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CANADA
PROVINCE OF QUÉBEC
DISTRICT OF MONTRÉAL
NO: 500-11-038474-108

S U P E R I O R   C O U R T
Commercial Division
Designated tribunal under the Companies' Creditors Arrangement Act[1]

IN THE MATTER OF THE PROPOSED PLAN OF COMPROMISE AND ARRANGEMENT OF WHITE BIRCH PAPER HOLDING COMPANY AND VARIOUS SUBSIDIARIES AND AFFILIATES

DEBTORS

- and -

ERNST & YOUNG INC.

MONITOR

REPORT OF THE MONITOR – MAY 20, 2010

INTRODUCTION AND BACKGROUND

1. On February 24, 2010, on a Motion made by White Birch Paper Holding Company ("**White Birch**") and various of its affiliates (collectively referred to as the "**Applicants**"), the Superior Court of the Province of Québec for the District of Montréal ("**Court**"), sitting as the designated tribunal pursuant to the *Companies' Creditors Arrangement Act* ("**CCAA**")[1] issued an order ("**Initial Order**") declaring that the Applicants are debtor companies to which the CCAA applies, appointing Ernst & Young Inc. ("**EYI**" or "**Monitor**") as monitor and granting certain relief to the Applicants and various partnerships in which the Applicants have an interest ("**Partnerships**") (the Applicants and the Partnerships are hereinafter referred to collectively as "**WB Canada**")[2]. The Initial Order has since been extended and is scheduled to expire July 12, 2010.

2. Also on February 24, 2010, Bear Island Paper Company, LLC ("**Bear Island**"), a subsidiary of White Birch with activities in the U.S., commenced a case under the provisions of Chapter 11 of the U.S. *Bankruptcy Code*[3] (the "**Code**") (Bear Island and WB Canada are hereinafter referred to collectively as "**WB Group**" or "**Companies**"). The information regarding the proceedings initiated by Bear Island under the Code, together with the "first day orders" made by the Bankruptcy Court for the Eastern District of Virginia, Richmond Division ("**US Court**")

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[1] *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended.

[2] The entities subject to the Initial Order are White Birch Paper Holding Company, White Birch Paper Company, Stadacona General Partner Inc., Black Spruce Paper Inc., F.F. Soucy General Partner Inc., 3120772 Nova Scotia Company, Arrimage De Gros Cacouna Inc., Papier Masson Ltée., Stadacona Limited Partnership, F.F. Soucy Limited Partnership, and F.F. Soucy, Inc. & Partners, Limited Partnership.

[3] *U.S. Code,* title 11, chapter 11.

at the request of Bear Island, can be found on the website of the claims agent retained by Bear Island, Garden City Group, Inc., at www.gardencitygroup.com/cases/bip.

3. Also on February 24, 2010, some of the entities within WB Canada[4] applied for relief under the provisions of Chapter 15 of the Code. On February 26, 2010, the U.S. Court issued a temporary restraining order under the provisions of Chapter 15 of the Code, and on March 5, 2010, it granted a preliminary injunction, pending a fuller hearing to be held on March 22, 2010. At the hearing held on March 22, 2010, the U.S. Court granted recognition of the Canadian proceedings under the CCAA as foreign main proceedings, recognised White Birch Paper Company as the duly appointed foreign representative, declared that all of the provisions of section 1520 of the Code apply to the proceedings initiated by some of the entities within WB Canada, and gave full force and effect to the Initial Order[5] in the U.S., provided that the Initial Order[5] is not revoked, terminated or expired.

4. The orders granted by this Court and by the U.S. Court (collectively, the "**Courts**"), together with the relief provided under the CCAA and the Code[6] (collectively the "**Orders**") provide, among other things, for a stay of proceedings against the entities comprising WB Group while they prepare a restructuring plan.

5. The present report is intended to provide the Court with information on the state of the Companies' business and financial affairs, as a result of the recent finalization by the Companies of their financial statements for the financial year ended December 31, 2009 and for the first quarter ended March 31, 2010[7].

TERMS OF REFERENCE AND DISCLAIMER

6. In preparing this report, EYI has relied upon unaudited and audited financial information, company records, company prepared financial information and projections, discussions with management and employees of WB Group, and information from various other sources.

While we reviewed various documents and believe that the information therein provides a fair summary of the transactions as presented to us or as reflected in the documents presented to us, such work does not constitute an audit or verification of such information for accuracy, completeness, or compliance with generally accepted accounting principles. Accordingly, EYI expresses no opinion or other form of assurance in respect of such information.

Some of the information used in preparing this report consists of financial projections. We caution the reader that these projections are based upon assumptions about future events and conditions that are not ascertainable, and that the actual results may vary from the projections, even if the assumptions materialize, and the variations could be significant.

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[4] The entities which requested relief under Chapter 15 of the Code are White Birch Paper Company, Stadacona General Partner Inc., Papier Masson Ltée., Stadacona Limited Partnership, F.F. Soucy Limited Partnership, and F.F. Soucy, Inc. & Partners, Limited Partnership.

[5] As amended, modified or extended from time to time by the Court.

[6] Sections §361 and §362 of the U.S. *Bankruptcy Code*.

[7] The financial statements were provided to the Monitor on May 16, 2010 (audited financial statements for fiscal 2009) and on May 20, 2010 (first quarter financial statements).

In the course of our mandate, we have assumed the integrity and truthfulness of the information and explanations presented to us, within the context in which it was presented. To date, nothing has come to our attention which would cause us to question the reasonableness of this assumption.

Finally, we have requested that management bring to our attention any significant matters which were not addressed in the course of our specific inquiries. Accordingly, this report is based solely on the information (financial or otherwise) made available to us.

This report has been prepared for the use of this Court and WB Group's stakeholders as general information relating to the entities comprising WB Group and their operations. Accordingly, the reader is cautioned that this report may not be appropriate for any other purpose. We will not assume responsibility or liability for losses incurred by the reader as a result of the circulation, publication, reproduction or use of this report contrary to the provisions of this paragraph.

7. Terms not otherwise defined herein shall have the meaning ascribed to them in the Initial Order, or in previous reports of the Monitor, as the case may be.

AUDITED FINANCIAL STATEMENTS FOR FISCAL 2009

8. As indicated earlier herein, the Applicants applied for the relief under the CCAA by a motion filed on February 24, 2010. Although the motion was filed during the Applicants' 2010 financial year, the results for fiscal 2009 (i.e. the year ended December 31, 2009) were not yet known, as WB Group had not completed the year-end reviews and reconciliations necessary to prepare the financial statements.

9. The most recent financial information provided concurrently with the motion consisted of the internally prepared financial statements for the 11 months ended November 30, 2009. As indicated in the Monitor's report dated February 23, 2010, these financial statements suggested that the Company generated a profit for the 11 month period, although the profit is all attributable to non-cash gains on currency translation and gains on derivative contracts, which occurred in the earlier part of the financial year. The Monitor's report dated February 23, 2010 further stated that WB Group reported a substantial loss for the months of October and November 2009, of US$20.3 million in aggregate, and that the preliminary information available to that date suggested that the losses continued during December, such that White Birch incurred a net loss for fiscal 2009.

10. The financial statements of WB Group have now been finalized, and WB Group's auditors have issued their audit opinion thereon. The financial statements are attached to this report as Appendix A. The financial statements indicate the following:

    10.1. The auditors' report is not subject to any qualification or reserve, although the auditor's report highlights the disclosure made in the notes to the financial statements, that these were prepared assuming the Companies will continue as a going concern, and that there is some uncertainty regarding this assumption in view of the restructuring proceedings under the CCAA and the Code;

10.2. The Companies report a net loss of US$144.5 million for fiscal 2009 on sales of US$666.9 million. The net loss includes the following:

	US$ ('000s)
Write-off of deferred financing costs	(20,156)
Impairment of goodwill	(36,473)
Write down of deferred taxes	(61,242)
Write down of non refundable investment tax credits	(8,322)
Write down of deferred charges and intangible property	(126,193)
Other losses relating to regular operations	(18,263)
Total loss for the year	(144,456)

A large part of the loss is attributable to the fact that WB Group wrote off some intangible property, in view of the financial difficulties sustained by the Companies and the resulting uncertainty regarding whether or not the goodwill and deferred charges can be associated with a future benefit that could be derived by the enterprise from this intangible property.

10.3. After taking into consideration the write down in intangible property referred to above, the assets are reported to have a carrying value of US$731 million, comprised primarily of current assets (primarily cash, accounts receivable and inventories) of US$194 million, fixed assets of US$509 million and investments in affiliated entities (SP Newsprint) of US$24 million. The liabilities are reported to total US$887 million, including $158 million in pension and other post retirement benefit obligations, leaving an equity deficit of US$156 million.

Based on the information contained in the financial statements and our understanding of the security granted by the Companies to their lenders, the cash, inventories and accounts receivable, totalling US$190 million, are encumbered by the security granted to the asset based lender ("**ABL**") that provides an operating line of credit. The amount due to this ABL at year end was reported to be US$41 million (before taking into consideration the ABL's exposure in connection with letters of credit issued on behalf of the Companies, estimated to be approximately US$12 million).

The other assets, totalling US$541 million are encumbered by the security in favour of various term lenders and swap counterparties. The amount due to these term lenders and swap counterparties at year end was reported to be US$580 million. The Monitor has not yet obtained an opinion on the validity of the security granted in favour of the secured creditors and intends to do so in due course, however nothing has come to the Monitor's attention, to date, which would cause the Monitor to doubt the validity of the security.

10.4. The statement of changes in cash flows reveals that the Companies made payments to the shareholders during fiscal 2009, by way of dividends, distributions or repayment of contributed capital, totalling US$70.5 million. The Monitor has requested information regarding these payments with a view to analyse the transactions and report on them, in due course.

INTERNAL FINANCIAL STATEMENTS FOR THE QUARTER ENDED MARCH 31, 2010

11. The Companies' first quarter of fiscal 2010 ended on March 31, 2010. The internally prepared financial statements for the first quarter are attached to this report as Appendix B.

12. The financial statements were prepared before the financial statements for fiscal 2009 were finalized, and were restated after the financial statements for fiscal 2009 became available, to reflect the adjusting entries made in finalizing the year-end financial statements. The financial statements for the 3 months ended March 31, 2010 appended to this report represent the restated financial statements.

13. The financial statements indicate the following:

    13.1. The Companies report a net loss before taxes of US$23.7 million for the first quarter, after taking into consideration a gain on foreign currency translation of US$12.9 million.

    13.2. The Companies report a negative adjusted EBITDA[8] of approximately US$6.1 million.

    13.3. The assets are reported to have a carrying value of US$809.2 million, comprised primarily of current assets (cash, accounts receivable, inventories and other current assets) of US$267.9 million, fixed assets of US$508.8 million and investments in affiliated entities (SP Newsprint) of US$24.6 million. The liabilities are reported to total US$993 million, including US$160.9 million in pension and other post retirement benefit obligations, leaving an equity deficit of US$183.8 million.

    Based on our understanding of the security granted by the Companies to their lenders, the interim financing lender has security over all assets and undertakings of the Companies, in support of its debt of approximately US$104 million at March 31, 2010. The first ranking term lenders, swap counterparties and second ranking term lenders have security over all assets and undertakings of the Companies, except for the cash, accounts receivable and inventories, which have a carrying value of approximately US$237.1 million[9].

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8 The adjusted EBITDA is calculated based on the formula provided in the interim financing credit agreement, and takes into consideration earnings before interest, taxes, depreciation and amortization, other non cash items such as gains attributable to foreign currency exchange rates, and non recurring cash or non cash costs, fees and expenses related to the restructuring proceedings in an amount not to exceed the corresponding amount set forth on the budget approved by the interim financing lender.

9 We have excluded cash collateral from this amount, as we expect such cash collateral would be required to discharge the obligations to which it relates. We understand that the accounts receivable, cash and inventories of Bear Island may be encumbered by the security of the first term lenders and swap counterparties, through a replacement charge granted by the U.S. Court to provide adequate protection to the lenders with a senior charge, however we understand such charge would only apply inasmuch as the security granted in favour of the interim financing lender affects the security that is otherwise available to secure the debt to the first term lenders and swap counterparties.

