Court File No. CV-09-8062-00CL

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.

TWELFTH REPORT OF ERNST & YOUNG INC.

DATED MAY 24, 2010

INTRODUCTION

1. On March 11, 2009 (the "**Filing Date**"), Terrace Bay Pulp Inc. ("**Terrace Bay**" or the "**Applicant**") filed for and obtained protection from the Ontario Superior Court of Justice (the "**Court**") under the *Companies' Creditors Arrangement Act* (the "**CCAA**"). Pursuant to the Order made by 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 April 30, 2010. Absent a further extension, the Stay Period will expire on June 30, 2010.

PURPOSE

2. The purpose of this twelfth report of the Monitor (the "**Twelfth Report**") is to update this Honourable Court in relation to the activities of Terrace Bay and the Monitor since the eleventh report of the Monitor dated April 27, 2010 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 an Order of this Honourable Court dated December 18, 2009, as amended by an Order of this Honourable Court dated December 21, 2009 (collectively, the "**Claims Process Order**"); and

(c) the motion by Terrace Bay (the "**Creditors' Meeting Motion**") for an order authorizing and establishing the procedure for Terrace Bay to consider and vote on a proposed Plan of Arrangement (the **"Plan"**) including proposed voting procedures, notification to creditors of the meeting of creditors (the "**Creditors' Meeting**" as defined in the Plan) and for related and other relief (the "**Creditors' Meeting Order**"). A copy of the Plan is annexed as Schedule "A" to the Creditors' Meeting Order. **Capitalized terms not otherwise defined in this Twelfth Report shall have the definitions used in the Plan**.

TERMS OF REFERENCE

3. In preparing this Twelfth Report, the Monitor 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 ("**Management**"). The Monitor has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of such information and, accordingly, the Monitor expresses no opinion or other form of assurance in respect of such information contained in this Twelfth Report. Some of the information referred to in this Twelfth 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 Twelfth 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, and even if the assumptions materialize, the variations could be significant.

4. Unless otherwise noted, all references to dollar amounts in this Twelfth Report are in Canadian currency.

STATUS OF TERRACE BAY'S RESTRUCTURING EFFORTS

5. As previously reported by the Monitor, the Province of Ontario (the "**Province**") and Terrace Bay reached an agreement on a term sheet (the "**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 Loan**"). 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.

6. As contemplated by the Term Sheet, the Applicant and a funding provider of 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 in the amount of up to $40 million that Terrace Bay believes will provide it with the necessary operating funding, in conjunction with the Term Loan, to enable it to propose a plan of arrangement, exit from this CCAA Proceeding and restart the mill's operations.

7. As described in the affidavit of Russell York sworn May 21, 2010 in support of the Creditors' Meeting Motion (the "**York Affidavit**"), the funding provider has conducted its due diligence and is awaiting the approval and sanction of the Plan in order to move forward with this financing.

8. As reported in the tenth report of the Monitor dated February 18, 2010, 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 have occurred with a number of parties who expressed interest in participating in such a transaction. At this time, these discussions have not concluded in a transaction.

9. As a result, the owner of the Applicant has made alternate arrangements to enable Terrace Bay to meet certain of the conditions of the Term Sheet that would allow a reopening of the mill, provided that the Plan is approved by its creditors and the Court and the conditions of implementation of the Plan are satisfied.

UPDATE ON THE CLAIMS PROCESS

10. The Claims Process implemented by the Claims Process Order is described in the ninth report of the Monitor dated December 15, 2009. A copy of the Claims Process Order is posted on the Monitor's website (www.ey.com/ca/terracebay). The Claims Process Order called for the filing of a Proof of Claim (as defined in the Claims Process Order):

    (a) for Claims (as defined in the Claims Process Order) which arose prior to March 11, 2009 (each a "**Pre-Filing Claim**"); and

    (b) for Claims (as defined in the Claims Process Order) 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**").

11. Pursuant to the Claims Process Order, unionized and non-unionized employees were not required to file a Proof of Claim (as defined in the Claims Process Order) in respect of any Claim that they might have in their capacity as an employee, with such claims being included in the definition of an "**Excluded Claim**", in the Claims Process Order. Certain employees have filed a Proof of Claim in relation to what is an Excluded Claim pursuant to the Claims Process.

