an order that, among other things, would authorize CAFO to cancel the Policies and assert a security interest against the unearned premiums, in the event of non-payment of the instalments due from Terrace Bay. The form of Order required by CAFO also provides that it will have an absolute first-ranking security interest on the unearned premiums until all amounts owing to CAFO under the Premium Finance Agreement are paid to CAFO in full.

MONITOR'S RECOMMENDATION

22. The Monitor understands that a motion is being brought by Terrace Bay to extend the CCAA stay of proceedings and for other relief. The Monitor approves of the following orders being made, if this Honourable Court sees fit:

    (a) an order authorizing the extension of the Stay Period until April 30, 2010;

    (b) an order approving and authorizing the consummation of the Premium Financing Agreement with CAFO;

(c) an order approving of the Tenth Report and the conduct and activities of the Monitor and its counsel as reported on therein.

All of which is respectfully submitted this 18th day of February, 2010.

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

Per:

Alex Morrison
Senior Vice President

Appendix A

CCAA Cash Flows
13 Week Period Ending February 7, 2010
(CDN$000s)

Week Ended	**15-Nov-09**	**22-Nov-09**	**29-Nov-09**	**06-Dec-09**	**13-Dec-09**	**20-Dec-09**	**27-Dec-09**	**03-Jan-10**	**10-Jan-10**	**17-Jan-10**	**24-Jan-10**	**31-Jan-10**	**07-Feb-10**	**Actual Total**	**Forecast [1] Total**	**Variance Total**
Receipts																
Customer receipts	169	-	106	51	-	-	107	-	-	-	-	203	-	637	1,064	(427)
GST	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other receipts	-	-	-	45	-	5,797	-	-	4	(27)	0	-	-	5,819	-	5,819
Total receipts	169	-	106	96	-	5,797	107	-	4	(27)	0	203	-	6,456	1,064	5,392
Disbursements																
Freight & sales agent	(2)	-	-	2	-	-	-	-	(5)	-	-	-	0	(4)	-	(4)
Salaries & wages	(50)	(25)	(48)	-	(45)	(22)	(43)	(30)	-	(69)	(0)	(64)	-	(397)	(707)	310
Operations	(25)	(31)	-	(3)	(37)	(17)	(2)	-	(400)	(16)	(5)	(18)	(113)	(667)	(405)	(262)
Payroll withholdings	(8)	(21)	(12)	(40)	(9)	(1)	(26)	(0)	(29)	(6)	-	(38)	(34)	(223)	-	(223)
Benefits & pension	-	(3)	-	(41)	-	(4)	-	(15)	(32)	-	-	(13)	(52)	(160)	(114)	(46)
Bank service charges	-	-	(0)	3	-	-	(0)	(0)	(0)	-	(0)	(0)	4	6	-	6
WSIB	-	-	-	-	-	-	-	(2)	-	-	-	(3)	-	(5)	(54)	49
Vacation pay	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Utilities & fuel	(29)	(9)	(17)	(60)	(35)	(45)	(70)	(77)	(42)	(472)	(86)	(2)	(21)	(965)	(687)	(278)
Insurance	-	-	80	-	-	-	-	-	(772)	-	-	-	-	(693)	(570)	(123)
Interest payments to secured creditors	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Principal payments to secured creditors	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Foreign exchange translation	-	(20)	(0)	-	(5)	-	-	-	-	31	-	-	-	7	-	7
Restructuring costs	3	(68)	(40)	-	(70)	(32)	-	-	(99)	(115)	(62)	(73)	(43)	(599)	(650)	51
Funding of reserve for CCAA charges	-													-	-	-
Total disbursements	(111)	(177)	(37)	(139)	(200)	(121)	(140)	(124)	(1,380)	(647)	(154)	(210)	(260)	(3,700)	(3,187)	(513)
Cash Flow	**59**	**(177)**	**69**	**(43)**	**(200)**	**5,676**	**(33)**	**(124)**	**(1,376)**	**(674)**	**(154)**	**(7)**	**(260)**	**2,756**	**(2,123)**	**4,878**
Bank balance, opening	7,286	7,344	7,167	7,236	7,193	6,994	12,669	12,636	12,512	11,136	10,462	10,308	10,301	7,286	7,286	-
Cash flow	59	(177)	69	(43)	(200)	5,676	(33)	(124)	(1,376)	(674)	(154)	(7)	(260)	2,756	(2,123)	4,878
Bank balance, closing	**7,344**	**7,167**	**7,236**	**7,193**	**6,994**	**12,669**	**12,636**	**12,512**	**11,136**	**10,462**	**10,308**	**10,301**	**10,041**	**10,041**	**5,163**	**4,878**
Funded Reserve account for CCAA charges	2,400	2,400	2,400	2,400	2,400	2,400	2,400	2,400	2,400	2,400	2,400	2,400	2,400	2,400	2,400	-
Monitor's Trust Account	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