CURRENT ACTIVITIES

14. To date, WB Group borrowed US$118 million against the delayed draw term loan. The drawings are US$4 million lower than the amount provided for in the cash flow projections that were prepared for the WB Group for the 17 week period ending July 9, 2010, presented to the Court with the Monitor's report dated March 25, 2010.

15. While the drawings under the interim financing facility are slightly lower than projected, the Companies' cash position is better than was originally expected. The cash reports prepared for management indicate that the cash on hand totals US$69.5 million as at May 14, 2010, compared with a projected cash level of US$27.9 million, based on the afore-mentioned projections. We do not yet have information to fully analyse the reasons for the variance, although the preliminary information available suggests that the variance is due in part to timing variances, and in part to a better than expected operational performance.

CONCLUSIONS

16. Based on the information available to date, the Monitor has no reason to suspect that a material adverse change has occurred.

All of which is respectfully submitted this 20th day of May 2010.

ERNST & YOUNG INC.
In its capacity as the monitor appointed by the Court
in the matter of the proposed compromise and
arrangement of White Birch Paper Holding Company *et al.*

Per: Martin P. Rosenthal, CA, CIRP
Senior Vice-President

Per: Jean-Daniel Breton, CA, CIRP
Senior Vice-President

Appendix A – Audited financial statements for fiscal 2009

White Birch Paper Company

(Under Creditor Protection Proceedings as of
February 24, 2010 – Notes 1 and 3)

Consolidated Financial Statements
December 31, 2009 and 2008
(expressed in US dollars)

PRICEWATERHOUSECOOPERS

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May 11, 2010

Report of Independent Auditors

To the Stockholder of
White Birch Paper Company

We have audited the consolidated balance sheets of **White Birch Paper Company** as of December 31, 2009 and 2008 and the consolidated statements of loss, changes in stockholder's equity (deficiency) and comprehensive income (loss) and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As more fully described in notes 1 and 3 to the consolidated financial statements, the Company and certain of its Canadian and US subsidiaries, as the case may be, sought creditor protection under the Companies' Creditors Arrangement Act in Canada and filed voluntary petitions for relief under Chapters 11 and 15 of the United States Bankruptcy Code on February 24, 2010, which raises substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to this matter are also described in notes 1 and 3. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

PricewaterhouseCoopers LLP[1]

[1] Chartered accountant auditor permit No. 19042

White Birch Paper Company

(Under Creditor Protection Proceedings as of February 24, 2010 – Notes 1 and 3)

Consolidated Balance Sheets

As of December 31, 2009 and 2008

(expressed in US dollars)

	2009 $	2008 $
Assets		
Current assets		
Cash and cash equivalents	32,146,612	42,749,792
Accounts and notes receivable, net of a provision of $701,231 (2008 – $516,614)	83,616,655	109,092,123
Due from companies under common control	687,306	597,028
Inventories	74,201,892	85,612,448
Prepaid income taxes	-	1,422,804
Other current assets	3,376,981	6,154,859
	194,029,446	245,629,054
Property, plant and equipment, net	509,216,104	492,726,451
Timberland, net	1,207,204	1,434,559
Deferred financing costs, net of amortization (2008 – $13,111,856)	-	21,203,200
Goodwill	-	31,787,252
Deferred income taxes	-	32,609,303
Other long-term assets	2,224,400	8,193,333
Investment in SP Newsprint Holding Co.	23,911,411	20,434,435
	730,588,565	854,017,587
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	82,649,834	60,872,928
Income taxes payable	23,757,112	-
Due to companies under common control	288,706	645,813
Current portion of long-term obligations under capital leases	1,725,424	808,208
Current portion of long-term debt	569,293,961	4,500,000
Obligations on interest rate swap contracts	51,807,858	-
Unrealized loss on derivative contracts	-	64,211,923
	729,522,895	131,038,872
Long-term debt	-	538,750,000
Long-term obligations under capital leases	-	1,495,306
Pension and other post-retirement benefit obligations	157,288,221	110,463,596
	886,811,116	781,747,774
Commitments and contingencies (note 20)		
Subsequent events (note 23)		
Stockholder's Equity (Deficiency)		
Common stock (100,000,000 shares authorized and 33,232,806 shares issued)	104,347,692	157,672,344
Deficit	(218,345,563)	(56,683,372)
Accumulated other comprehensive loss	(42,224,680)	(28,719,159)
	(156,222,551)	72,269,813
	730,588,565	854,017,587

The accompanying notes are an integral part of the consolidated financial statements.

Approved by the Board of Directors

_________________________________ Director   _________________________________ Director

White Birch Paper Company

(Under Creditor Protection Proceedings as of February 24, 2010 – Notes 1 and 3)
Consolidated Statements of Loss
For the years ended December 31, 2009 and 2008

(expressed in US dollars)

	2009 $	2008 $
Sales	666,940,348	894,913,275
Cost of sales	666,305,426	782,787,815
Gross profit	634,922	112,125,460
Selling, general and administrative expenses	(30,238,012)	(30,985,142)
Gain on disposal of land and timberland	1,850,286	15,196,506
Impairment of goodwill	(36,472,650)	-
Valuation allowance on non-refundable investment tax credits	(8,321,864)	-
Income (loss) from operations	(72,547,318)	96,336,824
Other income (expenses)		
Interest on long-term debt	(49,047,804)	(50,051,971)
Foreign currency translation gain (loss)	44,252,982	(75,289,570)
Net gain (loss) on derivative contracts	23,396,797	(51,828,911)
Interest income	92,194	580,193
Other income (expenses), net	(558,112)	171,396
Writeoff of deferred financing costs	(20,156,301)	-
	(2,020,244)	(176,418,863)
Loss before income taxes	(74,567,562)	(80,082,039)
Provision for (recovery of) income taxes	69,888,590	(8,993,181)
Net loss for the year	(144,456,152)	(71,088,858)

The accompanying notes are an integral part of the consolidated financial statements.

White Birch Paper Company

(Under Creditor Protection Proceedings as of February 24, 2010 – Notes 1 and 3)
Consolidated Statements of Changes in Stockholder's Equity (Deficiency) and
Comprehensive Income (Loss)
For the years ended December 31, 2009 and 2008

(expressed in US dollars)

	Common stock $	**Retained earnings (deficit)** $	**Accumulated other comprehensive income (loss)** $	**Total stockholder's equity (deficiency)** $
Balance – December 31, 2007	92,584,381	17,405,486	18,098,858	128,088,725
Comprehensive loss				
Net loss for the year		(71,088,858)	-	(71,088,858)
Translation adjustment		-	(27,999,367)	(27,999,367)
Change in funding status of employee future benefits, net of tax of $3,883,243		-	(18,818,650)	(18,818,650)
				(117,906,875)
Additional contributed capital	65,087,963	-	-	65,087,963
Distributions		(3,000,000)	-	(3,000,000)
Balance – December 31, 2008	157,672,344	(56,683,372)	(28,719,159)	72,269,813
Comprehensive income (loss)				
Net loss for the year		(144,456,152)	-	(144,456,152)
Translation adjustment		-	13,976,482	13,976,482
Change in funding status of employee future benefits, net of tax of $8,763,079		-	(27,482,003)	(27,482,003)
				(157,961,673)
Return of additional contributed capital	(53,324,652)	-	-	(53,324,652)
Distributions		(17,206,039)	-	(17,206,039)
Balance – December 31, 2009	104,347,692	(218,345,563)	(42,224,680)	(156,222,551)

The accompanying notes are an integral part of the consolidated financial statements.

White Birch Paper Company

(Under Creditor Protection Proceedings as of February 24, 2010 – Notes 1 and 3)

Consolidated Statements of Cash Flows

For the years ended December 31, 2009 and 2008

(expressed in US dollars)

	2009 $	2008 $
Cash flows		
Operating activities		
Net loss for the year	(144,456,152)	(71,088,858)
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and depletion	53,935,206	57,884,910
Amortization and writeoff of deferred financing costs	24,302,036	4,550,430
Unrealized loss (gain) on foreign currency translation	(77,425,027)	69,630,893
Net loss (gain) on derivative contracts	(16,771,649)	45,816,566
Deferred income taxes	46,703,360	(10,753,049)
Excess (shortfall) of benefit expense over funding	25,694,837	(1,285,758)
Impairment of goodwill	36,472,650	-
Valuation allowance on non-refundable investment tax credits	8,321,864	-
Gain on disposal of land and timberland	(1,850,286)	(15,196,506)
Other, net	1,375,292	1,686,350
Non-cash working capital items		
Decrease (increase) in accounts and notes receivable	44,102,867	(6,294,293)
(Increase) in due from companies under common control	(847)	(205,792)
Decrease (increase) in inventories	21,036,491	(16,473,128)
Decrease in prepaid income taxes	1,525,777	2,540,321
Decrease (increase) in other current assets	1,609,458	(1,538,683)
Increase (decrease) in accounts payable and accrued liabilities	12,035,749	(3,532,794)
(Decrease) in due to companies under common control	(426,863)	(760,807)
	36,184,763	54,979,802
Investing activities		
Investment in SP Newsprint Holding Co.	-	(25,000,000)
Purchase of property, plant and equipment	(8,924,510)	(11,486,737)
Proceeds from disposal of land and timberland	2,282,628	17,989,206
	(6,641,882)	(18,497,531)
Financing activities		
Bank overdraft	-	(5,765,046)
Distributions	(17,206,039)	(3,000,000)
Proceeds from borrowings	93,000,000	72,273,576
Payment of debt and capital leases	(67,534,129)	(142,919,967)
Payment of deferred financing costs	-	(450,000)
Additional (return of) contributed capital	(53,324,652)	65,087,963
	(45,064,820)	(14,773,474)
Net effect of foreign exchange on cash and cash equivalents	4,918,759	(393,983)
Net increase (decrease) in cash and cash equivalents during the year	(10,603,180)	21,314,814
Cash and cash equivalents – Beginning of year	42,749,792	21,434,978
Cash and cash equivalents – End of year	32,146,612	42,749,792
Supplemental disclosures of cash flow information		
During the year, cash paid for:		
Interest	22,442,628	45,822,156
Income taxes, net of refunds	(1,339,060)	(1,037,285)

The accompanying notes are an integral part of the consolidated financial statements.

(expressed in US dollars)

1 Organization, basis of presentation and going concern issues

Nature of operations

White Birch Paper Company is a Nova Scotia unlimited liability company involved primarily in the manufacture and sale of newsprint through its wholly owned subsidiaries, Bear Island Paper Company, L.L.C. ("Bear Island Paper"), F.F. Soucy, L.P. ("Soucy"), Papier Masson Ltd. ("Papier Masson") and Stadacona L.P. ("Stadacona"), collectively referred to as the "Company" or "White Birch".

Financial statements

These consolidated financial statements have been prepared in accordance with accounting principles generally accepted ("GAAP") in the United States of America. All amounts are presented in United States dollars, unless otherwise indicated.

Creditor Protection Proceedings

On February 24, 2010, the Company's indirect parent, White Birch Paper Holding Company ("WB Holding"), and certain of WB Holding's Canadian subsidiaries including the Company (together, the "CCAA Applicants") sought creditor protection under the Companies' Creditors Arrangement Act (the "CCAA") in the Quebec Superior Court of Justice (the "Canadian Court") in Montréal, Quebec, Canada (the "CCAA Proceedings"). On the same date, Bear Island Paper, a subsidiary of WB Holding and the Company, filed a voluntary petition in the United States Bankruptcy Court for the Eastern District of Virginia (the "US Court") for relief under Chapter 11 of the United States Bankruptcy Code (the "Chapter 11 Case"). Certain of the CCAA Applicants sought relief in the US Court under Chapter 15 of the United States Bankruptcy Code (the "Chapter 15 Cases") to obtain recognition and enforcement in the United States of certain relief granted in the CCAA Proceedings. The Chapter 11 Case, the Chapter 15 Cases and the CCAA Proceedings are collectively referred to as the "Creditor Protection Proceedings". For additional information, see note 3.

Basis of presentation and going concern issues

The Company's consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. However, the commencement of the Creditor Protection Proceedings, which arose subsequent to December 31, 2009 and which are discussed further in note 3, and the factors contributing to the Company's funding issues, as discussed in note 22, raise substantial doubt about the Company's ability to continue as a going concern.