12. The Monitor continues to review the Proofs of Claim that it has received pursuant to the Claims Process and to conduct related inquiries and investigations and, in consultation with Terrace Bay, will be revising or disallowing certain of such claims in advance of the Creditors' Meeting for voting and/or distribution purposes in accordance with the Claims Process Order and the proposed Creditors' Meeting Order.

13. It is not certain that the Claims Process will be fully completed such that all claims in respect of which a Proof of Claim (as defined in the Claims Process Order) is filed will constitute a Proven Unsecured Claim as defined in the Plan as at the date of the Creditors' Meeting. The Creditors' Meeting Order therefore proposes a process to be followed in relation to Disputed Claims that have not been finally determined in accordance with the Claims Process Order prior to the Creditors' Meeting.

14. The Claims Process Order also includes a mechanism for the Monitor to agree to extend the Claims Bar Date or the Restructuring Claims Bar Date (each as defined in the Claims Process Order) if the Monitor is satisfied a Person did not receive a Claims Package (as defined in the Claims Process Order) or notice of the Claims Process at least ten days prior to the relevant Bar Date.

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

STATUS OF THE PLAN

16. The Applicant, with the assistance of the Monitor, has developed the Plan, which it believes is in the best interests of all of its stakeholders, including creditors, employees and the community in which the mill is the main source of economic activity. Terrace Bay has advised the Monitor that the Plan would permit it to be restructured and repositioned on a long-term basis as a viable business and a key component of the forest products industry in Ontario. This would, in turn, allow Terrace Bay to continue to support the Township of Terrace Bay and the Township of Schreiber, in addition to other forestry operations and communities throughout northern Ontario.

17. Terrace Bay and the Monitor have been engaged in discussions with stakeholders, including a significant unsecured creditor, in relation to Terrace Bay's restructuring plan. At this time, discussions are ongoing, with a view to gaining the support of key stakeholders required for the approval of the Plan.

18. As described in the York Affidavit, the Province committed the Term Loan almost six months ago. As deposed by Mr. York, the Term Sheet contemplates the restructuring to be completed and the Term Loan to be advanced by June 30, 2010. Mr. York also states that the failure of Terrace Bay to complete its restructuring in short order could result in key employees who are considered by Terrace Bay to be critical to the mill restart and continuing operations relocating from Terrace Bay.

19. Terrace Bay believes it to be in the best interests of its stakeholders, including without limitation its employees, for the Creditors' Meeting Order to be made at this time. Terrace Bay hopes that proceeding in this manner will establish a timetable and

framework within which it can conclude discussions with its key stakeholders, hold a vote on and obtain court approval of the Plan and implement the Plan in the near future.

OUTLINE OF THE PLAN

20. This Twelfth Report provides a preliminary overview of the Plan. The Monitor will prepare a further report on the Plan prior to the Creditors' Meeting. As noted above, capitalized terms referenced in this Twelfth Report have the meanings set forth in the Plan where not otherwise defined.

21. The Plan contemplates compromising those claims identified in the Claims Process with the overall objective of providing a greater benefit to the creditors from the continued operation of the mill than would result from a bankruptcy or the forced liquidation of the Applicant's assets. This benefit is provided both from future business opportunities for current suppliers in an ongoing business, as well an opportunity to participate in the success of the restructured operation through payments contemplated by the Plan.

22. The Plan is addressed to the unsecured class of creditors of Terrace Bay having a Pre-Filing Claim or Restructuring Claim (each as defined in the Plan) (the "**Affected Creditors**"), who are grouped into a single class (the "**Unsecured Class**"). The Plan does not compromise, release or otherwise affect certain claims (the "**Excluded Claims**").

23. Under the Plan, Excluded Claims are defined as follows:

    (a) any Claim secured by the Administration Charge or the Directors' Charge;

    (b) any Claim with respect to goods and/or services provided to the Applicant on or after the Filing Date;

    (c) the portion of a Claim arising from a cause of action for which the Applicant is covered by insurance, but only to extent of such coverage;

    (d) any Claim by a current or former employee of the Applicant in his or her capacity as an employee;

(e) Crown Claims;

(f) the Claim of the Province for unpaid stumpage fees;

(g) Claims that the Applicant is required to pay pursuant to Section 7(c) of the Initial Order; and

(h) the Claim of Lucky Star Holdings Inc. secured by a Lien against the assets, properties or undertaking of the Applicant.

