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.

ELEVENTH REPORT OF ERNST & YOUNG INC. DATED APRIL 27, 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 February 23, 2010. Absent a further extension, the Stay Period will expire on April 30, 2010.

PURPOSE

2. The purpose of this eleventh report of the Monitor (the "**Eleventh Report**") is to update this Honourable Court in relation to the activities of Terrace Bay and the Monitor since the tenth report of the Monitor to this Honourable Court dated February 18, 2010 (the "**Tenth 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 February 14, 2010 through April 11, 2010;

(d) The revised cash flow forecast; and

(e) A proposed extension of the Stay Period.

TERMS OF REFERENCE

3. In preparing this Eleventh 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 Eleventh Report. Some of the information referred to in this Eleventh 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 Eleventh 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 of the Monitor dated November 19, 2009, 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, the Applicant and a funding provider for operational financing 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.

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

7. As advised in the Tenth Report, Terrace Bay with the assistance of the Monitor, has been seeking an equity investor to assist in meeting certain obligations under the Term Sheet. Discussions are continuing with a number of parties which have indicated an interest in participating in such a transaction. It is hoped that these discussions will conclude in early May, at which time the Applicant can determine how best to proceed.

8. Accordingly, the Applicant is seeking an extension of the Stay Period through to June 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 additional investor capital to help satisfy certain obligations under the Term Sheet, the negotiation and development of a Plan, and progressing the Claims Process to facilitate the voting by creditors on and the implementation of such Plan.

UPDATE ON THE CLAIMS PROCESS

9. The Claims Process is described in the ninth report of the Monitor dated December 15, 2009. 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**".

10. As described in the Monitor's Tenth Report, the Monitor has been proceeding with the Claims Process in accordance with the Claims Process Order.

11. 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.

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

RECEIPTS AND DISBURSEMENTS THROUGH APRIL 11, 2010

13. Attached as Appendix **"A"** to this Eleventh Report is a summary of Terrace Bay's actual receipts and disbursements from February 8, 2010 to April 11, 2010 (the "**Reporting Period**"). Cash on hand at April 11, 2010 is approximately $7,305,000, exclusive of a $2,400,000 funded reserve for charges created under the Initial Order (the "**CCAA Charges**").

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

(a) *Other Receipts* – Receipts totalled approximately $98,000 compared to an amount of $400,000 projected in the Forecast, resulting in a negative variance of $302,000. This variance is primarily due to a delay in the settlement of an outstanding insurance claim in the amount of approximately $400,000 relating to an inventory loss. The insurer has recently requested additional information to support the claim and as a result, the Applicant is currently expected to receive this amount in May, 2010.

(b) *Total compensation including: Salaries, wages and payroll withholdings, benefits and pension and WSIB* – Disbursements for salaries, wages and payroll withholdings, benefits and pension and WSIB of approximately $569,000 were higher than forecast by approximately $89,000.

(c) *Operating expenses* – The Applicant disbursed approximately $215,000 for operating expenses. This was lower than forecast by approximately $65,000 reflecting effective cost containment.

(d) *Utilities and fuel* – Payments for utilities or fuel during the Reporting Period were approximately $1,113,000 versus forecast of a $941,000. This was the result of the timing of bulk purchases and a general higher level of unit energy costs in the Reporting Period.

(e) *Insurance* – Disbursements of approximately $609,000 were slightly below plan by $15,000 compared to forecast.

(f) *Restructuring costs* – Expenses were approximately $114,000 lower than forecast.

REVISED CASH FLOW FORECAST

15. Attached as Appendix **"B"** is an updated cash flow forecast for the period ending July 4, 2010 (the **"Revised Forecast"**) prepared by Terrace Bay, with the assistance of the Monitor.

16. The closing cash balance at July 4, 2010 is forecast to be approximately $5,210,000. 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 June 30, 2010.

MONITOR'S RECOMMENDATION

17. 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 June 30, 2010;

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

All of which is respectfully submitted this 27th day of April 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

Terrace Bay Pulp Inc.
CCAA Cash Flows
9 Week Period Ending April 11, 2010
(CDN$000s)

Week Ended	Actual Total	Forecast [1] Total	Variance Total
Receipts			
Customer receipts	-	-	-
GST	17	-	17
Other receipts	81	400	(319)
Total receipts	98	400	(302)
Disbursements			
Freight & sales agent	-	-	-
Salaries & wages	(303)	(244)	(59)
Operations	(215)	(280)	65
Payroll withholdings	(144)	(160)	16
Benefits & pension	(112)	(76)	(36)
Bank service charges	6	(36)	42
WSIB	(10)	-	(10)
Vacation pay	-	-	-
Utilities & fuel	(1,113)	(941)	(172)
Insurance	(609)	(624)	15
Interest payments to secured creditors	-	-	-
Principal payments to secured creditors	-	-	-
Foreign exchange translation	-	-	-
Restructuring costs	(336)	(450)	114
Funding of reserve for CCAA charges	-	-	-
Total disbursements	(2,834)	(2,811)	(23)
Cash Flow	**(2,736)**	**(2,411)**	**(325)**
Bank balance, opening	10,041	10,041	(0)
Cash flow	(2,736)	(2,411)	(325)
Bank balance, closing	**7,305**	**7,630**	**(325)**
Funded Reserve account for CCAA charges	2,400	2,400	-
Monitor's Trust Account	-	-	-

[1] From the Monitor's 10th Report

Appendix B

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

Week Ended	**18-Apr-10**	**25-Apr-10**	**02-May-10**	**09-May-10**	**16-May-10**	**23-May-10**	**30-May-10**	**06-Jun-10**	**13-Jun-10**	**20-Jun-10**	**27-Jun-10**	**04-Jul-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)	(30)	(30)	(30)	(30)	(30)	(30)	(30)	(30)	(30)	(360)
Payroll withholdings	-	(40)	-	(40)	-	(40)	-	(40)	-	(40)	-	(40)	(240)
Benefits & pension	-	-	-	(38)	-	-	-	(30)	-	-	-	(30)	(98)
WSIB	-	-	-	(18)	-	-	-	(18)	-	-	-	(18)	(54)
Vacation pay	-	-	-	-	-	-	-	-	-	-	-	-	-
Utilities & fuel	(24)	(24)	(24)	(9)	(9)	(9)	(9)	(9)	(9)	(9)	(9)	(9)	(153)
Insurance	-	-	(208)	-	-	-	-	(208)	-	-	-	(208)	(624)
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	(165)	(144)	(373)	(185)	(150)	(129)	(150)	(385)	(150)	(129)	(150)	(385)	(2,495)
Cash Flow	**(165)**	**(144)**	**(373)**	**(185)**	**(150)**	**(129)**	**250**	**(385)**	**(150)**	**(129)**	**(150)**	**(385)**	**(2,095)**
Bank balance, opening	7,305	7,140	6,996	6,623	6,438	6,288	6,159	6,409	6,024	5,874	5,745	5,595	7,305
Cash flow	(165)	(144)	(373)	(185)	(150)	(129)	250	(385)	(150)	(129)	(150)	(385)	(2,095)
Bank balance, closing	7,140	6,996	6,623	6,438	6,288	6,159	6,409	6,024	5,874	5,745	5,595	5,210	5,210
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	-	-	-	-	-	-	-	-	-	-	-	-	-