(expressed in US dollars)

The Creditor Protection Proceedings and the Company's debtor-in-possession ("DIP") financing arrangement, as discussed in note 3, provide the Company with a period of time to stabilize its operations and financial condition, and develop a comprehensive restructuring plan. Management believes that these actions make the going concern basis of presentation appropriate. However, it is not possible to predict the outcome of these proceedings; and as such, the realization of assets and the discharge of liabilities are each subject to significant uncertainty. Furthermore, the Company's ability to continue as a going concern is dependent on market conditions and the Company's ability to successfully develop and implement a comprehensive restructuring plan and improve profitability, obtain alternative financing to replace the Company's DIP financing arrangement and restructure its obligations in a manner that allows the Company to obtain confirmation of a plan of reorganization by the US Court and the Canadian Court. However, it is not possible to predict whether the actions taken in the Company's restructuring will result in improvements to its financial condition sufficient to allow the Company to continue as a going concern. If the going concern basis is not appropriate, adjustments will be necessary to the carrying amounts and/or classification of the Company's assets and liabilities.

A comprehensive restructuring plan could materially change the carrying amounts and classifications reported in the Company's consolidated financial statements. The assets and liabilities in the Company's consolidated financial statements do not reflect any adjustments related to the Creditor Protection Proceedings which arose subsequent to December 31, 2009. In addition, the Company's consolidated financial statements do not purport to reflect or provide for the consequences of the Creditor Protection Proceedings, such as (i) the realizable value of the Company's assets on a liquidation basis or their availability to satisfy liabilities; (ii) the amounts of pre-petition liabilities that may be allowed for claims or contingencies or the status and priority thereof; (iii) the effect of any changes in stockholder's deficiency that may be made in the Company's capitalization; or (iv) the effect on the Company's consolidated statement of loss and consolidated balance sheet regarding any changes made to the Company's business resulting from its comprehensive restructuring plan.

For periods subsequent to the Creditor Protection Proceedings, the Company will apply the American Institute of Certified Public Accountants' Statement of Position 90-7 ("SOP 90-7"), "Financial Reporting by Entities in Reorganization Under the Bankruptcy Code", in preparing the consolidated financial statements. SOP 90-7 requires that the financial statements distinguish transactions and events that are directly associated with the reorganization from the ongoing operations of the business. Accordingly, certain revenues, expenses (including professional fees), realized gains and losses and provisions for losses that are realized or incurred in the Creditor Protection Proceedings will be recorded in reorganization items on the consolidated statement of loss. In addition, pre-petition obligations that may be impacted by the reorganization process will be classified on the consolidated balance sheet in liabilities subject to compromise. These liabilities will be reported at the amounts expected to be allowed by the US Court and the Canadian Court, even if they may be settled for lesser amounts.

(expressed in US dollars)

2 Summary of significant accounting policies

Basis of consolidation

The consolidated financial statements include the accounts of the Company and of all its majority-owned subsidiaries as well as variable interest entities for which the Company is the primary beneficiary. All significant intercompany accounts and transactions have been eliminated. Investments over which the Company exercises significant influence are accounted for using the equity method and portfolio investments are accounted for at cost.

Use of estimates

The preparation of financial statements in accordance with GAAP in the United States of America requires the use of estimates that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenue and expense items for the reporting period. The most critical estimates relate to estimates of reporting unit fair values in goodwill impairment testing, expected future cash flows used in long-lived asset impairment testing and, in the Company's assessment of the going concern assumption, pension and other post-retirement benefit obligations, and income taxes. Estimates are based on currently available information. Actual results could differ materially from those estimates.

Cash and cash equivalents

Cash and cash equivalents include all cash balances and highly liquid investments with original maturities of three months or less. Cash and cash equivalents are stated at cost, which approximates market value. For purposes of the consolidated statement of cash flows, the Company considers all highly liquid short-term investments purchased with an original maturity of three months or less to be cash equivalents.

Inventories

Finished goods and raw materials inventories are valued at the lower of cost and market value, with cost being determined on a first-in, first-out basis. Stores inventories are valued at the lower of average cost and replacement value, and are shown net of an allowance for obsolescence of approximately $1,810,678 as of December 31, 2009 (2008 – $1,213,269).

Investment tax credits

Investment tax credits are recorded using the cost reduction method whereby the credits are deducted from the cost of the related asset or expenditure when there is reasonable assurance that the investment tax credits will be realized. Where a valuation allowance has been recorded against prior years' investment tax credits, the Company applies the credits on a first-in, first-out basis against the qualifying expenditures. In the case of a recovery of pre-acquisition control investment tax credits, an income tax recovery will be recognized. In other cases, a recovery of prior years' investment tax credits will result in a reduction in the corresponding qualifying expenditures.

(expressed in US dollars)

Property, plant, equipment and timberland

Land, machinery and equipment are stated at cost net of depreciation, impairment, investment tax credits and government grants. Timberland is stated at cost net of accumulated depletion. The cost of major renewals and betterments to equipment is capitalized; the cost of maintenance and repairs is charged against income as incurred. When properties are sold or retired, their cost and the related accumulated depreciation or depletion are eliminated from the accounts and any gain or loss is reflected in income. The Company capitalizes interest costs as part of the cost of constructing significant assets. No interest costs were capitalized for the years ended December 31, 2009 and 2008.

Other long-term assets

As of December 31, 2009, other long-term assets consist mainly of capitalized computer software amounting to $1,686,931 (2008 – $1,796,083), long-term investments amounting to $537,469 (2008 – $459,338) and no investment tax credits receivable (2008 – $5,937,912).

Impairment of long-lived assets other than goodwill

The unit of accounting for impairment testing for long-lived assets is its group, which includes property, plant and equipment, amortizable intangible assets and liabilities directly related to those assets, such as capital leases and asset retirement obligations (herein defined as “asset group”). For asset groups to be held and used, that group represents the lowest level for which identifiable cash flows are largely independent of the cash flows of other asset groups. For asset groups to be disposed of by sale or otherwise, that group represents assets to be disposed of together as a group in a single transaction and liabilities directly associated with those assets that will be transferred in the transaction.

Long-lived assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value of an asset group may no longer be recoverable. The recoverability of an asset group to be held and used is tested by comparing the carrying value of the asset group to the sum of the estimated undiscounted future cash flows expected to be generated by that asset group. In estimating the undiscounted future cash flows, the Company uses projections of cash flows directly associated with, and which are expected to arise as a direct result of, the use and eventual disposition of the asset group. The principal assumptions include periods of operation, projections of product pricing, production levels and sales volumes, product costs, market supply and demand, foreign exchange rates, inflation and projected capital spending. Changes in any of these estimates could have a material effect on the estimated undiscounted future cash flows expected to be generated by the asset group. If it is determined that an asset group is not recoverable, an impairment loss is calculated equal to the excess of the carrying value of the asset group over its fair value. In making its determination of the fair value of a long-lived asset group, the Company relies primarily on the discounted cash flow method.

(expressed in US dollars)

Goodwill

Goodwill represents the excess of the purchase price of businesses acquired over the fair value of the underlying net identifiable assets acquired or liabilities assumed. Goodwill is evaluated for impairment annually or when events or changed circumstances indicate impairment may have occurred. In connection with the goodwill impairment test, if the carrying value of the Company's reporting unit to which goodwill relates exceeds its estimated fair value, the goodwill related to that reporting unit is tested for impairment. If the carrying value of such goodwill is determined to be in excess of its fair value, an impairment loss is recognized in the amount of the excess of the carrying value over the fair value.

Depreciation and depletion

Depreciation of property, plant and equipment is computed principally on a straight-line basis over the estimated useful lives of the assets. Lives range from 10 to 50 years for buildings and improvements, 40 years for recycling facilities, 35 years for tanks, 30 years for specialized building improvements, 25 years for newsprint manufacturing equipment, and from 3 to 50 years for other machinery and equipment. The portion of the cost of timberland attributed to standing timber is charged against income as timber is cut and used in the manufacturing process at rates determined annually, based on the relationship of unamortized timber costs to the estimated volume of recoverable timber.

Asset retirement obligations

Asset retirement obligations are recognized at fair value in the period in which the Company incurs a legal or contractual obligation associated with the retirement of an asset. The associated costs are capitalized as part of the carrying value of the related asset and depreciated over its remaining useful life. The liability is accreted using a credit-adjusted risk-free interest rate.

Deferred financing costs

Costs directly associated with the issuance of debt have been deferred and were being amortized over the life of the related debt on a straight-line basis, which approximates the effective interest method. During 2009, these costs were written off.

Income taxes

The Company is a Nova Scotia unlimited liability company ("NSULC"), a corporation for Canadian tax purposes. The NSULC files income tax returns under the Canadian federal and Quebec provincial income tax acts for its net income for tax purposes as well as for its allocation of the net income for tax purposes of Soucy and Stadacona. Papier Masson files income tax returns under the Canadian federal and Quebec provincial income tax acts.

The Company files a US federal income tax return under the provisions of Subchapter S of the Internal Revenue Code. Under this election, the income or loss of the Company is included with those of its stockholder for federal income tax reporting purposes.

(expressed in US dollars)

Deferred income taxes result primarily from losses carried forward and other temporary differences between financial and tax reporting. Deferred tax assets and liabilities are determined based on the difference between the financial statement bases and tax bases of assets and liabilities using enacted tax rates expected to be recovered or settled. The Company establishes a valuation allowance against deferred income tax assets if, based on available information, it is more likely than not that some or all of the deferred income tax assets will not be realized.

On January 1, 2009, the Company adopted the requirements of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("Codification") related to accounting for uncertainty in income taxes. These requirements prescribe a comprehensive model for how a company should recognize, measure, present and disclose in its financial statements uncertain tax positions that it has taken or expects to take on a tax return. This requires that a company recognize in its financial statements the impact of tax positions that meet a "more likely than not" threshold, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position should be measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement. These requirements also provide that a tax position can be effectively settled upon the completion of an examination by a taxing authority without being legally extinguished.

For tax positions considered effectively settled, an entity would recognize the full amount of tax benefit even if the tax position is not considered more likely than not to be sustained based solely on the basis of its technical merits and the statute of limitations remains open. See note 21 for the impact of these requirements on the consolidated financial statements and for the required disclosures in accordance with the Codification.

Common stock

The Company is authorized to issue 100,000,000 shares of no par value common stock, of which 33,232,806 shares have been issued and are outstanding as of December 31, 2009. The Company is also authorized to issue 100,000,000 shares of Class A and Class B preferred stock of no par value. No shares of Class A or Class B preferred stock have been issued or are outstanding as of December 31, 2009.

During 2009, the Company repaid $53,324,652 to the stockholder for additional capital that was contributed in 2008.

During 2008, the stockholder subscribed for 6,508,796 shares of common stock in the capital of the Company for a subscription price of $10 per share, as an equity cure (see note 9).

(expressed in US dollars)

Employee future benefits

The Company maintains defined benefit pension plans for its salaried employees at the Stadacona, Papier Masson and Soucy mills which are funded and contributory. The projected benefit method pro-rated on services has been used to determine the accrued benefit obligation and current service cost. The expected return on plan assets is based on the fair value of plan assets. The Company has elected to amortize past service costs resulting from plan amendments on a linear basis over the average remaining service period of active members expected to receive benefits under the plan ("EARSL"). Cumulative gains and losses in excess of 10% of the greater of the accrued benefit obligation and the market-related value of plan assets are amortized over the average remaining service period of active members expected to receive benefits under the plan. Obligations are attributed to the period beginning on the employee's date of joining the plan and ending on the earlier of the date of termination, death or retirement.

The Company also maintains other post-retirement benefit plans at the Stadacona, Papier Masson and Soucy mills, which consist of retiree life insurance, group health care and special termination benefits. The Company has elected to amortize gains and losses on a linear basis over EARSL. As a minimum, cumulative gains and losses in excess of 10% of the greater of the accrued benefit obligation and the market-related value of plan assets are amortized over the average remaining service period of active members expected to receive benefits under the plans.