[1] From the Monitor's 8th Report

Appendix B

Terrace Bay Pulp Inc.
CCAA Cash Flows (Revised)
(CDN$000s)

Week Ended	**14-Feb-10**	**21-Feb-10**	**28-Feb-10**	**07-Mar-10**	**14-Mar-10**	**21-Mar-10**	**28-Mar-10**	**04-Apr-10**	**11-Apr-10**	**18-Apr-10**	**25-Apr-10**	**02-May-10**	**Total**
Receipts													
Customer receipts	-	-	-	-	-	-	-	-	-	-	-	-	-
GST	-	-	-	-	-	-	-	-	-	-	-	-	-
Other receipts	-	-	-	-	-	-	400	-	-	-	-	-	400
Total receipts	-	-	-	-	-	-	400	-	-	-	-	-	400
Disbursements													
Freight & sales agent	-	-	-	-	-	-	-	-	-	-	-	-	-
Salaries & wages	-	(61)	-	(61)	-	(61)	-	(61)	-	(61)	-	(61)	(366)
Operations	(30)	(30)	(30)	(35)	(30)	(30)	(30)	(35)	(30)	(30)	(30)	(30)	(370)
Payroll withholdings	-	-	(40)	-	(40)	-	(40)	-	(40)	-	(40)	-	(200)
Benefits & pension	-	-	-	(38)	-	-	-	(38)	-	-	-	-	(76)
WSIB	-	-	-	(18)	-	-	-	(18)	-	-	-	-	(36)
Vacation pay	-	-	-	-	-	-	-	-	-	-	-	-	-
Utilities & fuel	(24)	(374)	(24)	(24)	(24)	(399)	(24)	(24)	(24)	(374)	(24)	(24)	(1,363)
Insurance	-	-	-	(416)	-	-	-	(208)	-	-	-	(208)	(832)
Interest payments to secured creditors	-	-	-	-	-	-	-	-	-	-	-	-	-
Principal payments to secured creditors	-	-	-	-	-	-	-	-	-	-	-	-	-
Restructuring costs	(50)	(50)	(50)	(50)	(50)	(50)	(50)	(50)	(50)	(50)	(50)	(50)	(600)
Funding of reserve for CCAA charges	-	-	-	-	-	-	-	-	-	-	-	-	-
Total disbursements	(104)	(515)	(144)	(642)	(144)	(540)	(144)	(434)	(144)	(515)	(144)	(373)	(3,843)
Cash Flow	**(104)**	**(515)**	**(144)**	**(642)**	**(144)**	**(540)**	**256**	**(434)**	**(144)**	**(515)**	**(144)**	**(373)**	**(3,443)**
Bank balance, opening	10,041	9,937	9,422	9,278	8,636	8,492	7,952	8,208	7,774	7,630	7,115	6,971	10,041
Cash flow	(104)	(515)	(144)	(642)	(144)	(540)	256	(434)	(144)	(515)	(144)	(373)	(3,443)
Bank balance, closing	9,937	9,422	9,278	8,636	8,492	7,952	8,208	7,774	7,630	7,115	6,971	6,598	6,598
Funded Reserve account for CCAA charges	2,400	2,400	2,400	2,400	2,400	2,400	2,400	2,400	2,400	2,400	2,400	2,400	2,400
Accounts receivable, opening	-	-	-	-	-	-	-	-	-	-	-	-	-
Sales	-	-	-	-	-	-	-	-	-	-	-	-	-
Collections of accounts receivable	-	-	-	-	-	-	-	-	-	-	-	-	-
Accounts receivable, closing	-	-	-	-	-	-	-	-	-	-	-	-	-

