Court File No CV-12-9566-00CL

ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST

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

SUPPLEMENTAL SIXTH REPORT OF THE MONITOR DATED JULY 16, 2012

INTRODUCTION

1. On January 25, 2012, 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 Court dated January 25, 2012, as amended and restated (the "**Initial Order**"), Ernst & Young Inc. ("**EYI**") was appointed as Monitor (the "**Monitor**") in this CCAA proceeding. The Initial Order initially provided for a stay of proceedings through February 24, 2012, which stay period has since been extended to July 16, 2012 (the "**Stay Period**").

2. In addition to providing a stay of proceedings, the Initial Order authorized Terrace Bay, with the assistance of the Monitor and in consultation with the Province of Ontario, as represented by the Minister of Northern Development and Mines (formerly, the Minister of Northern Development, Mines and Forestry) (the "**Province**") to commence a sales and marketing process to sell the property and assets used by Terrace Bay in connection with its pulp manufacturing business (the "**Sales Process**").

3. On July 12, 2012 the Monitor issued its Sixth Report (the "**Sixth Report**").

PURPOSE

4. The purpose of this supplemental sixth report of the Monitor (the "**Supplemental Sixth Report**") is to provide the Court with information regarding the Monitor's efforts to

canvass the international market as part of its duties under the Sales Process and to update the Court on the status of the Transaction and the position of AVTB.

5. All capitalized terms contained herein shall have the meanings set out in the Monitor's Sixth Report dated July 12, 2012.

THE MONITOR'S EFFORTS TO CANVASS INTERNATIONAL MARKETS

6. The Monitor has reviewed the affidavit of Yu Hanjiang circulated on July 15, 2012 (the "**Yu Affidavit**") and wishes to provide the Court with further information regarding the Sales Process conducted by Terrace Bay, with the assistance of the Monitor and in consultation with the Province.

7. The Yu Affidavit raises issues with the efficacy of the Sales Process. The Monitor is satisfied that the Sales Process was properly conducted and that international markets were canvassed for prospective purchasers. One of the channels which the Monitor used to market the Terrace Bay Mill Assets was through a program managed by the Province of Ontario through the Ministry of Economic Development and Innovation ("**MEDI**") which had established an "International Business Development Representative Program" ("**IBDR**"). The IBDR program operates a network of contacts and agents throughout the world, including in China, to enable the MEDI to disseminate information about investment opportunities in Ontario to a worldwide investment audience.

8. In the case of Terrace Bay, the Monitor coordinated with the Province, and provided to IBDR representatives, the Teaser and the Sales Process Terms. The IBDR representatives, in turn, provided these documents to the global network of agents for worldwide dissemination, including in China. The IBDR employs its expertise in identifying potential interested parties to target this dissemination of information.

9. The Monitor is satisfied that the Sales Process adequately canvassed the market, and continues to support the approval of the Transaction.

STATUS OF THE TRANSACTION AND POSITION OF AVTB

10. This morning the Monitor had an opportunity to meet with counsel for AVTB to receive updates as to the status of the completion of the conditions to closing the Transaction and the requests for relief served over the weekend.

11. AVTB has advised the Monitor that it has negotiated an agreement in principle with the executives of the Terrace Bay union locals to the terms of revised collective bargaining agreements. Votes to ratify these amendments were being conducted by the unions over the weekend and this morning.

12. AVTB has advised that it is confident that the revised collective bargaining agreements will be ratified. Ratification of the collective agreements will remove one of the last conditions to closing the Transaction, exclusive of Court approval.

13. AVTB has advised the Monitor that it has:

    (a) expended in excess of $3 million in external costs to date to complete the Transaction;

    (b) deployed extensive executive, technical and managerial resources from India in Thunder Bay, who are working to expedite the completion of the Transaction as scheduled; and

    (c) engaged at its cost in excess of ten Terrace Bay management employees to assist in the completion of the Transaction and to assist in the transition of the Mill Assets to AVTB.

14. AVTB has advised the Monitor that it is critical to complete the Transaction by the end of July in order that the Mill be restarted by October, prior to the onset of winter, to avoid increased carrying costs.

15. AVTB has advised the Monitor directly that if the Sales Process and the Sales Process Terms are varied, that it would terminate its interest in Terrace Bay.

16. For the factors set out in the Sixth Report, and the additional information provided in this Supplemental Sixth Report, the Monitor continues to recommend to the Court that the Transaction be approved.

All of which is respectfully submitted, this 16th day of July, 2012.

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

Per:

Alex Morrison
Senior Vice President