In accordance with FASB Statement No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans", the Company recognizes an asset or a liability for pension and other post-retirement projected benefit obligations net of the fair value of plan assets. An asset is recognized for a plan's over-funded status, and a liability is recognized for a plan's under-funded status. Changes in the funding status that have not been recognized in the Company's net periodic benefit costs are reflected as an adjustment in "Accumulated other comprehensive loss" in the consolidated balance sheet.

Accumulated other comprehensive income (loss)

Accumulated other comprehensive income (loss), which is included in the consolidated statements of changes in stockholder's equity (deficiency) and comprehensive income (loss), includes foreign currency translation adjustments and unamortized prior service costs and unamortized net actuarial loss related to the Company's employee future benefit plans.

Revenue recognition

The Company's revenues are essentially derived from sales of goods. Such revenues are recognized at the time title and risk of loss transfer to the customer, which in most instances occurs at the point of shipment.

Sales are recognized and reported net of allowances and rebates once all of the following criteria are met: persuasive evidence of an arrangement exists, delivery has occurred and there are no remaining obligations, prices are fixed or determinable, and collectability is reasonably assured.

(expressed in US dollars)

Accounts receivable and allowance for doubtful accounts

Trade accounts receivable are recorded at the invoiced amount and do not bear interest. The Company provides an allowance for doubtful accounts using its best estimate of the amount of probable credit losses in its existing accounts receivable. Account balances are written off against the allowance when it is probable the receivable will not be recovered. The Company does not have any off-balance sheet credit exposure related to its customers.

Shipping and handling

Shipping and handling costs of approximately $63,692,482 for the year ended December 31, 2009 (2008 – $70,798,351) are recorded in cost of sales in the consolidated statement of loss.

Financial derivative instruments

The Company records all derivative instruments, forward exchange contracts and interest rate swaps on the consolidated balance sheet as assets or liabilities, measured at fair market value. Derivatives are adjusted to fair value through income and are immediately recognized in income because the Company has not elected to apply hedge accounting treatment under FASB ASC 815, "Accounting for Derivative Instruments and Hedging Activities".

Foreign currency translation

The Company's functional currency and that of its subsidiaries Stadacona, Papier Masson and Soucy is the Canadian dollar. The functional currency of Bear Island Paper is the US dollar. The Company presents its financial statements in US dollars; and accordingly, the assets and liabilities of its Canadian subsidiaries are translated into US dollars at year-end exchange rates, and income and expense items are translated at average monthly exchange rates. Net exchange gains or losses resulting from such translation are excluded from net income and accumulated as a separate component of "Accumulated other comprehensive income (loss)". Gains and losses from transactions denominated in currencies other than the relevant functional currency are included in net loss.

Fair value measurements

Effective January 1, 2008, the Company adopted the guidance for financial assets and financial liabilities recognized at fair value on a recurring basis. This had no material impact on the Company's consolidated financial position or results of operations, except for required disclosures about fair value measurements. The Company adopted the guidance for non-financial assets and non-financial liabilities not valued on a recurring basis (at least annually) effective January 1, 2009, with no material impact on its consolidated financial position or results of operations and disclosures.

(expressed in US dollars)

Fair value accounting guidance establishes a framework for measuring fair value and expands disclosure about fair value measurements. The guidance is intended to enable the reader of the financial statements to assess the inputs used to develop those measurements by establishing the hierarchy for ranking the quality and reliability of the information used to determine fair values. The fair value hierarchy consists of three broad levels described below:

Level 1: Quoted market prices in active markets for identical assets and liabilities.

Level 2: Inputs other than quoted market prices that are observable either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; and inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3: Inputs that are both significant to the fair value measurement and unobservable.

Changes in accounting policies in 2009

Business combinations

On January 1, 2009, the Company adopted FASB SFAS No. 141R, "Business Combinations", which retains the fundamental requirements in SFAS No. 141, "Business Combinations", that the acquisition method of accounting be used for all business combinations and for an acquirer to be identified for each business combination. FASB ASC 805, "Business Combinations", makes a number of changes to how the acquisition method is applied, such as measuring the assets acquired, the liabilities assumed and any non-controlling interest at their fair values; recognizing assets acquired and liabilities assumed arising from contingencies; recognizing contingent consideration at the acquisition date, measured at its fair value; and recognizing a gain in the event of a bargain purchase (i.e., negative goodwill). SFAS No. 141R will be applied prospectively for future business combinations.

Employer's disclosures about post-retirement benefit plan assets

In December 2008, the FASB issued enhanced accounting guidance for an employer's disclosures about the plan assets of a defined benefit pension or other post-retirement plan. This guidance revises disclosure requirements on pension and post-retirement plan assets. The disclosures about plan assets required by this guidance are effective for fiscal years ending after December 15, 2009. The additional information required is disclosed in note 16.

(expressed in US dollars)

Subsequent events

In May 2009, the FASB issued accounting guidance that requires disclosure of the date through which an entity has evaluated subsequent events and whether that represents the date the financial statements were issued or were available to be issued. Specifically, these changes set forth the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements, and the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. The adoption of these changes had no impact on the Company's consolidated financial statements as management already followed a similar approach prior to the adoption of this new guidance. The additional information required is disclosed in note 23.

FASB Accounting Standards Codification

On September 30, 2009, the Company adopted the Codification, which defines the new hierarchy for US GAAP and is now the single source for all authoritative US GAAP recognized by the FASB to be applied for financial statements issued for periods ending after September 15, 2009. Since the Codification relates to disclosures only, the adoption of this accounting guidance did not impact the Company's results of operations or financial position. However, because the Codification completely replaced existing standards, it affects the way US GAAP is referenced within the consolidated financial statements. The FASB has subsequently issued numerous Accounting Standards Updates to amend various topics in the Codification for text revisions and technical corrections, none of which impacted the Company's results of operations or financial position.

Accounting policy issued but not yet implemented

New accounting guidance

In April 2008, the FASB issued new accounting guidance which nullifies certain requirements regarding changes in accounting principles that will be applicable to the financial statements of an entity emerging from bankruptcy. Any changes in accounting principles required within the 12 months following the implementation of fresh start accounting by such an entity are no longer required to be adopted at the time fresh start accounting is implemented. Entities emerging from bankruptcy that implement fresh start accounting should only follow accounting standards in effect at the date fresh start accounting is implemented, including any standards eligible for early adoption. The Company will assess the impact of the application of this new guidance when, and if, fresh start accounting is required upon resolution of its Creditor Protection Proceedings.

(expressed in US dollars)

3 Creditor Protection Proceedings

As discussed in note 1, "Organization and basis of presentation – Creditor Protection Proceedings", the Company commenced Creditor Protection Proceedings on February 24, 2010. The Company initiated the Creditor Protection Proceedings in order to enable it to pursue reorganization efforts under the protection of Chapter 11 and the CCAA. The Creditor Protection Proceedings will allow it to reassess its business strategy with a view to developing a comprehensive financial and business restructuring plan. The Company remains in possession of its assets and properties and will continue to operate its business and manage its properties as "debtor in possession" under the jurisdiction of the US Court and the Canadian Court and in accordance with the applicable provisions of Chapter 11 and the CCAA. In general, the Company and its subsidiaries are authorized to continue to operate as ongoing businesses, but may not engage in transactions outside the ordinary course of business without the approval of the relevant court(s).

The commencement of the Creditor Protection Proceedings constituted an event of default under substantially all of the Company's debt obligations, and those debt obligations became automatically and immediately due and payable, although any actions to enforce such payment obligations are stayed as a result of the commencement of the Creditor Protection Proceedings.

DIP Loan overview

On March 1, 2010, the Company entered into an agreement to secure additional post-petition financing. The new facility is a Senior Secured Super-Priority Debtor-in-Possession Term Loan Credit Agreement ("DIP Loan") between the Company and a syndicate of lenders with Credit Suisse AG, Toronto Branch as Administrative Agent, Canadian Collateral Agent and Lead Arranger and Black Diamond Commercial Finance, LLC as Syndication Agent and Lead Arranger. The credit facility allows the Company to borrow up to $140 million less reserves of approximately $18 million, for a net availability of $122 million. Proceeds of the DIP Loan were used to repay the existing Second Amended and Restated Revolving Credit Agreement, cash collateralize outstanding letters of credit and provide operating capital to the Company. The Second Amended and Restated First Lien Term Loan Credit Agreement and the Second Amended and Restated Second Lien Term Loan Credit Agreement remain outstanding as pre-petition obligations.

Maturity of the DIP Loan

The DIP Loan matures December 1, 2010, but is subject to an earlier maturity date under certain circumstances. The December 1, 2010 maturity date may be extended by three calendar months with the approval of the Administrative Agent, the Syndication Agent and the majority lenders.

Rate of interest

The DIP Loan will bear interest, at the Company's option, at either a rate tied to (i) LIBOR or (ii) the prime rate or the federal funds rate (the "base rate"), in each case plus a specified margin. The applicable margin for base rate loans is 9.0%, with a base rate floor of 3.0%. The applicable margin for LIBOR loans is 10.0%, with a LIBOR floor of 2.0%.

(expressed in US dollars)

Guarantees/Collateral

The obligations under the DIP Loan are guaranteed by WB Holding, the Company, and the following subsidiaries: Stadacona General Partner Inc., 3120772 Nova Scotia Company, Stadacona L.P., Bear Island Paper Company, L.L.C. and Papier Masson Ltd. The DIP Loan is secured by all or substantially all of their assets.

Fees

The Company has agreed to pay fees which include (i) an Arranger Fee equal to 2.5% of the DIP commitment, for the benefit of the Lead Arrangers; (ii) an Initial Fee equal to 2.5% of the DIP commitment, for the benefit of the post-petition lenders; and (iii) a Prepayment Fee of 4.0% of the DIP commitment, for the benefit of the post-petition lenders, to be paid upon the earlier of the maturity date (as it may be extended) and the reduction, in whole or in part, of the DIP commitment. The Prepayment Fee will be waived if the DIP Loan is paid in full in cash simultaneously with either (i) the closing of a sale of all or substantially all the assets of the Company or (ii) the consummation of a plan of reorganization under applicable US and Canadian law.

Covenants

The DIP Loan contains covenants which include (i) requirements to deliver financial statements, certificates and other information; (ii) restrictions on the incurrence and repayment of indebtedness; (iii) restrictions on the incurrence of liens; (iv) restrictions on making certain payments; (v) restrictions on investments and capital expenditures; (vi) restrictions on dispositions of property; and (vii) restrictions on modifications of debt instruments. In addition, the DIP Loan contains the following financial covenants: (i) minimum EBITDA and (ii) minimum liquidity.

Reorganization process

The US Court and the Canadian Court have issued a variety of orders intended to support the Company's business continuity throughout the restructuring process. These orders include, among other things, authorization to (i) make payments relating to certain employees' pre-petition wages, salaries and benefit programs in the ordinary course; (ii) ensure the continuation of existing cash management systems; (iii) honor certain ongoing customer obligations; and (iv) enter into the DIP credit agreement. The Company has retained legal and financial professionals to advise it on the Creditor Protection Proceedings.

Subject to certain exceptions under Chapter 11 and the CCAA, the Company's filings automatically enjoined, or stayed, the continuation of any judicial or administrative proceedings or other actions against the Company or its property to recover, collect or secure a claim arising prior to the filing of the Creditor Protection Proceedings. Thus, for example, most creditor actions to obtain property from the Company, or to create, perfect or enforce any lien against the Company's property, or to collect on monies owed or otherwise exercise rights or remedies with respect to a pre-petition claim, are enjoined unless and until the courts lift such stay.

(expressed in US dollars)

As required under Chapter 11, the United States Trustee for the Eastern District of Virginia appointed an official committee of unsecured creditors (the "Creditors Committee") in the Chapter 11 Case. The Creditors Committee and its legal representatives have a right to be heard on matters that come before the US Court with respect to the Company. Under the terms of a Canadian Court order, Ernst & Young Inc. will serve as the court-appointed monitor (the "Monitor") under the CCAA Proceedings and will assist the Company in formulating its restructuring plan.