24. On the effective date as defined in the Plan (the "**Effective Date**"), each holder of an Affected Claim as finally determined in accordance with the Claims Process Order or any other Order of the Court and/or the Plan (each, a "**Proven Unsecured Claim**"), will exchange its Proven Unsecured Claim for a pro rata share of a non-interest bearing subordinated secured promissory note issued by Terrace Bay (the "**Plan Note**").

25. A copy of the Plan Note term sheet is attached as Schedule "B" to the Plan. The Plan Note term sheet provides that the Plan Note is to be issued by the Applicant to a trustee to be appointed pursuant to an indenture, be in the principal amount of $30,000,000 and have, among other things, the following characteristics:

(a) the Plan Note is to mature on the earlier of (i) six (6) years from the effective date of the Plan; or (ii) the day which is one (1) year following repayment in full of all amounts owing by Terrace Bay to the Province under the Stumpage Agreement and the Province Loan Agreement, provided that in both cases, no payment shall be made until all obligations under the ABL Loan Agreement, the Province Loan Agreement and the Stumpage Agreement have been paid in full and all commitments by the lenders under the ABL Loan Agreement and Province Loan Agreement have been terminated;

(b) the amount payable under the Plan Note will be determined by the total cumulative net income of Terrace Bay from the effective date of the Plan until the maturity date of the Plan Note. If total net income is equal to or greater than $80 million, the payment under the Plan Note will be $30 million. If total net income is equal to or less than $40 million, the payment under the Plan Note will be $10 million. If total net income is less than $80 million and more than $40 million, then the payment under the Plan Note will be an amount between $10 million and $30 million depending on Terrace Bay's total net income, as adjusted pursuant to the Plan Note; and

(c) the Plan Note will be secured by all real and personal property of Terrace Bay. This security will be subordinate in all respects to the security for loans made under the ABL Loan Agreement and the Province Loan Agreement (including any replacement or refinancing of the ABL Loan Agreement or the Province Loan Agreement) and any other secured financing obtained by the Applicant from time to time.

26. The Plan is conditional upon the fulfillment or waiver, where applicable, of the following conditions:

(a) the Plan shall have been approved by the required majority of Affected Creditors entitled to vote at the Creditors' Meeting;

(b) an order sanctioning the Plan and giving directions regarding its implementation, including the provisions set forth in Section 8.1 of the Plan (the "**Sanction Order**") shall have been granted by the Court and shall be in full force and effect and not reversed, stayed, varied, modified or amended;

(c) all applicable appeal periods in respect of the Sanction Order shall have expired and in the event of an appeal or application for leave to appeal, final determination shall have been made by the applicable appellate court;

(d) all approvals, orders, determinations or consents required pursuant to Applicable Law, if applicable, shall have been obtained on terms and conditions satisfactory to the Applicant and the Monitor, acting reasonably, and shall remain in full force and effect on the Effective Date;

(e) all necessary corporate action and proceedings of the Applicant shall have been taken to approve the Plan and to enable each Applicant to execute, deliver and perform its obligations under the agreements, documents and other instructions to be executed and delivered by it pursuant to the Plan;

(f) all agreements, resolutions, documents and other instruments, which are necessary to be executed and delivered by the Applicant, or any director or officer of the Applicant in order to implement the Plan and perform its obligations under the Plan (including the Note Indenture), shall have been executed and delivered;

(g) the Applicant shall have entered into the ABL Loan Agreement, and all conditions precedent to be completed under the ABL Loan Agreement shall have been satisfied or waived, subject only to the completion of the transactions contemplated under the Plan;

(h) the Applicant shall have entered into the Province Loan Agreement, and all conditions precedent to be completed under the Province Loan Agreement shall have been satisfied or waived, subject only to the completion of the transactions contemplated under the Plan;

(i) the Applicant shall have entered into the Stumpage Agreement, and all conditions precedent to be completed under the Stumpage Agreement shall have been satisfied or waived, subject only to the completion of the transaction contemplated under the Plan;

(j) the Applicant shall have entered into an agreement for the purchase of fibre located at the Applicant's premises and elsewhere on terms and conditions satisfactory to the Applicant, and all conditions precedent to be completed under such agreement shall have been satisfied or waived, subject only to the completion of the transaction contemplated under the Plan; and

(k) the Applicant shall have obtained a commitment from the Province with respect to the supply of fibre on terms and conditions satisfactory to the Applicant.