Appendix C

CAFO

Premium Installment Contract

95 Wellington St. West, Ste 1706, P.O. Box 17, Toronto, ON M5J 2N7
TEL. NOS. 416-868-6777 800-387-1558

Agent or Broker (Name and Address) 10389337	Insured (Name and Address as shown on the policy)
Aon Reed Stenhouse Inc 255 Queens Avenue,One London Place Suite 1400 London, ON N6A 5R8 807-346-7412	Terrace Bay Pulp Inc 21 Mill Road Terrace Bay, ON P0T 2W0

A) Total Premiums	B) Down Payment 35%	C) Amount Financed	D) Finance Charge	E) Total Payments
$2,206,759.08	$772,366.00	$1,434,393.08	$21,853.39	$1,456,246.47

F) Annual Percentage Rate	No. of Payments	Amount of Payments	First Installment Due	Installment Due Dates
4.553 %	7 (Monthly)	$208,035.21	01/30/2010	30th

SCHEDULE OF POLICIES

Policy and/or Binder Numbers	Effective Date of Policy/Inst.	Name of Insurance Company and Name and Address of General or Policy Issuing Agent or Intermediary	Type of Coverage	Months Covered	Premium $
SU410	12/31/2009	Factory Mutual Insurance Company - CAB	PROP	12	1,782,768.00
		Fee	FEE	NRef	222,846.00 12.5%
MPSRW7632	12/31/2009	Continental Casualty Company - CAB	CEQU	12	17,876.00
		Fee	FEE	NRef	2,235.00 12.5%
MPR2765832	12/31/2009	Continental Casualty Company - CAB	PROP	12	6,112.00
		Policy Detail Continued...			

INSURED HAS READ,UNDERSTANDS AND AGREES TO ALL TERMS SET FORTH ON ALL PAGES OF THIS AGREEMENT AND ANY ADDENDA THERETO

SIGNATURE OF INSURED(S) AUTHORIZED REPRESENTATIVE ______ PRINT NAME Rose York ______ TITLE Treasurer ______ DATE 29 Dec/09

(1) DEFINITIONS: The above named insured is the borrower.CAFO INC. ("CAFO") is the lender."Insurance company" or "company", "insurance policy" or "policies" and "premium" refer to those items listed under the "Schedule of Policies". Singular words mean plural and vice-versa as may be required in order to give the Agreement meaning. "Agreement" means this Premium Installment Contract.

AGENT OR BROKER REPRESENTATIONS

Agent Broker Representations:The undersigned warrants and agrees: (A) The policies are in full force and effect and the information in the Schedule of Policies has been verified and is correct. (B) The insured authorized this transaction and has received a copy of this agreement.(C) To hold in trust for CAFO any payments made or credited to the insured through or to the undersigned, directly or indirectly, actually or constructively,by any party and to pay the monies as well as any unearned commissions to CAFO promptly.(D)To the knowledge of the undersigned ~~there are not and will not be any other liens specifically given against the policies and~~ the premiums are not and will not be financed by any other lender.(E) Unless specifically disclosed to CAFO, no policy is subject to retrospective rating or minimum earned premium. Any deposit or provisional premiums are not less than anticipated premiums to be earned for the full term of the policies.(F)Unless specifically disclosed to CAFO, the insured can cancel each of the policies and the unearned premiums will be computed on the standard short-rate or pro-rata table.(G) All insurance premiums shall be paid to the insurer(s). (H) CAFO will rely upon these representations in determining whether to accept this Agreement.