Under Chapter 11, the Company may assume, assume and assign, or reject certain executory contracts and unexpired leases, including leases of real property and equipment, subject to the approval of the US Court and certain other conditions. Any description of an executory contract or unexpired lease in these notes to the Company's consolidated financial statements, including, where applicable, the Company's express termination rights or a quantification of the Company's obligations, must be read in conjunction with, and is qualified by, any overriding repudiation rights the Company has under Chapter 11.

Pursuant to an order issued by the Canadian Court, the Company has the right to, among other things, repudiate agreements, contracts or arrangements of any nature whatsoever, whether oral or written, subject to the approval of the Monitor or further order of the Canadian Court. Any description of an agreement, contract or arrangement in these notes to the Company's consolidated financial statements must be read in conjunction with, and is qualified by, overriding rights, including the above-mentioned repudiation rights, the Company has under the CCAA.

In order to successfully exit Chapter 11 and the CCAA, the Company will need to propose and obtain approval by affected creditors and confirmation by the US Court and the Canadian Court of a plan of reorganization that satisfies the requirements of Chapter 11 and the CCAA. A plan of reorganization would resolve the Company's pre-petition obligations, set forth the revised capital structure of the newly reorganized entity and provide for corporate governance subsequent to the Company's exit from Chapter 11 and the CCAA.

In addition to being voted on by holders of impaired claims and equity interests, a plan of reorganization must satisfy certain requirements of Chapter 11 and the CCAA, and must be approved or confirmed by the US Court and the Canadian Court, respectively, in order to become effective.

The timing of filing a plan of reorganization by the Company will depend on the timing and outcome of numerous other ongoing matters in the Creditor Protection Proceedings. There can be no assurance at this time that a plan of reorganization will be supported and approved by affected creditors and confirmed by the US Court and the Canadian Court or that any such plan will be implemented successfully.

Under the priority scheme established by Chapter 11 and the CCAA, unless creditors agree otherwise, pre-petition liabilities and post-petition liabilities must be satisfied in full before the stockholder is entitled to receive any distribution or retain any property under a plan of reorganization. The ultimate recovery to creditors and/or the stockholder, if any, will not be determined until confirmation of a plan or plans of reorganization. No assurance can be given at this time as to what values, if any, will be ascribed to each of these constituencies or what types or amounts of distributions, if any, they would receive.

(expressed in US dollars)

4 Inventories

Inventories, net of allowance for obsolescence, consist of:

	2009 $	2008 $
Raw materials	21,628,768	27,141,497
Stores, net	32,553,661	30,506,212
Finished goods	20,019,463	27,964,739
	74,201,892	85,612,448

5 Other current assets

Other current assets consist of:

	2009 $	2008 $
Refundable investment tax credits	704,347	3,208,884
Prepaid expenses	2,671,634	2,845,092
Other	1,000	100,883
	3,376,981	6,154,859

6 Property, plant and equipment and timberland

Property, plant and equipment consist of the following:

			2009
	Cost $	Accumulated depreciation $	Net $
Land and building	139,952,633	56,615,396	83,337,237
Machinery and equipment	1,006,549,102	582,402,249	424,146,853
Construction in progress	1,732,014	-	1,732,014
	1,148,233,749	639,017,645	509,216,104

(expressed in US dollars)

			2008
	Cost $	**Accumulated depreciation** $	**Net** $
Land and building	124,605,730	46,788,357	77,817,373
Machinery and equipment	881,541,123	469,835,018	411,706,105
Construction in progress	3,202,973	-	3,202,973
	1,009,349,826	516,623,375	492,726,451

As of December 31, 2009, machinery and equipment include assets under capital leases with a cost of $21,678,415 (2008 – $18,944,542) and accumulated depreciation of $12,207,048 (2008 – $9,467,230).

Timberland consists of the following:

			2009
	Cost $	**Accumulated depletion** $	**Net** $
Timberland (note 19)	1,397,596	190,392	1,207,204

			2008
	Cost $	**Accumulated depletion** $	**Net** $
Timberland (note 19)	1,579,746	145,187	1,434,559

As a result of a dispute, one of the Company's suppliers has registered a lien against one of the Company's buildings for a total amount of $1,396,604 (2008 – $1,193,581), representing the total amount due to that supplier. This amount has been fully provided for in the consolidated financial statements for the years ended December 31, 2009 and 2008.

(expressed in US dollars)

7 Goodwill

The Company performed an impairment test as of December 31, 2009. Testing for impairment is accomplished by determining whether the fair value of a reporting unit exceeds the book value of the net assets of that reporting unit as at the assessment date. The Company tests its goodwill for impairment using a two-step methodology. This methodology contains estimates and judgments that are subjective and uncertain, and thus may change over time. The Company conducts the initial step of the goodwill impairment test, consisting of the determination of fair value, by relying on the discounted cash flow method. Key assumptions include estimated useful lives of the long-lived assets, projections of trend price, foreign exchange rates, market supply and demand, and weighted average cost of capital. The assumptions used in the calculation models are interrelated.

The second step is performed only when the book value exceeds the fair value. When the Company initiated its step-one analysis, it was determined that a comprehensive step-two analysis of goodwill would be required. The Company is in the process of completing this comprehensive assessment, including a detailed calculation of the estimated fair values of recorded and unrecorded intangible assets.

Based on the preliminary assessment of the estimated fair value of the net assets of the operations under review, management believes that as of December 31, 2009, the fair value of goodwill is nil. Accordingly, as required by FASB ASC 350, "Intangibles – Goodwill and Other", in anticipation of completing the comprehensive step-two analysis of goodwill, the Company has recorded a preliminary goodwill impairment charge of $36,472,650. The final impairment calculation is expected to be completed in fiscal 2010, and the resulting final adjustments, if any, would result in a non-cash adjustment to the consolidated statement of income (loss).

(expressed in US dollars)

8 Accounts payable and accrued liabilities

Subject to certain exceptions under Chapter 11 and the CCAA, the Company's filings (and in Canada, the Initial Order) automatically enjoined, or stayed, the continuation of any judicial or administrative proceedings or other actions against the Company or the Company's property to recover, collect or secure a claim arising prior to the filing of the Creditor Protection Proceedings. Thus, most creditor actions to collect on monies owed or otherwise exercise rights or remedies with respect to a pre-petition claim are enjoined unless and until the courts lift such stay.

Accounts payable and accrued liabilities consist of the following amounts:

	2009 **$**	**2008** **$**
Trade accounts payable	24,567,980	23,843,962
Accrued interest	21,954,931	119,983
Accrued electricity usage	10,021,834	10,781,973
Accrued vacation	7,401,521	7,433,525
Accrued payroll	376,044	415,248
Other accrued liabilities	18,327,524	18,278,237
	82,649,834	60,872,928

9 Long-term debt

The Company failed to make interest payments that were due on the First Lien Senior Secured Term Loan Facility and the Second Lien Senior Secured Term Loan Facility on September 30, 2009. In addition, the Company was not in compliance with the terms of the credit agreements governing its Revolving Credit Facility, First Lien Senior Secured Term Loan Facility and Second Lien Senior Secured Term Loan Facility, and its interest rate swap agreements as of December 31, 2009. Since September 30, 2009 and through February 26, 2010, the Company has had forbearance agreements in place with respect to each of the Revolving Credit Facility, the First Lien Senior Secured Term Loan Facility and the counterparties to its swap agreements. The forbearance agreements, which were the subject of several extensions, each had a final expiration date of February 26, 2010.

The Company was in full compliance with its debt covenants as of December 31, 2008.

The commencement of the Creditor Protection Proceedings constituted an event of default under the Revolving Credit Facility, the First Lien Senior Secured Term Loan Facility, the Second Lien Senior Secured Term Loan Facility and the Company's interest rate swap agreements. Those obligations became automatically and immediately due and payable, although any actions to enforce such payment obligations are stayed as a result of the commencement of the Creditor Protection Proceedings. In addition, the Company's debt obligations are subject to change pursuant to a reorganization plan in connection with the Creditor Protection Proceedings.

(expressed in US dollars)

The following information relates to the Company's debt obligation prior to the commencement of the Creditor Protection Proceedings.

Long-term debt outstanding as of December 31 consists of the following:

	2009 $	2008 $
First Lien Senior Secured Term Loan Facility, bearing interest at LIBOR plus 2.75% (2008 – 4.21%); amortized 1% annually in quarterly installments of $1,125,000, with the balance due on May 8, 2014	428,293,961	443,250,000
Second Lien Senior Secured Term Loan Facility, bearing interest at LIBOR plus 4.80% (2008 – 6.26%); with the balance due on November 8, 2014	100,000,000	100,000,000
Revolving Credit Facility ($47,897,064 available (note 11); 2008 – $100,000,000), bearing interest at LIBOR plus 2.00% (2008 – 3.48%); expires on February 25, 2013 (repaid in March 2010 (note 3))	41,000,000	-
	569,293,961	543,250,000
Less: Current portion	569,293,961	4,500,000
	-	538,750,000

The facilities are redeemable, together with accrued interest, at the redemption prices set forth below:

Period	First Lien Senior Secured Term Loan redemption price	Second Lien Senior Secured Term Loan redemption price
May 8, 2008 to maturity	100%	100%

The First Lien Senior Secured Term Loan Facility is collateralized by a first priority security interest in substantially all of the assets of the Company, other than assets that are pledged under the Revolving Credit Facility. The Second Lien Senior Secured Term Loan Facility is collateralized by a second priority security interest in substantially all of the assets of the Company, other than assets that are pledged under the Revolving Credit Facility. The Revolving Credit Facility is collateralized by a first priority security interest in the Company's cash and cash equivalents, accounts receivable and inventories.

As a result of the commencement of the Creditor Protection Proceedings, the expected cash outlays for the Company's debt obligations are expected to change, and the Company is currently not able to determine the amounts and timing of those obligations.

(expressed in US dollars)

Accordingly, as of December 31, 2009, the approximate maturities of the Term Loans for the next five years and thereafter, commencing after 2009, based upon the original payment terms specified in the underlying credit agreements, are as follows:

		$
Years ending December 31,	2010	-
	2011	-
	2012	3,043,961
	2013	4,500,000
	2014 and thereafter	520,750,000

Mandatory offers to prepay debt may be required under certain conditions, including when "excess cash flow", as defined, exists. A mandatory prepayment of debt under the First Lien Senior Secured Term Loan Facility in the amount of $14,956,039 was made in 2009 due to the existence of excess cash flow with respect to the 2008 calendar year.

As of December 31, 2009, it is not practicable for the Company to estimate the fair value of its First Lien Senior Secured Term Loan Facility, Second Lien Senior Secured Term Loan Facility, Revolving Credit Facility and obligations under swap agreements. Normally the fair value of these debt instruments would be measured based on quoted market prices or by discounting the cash flows using current interest rates. However, given the Company's financial condition, the forbearance agreements entered into during the year, the Creditor Protection Proceedings which commenced on February 24, 2010, and the ongoing discussions with creditors with respect to the restructuring of these debt instruments, the value of these financial obligations is not determinable.

In the first and second quarters of 2008, the Company's stockholder contributed $48,428,965 of Junior Capital to the Company, representing the estimated incremental EBITDA required to meet the interest coverage ratio as of December 31, 2007. The Company's stockholder contributed $16,658,998 of Junior Capital to the Company in the second quarter of 2008, representing the incremental EBITDA required to meet the interest coverage ratio requirement as of March 31, 2008. In April 2009, as contemplated by the terms of the credit facilities, $53,324,652 of the previously contributed Junior Capital was distributed to the Company's stockholder as a result of the Company having been in compliance with the interest coverage ratio covenant as of December 31, 2008 and March 31, 2009.

(expressed in US dollars)

10 Long-term obligations under capital and operating leases

The Company has entered into various capital leasing arrangements for machinery and equipment purchases. Future minimum lease payments under capital leases are as follows:

		$
Years ending December 31,	2010	968,106
	2011	847,184
Total minimum payments		1,815,290
Less: Amounts representing interest		89,866
		1,725,424
Less: Current portion		1,725,424
Long-term obligations under capital leases		-

The Company has also entered into various operating lease arrangements for equipment. Future minimum lease commitments under operating leases are as follows:

		$
Years ending December 31,	2010	418,194
	2011	288,103
	2012	115,714
	2013 and thereafter	50,256
Commitments under operating leases		872,267

Rent expense for the year totalled $786,660 (2008 – $556,935).

