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.

EIGHTH REPORT OF ERNST & YOUNG INC.
DATED NOVEMBER 19, 2009

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 2, 2009. Absent a further extension, the Stay Period will expire on November 20, 2009.

PURPOSE

2. The purpose of this Eighth Report of the Monitor (the "**Eighth Report**") is to update this Honourable Court in relation to the activities of Terrace Bay and the Monitor since the Seventh Report of the Monitor to this Honourable Court and to report on the following:

   (a) the ongoing activities of the Monitor and the Applicant in relation to discussions with the non-traditional term loan lender;

   (b) a proposed extension of the Stay Period; and

(c) the proposed activities of the Applicant during the extended Stay Period.

TERMS OF REFERENCE

3. In preparing this Eighth 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 assurance in respect of such information contained in this Eighth Report. Some of the information referred to in this Eighth 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 Eighth 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.

UPDATE ON TERRACE BAY'S RESTRUCTURING PROCESS

4. As previously reported, with the onset of colder weather, there are seasonal issues now facing Terrace Bay. In order to preserve the mill facility and the operational integrity of the machinery and equipment within the mill, and to minimize the possibility of damage to chemical containment facilities, the facility must be heated during the colder months. This appears necessary to enable Terrace Bay to restart or sell the mill, as well as to preserve its operating machinery and equipment, should a liquidation become necessary.

5. In light of the ramifications for the Terrace Bay community should Terrace Bay permanently cease to operate, and as has been reported to this Honourable Court in previous reports of the Monitor, for a period of time Terrace Bay has been having discussions with a non-traditional term loan lender.

6. The Monitor has been advised by Terrace Bay that negotiations with the non-traditional lender have recently concluded, with the result that Terrace Bay now has a foundation upon which to formulate and implement a plan to restart operations at its mill. In this regard, the Government of Ontario and the Applicant have reached 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 to Terrace Bay (the "**Term Sheet**").

7. The Monitor is advised by Terrace Bay that the Term Sheet contains various conditions precedent, among them the procurement by Terrace Bay of operating financing from another lender and successful implementation of a plan of arrangement in the CCAA Proceeding (a "**Plan**").

8. Accordingly, the Applicant is seeking an extension of the Stay Period through to February 26, 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. These arrangements include, among other things, entering into an agreement with another lender for a revolving operating line facility, the raising of equity capital to help satisfy the conditions of the Term Sheet, the negotiation and development of a Plan, and the establishment of a claims process, to be approved by this Honourable Court, to facilitate creditor approval and the implementation of such Plan.

9. It is anticipated that the Applicant will return to Court prior to February 26, 2010 as it proceeds with the foregoing steps and activities. It is also contemplated that the Applicant and the Monitor will report to this Honourable Court during the extended Stay Period regarding the Applicant's progress in fulfilling the conditions of the Term Sheet and moving forward with its Plan.

RECEIPTS AND DISBURSEMENTS THROUGH NOVEMBER 8, 2009

10. Attached as **Appendix "A"** to this Eighth Report is a summary of Terrace Bay's actual receipts and disbursements from October 19, 2009 to November 8, 2009 (the "**Reporting Period**"). Current cash on hand is approximately $7,286,000, plus a $2,400,000 funded reserve for charges created under the Initial Order. The current cash on hand amount

reflects the payment to Lucky Star Inc. of the sum of $6,000,000 in reduction of the principal amount of its secured debt in accordance with the November 6, 2009 Order of this Honourable Court.

REVISED CASH FLOW FORECAST

11. Attached as **Appendix "B"** is an updated cash flow forecast for the period ending February 28, 2010 (the **"Revised Forecast"**) prepared by Terrace Bay, with the assistance of the Monitor.

12. The closing cash balance at February 28, 2010 is forecast to be approximately $4,400,000. 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 to February 28, 2010.

MONITOR'S RECOMMENDATION

13. 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 February 26, 2010; and

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

All of which is respectfully submitted this 19th day of November, 2009.

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
3 Week Period Ending November 8, 2009
(CDN$000s)

Week Ended	25-Oct-09	01-Nov-09	08-Nov-09	Actual Total
Receipts				
Customer receipts	171	-	247	418
GST	-	0	-	-
Other receipts	-	2	1	3
Total receipts	171	2	248	421
Disbursements				
Freight & sales agent	-	-	0	0
Salaries & wages	(3)	(52)	(15)	(70)
Operations	(17)	(41)	(3)	(60)
Payroll withholdings	(22)	(12)	(22)	(56)
Benefits & pension	(29)	-	-	(29)
Bank service charges	(0)	(0)	5	4
WSIB	-	-	-	-
Vacation pay	-	-	-	-
Utilities & fuel	(10)	(20)	(15)	(45)
Insurance	-	-	(188)	(188)
Interest payments to secured creditors	-	-	-	-
Principal payments to secured creditors	-	-	(6,000)	(6,000)
Foreign exchange translation	-	(4)	-	(4)
Restructuring costs	(30)	(34)	-	(64)
Funding of reserve for CCAA charges	-	-	-	-
Total disbursements	(111)	(163)	(6,238)	(6,512)
Cash Flow	**60**	**(161)**	**(5,990)**	**(6,091)**
Bank balance, opening	13,377	13,437	13,276	13,377
Cash flow	60	(161)	(5,990)	(6,091)
Bank balance, closing	**13,437**	**13,276**	**7,286**	**7,286**
Funded Reserve account for CCAA charges	2,400	2,400	2,400	2,400
Monitor's Trust Account	-	-	-	-