IF THERE ARE ANY EXCEPTIONS TO THE ABOVE STATEMENTS, PLEASE LIST BELOW:

THE UNDERSIGNED FURTHER WARRANTS THAT IT HAS COLLECTED THE DOWN PAYMENT, IF APPLICABLE, AND ANY OTHER SUMS DUE AS REQUIRED BY THE AGREEMENT AND IS HOLDING SAME OR THEY ARE REMITTED WITH THIS AGREEMENT

SIGNATURE OF AGENT OR BROKER ______ AGENT OR BROKER ______ TITLE ______ DATE

AUTHORITY FOR PRE-AUTHORIZED PAYMENTS

FROM: Insured

TO: CAFO INC. ("CAFO")

If notified by the Insured or Agent or Broker, you are hereby requested and authorized to debit our account identified on the attached voided cheque with all amounts specified in debit slips or other media purporting to represent installment payments due under our Premium Installment Contract("Agreement").This authorization shall also extend to any revised payment amounts or other amounts due CAFO under terms of the Agreement as amended or revised from time to time. This authorization may be revoked on 30 days written notice to CAFO by the insured.

A SPECIMEN CHEQUE MARKED "VOID" MUST BE ENCLOSED

CAFO

Premium Installment Contract

Page 1 of 3

95 Wellington St. West, Ste 1705, P.O. Box 17, Toronto, ON [illegible]
TEL. NOS. 416-[illegible] [illegible]

Agent or Broker (Name and Address) [illegible]	Insured (Name and Address as shown on the policy)
[illegible] Insurance Inc. [illegible] Queens Avenue [illegible] London Place, Suite [illegible], London, ON [illegible], [illegible]-2812	Terrace Bay Pulp Inc. 21 Mill Road, Terrace Bay, ON P0T 2W0

A) Total Premiums	B) Down Payment 35%	C) Amount Financed	D) Finance Charge	E) Total Payments
[illegible]	$772,396.00	[illegible]	$71,[illegible]	$1,[illegible]

F) Annual Percentage Rate	No. of Payments	Amount of Payments	First Installment Due	Installment Due Date
[illegible] %	7 (Monthly)	$[illegible]	01/[illegible]/2010	[illegible]

SCHEDULE OF POLICIES

Policy and/or Binder Numbers	Effective Date of Policy/ies	Name of Insurance Company and Name and Address of General or Policy Issuing Agent or Intermediary	Type of Coverage	Months Covered	Premium $
[illegible]	[illegible]	Factory Mutual Insurance Company - CAB Fee	PROP [illegible]	[illegible]	[illegible] 222,[illegible]
[illegible]	12/31/2009	Continental Casualty Company - CAB Fee	[illegible]	12 [illegible]	[illegible] 2,[illegible]
[illegible]	12/31/2009	Continental Casualty Company - CAB Policy Detail Continued...	[illegible]	12	6,[illegible]

INSURED HAS READ, UNDERSTANDS AND AGREES TO ALL TERMS SET FORTH ON ALL PAGES OF THIS AGREEMENT AND ANY ADDENDA THERETO

SIGNATURE OF INSURED OR AUTHORIZED REPRESENTATIVE — PRINT NAME — TITLE — DATE

(1) DEFINITIONS: [illegible]

AGENT OR BROKER REPRESENTATIONS

[illegible]

IF THERE ARE ANY EXCEPTIONS TO THE ABOVE STATEMENTS, PLEASE LIST BELOW:

THE UNDERSIGNED FURTHER WARRANTS THAT HE HAS COLLECTED THE DOWN PAYMENT IF APPLICABLE, AND ANY OTHER SUMS DUE AS REQUIRED BY THE AGREEMENT AND IS HOLDING SAME OR THEY ARE REMITTED WITH THIS AGREEMENT

SIGNATURE OF AGENT OR BROKER — AGENT OR BROKER — TITLE — DATE

AUTHORITY FOR PRE-AUTHORIZED PAYMENTS
TO CAFO INC. ("CAFO")

FROM: Insured

[illegible]

A SPECIMEN CHEQUE MARKED "VOID" MUST BE ENCLOSED

[illegible]

003/005

CAFO

Premium Installment Contract

95 Wellington St. West, Ste 1700, P.O. Box 17, Toronto, ON M5J 2N7
TEL. NOS. 416-868-6777 800-387-1558

SCHEDULE OF POLICIES

Policy and/or Binder Numbers	Effective Date of Policy/Inst.	Name of Insurance Company and Name and Address of General or Policy Issuing Agent or Intermediary	Type of Coverage	Months Covered	Premium $
		Fee	FEE	NRef	754.00
		Fee	FEE	NRef	11,000.00
		Tax	TAX	Ref	1,430.58