11 Letters of credit

The Company has issued several letters of credit to satisfy security requests under various operating agreements and pension obligations. The Company has $11,102,936 (2008 – $9,176,533) outstanding under the letters of credit as of December 31, 2009. These letters of credit reduce the borrowing availability under the Revolving Credit Facility.

The forbearance agreement in place with respect to the Revolving Credit Facility did not place a further restriction on the issuance of letters of credit under the Revolving Credit Facility.

(expressed in US dollars)

12 Fair value measurements

FASB Guidance defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The following table summarizes the financial liabilities the Company measured at fair value on a recurring basis on December 31, all of which are classified as Level 2 measurements:

	2009 $	**2008** $
Financial liabilities		
Forward exchange contracts[1]	-	1,393,414
Interest rate swaps[2]	-	62,818,509
	-	64,211,923

(1) Based primarily on the forward rates of the specific indices upon which the contract settlement is based.
(2) Based primarily on the LIBOR index.

For pension plan assets, refer to note 16.

13 Investment in affiliate

On March 31, 2008, the Company made a $25 million investment for 17.8% of SP Newsprint Holding Co., the parent of SP Newsprint Co., LLC. The investment is carried on the consolidated balance sheet at the cost of acquisition.

14 Related party transactions

The Company entered into a Management and Administrative Services Agreement with Brant Industries, Inc., an affiliate wholly owned by one of the ultimate owners of the Company, whereby Brant Industries performs substantially all of the Company's selling and corporate administrative functions. Pursuant to the terms of this agreement, the Company is to pay a total of 3.0% of gross sales and gain on timberland sales in 2009 for various administrative and sales-related services. The total amount paid by the Company in 2009 pursuant to this agreement was $20,008,331 (2008 – $27,288,862), which is included in selling, general and administrative expenses in these consolidated financial statements.

(expressed in US dollars)

The Company's credit facilities mandate limitations on the amount of permitted dividends. Monthly dividends of up to $250,000 and dividends to cover tax liabilities are allowed but may be limited by certain debt covenants. Additional dividends may be paid at the end of each year based on excess cash flows and debt ratios specified in the loan agreements. In 2009, the Company paid dividends of $17,206,039 (2008 – $3,000,000).

The Company and companies under common control periodically pay certain expenses on each other's behalf. These arrangements result in amounts due to and from companies under common control.

15 Supply agreements

The Company has entered into a number of agreements for the supply of wood fibre, old newspapers and magazines, and steam. The duration of these agreements varies between one and five years. The Company is in the process of reviewing its supply agreements in connection with the Creditor Protection Proceedings in order to determine which agreements, if any, will be assumed in the Creditor Protection Proceedings and which agreements will be rejected. As a result, the expected cash outlays for the Company's contractual obligations and the impact on the Company's cash flow and liquidity in future periods are expected to change and the Company is currently not able to determine the amounts and timing of those obligations. Accordingly, the estimated minimum future payments, based on current prices which are renewable annually and based on the original payment terms specified in the underlying agreements, for the next five years are as follows:

	Wood fibre $	Old newspapers and magazines $	Steam $
2010	83,017,129	6,257,460	9,555,000
2011	77,796,946	4,930,380	9,746,100
2012	66,737,033	1,461,915	9,941,022
2013	43,217,735	1,461,915	10,139,842
2014	24,876,347	1,461,915	10,342,640

16 Pension and other benefit plans

The Company maintains defined contribution and defined benefit pension and retirement plans for substantially all of its employees.

Defined contribution plans

The annual cost of the Company's contributions to the defined contribution plans is based on the compensation of participants. The Company's expense with respect to these plans for 2009 was $632,084 (2008 – $1,140,274).

(expressed in US dollars)

Defined benefit plans

Benefits under the Company's defined benefit plans are based on employees' career average earnings. The funding policy is to contribute amounts not exceeding those that may be deducted for income tax purposes. Contributions are intended to provide not only for benefits attributed to service to date but also for benefits expected to be earned in the future. The net pension costs and the obligation related to the defined benefit plans are actuarially determined using management's most probable assumptions.

Other post-retirement benefit plans

The Company provides other post-retirement benefit plans consisting of group health care and life insurance benefits to eligible retired employees and their dependents. Other benefit costs and the obligation related to the other post-retirement benefit plans are actuarially determined using management's most probable assumptions.

Significant actuarial assumptions

Summary of key assumptions as of and for the years ended December 31:

	Pension plans	
	2009 %	**2008** %
Benefit costs for the year		
Discount rate	7.45	5.61
Rate of compensation increase	2.99	3.45
Expected rate of return on plan assets	7.39	7.40
Accrued benefit obligation as of December 31		
Discount rate	6.48	7.45
Rate of compensation increase	2.98	2.98

(expressed in US dollars)

Benefit plans

Information about the pension and other post-retirement benefit plans in aggregate for the year ended December 31, 2009 is as follows:

			2009
	Pension plans $	**Other post-retirement benefit plans $**	**Total $**
Change in benefit obligation			
Projected benefit obligation – December 31, 2008	419,048,000	5,097,217	424,145,217
Service cost	3,393,000	21,893	3,414,893
Interest cost	32,764,000	380,930	33,144,930
Benefit payments	(29,271,000)	(567,454)	(29,838,454)
Actuarial losses	53,587,000	469,375	54,056,375
Employees' contributions	4,598,000	-	4,598,000
Foreign exchange rate changes	77,180,000	1,201,881	78,381,881
Benefit obligation – December 31, 2009	561,299,000	6,603,842	567,902,842
Reconciliation of fair value of plan assets			
Projected fair value of plan assets – December 31, 2008	313,681,621	-	313,681,621
Actual return on plan assets	44,399,000	-	44,399,000
Employer's contributions	21,380,000	567,454	21,947,454
Employees' contributions	4,598,000	-	4,598,000
Benefit payments	(29,271,000)	(567,454)	(29,838,454)
Actual plan expenses	(1,530,000)	-	(1,530,000)
Foreign exchange rate changes	57,357,000	-	57,357,000
Fair value of plan assets – December 31, 2009	410,614,621	-	410,614,621
Funded status net liability – December 31, 2009	(150,684,379)	(6,603,842)	(157,288,221)
Components of net periodic pension cost recognized			
Service cost	3,789,000	21,893	3,810,893
Interest cost	32,765,000	380,930	33,145,930
Expected return on plan assets	(24,738,000)	-	(24,738,000)
Amortization of transitional asset	(16,000)	-	(16,000)
Amortization of past service costs	1,226,000	-	1,226,000
Amortization of net actuarial gain (loss)	284,000	(277,597)	6,403
Net pension costs	13,310,000	125,226	13,435,226

(expressed in US dollars)

Information about the pension and other post-retirement benefit plans in aggregate for the year ended December 31, 2008 is as follows:

	2008		
	Pension plans $	**Other post-retirement benefit plans $**	**Total $**
Change in benefit obligation			
Projected benefit obligation – December 31, 2007	602,204,000	9,522,920	611,726,920
Service cost	6,446,000	38,462	6,484,462
Interest cost	31,039,000	387,435	31,426,435
Benefit payments	(30,225,000)	(733,594)	(30,958,594)
Actuarial gains	(92,197,000)	(2,664,204)	(94,861,204)
Employees' contributions	4,927,000	-	4,927,000
Plan amendments	1,026,000	-	1,026,000
Net transfer in	1,102,000	-	1,102,000
Foreign exchange rate changes	(106,324,000)	(1,453,802)	(107,777,802)
Other adjustment	1,050,000	-	1,050,000
Benefit obligation – December 31, 2008	419,048,000	5,097,217	424,145,217
Reconciliation of fair value of plan assets			
Projected fair value of plan assets – December 31, 2007	498,845,892	-	498,845,892
Actual return on plan assets	(90,200,000)	-	(90,200,000)
Employer's contributions	13,394,000	733,594	14,127,594
Employees' contributions	4,927,000	-	4,927,000
Benefit payments	(30,225,000)	(733,594)	(30,958,594)
Net transfer in	1,102,000	-	1,102,000
Actual plan expenses	(2,052,000)	-	(2,052,000)
Foreign exchange rate changes	(83,492,271)	-	(83,492,271)
Other adjustment	1,382,000	-	1,382,000
Fair value of plan assets – December 31, 2008	313,681,621	-	313,681,621
Funded status net liability – December 31, 2008	(105,366,379)	(5,097,217)	(110,463,596)
Components of net periodic pension cost recognized			
Service cost	7,007,000	38,462	7,045,462
Interest cost	31,039,000	387,435	31,426,435
Expected return on plan assets	(33,773,000)	-	(33,773,000)
Amortization of transitional asset	(17,000)	-	(17,000)
Amortization of past service costs	1,700,000	-	1,700,000
Amortization of net actuarial loss	(24,000)	(210,134)	(234,134)
Net pension costs	5,932,000	215,763	6,147,763

(expressed in US dollars)

The Company's cash contribution to the defined benefit plans for the year ended December 31, 2009 was $21,380,156 (2008 – $14,127,594).

The Company anticipates making cash contributions to the pension plans of approximately $24,935,028 in 2010.

Estimated future benefit payments are as follows:

	$
2010	46,479,075
2011	48,080,451
2012	50,807,376
2013	54,671,317
2014	60,207,338
Next five years	181,148,481

Summary of key assumptions as of and for the years ended December 31:

	Other post-retirement benefit plans	
	2009 %	**2008** %
Benefit costs for the year		
Discount rate	7.45	5.60
Rate of compensation increase	3.50	3.90
Health care inflation – Select	8.20	8.20
Health care inflation – Ultimate	4.70	5.50
Accrued benefit obligation as of December 31		
Discount rate	6.07	7.45
Rate of compensation increase	3.50	3.50
Health care inflation – Select	7.50	7.90
Health care inflation – Ultimate	4.20	5.50

For measurement purposes, a 10% weighted average annual rate of increase in the per capita cost of covered health care benefits was assumed for 2009. The rate is assumed to decrease gradually to 4.20% by 2025 and remain at that level thereafter.

(expressed in US dollars)

A one-percentage point change in the assumed health care cost trend rate would have the following effect on the other post-retirement benefit plans:

	December 31, 2009		December 31, 2008	
	1% increase	**1% decrease**	**1% increase**	**1% decrease**
Effect on total service and interest costs	5,000	(4,000)	4,000	(3,000)
Effect on post-retirement benefit obligation	75,000	(72,000)	80,000	(76,000)

Asset allocation of funded plans

	2009 %	2008 %
Equity securities	60	52
Debt securities	38	45
Other	2	3
	100	100

The FASB defines fair value as indicated in note 2. For the defined benefit pension plan assets, the fair values as at December 31, 2009 were as follows:

	Level 1 $	Level 2 $	Level 3 $	Total $
Cash	9,621,000	1,099,000	-	10,720,000
Fixed interest bonds	154,742,000	2,000	-	154,744,000
Stock equities	245,150,000	-	-	245,150,000
	409,513,000	1,101,000	-	410,614,000

At this time, the Company cannot predict the impact of the Creditor Protection Proceedings on labor costs and relations.

(expressed in US dollars)

17 Derivative financial instruments

Forward exchange contracts

As of December 31, 2009, the Company has no outstanding forward exchange contracts. The $10,000,000 notional amount of forward exchange contracts to sell forward US dollars in exchange for Canadian dollars, which the Company had outstanding as of December 31, 2008, were settled during the year with the resulting loss recorded in the consolidated statement of loss in Net gain (loss) on derivative contracts.

In 2008, the fair value of the forward exchange contracts was recorded on the consolidated balance sheet in Unrealized loss on derivative contracts, with the resulting loss recorded in the consolidated statement of loss in Net gain (loss) on derivative contracts.

	2009 $	**2008** $
Unrealized loss on derivative contracts	-	(1,393,414)

Interest rate swap contracts

In October 2009, the interest rate swap contracts outstanding as of December 31, 2008 were terminated. The outstanding liability of $57.5 million at December 31, 2009, which was agreed to by counterparties to the interest rate swap contracts, includes $5.7 million associated with payments that were due but not made by the Company on September 30, 2009 and which are included as part of accrued interest (which in turn is a component of accounts payable and accrued liabilities).