27. Pursuant to the Plan, Terrace Bay reserves the right to vary, amend, modify or supplement the Plan, as follows:

(a) prior to the commencement of the Creditors' Meeting, provided that any variation or modification of, or amendment or supplement to, the Plan by way of a supplementary or amended and restated plan or plans of compromise or arrangement, or both, is made with the prior consent of the Monitor and is filed with the Court, in which case such supplementary or amended and restated plan or plans of compromise or arrangement or both shall, for all purposes, be deemed to be a part of and incorporated into the Plan. Any such variation, modification, amendment or supplement shall be posted on the Monitor's website (www.ey.com/ca/terracebay) on the day on which it is filed with the Court and e-mail notice of such posting will be provided to the service list in the CCAA Proceedings (the "**Service List**");

(b) during the Creditors' Meeting, provided that notice of such variation, modification, amendment or supplement is given to all Affected Creditors entitled to vote present in person or by proxy at the applicable Creditors' Meeting prior to the vote being taken at such Creditors' Meeting, in which case any such variation, modification, amendment or supplement shall, for all purposes, be deemed to be part of the Plan. Any variation, amendment, modification or supplement at a Creditors' Meeting will be promptly posted on the Monitor's website (www.ey.com/ca/terracebay) and filed with the Court as soon as practicable following the applicable Creditors' Meeting; and

(c) after the Creditors' Meeting (and both prior to and subsequent to the obtaining of the Sanction Order), the Applicant may at any time and from time to time vary, amend, modify or supplement the Plan without the need for obtaining an Order of the Court or providing notice to the Affected Creditors, if the Applicant and the Monitor, acting reasonably and in good faith, determine that such variation, amendment, modification or supplement is of a technical or administrative nature that would not be materially prejudicial to the interests of any of the Affected Creditors under the Plan and is necessary in order to give effect to the substance of the Plan or the Sanction Order.

Effect of the Plan

28. If approved and sanctioned by the Court, the Plan, among other things, would be effective to:

(a) make the payment, compromise or satisfaction of all Affected Claims under the Plan binding upon each Affected Creditor and fully settle all rights of each Affected Creditor in respect of the Affected Claims;

(b) release and discharge the Applicant from all Affected Claims and all Liens (as defined in the Plan) granted by the Applicant in respect thereof, including any interest or costs accruing thereon, whether before or after the Filing Date;

(c) provide a broad release, subject to the provisions of s. 5.1(2) of the CCAA, in favour of (i) the Applicant, its present and former directors, officers, employees, professional advisors (including legal counsel) and others, (ii) the Monitor, its present and former partners, directors, officers, employees, professional advisors (including legal counsel) and others, and (iii) any Person who might claim contribution or indemnity from the Applicant;

(d) provide a broad release by the Applicant in favour of each of its present and former directors, officers and employees, including its legal counsel, and the Monitor, and its present and former partners, directors, officers, employees, agents, affiliates and professional advisors (including and legal counsel);

(e) provide that contracts to which the Applicant is a party on the Filing Date, as existing or as modified, amended or varied thereafter, remain in full force and effect as of the Effective Date, unless repudiated or disclaimed or having expired in accordance with their terms; and

(f) deem that from and after the Effective Date, unless otherwise agreed to in an amending agreement entered into with the Applicant after the Filing Date, all Persons shall have waived any and all defaults of the Applicant then existing or previously committed or caused by the Applicant, including non-compliance with any covenant, warranty, representation, terms or other provision in any contract or agreement and deemed any notices of default, acceleration of payments, demands for payment or other notices to have been rescinded and withdrawn, as more particularly provided in the Plan, other than as any of same may relate to an Excluded Claim.

29. As noted above, the Monitor intends to prepare a further report to this Honourable Court on the Plan and other relevant matters prior to the Creditors' Meeting. A copy of such report will be served on the Service List and, if they or their legal counsel are not on the Service List, on Affected Creditors holding a Proven Unsecured Claim or a Disputed Claim (as each are defined in the Plan) (the "**Eligible Voting Creditors**") and will be posted on the Monitor's website, promptly after it is filed with this Honourable Court.