12,500
500

Pursuant to this Agreement

such

policy

(2) PROMISE OF PAYMENT: The Insured (a) requests that CAFO pay the premiums in the Schedule of Policies, less the Down Payment and any installments paid prior to acceptance of this Agreement and (b) promises to pay CAFO, at such address as CAFO designates, the amount stated in Block E above according to the payment schedule, subject to the remaining terms of this Agreement where applicable adjusted from time to time by reason of renewals or changes to the policies. No additional Authority, acts, approvals or licences are or will be necessary as a prerequisite to the enforceability of this Agreement. CAFO may, at its option, pay loan proceeds to any agent, broker, general agent, managing general agent or insurer set forth herein. Payments to CAFO are deemed made only upon receipt in good funds. Cheques are accepted, subject to collection.

(3) SECURITY INTEREST AND POWER OF ATTORNEY: The Insured assigns and hereby gives a security interest to CAFO as collateral for the total amount payable in this agreement and ~~any other past, present or future extension of credit~~ in (a) any and all unearned Premiums or dividends which may become payable for any reason under all insurance policies financed by CAFO, (b) loss payments which reduce the unearned premiums, subject to any mortgages or loss payee interests and (c) any interest in any applicable guarantee fund relating to any financed policy. If any circumstances exist in which all premiums related to any policy could become fully earned in the event of any loss, CAFO shall be named a loss-payee with respect to such policy. CAFO at its option may enforce payment of this debt without recourse to the security given to CAFO. The Insured irrevocably appoints CAFO as its attorney in fact with full authority to (i) cancel all insurance policies financed by CAFO for the reason set forth in paragraph 12, whether pursuant to this or any other agreement, (ii) receive all sums hereby assigned to CAFO and (iii) execute and deliver on the Insured's behalf all documents, instruments of payment, forms and notices of any kind relating to the insurance policies in furtherance of this agreement.

(4) WARRANTY OF ACCURACY: The Insured (a) warrants that all listed insurance policies are in full force and effect and that it has not and will not assign any specific interest in the unearned premiums for the policies and (b) authorizes CAFO to insert or correct on this agreement, if omitted or incorrect, the insurer's name, the policy numbers, and the due date of the first installments and to correct any obvious errors. In the event of any such change, correction or insertion, CAFO will give the Insured written notice thereof.

~~(5) REPRESENTATION OF SOLVENCY: The Insured represents that it is not insolvent or the subject of any insolvency proceeding.~~

(6) ADDITIONAL AMOUNTS: The money paid by CAFO is designated to be applied only for the premium as determined at the time the insurance policy is issued. The Insured shall pay to the insurer any additional premiums or any other sums that become due for any reason. The Insured or its agent may request that CAFO finance any additional premiums and, if CAFO agrees to do so, as documented by a notice of acceptance, this agreement shall be deemed amended accordingly. If CAFO assigns the same account number to any additional extension or extensions of credit, (a) this Agreement and any agreement or agreements identified by such account number shall be deemed to comprise a single and indivisible loan transaction, (b) any default with respect to any component of such transaction shall be deemed a default with respect to all components of such transaction and (c) any unearned premiums relating to any component of such transaction may be collected and applied by CAFO to the totality of such transaction.

(7) SPECIAL INSURANCE POLICIES: If an insurance policy is auditable or is a reporting form policy or is subject to retrospective rating, then the Insured promises to pay to the insurance company the earned premium computed in accordance with the policy provisions which is in excess of the amount of premium advanced by CAFO.

(8) NAMED INSURED: If an insurance policy provides that the first named insured in the policy shall be responsible for payment of premiums and shall act on behalf of all other insureds regarding the policy, then the same shall apply to this Agreement. The Insured represents that it is authorized to sign this agreement on behalf of all Insureds. If not, then all Insureds' names must be shown on this Agreement, unless a separate agreement appoints an Insured to act for the others.