In 2008, the fair value of the interest rate derivatives held was recorded in the consolidated balance sheet in Unrealized loss on derivative contracts, with the resulting gain or loss recorded in the consolidated statement of loss in Net gain (loss) on derivative contracts.

	2009 $	**2008** $
Unrealized loss on derivative contracts	-	(62,818,509)

For 2009, the weighted average fixed rate paid was 4.87% and the average variable rate received was 1.09% based on the three-month US dollar LIBOR.

For 2008, the weighted average fixed rate paid was 4.85% and the average variable rate received was 2.69% based on the three-month US dollar LIBOR.

(expressed in US dollars)

18 Accumulated other comprehensive loss

The components of accumulated other comprehensive loss in the consolidated balance sheet are as follows:

	2009 $	**2008** $
Unamortized prior service cost, net of deferred income taxes of $1,914,602	(5,202,878)	(7,596,590)
Unamortized actuarial loss, net of deferred income taxes of $19,818,406	(53,855,966)	(23,618,294)
Unamortized transitional asset, net of deferred income taxes of $(6,148)	16,708	25,669
Foreign currency translation loss	16,817,456	2,470,056
	(42,224,680)	(28,719,159)

19 Gain on disposal of land and timberland

Bear Island Paper sold 349 acres of land in the state of Virginia in January 2009. The land was valued on the consolidated balance sheet at $432,342 and was sold for $2,282,628, resulting in a gain on the sale of the asset of $1,850,286.

Stadacona sold 30,000 acres of timberland in the province of Quebec in May 2008. The timberland was valued on the consolidated balance sheet at $2,792,700 and was sold for $17,989,206, resulting in a gain on the sale of the asset of $15,196,506.

(expressed in US dollars)

20 Commitments and contingencies

Environmental

Bear Island Paper and Stadacona have approximately $1,865,772 and $409,364 respectively (2008 – $1,436,774 and $629,832) of asset retirement obligations as of December 31, 2009.

Creditor Protection Proceedings

On February 24, 2010, the Company's indirect parent, WB Holding, and certain of WB Holding's Canadian subsidiaries including the Company (together, the "CCAA Applicants"), sought creditor protection under the CCAA in the Canadian Court in Montréal, Quebec, Canada (the "CCAA Proceedings"). On the same date, Bear Island Paper, a subsidiary of WB Holding and the Company, filed a voluntary petition in the US Court for relief under Chapter 11 of the United States Bankruptcy Code (the "Chapter 11 Case"). Certain of the CCAA Applicants sought relief in the US Court under Chapter 15 of the United States Bankruptcy Code (the "Chapter 15 Cases") to obtain recognition and enforcement in the United States of certain relief granted in the CCAA Proceedings. The Chapter 11 Case, the Chapter 15 Cases and the CCAA Proceedings are collectively referred to as the "Creditor Protection Proceedings". For additional information, see note 3.

Guarantees and indemnifications

In the ordinary course of business, the Company enters into agreements for the supply of goods or services to customers that provide warranties to the customer on one or more of the following: (i) the quality of the goods and services supplied by the Company; (ii) the performance of the goods supplied by the Company; and (iii) the Company's compliance with certain specifications and applicable laws and regulations in supplying the goods and services. Liability under such warranties is often limited to a maximum amount, by the extent of the liability or by the time period within which a claim must be asserted. Management believes that the Company's warranty obligations under such supply agreements are immaterial.

In the ordinary course of business, the Company may enter into service agreements with service providers in which it agrees to indemnify the service provider against certain losses and liabilities arising from the service provider's performance under the agreement. Generally, such indemnification obligations do not apply in situations in which the service provider is grossly negligent, engages in wilful misconduct, or acts in bad faith. Management believes that the Company's liability under such service agreements is immaterial.

Litigation

The Company is a party to various legal actions and contingencies arising in the normal course of business. Management believes that the settlement of the actions and claims in which it is involved will not have a material adverse impact on the Company's financial position, the results of its operations or its cash flows.

(expressed in US dollars)

The Company's operations and facilities are also subject to extensive federal, state, provincial and local legislation, regulations and standards relating to environmental protection and occupational health and safety. Management believes that the settlement of the actions and claims in which it is involved will not have a material adverse impact on the Company's financial position, the results of its operations or its cash flows.

Subject to certain exceptions, all litigation against the Company that arose or may arise out of pre-petition conduct or acts is subject to the automatic stay provisions of Chapter 11 and the CCAA and the orders of the US Court and the Canadian Court rendered thereafter. As a result, the Company believes that these matters will not have a material adverse effect on the results of its operations during the Creditor Protection Proceedings.

21 Income taxes

The provision for (recovery of) income taxes consists of the following:

	2009 **$**	**2008** **$**
Current	23,185,230	1,759,868
Deferred	(14,538,174)	(10,753,049)
	8,647,056	(8,993,181)
Valuation allowance	61,241,534	-
	69,888,590	(8,993,181)

(expressed in US dollars)

The combined Canadian federal and Quebec provincial statutory tax rate is approximately 30.9%. The items which principally give rise to the difference are permanent differences related to:

Deferred tax assets and liabilities as of December 31

	2009 $	**2008** $
Deferred tax assets		
Non-deductible reserves	215,724	146,994
Unrealized foreign exchange loss on long-term debt	-	2,244,713
Scientific research and experimental development expenditure pool	8,388,585	6,957,617
Canadian non-capital loss carryforwards	71,000,273	39,918,992
Accrued pension liability	42,310,531	29,320,975
Derivative contracts	-	12,758,791
Deferred financing costs	2,193,040	-
Valuation allowance	(61,241,534)	(2,244,713)
Other	-	111,751
	62,866,619	89,215,120
Deferred tax liabilities		
Depreciation and amortization	52,063,717	53,106,936
Unrealized foreign exchange gain on long-term debt	10,349,118	-
Investment tax credits	-	814,076
Deferred financing costs	-	1,873,639
Derivative contracts	-	328,020
Other	453,784	483,146
	62,866,619	56,605,817
Net deferred tax assets	-	32,609,303

As of December 31, 2009, the Company had Canadian and Quebec non-capital loss carryforwards of $294,437,866 (2008 – $161,556,316) and $221,143,686 (2008 – $93,792,229) respectively. These losses expire as follows:

	Federal $	**Quebec** $
2015	14,329,588	11,372,835
2026	43,854,502	9,476,619
2027	124,430,268	88,470,724
2029	111,823,508	111,823,508

(expressed in US dollars)

Rate reconciliation: Statutory to effective tax rate

	$	%
Net loss before income taxes	(74,567,562)	-
Provision for income taxes	69,888,590	(93.7)
Income taxes at statutory rate	(23,041,377)	30.9
Effect of		
Tax rate changes on future income taxes	8,201,487	(11.0)
Unrealized foreign exchange impact	(2,997,725)	4.0
Adjustment to income tax reserve	24,484,798	(32.8)
Valuation allowance on net future income tax asset balance	52,045,290	(69.8)
Impact of goodwill impairment	10,417,922	(14.0)
Other	778,195	(1.0)
Provision for income taxes	69,888,590	(93.7)

Accounting for uncertainty in income taxes

The Company is no longer subject to income tax examinations by Canadian and provincial tax authorities for years prior to 2005, and years prior to 2002 for transfer pricing purposes.

The Company does not anticipate that changes in its unrecognized tax benefits will have a material impact on the consolidated statement of income for the year ending December 31, 2010.

Interest and penalties related to the liability for unrecognized tax benefits are considered as a component of income tax expense and income tax payable. Anticipated interest and penalty payments of $8.1 million and $3.7 million, respectively, were also included in the liability for unrecognized tax benefits as of December 31, 2009.

Given that the Company commenced Creditor Protection Proceedings on February 24, 2010, a strong argument can be made that the Company did not meet the "more likely than not" threshold for all of its deferred income tax assets and non-refundable income tax credits. As such, a full valuation allowance against those assets has been established as of December 31, 2009.

(expressed in US dollars)

22 Concentrations of risk

Credit risk

Financial instruments which may potentially subject the Company to concentrations of credit risk consist principally of cash, cash equivalents and receivables. The Company's cash balances, which sometimes exceed federally insured balances, are maintained at major financial institutions. Cash equivalents, which consist of US government securities, are held with a high credit quality financial institution. Receivables consist principally of trade accounts receivable resulting primarily from sales to newspaper publishers. Credit is extended to customers after an evaluation of creditworthiness. Generally, the Company does not require collateral or other security from customers for trade accounts receivable. Substantially all of the Company's customers operate in the printing and publishing sectors; consequently, their ability to honor their obligations is dependent upon the financial strength of these sectors.

Currency risk

The Company is exposed to currency risk as a result of US dollar export sales of goods produced in Canada and US dollar-denominated debt that will likely be partially serviced from Canadian operations. This risk is partially mitigated by purchases in Canadian dollars and, occasionally, forward exchange contracts.

Interest rate risk

The Term Loans and Revolving Credit Facilities included in long-term debt of the Company bear interest at variable rates and therefore expose the Company to an interest rate risk which may, at times, be mitigated by the use of interest rate derivative contracts.

Financial risk

The fair value of the accounts and notes receivable and accounts payable and accrued liabilities approximates the carrying amount because of the short-term maturity of these instruments.

Funding risk

Since commencement of the Company's Creditor Protection Proceedings, the Company's sources of funding have been comprised of (i) cash on hand; (ii) cash provided from operations; and (iii) the DIP Loan.

The Company's historical funding

Prior to the commencement of the Company's Creditor Protection Proceedings, the Company's primary sources of funding and capital resources had been cash on hand, cash provided from operations and availability under the Revolving Credit Facility. As of December 31, 2009, the Company had cash on hand of approximately $32.1 million, while the unused amount of the Revolving Credit Facility was $47.9 million.

(expressed in US dollars)

Chronology of events prior to Creditor Protection Proceedings

In mid-2009, the Company began to experience a precipitous drop in business activity. These issues were particularly pronounced in light of the sudden sharp decline in the newsprint industry caused by both (i) cyclical pressure in the industry resulting from adverse economic conditions and a downturn in the advertising market, leading to a significant drop in the price of newsprint; and (ii) a secular industry decline resulting from the migration of newspaper readers from print to electronic media. In addition, contractual limitations imposed by the Company's credit agreements made it impracticable for the Company to access incremental funding alternatives without commencing some type of restructuring initiative.

In early September 2009, the Company sought (i) forbearances under its First Lien Senior Secured Term Loan Facility, Second Lien Senior Secured Term Loan Facility and certain interest rate swap agreements; and (ii) an amendment of, and continued borrowing access to, its Revolving Credit Facility that would waive or eliminate certain potential events of default. The Company subsequently obtained forbearances from the First Lien Senior Secured Term Loan Facility lenders, the Revolving Credit Facility lender and the counterparties to its swap agreements, but was unable to reach a forbearance agreement with the Second Lien Senior Secured Term Loan Facility lenders. Pursuant to the intercreditor agreement, the Second Lien Senior Secured Term Loan Facility lenders were subject to a standstill. On September 30, 2009, the Company failed to make certain interest payments on its Term Loans as well as payments required under the swap agreements.

The Company sought and received several extensions of forbearance from the First Lien Senior Secured Term Loan Facility lenders, the Revolving Credit Facility lender and the counterparties to its swap agreements. The Company concluded that it had a need of financing in order to continue operating its businesses in an orderly manner, maintain business relationships with vendors, suppliers and customers, pay employees and satisfy other working capital and operational needs.

In February 2010, the Company received a financing proposal for the DIP Loan that would serve to repay the Revolving Credit Facility and also provide substantial incremental funding to the Company throughout its cross-border restructuring. On February 24, 2010, the Company sought creditor protection under the CCAA and Chapter 11 of the United States Bankruptcy Code.

23 Subsequent events

Through May 11, 2010 (the issue date of the consolidated financial statements), the Company indicated that on February 24, 2010, the Company and its Canadian subsidiaries sought creditor protection under the CCAA and Bear Island Paper, its subsidiary, filed for relief under Chapter 11 of the United States Bankruptcy Code (for additional information refer to notes 1 and 3).

24 Comparative figures

Certain comparative figures have been reclassified to conform to the presentation adopted in the current year.