CREDITORS' MEETING ORDER

30. Terrace Bay, in conjunction with the Monitor, has prepared a proposed procedure for the Creditors' Meeting, which Terrace Bay is seeking to have approved by the Creditors' Meeting Order.

Notice to Creditors

31. The Creditors' Meeting Order directs the Monitor to send the following documents (collectively hereinafter referred to as the "**Information Package**") to all Eligible Voting Creditors by registered mail, facsimile or e-mail at the last known address for such Eligible Voting Creditor set out it the books and records of Terrace Bay or, if an Eligible Voting Creditor filed a Proof of Claim, the address specified in such Proof of Claim, by the date set forth in the Creditors' Meeting Order:

(a) a copy of the Information Circular (as defined in the Plan, which the Monitor understands will include, as one of its schedules, the Plan);

(b) a notice of the Creditors' Meeting; and

(c) a copy of the form of proxy to be used by the Eligible Voting Creditors, in substantially in the form of the notice that will be attached to the Creditors' Meeting Order (the "**Proxy Form**").

The Creditors' Meeting Order contemplates that the Applicant may from time to time make minor changes to the Information Package considered by the Applicant and the Monitor to be necessary or desirable to conform the content thereof to the Plan and this Order or to describe the Plan.

32. Further, the Monitor will cause to be published, once and as soon as practicable and no later than the date set forth in the Creditors' Meeting Order, a short form notice of the Creditors' Meeting, in substantially the form attached to the Creditors' Meeting Order (the "**Newspaper Notice**"), in the Globe and Mail (National Edition) and a local paper.

33. The Monitor shall cause a copy of the Information Package, the Creditors' Meeting Order, including all schedules, and this Twelfth Report to be posted on the Monitor's website (www.ey.com/ca/terracebay) as soon as practicable after the granting of the Creditors' Meeting Order.

Procedure for Creditors' Meeting

34. Pursuant to the Creditors' Meeting Order, Terrace Bay will be authorized and directed to call, hold and conduct a meeting of Affected Creditors to consider and vote on the Plan. The Creditors' Meeting is proposed to be held at 10:00 a.m. (Eastern Daylight Time) on June 21, 2010. At the time of preparation of this Twelfth Report, the location of the Creditors' Meeting had yet to be determined, but will be included in the notices to be sent and published.

35. A representative of the Monitor will act as the chair of the Creditors' Meeting (the "**Chair**") and decide all matters relating to the rules, procedures and conduct of the Creditors' Meeting in accordance with the terms of the Plan, the Creditors' Meeting

Order, as approved by this Honourable Court, and any further Order of this Honourable Court. The Chair may adjourn the Creditors' Meeting at his or her discretion.

36. The only Persons entitled to notice of, attend, speak or vote at the Creditors' Meeting are Eligible Voting Creditors and their respective proxy holders, representatives of the Applicant and the Monitor and the legal counsel and financial advisors of any of the foregoing, the Chair, the Scrutineers (as defined below) and the Secretary (as defined below). An Eligible Voting Creditor that is not an individual may only attend and vote at the Creditors' Meeting if it has appointed a proxyholder to attend and act on its behalf. Any other Person may be admitted to the Creditors' Meeting on the invitation of the Chair.

37. The quorum for the Creditors' Meeting is three Eligible Voting Creditors present in person or by proxy.

38. The Creditors' Meeting Order provides that if:

(a) the requisite quorum is not present at the Creditors' Meeting;

(b) the Creditors' Meeting is postponed by a vote of the majority in value of the Claims of the Eligible Voting Creditors present in person or by proxy; or

(c) the Chair or the Monitor otherwise decides to adjourn the Creditors' Meeting,

then the Creditors' Meeting shall be adjourned by the Chair to such time and place as designated by the Chair or the Monitor, in which case the announcement of the adjournment by the Chair at the Creditors' Meeting, or the posting of notice of such adjournment on the Monitor's website and written notice to the Service List, shall constitute sufficient notice of the adjournment and the Applicant and the Monitor shall have no obligation to give further notice to any Person of the adjourned Creditors' Meeting.

39. The only Persons entitled to vote at the Creditors' Meeting in person or by proxy are the Eligible Voting Creditors and certain transferees or assignees of Eligible Voting Creditors.