(9) FINANCE CHARGE: The finance charge shown in Block D begins to accrue as of the earliest policy effective date, unless otherwise indicated in the Schedule of Policies, and shall continue to accrue until the balance due CAFO is paid in full or until such other date as required by law, notwithstanding any cancellation of coverage.

(10) AGREEMENT BECOMES A CONTRACT: This Agreement becomes a binding contract when CAFO mails or transmits to the Insured its acceptance and is not a contract until such time. The Insured agrees that (a) this Agreement and other notices may be transmitted by facsimile, E-mail or other electronic means, (b) any such transmitted Agreement shall be deemed a fully enforceable duplicate original document and (c) such Agreement, when accepted by CAFO, shall constitute a valid and enforceable contract.

(11) DEFAULT AND DISHONOURED CHEQUE: If the Insured is late in making a loan payment to CAFO by more than 10 days, the Insured will pay to CAFO a delinquency charge equal to 5% of the outstanding amount or $5.00, whichever is greater. If a cheque is dishonoured, the Insured will pay the returned cheque charge not to exceed $35.00 or the maximum amount permitted by law, whichever is the less.

(12) CANCELLATION: CAFO may cancel any or all insurance policies financed by CAFO and the full balance due to CAFO shall be immediately payable if the Insured does not pay any installment according to the terms of this or any other agreement with CAFO. Payment of unearned premiums shall not be deemed to be payment of installments to CAFO, in full or in part.

(13) ACCELERATION: In the event of default by the Insured, the entire amount set out in Box E together with all default charges shall immediately become due and payable and bear interest at the annual percentage rate. The total of interest, charges and expenses shall not exceed the maximum permitted by law.

(14) MONEY RECEIVED AFTER NOTICE OF CANCELLATION: Any payments made to CAFO after mailing of CAFO's Notice of Cancellation may be credited to the Insured's account without affecting the acceleration of this agreement and without any liability or obligation to request reinstatement of a cancelled policy. Any money CAFO receives from an insurance company shall be credited to the amount due CAFO with any surplus paid over to whomever is entitled to the money. No refund of less than $5.00 shall be made. In the event that CAFO requests, on the Insured's behalf, reinstatement of the policy, such request does not guarantee that coverage will be reinstated.

(15) LEGAL FEES-COLLECTION EXPENSE: If, for collection, this agreement is referred to a lawyer and/or other party who is not a salaried employee of CAFO, the Insured agrees to pay any reasonable fees and costs as well as other reasonable collection expenses, as permitted by law or granted by the court.

(16) REFUND CREDITS: The Insured will receive a refund of a portion of the finance charge if the account is voluntarily prepaid in full before the last installment due date as required or permitted by law.

(17) INSURANCE AGENT OR BROKER: The insurance agent or broker named in this agreement is the Insured's agent, not CAFO's and CAFO is not legally bound by anything the agent or broker represents to the Insured orally or in writing. CAFO has not participated in the choice, placement, acquisition or underwriting of any financed policy. Any disclosures made by the agent are made in its capacity as the Insured's agent and CAFO makes no representations with respect to the accuracy of any such disclosures. Any refunds or payments for the Insured may be made to the Insured's agent or broker.

(18) SUCCESSORS AND ASSIGNS: All legal rights given to CAFO shall benefit CAFO's successors and assigns. The Insured will not assign this Agreement and/or the policies without CAFO's written consent except for the interest of mortgagees and loss payees.

(19) LIMITATION OF LIABILITY - CLAIMS AGAINST CAFO: The Insured hereby irrevocably waives and releases CAFO from any claims, lawsuits and causes of action which may be related to any prior loans and/or to any act or failure to act prior to the time that this Agreement becomes a binding contract, pursuant to paragraph 10. CAFO's liability for breach of any of the terms of this agreement or the wrongful exercise of any of its powers shall be limited to the amount of the principal balance outstanding, except in the event of gross negligence or wilful misconduct.

(20) DISCLOSURE: The insurance company or companies and their agents, any intermediaries and the insurance agent or broker named in this Agreement and their successors are authorized and directed to provide CAFO with full, prompt and complete information regarding any financed insurance policy or policies, including, without limitation, the status and calculation of unearned premiums. CAFO is authorized to disclose information in connection with any aspect of this Agreement, including personal information, to its corporate parent or affiliates, and for audit and/or examination purposes, to any of its or their government regulators.