Appendix B – Internal financial statements for the 3 months ended March 31, 2010

WHITE BIRCH PAPER COMPANY

80 FIELD POINT ROAD

GREENWICH, CONNECTICUT 06830

Credit Suisse, Toronto Branch
as Administrative Agent
1 First Canadian Place
Suite 3000
Toronto, Ontario M5X 1L9
Canada

May 20, 2010

Ladies and Gentlemen:

The undersigned, as Senior Vice President and Chief Financial Officer of White Birch Paper Company, hereby delivers the following amended quarterly financial report for the fiscal quarter ending March 31, 2010 reflecting normal yearend audit adjustments.

Edward D. Sherrick

Senior Vice President and Chief Financial Officer

(203) 661-3344
(203) 661-3349 FAX

WHITE BIRCH PAPER COMPANY
CONSOLIDATED
FINANCIAL STATEMENTS

AS OF MARCH 31, 2010

(IN UNITED STATES DOLLARS)

REVISED TO REFLECT 2009 AUDIT ADJUSTMENTS

CONSOLIDATED WHITE BIRCH PAPER COMPANY

BALANCE SHEET
(IN U.S.$)
MARCH 31, 2010

ASSETS

CURRENT ASSETS :		
Cash		$ 77,727,539
Cash Collateral		11,954,925
Accounts Receivable - Trade		75,554,032
Accounts Receivable - Miscellaneous		7,635,186
Inventory:		
Raw Materials & Stores	$ 48,719,176	
Finished	27,489,974	76,209,150
Prepaid Expenses		17,457,397
Timberdeeds		1,000
R&D Credit Receivable		462,762
Due from Affiliates		938,053
Total Current Assets		267,940,044
PROPERTY, PLANT AND EQUIPMENT AT COST	$ 1,177,791,487	
Less - Accumulated Depreciation	(668,992,769)	508,798,718
OTHER LONG TERM ASSETS		1,478,054
LONG TERM INVESTMENT		553,838
INVESTMENT IN SP NEWSPRINT		24,639,640
DEFERRED FINANCING COSTS		5,795,732
Total Assets		$ 809,206,026

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES:		
Accounts Payable and Accrued Liabilities		$ 92,126,615
Current Portion Long-Term Debt		924,849
Accrued Service Charges		792,898
Income Taxes Payable		24,229,028
Derivative Contracts		51,807,858
DIP Loan		103,955,000
Accrued Interest		29,354,013
Total Current Liabilities		303,190,261
NON-CURRENT PENSION AND POSTRETIREMENT		88,169,090
DEFERRED PENSION COSTS		72,737,227
LONG-TERM DEBT:		
First Lien Term Loan	$ 428,293,961	
Second Lien Term Loan	100,000,000	
Capitalized Leases	632,448	528,926,409
Total Liabilities		993,022,987
STOCKHOLDERS' EQUITY		
Contributed Capital		129,642,930
Retained Earnings		(266,137,959)
Accumulated Other Comprehensive Loss		(58,671,218)
Translation Adjustment		11,349,286
Total Stockholders' Equity		(183,816,961)
Total Liabilities and Stockholders' Equity		$ 809,206,026

CONSOLIDATED WHITE BIRCH PAPER COMPANY

STATEMENT OF INCOME

(IN U.S.$)

FOR THE ONE MONTH ENDED MARCH 31, 2010 AND 2009

	2010 MONTH OF MARCH	2009 MONTH OF MARCH
SALES		
Gross	$ 55,872,618	$ 44,571,124
Freight	(7,220,691)	(3,558,503)
Net Sales	48,651,927	41,012,621
COST OF GOODS SOLD	(53,224,104)	(35,223,634)
Gross Profit	(4,572,177)	5,788,987
GENERAL AND ADMINISTRATIVE EXPENSE		
Service Fee	(1,676,313)	(1,337,134)
Other	(1,605,629)	(130,574)
Operating Profit (Loss)	(7,854,119)	4,321,279
OTHER INCOME (EXPENSE)		
Interest Expense	(1,733,955)	(4,063,878)
Gain (Loss) on Currency Translation	10,932,955	2,584,207
Gain (Loss) on Derivative Contracts	0	(4,983,653)
Interest Income	204	15,626
Other Income (Expense)	278,208	(15,785)
Net Income (Loss) from Operations	1,623,293	(2,142,204)
EQUITY IN EARNINGS OF UNCONSOLIDATED SUBSIDIARIES	0	0
Net Income (Loss) before Tax	1,623,293	(2,142,204)
TAX PROVISION	407,123	(394,352)
Net Income (Loss)	2,030,416	(2,536,556)
RETAINED EARNING BEGINNING OF MONTH	(268,168,375)	(71,620,700)
PRIOR PERIOD ADJUSTMENT	- 0 -	- 0 -
DISTRIBUTION DURING THE MONTH	- 0 -	(14,458,237)
RETAINED EARNING END OF MONTH	$ (266,137,959)	$ (88,615,493)

CONSOLIDATED WHITE BIRCH PAPER COMPANY

STATEMENT OF INCOME
(IN U.S.$)
FOR THE THREE MONTHS ENDED MARCH 31, 2010 AND 2009

	2010 YEAR TO DATE	2009 YEAR TO DATE
SALES		
Gross	$ 159,991,733	$ 157,989,098
Freight	(18,205,842)	(11,499,585)
Net Sales	141,785,891	146,489,513
COST OF GOODS SOLD	(158,449,755)	(113,154,403)
Gross Profit	(16,663,864)	33,335,110
GENERAL AND ADMINISTRATIVE EXPENSE		
Service Fee	(4,799,886)	(4,739,672)
Other	(5,291,242)	(375,787)
Operating Profit (Loss)	(26,754,992)	28,219,651
OTHER INCOME (EXPENSE)		
Interest Expense	(9,735,138)	(11,793,887)
Gain (Loss) on Currency Translation	12,928,204	(11,417,711)
Gain (Loss) on Derivative Contracts	0	2,670,362
Interest Income	11,529	69,969
Other Income (Expense)	(131,548)	1,803,226
Net Income (Loss) from Operations	(23,681,945)	9,551,610
EQUITY IN EARNINGS OF UNCONSOLIDATED SUBSIDIARIES	0	0
Net Income (Loss) before Tax	(23,681,945)	9,551,610
TAX PROVISION	1,184,787	(1,230,256)
Net Income (Loss)	(22,497,158)	8,321,354
RETAINED EARNING BEGINNING OF PERIOD	(243,640,801)	(81,978,610)
PRIOR PERIOD ADJUSTMENT	- 0 -	- 0 -
DISTRIBUTION DURING THE PERIOD	- 0 -	(14,958,237)
RETAINED EARNING END OF PERIOD	$ (266,137,959)	$ (88,615,493)

CONSOLIDATED WHITE BIRCH PAPER COMPANY

STATEMENT OF CASH FLOWS
(IN U.S.$)
FOR THE ONE MONTH ENDED MARCH 31, 2010 AND 2009

CASH PROVIDED BY (USED FOR):		2010	2009
OPERATIONS			
Net Income (Loss)		$ 2,030,416	$ (2,536,556)
Translation Adjustment		(4,442,630)	(283,466)
Accumulated Other Comprehensive Loss		0	0
Items not affecting cash			
Effect of exchange rate fluctuations on cash		(10,836,933)	(3,203,884)
Depreciation		4,979,739	4,236,326
Gain on sale of Property, Plant and Equipment		0	0
Amortization of Deferred Costs		578,354	310,461
Derivative Contracts		0	5,452,066
Deferred Income Taxes		0	142,965
Deferred Pension Costs		1,032,645	(116,475)
Non-current Pension and Postretirement		2,238,703	325,287
Other Long Term Assets		(38,974)	(18,204)
ITC & R&D Credit Receivable		0	(32,928)
Goodwill		0	(231,071)
Property, Plant and Equipment (ITC & Capital Tax)		0	0
Long Term Investment		(14,063)	(3,656)
Provided from operations		(4,472,743)	4,040,865
WORKING CAPITAL			
Accounts Receivable Trade	$ 2,334,827		
Accounts Receivable Miscellaneous	(1,261,009)		
Inventory	(6,659,331)		
Prepaid Expenses	(12,227,815)		
Timberdeeds	0		
Due from Affiliates	60,151		
R&D Credit Receivable	(11,750)		
Deferred Costs	(7,100,000)		
Income Taxes Payable	1,154,778		
Accounts Payable and Accrued Liabilities	11,219,866		
Accrued Service Charges	359,442		
Due to Affiliates	0		
Accrued Interest	701,178		
Cash provided by (used for) noncash working capital		(11,429,663)	(4,040,157)
		(15,902,406)	708
FINANCING			
Increase in Long-Term Debt		103,955,000	0
Decrease in Long-Term Debt		(39,528,925)	(15,003,879)
		48,523,669	(15,003,171)
INVESTMENT			
Additional Contributed Capital		0	0
Investment in SP Newsprint		0	0
Proceeds from sale of Property, Plant and Equipment		0	0
Additions to Property, Plant and Equipment		(447,419)	(923,204)
		48,076,250	(15,926,375)
DISTRIBUTION TO BRANT PAPER COMPANY		0	(14,458,237)
INCREASE (DECREASE) IN CASH DURING THE MONTH		48,076,250	(30,384,612)
CASH BEGINNING OF MONTH		41,606,214	64,669,557
CASH END OF MONTH		$ 89,682,464	$ 34,284,945

CONSOLIDATED WHITE BIRCH PAPER COMPANY

STATEMENT OF CASH FLOWS
(IN U.S.$)
FOR THE THREE MONTHS ENDED MARCH 31, 2010 AND 2009

		2010	2009
CASH PROVIDED BY (USED FOR):			
OPERATIONS			
Net Income (Loss)		$ (22,497,158)	$ 8,321,354
Translation Adjustment		(5,097,252)	(2,807,095)
Accumulated Other Comprehensive Loss		0	0
Items not affecting cash			
Effect of exchange rate fluctuations on cash		(12,592,395)	12,182,652
Depreciation		14,559,318	12,669,300
Gain on sale of Property, Plant and Equipment		0	(1,850,286)
Amortization of Deferred Costs		1,326,701	946,185
Derivative Contracts		0	(4,259,205)
Deferred Income Taxes		0	2,139,801
Deferred Pension Costs		1,012,245	(3,546,897)
Non-current Pension and Postretirement		2,605,851	(1,080,076)
Other Long Term Assets		(45,199)	(654,323)
ITC & R&D Credit Receivable		0	210,290
Goodwill		0	821,189
Property, Plant and Equipment (ITC & Capital Tax)		0	0
Long Term Investment		(16,369)	12,994
Provided from operations		(20,744,258)	23,105,883
WORKING CAPITAL			
Accounts Receivable Trade	$ 1,800,679		
Accounts Receivable Miscellaneous	(1,373,242)		
Inventory	(2,007,258)		
Prepaid Expenses	(14,785,763)		
Timberdeeds	0		
Due from Affiliates	(250,747)		
R&D Credit Receivable	241,585		
Deferred Costs	(7,100,000)		
Income Taxes Payable	471,916		
Accounts Payable and Accrued Liabilities	31,431,712		
Accrued Service Charges	504,192		
Due to Affiliates	0		
Accrued Interest	7,399,082		
Cash provided by (used for) noncash working capital		16,332,156	(1,270,333)
		(4,412,102)	21,835,550
FINANCING			
Increase in Long-Term Debt		108,955,000	0
Decrease in Long-Term Debt		(46,168,127)	(15,228,089)
		58,374,771	6,607,461
INVESTMENT			
Additional Contributed Capital		0	0
Investment in SP Newsprint		0	0
Proceeds from sale of Property, Plant and Equipment		0	2,282,628
Additions to Property, Plant and Equipment		(838,919)	(2,396,699)
		57,535,852	6,493,390
DISTRIBUTION TO BRANT PAPER COMPANY		0	(14,958,237)
INCREASE (DECREASE) IN CASH DURING THE PERIOD		57,535,852	(8,464,847)
CASH BEGINNING OF PERIOD		32,146,612	42,749,792
CASH END OF PERIOD		$ 89,682,464	$ 34,284,945