40. A vote by written ballot, or if the Chair deems it appropriate, by a show of hands, will be taken on the approval of the Plan (the "**Plan Resolution**") and on any other matter that may come before the meeting. Subject to the provisions of the Creditors' Meeting Order, each Eligible Voting Creditor shall have one vote, which vote in the case of an Eligible Voting Creditor having a Proven Unsecured Claim shall have the value of such Eligible Voting Creditor's Proven Unsecured Claim as determined in accordance with the Claims Process Order, any other Order of the CCAA Court and/or the Plan and, in the case of holder of a Disputed Claim, shall be determined in accordance with the Claims Process Order, the Creditors' Meeting Order and/or any other Order of the Court.

41. Every question submitted to the Creditors' Meeting, except to approve the Plan Resolution or an adjournment of the Creditors' Meeting, will be decided by a majority of votes given on a show of hands or, if by confidential written ballot, at the discretion of the Chair, by a majority in number of the Eligible Voting Creditors.

Voting of Disputed Claims

42. No Person is entitled to vote on the Plan in respect of a claim that is an Excluded Claim.

43. The Creditors' Meeting Order provides that in the case of a Disputed Claim that has not been determined or resolved prior to the date of the Creditors' Meeting, the holder thereof shall be entitled to vote in accordance with the provisions of this Creditors' Meeting Order, in which case:

(a) the vote of the holder of the Disputed Claim will be separately tabulated by the Monitor;

(b) the vote of the holder of the Disputed Claim will be recorded as being "for" or "against" the Plan;

(c) if no motion is made to this Court by the Applicant within 7 days following the date of the Creditors' Meeting, or as otherwise ordered by the Court, to determine the amount of such Disputed Claim for voting purposes (a "**Voting**

Determination Motion”), the amount of such Disputed Claim for voting purposes will be the full amount of the Disputed Claim;

(d) if a Voting Determination Motion is made by the Applicant as provided for in (c) above, the amount of such Disputed Claim for voting purposes shall be such amount as is determined by this Court; and

(e) any allowance or determination of the Disputed Claim for voting purposes in accordance with this Order or the Claims Process Order shall be without prejudice to the rights of the Applicant, the Monitor or the holder of the Disputed Claim with respect to the final determination of the Disputed Claim for distribution purposes.

44. The allowance of an Eligible Voting Creditor to vote at the Creditors’ Meeting in respect of a Disputed Claim shall not be construed as an admission that such Eligible Voting Creditor’s Claim is a Proven Unsecured Claim for distribution purposes.

Recording and Tabulation of Votes and Reporting to the Court

45. The Monitor will appoint scrutineers (the “**Scrutineers**”) for the supervision and tabulation of the attendance at, quorum, and votes cast at the Creditors’ Meeting. A person or persons designated by the Monitor shall act as secretary at the Creditors’ Meeting (the “**Secretary**”) and shall tabulate all Proven Unsecured Claims (and, if applicable, Disputed Claims) voted at the Creditors’ Meeting.

46. For voting purposes, the Monitor shall keep a separate record and tabulation of any votes cast in respect of Proven Unsecured Claims and Disputed Claims.

47. The result of any vote conducted at the Creditors’ Meeting shall be binding upon all Affected Creditors, whether or not any such Affected Creditor was present or voted at the Creditors’ Meeting, without prejudice to such Affected Creditor’s ability to oppose the Plan at the Sanction Hearing (as hereinafter defined).

48. Following the vote at the Creditors' Meeting, the Monitor shall tally the votes cast and determine whether the Plan has been approved by the majorities of Eligible Voting Creditors required pursuant to section 6 of the CCAA (the "**Required Majorities**").

49. The Monitor shall file its report to this Honourable Court by no later than three (3) Business Days after the date of the Creditors' Meeting with respect to the results of the votes cast, including, without limitation, whether:

(a) the Plan has been accepted by the Required Majorities; and

(b) the votes cast by Eligible Voting Creditors with Disputed Claims voted for or against the Plan, if any, that would affect the result of the vote.