(21) ENTIRE DOCUMENT: This document is the entire agreement between CAFO and the Insured and can only be changed in writing signed by both parties, except as stated in paragraphs (4) and (24). The document may be executed in one or more counterparts all of which together shall constitute one and the same agreement.

(22) AUTHORITY - INSURED: The Insured hereby certifies that it is empowered to enter into this Agreement without any restrictions and that the individual signing it has been fully empowered to do so.

(23) CONTINUOUS PREMIUM INSTALLMENT CONTRACT TERMS: Where the Insured has elected the Continuous Premium Installment Contract options, the following additional provisions shall apply: (a) this Agreement is to provide continuous financing for insurance premiums and as such is an ongoing contract which may be, at the option of CAFO, renewed or extended at the request of Insured or Insured's agent (b) this contract may be renewed annually for the policy term and premium amounts specified for the policies in a Renewal Notice executed by Insured or Insured's agent and received by CAFO (c) each term and condition of the original contract shall remain in full force and effect during any renewal term notwithstanding any change of insurer, policy coverages, premium or payment schedule (d) a down payment as specified in this Agreement shall be provided to CAFO by the Insured and shall be maintained by the Insured from year to year in an amount equal in proportion to that in the original term and authorizes CAFO (i) to continue pre-authorized withdrawals until written notice of cancellation or Renewal Notice is received by it and (ii) to credit any excess to or collect any shortfall of down payment from the Insured (e) CAFO has the absolute right and discretion to decline any extension or renewal of this Agreement (f) financing by CAFO for any renewal term will be calculated at current rates and delinquency and returned cheque charges being charged by CAFO at the renewal date (g) continued pre-authorized cheque withdrawals or acceptance by CAFO of any payment after expiration of a policy term or after cancellation of a policy or after CAFO has mailed notice of cancellation of the policies following default or for any other reason or following termination of this Agreement by CAFO or the Insured will not constitute renewal or reinstatement of the policies or obligate CAFO to request reinstatement and the Insured's sole right shall be the refund of any excess amount.

(24) RIGHT TO MAKE CHANGES: In addition to the rights set out in paragraph (4), CAFO shall also have the right to make any changes to this Agreement as may be required in response to a change in the applicable law or any government regulation.

Pursuant to this Agreement

OK [illegible] CAFO 2/16/2010

Pursuant to this Agreement

such

policy

(2) PROMISE OF PAYMENT: [illegible]

(3) SECURITY INTEREST AND POWER OF ATTORNEY: [illegible]

* OK [illegible] 02/16/2010 CAFO

Pursuant to this Agreement

(4) WARRANTY OF ACCURACY: [illegible]

(5) REPRESENTATION OF SOLVENCY: [illegible]

OK [illegible] CAFO 02/16/2010

(6) ADDITIONAL AMOUNTS: [illegible]

(7) SPECIAL INSURANCE POLICIES: [illegible]

(8) NAMED INSUREDS: [illegible]

(9) FINANCE CHARGES: [illegible]

(10) AGREEMENT BECOMES A CONTRACT: [illegible]

(11) DEFAULT AND DISHONOURED CHEQUES: [illegible]

(12) CANCELLATION: [illegible]

(13) ACCELERATION: [illegible]

(14) MONEY RECEIVED AFTER NOTICE OF CANCELLATION: [illegible]

(15) LEGAL FEES-COLLECTION EXPENSE: [illegible]

(16) REFUND CREDITS: [illegible]

(17) INSURANCE AGENT OR BROKER: [illegible]

(18) SUCCESSORS AND ASSIGNS: [illegible]

(19) LIMITATION OF LIABILITY - CLAIMS AGAINST CAFO: [illegible]

(20) DISCLOSURE: [illegible]

(21) ENTIRE DOCUMENT: [illegible]

(22) AUTHORITY - INSURED: [illegible]

(23) CONTINUOUS PREMIUM INSTALLMENT CONTRACT TERMS: [illegible]

(24) RIGHT TO MAKE CHANGES: [illegible]