Appendix B

Terrace Bay Pulp Inc.
CCAA Cash Flows (Revised)
(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**
Receipts										
Customer receipts	213	213	213	213	213	-	-	-	-	-
GST	-	-	-	-	-	-	-	-	-	-
Other receipts	-	-	-	-	-	-	-	-	-	-
Total receipts	213	213	213	213	213	-	-	-	-	-
Disbursements										
Freight & sales agent	-	-	-	-	-	-	-	-	-	-
Salaries & wages	(101)	-	(101)	-	(101)	-	(101)	-	(101)	-
Operations	(30)	(30)	(30)	(35)	(30)	(30)	(30)	(35)	(30)	(30)
Payroll withholdings	-	-	-	-	-	-	-	-	-	-
Benefits & pension	-	-	-	(38)	-	-	-	(8)	(30)	-
WSIB	-	-	-	(18)	-	-	-	-	(18)	-
Vacation pay	-	-	-	-	-	-	-	-	-	-
Utilities & fuel	(24)	(24)	(24)	(24)	(24)	(24)	(24)	(24)	(24)	(399)
Insurance	-	-	-	-	(190)	-	-	-	(190)	-
Interest payments to secured creditors	-	-	-	-	-	-	-	-	-	-
Principal payments to secured creditors	-	-	-	-	-	-	-	-	-	-
Restructuring costs	(50)	(50)	(50)	(50)	(50)	(50)	(50)	(50)	(50)	(50)
Funding of reserve for CCAA charges	-	-	-	-	-	-	-	-	-	-
Total disbursements	(205)	(104)	(205)	(165)	(395)	(104)	(205)	(117)	(443)	(479)
Cash Flow	**8**	**109**	**8**	**48**	**(182)**	**(104)**	**(205)**	**(117)**	**(443)**	**(479)**
Bank balance, opening	7,286	7,294	7,402	7,410	7,458	7,276	7,172	6,967	6,850	6,407
Cash flow	8	109	8	48	(182)	(104)	(205)	(117)	(443)	(479)
Bank balance, closing	7,294	7,402	7,410	7,458	7,276	7,172	6,967	6,850	6,407	5,928
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
Accounts receivable, opening	1,064	851	639	426	213	-	-	-	-	-
Sales	-	-	-	-	-	-	-	-	-	-
Collections of accounts receivable	(213)	(213)	(213)	(213)	(213)	-	-	-	-	-
Accounts receivable, closing	851	639	426	213	-	-	-	-	-	-

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

Week Ended	**24-Jan-10**	**31-Jan-10**	**07-Feb-10**	**14-Feb-10**	**21-Feb-10**	**28-Feb-10**
Receipts						
Customer receipts	-	-	-	-	-	-
GST	-	-	-	-	-	-
Other receipts	-	-	-	-	-	-
Total receipts	-	-	-	-	-	-
Disbursements						
Freight & sales agent	-	-	-	-	-	-
Salaries & wages	(101)	-	(101)	-	(101)	-
Operations	(30)	(30)	(35)	(30)	(30)	(30)
Payroll withholdings	-	-	-	-	-	-
Benefits & pension	-	-	(38)	-	-	-
WSIB	-	-	(18)	-	-	-
Vacation pay	-	-	-	-	-	-
Utilities & fuel	(24)	(24)	(24)	(24)	(374)	(24)
Insurance	-	-	(190)	-	-	-
Interest payments to secured creditors	-	-	-	-	-	-
Principal payments to secured creditors	-	-	-	-	-	-
Restructuring costs	(50)	(50)	(50)	(50)	(50)	(50)
Funding of reserve for CCAA charges	-	-	-	-	-	-
Total disbursements	(205)	(104)	(456)	(104)	(555)	(104)
Cash Flow	**(205)**	**(104)**	**(456)**	**(104)**	**(555)**	**(104)**
Bank balance, opening	5,928	5,723	5,619	5,163	5,059	4,504
Cash flow	(205)	(104)	(456)	(104)	(555)	(104)
Bank balance, closing	5,723	5,619	5,163	5,059	4,504	4,400
Funded Reserve account for CCAA charges	2,400	2,400	2,400	2,400	2,400	2,400
Accounts receivable, opening	-	-	-	-	-	-
Sales	-	-	-	-	-	-
Collections of accounts receivable	-	-	-	-	-	-
Accounts receivable, closing	-	-	-	-	-	-