50. The Creditors' Meeting Order provides that if the votes cast by the holder of a Disputed Claim in relation to which a Voting Determination Motion has been or may be brought would affect whether the Plan has been approved by the Required Majorities of Affected Creditors, the Monitor shall report this to the Court, in which case the Applicant may request this Court to (i) direct an expedited hearing of any Voting Determination Motion (as defined in the Creditors' Meeting Order), (ii) defer the date of the hearing of the Sanction Motion, and (iii) defer or extend any other time periods in this Order or the Plan, and/or seek such further advice and direction as may be considered appropriate.

Voting by Proxy

51. Each Eligible Voting Creditor may vote in person or by proxy. The Proxy Form for use at the Creditors' Meeting will be enclosed with the Information Package circulated pursuant to the Creditors' Meeting Order.

52. The Proxy Form must be completed in accordance with the Instruction Letter attached to the Information Package and be received by the Monitor in accordance therewith prior to 1:00 pm (Eastern Daylight Time) on the last business day preceding the date set for the Creditors' Meeting, or any adjournment thereof, or delivered by hand to the Chair prior to (but not after) the commencement of the Creditors' Meeting.

53. The Creditors' Meeting Order includes provisions dealing with the submission of proxies and related matters.

Sanction of the Plan

54. The Creditors' Meeting Order provides that if the Required Majorities of Eligible Voting Creditors approve the Plan, the Applicant will seek Court approval of the Plan at a motion for approval of an order sanctioning the Plan (the "**Sanction Order**"), which motion should be returnable before the Court on June 29, 2010, or as soon after that time as such motion can be heard (the "**Sanction Hearing**").

55. The Creditors' Meeting Order provides that any party who wishes to oppose the motion for approval of the Sanction Order shall serve upon the lawyers for both the Applicant and the Monitor, and upon all other parties on the Service List, by not later than 5:00 p.m. (Eastern Daylight Time) on the day that is four days after the Creditors' Meeting, a copy of the materials to be used to oppose the motion for approval of the Sanction Order, setting out the basis for such opposition.

56. As noted above, the Creditors' Meeting Order also provides that, in the event that a Voting Determination Motion is brought, the Applicant or the Monitor may request this Honourable Court to defer the date of the Sanction Hearing.

Extension of Bar Dates

57. The Creditors' Meeting Order further provides that the Monitor may, in its discretion, extend either of the Bar Dates (as defined in the Claims Process Order) in respect of a Person wishing to file a Proof of Claim if the Monitor is satisfied that such Person did not receive a Claims Package or receive notice of the Claims Process (each as defined in the Claims Process Order) at least 10 days prior to the relevant Bar Date, in which case the relevant Bar Date in relation to any Claim of such Person shall be the date designated by the Monitor, in its discretion (the "**Extended Bar Date**"), in which case the Claims Process Order shall be deemed, without further Order of this Court, to be amended to reference the Extended Bar Date in substitution for the Claims Bar Date or the Restructuring Claims Bar Date, as applicable. Where the Monitor agrees to extend a Bar

Date pursuant to the Creditors' Meeting Order, whether it does so prior to or following the date of the Creditors' Meeting Order, the Claims Process Order is to otherwise apply and have full force and effect *mutatis mutandis* in relation to the Claim of such Person, including, without limitation, in respect of any Proof of Claim filed or not filed by such Person, in accordance with the Claims Process Order as so amended.

CONCLUSION AND RECOMMENDATIONS OF THE MONITOR

58. The Monitor believes that the Creditors' Meeting Order which, among other things, authorizes and directs the Applicant to file the Plan, establishes procedures for the Applicant to call, hold and conduct the Creditors' Meeting, includes a proposed mechanism for dealing with Disputed Claims for the purpose of voting on the Plan, sets the date for the Sanction Meeting and provides related and other relief, is reasonable.

59. As such, and to further advance the restructuring of Terrace Bay pursuant to the CCAA Proceeding, the Monitor recommends that this Honourable Court:

    (a) grant the Creditors' Meeting Order as proposed; and

    (b) approve the Twelfth Report and the conduct and activities of the Monitor and its counsel as reported on therein.

All of which is respectfully submitted this 24th day of May 2010.

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

Per:

Alex Morrison
Senior Vice President

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.

Applicants

Court File No. CV-09-8062-00CL

ONTARIO

SUPERIOR COURT OF JUSTICE

COMMERCIAL LIST

Proceeding commenced at TORONTO

TWELFTH REPORT OF ERNST & YOUNG INC.

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