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CANADA
PROVINCE OF QUÉBEC
DISTRICT OF MONTRÉAL

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 AS LISTED IN THE ATTACHED SCHEDULE "A"

DEBTORS

- and -

ERNST & YOUNG INC.

REPORT OF THE PROPOSED MONITOR – FEBRUARY 23, 2010

INTRODUCTION AND BACKGROUND

1. Ernst & Young Inc. ("**EYI**") understands that White Birch Paper Holding Company ("**White Birch**") and various of its Canadian subsidiaries and affiliates (collectively, the "**Applicants**") have brought a motion before this Honourable Court ("**Court**") to commence proceedings under the *Companies' Creditors Arrangement Act* ("**CCAA**")[1], seeking, inter alia, a stay of proceedings against the Applicants and against various partnerships in which the Applicants have an interest ("**Partnerships**") (the Applicants and the Partnerships are hereinafter referred to as "**WB Canada**"), the appointment of EYI as monitor and various other relief while WB Canada prepares a plan of arrangement pursuant to the CCAA.

2. The present report ("**Report**") is intended to provide the Court with information on WB Canada and its U.S. affiliate Bear Island Paper Company LLC ("**Bear Island**", and together with WB Canada, "**WB Group**"), its financial difficulties and the restructuring efforts to date, which information has been made available to EYI in the course of the initial discussions in the context of its proposed mandate as monitor. The Report is presented under the following headings:

   2.1. Introduction and background

   2.2. Appointment of monitor

   2.3. Terms of reference and disclaimer

   2.4. Current liquidity crisis;

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

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2.5. Cash flow forecast;

2.6. Interim financing;

2.7. Financial thresholds contemplated in the draft Initial Order;

2.8. Restructuring alternatives; and

2.9. Conclusions and recommendations.

3. White Birch is part of a large group of companies, with activities in the paper product sector. A summarized organization chart presenting the relationship of the various members of the corporate group is attached to this Report as Appendix A.

4. White Birch is privately owned and has its executive office at 80 Field Point Road, suite 3, in Greenwich, Connecticut, in the United States of America ("**U.S.**").

5. Through its subsidiaries, White Birch is the owner and operator of 3 pulp and paper mills and one saw mill in the Province of Québec, which, together with a 4th mill situated in Virginia and operated by Bear Island, collectively produce 1.3 million metric tons of newsprint and directory paper with up to 50% recycled content on a yearly basis. In 2009, it had the second-greatest newsprint production capacity in North America, with a market share estimated to be approximately 12%, annual sales of approximately US$675 million and approximately 1,300 employees. White Birch's Canadian newsprint mills are located in the Province of Québec, near Québec City (the "**Stadacona Mill**"), Rivière-du-Loup (the "**Soucy Mill**") and Masson-Angers (the "**Papier Masson Mill**"), and its U. S. mill is situated in Ashland, Virginia (the "**Bear Island Mill**"). WB Canada also operates a sawmill (known as the Leduc Sawmill) in Québec City, and a stevedoring services company near Rivière-du-Loup.

6. Each of the Applicants and the Partnerships has its chief place of business in the Province of Québec.

7. In addition to the above, White Birch holds an interest in SP Newsprint Co. LLC, ("**SP**") which is the fourth largest newsprint producer in North America, that operates 2 mills and has a subsidiary that operates several recycling facilities primarily in the Southeast and Western United States. SP's focus is on producing newsprint with a higher content of recycled materials. SP is not an applicant in the proceedings under the CCAA or under the *U.S. Bankruptcy Code* ("**Code**")[2], as SP is a separate business distinct from WB Canada and Bear Island, and is not otherwise addressed in this Report.

8. Bear Island, one of the subsidiaries of White Birch, has activities and assets only in the U.S., and as a consequence White Birch's management does not believe, at the present time, that it is necessary or appropriate for it to be an applicant in the proceedings under the CCAA. Bear Island is expected to file for protection under Chapter 11 of the Code, by way of an application filed in Virginia.

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2 *U.S. Code,* title 11, chapter 11.

9. While WB Canada's plants are all located in the Province of Québec, some of the activities have a cross-border element. We are informed that some of the purchases and a substantial portion of the sales of WB Canada are with entities located in the U.S. As a consequence, White Birch's management believes that it is necessary for WB Canada to file proceedings in the U.S., under Chapter 15 of the Code[3], seeking recognition of the proceedings commenced in Canada under the CCAA as a foreign main proceeding. The application is intended to be filed imminently, in Virginia. The initial plan is to file an application for recognition in respect of 6 entities, namely White Birch Paper Company, Stadacona General Partner Inc., Stadacona Limited Partnership, F.F. Soucy Limited Partnership and F.F. Soucy, Inc. & Partners, Limited Partnership, and Papier Masson Ltée., and to request that White Birch Paper Company be designated as the foreign representative in the context of the proceedings under Chapter 15 of the Code.

10. In view of the proceedings contemplated to be taken in the U.S. in respect of Bear Island and some of the Applicants, EYI considers that it is very likely that a cross border protocol will have to be developed and submitted to the Court for approval, in the short term.

APPOINTMENT OF MONITOR

11. As mentioned earlier in this Report, EYI has been informed that the Applicants are seeking its appointment as monitor in the context of proceedings under the CCAA.

12. EYI confirms that it fulfills the requirement of section 11.7(1) of the CCAA, and that neither EYI nor its affiliates, directors and officers is subject to the restrictions referred to in section 11.7(2)(a) and (b) of the CCAA.

13. EYI further confirms that it has consented to act as monitor in these proceedings, if the Court chooses to appoint it as monitor.

TERMS OF REFERENCE AND DISCLAIMER

14. In preparing this Report, EYI has relied upon unaudited financial information, company records, company prepared financial information and projections, discussions with management and employees of WB Canada, 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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[3] *U.S. Code*, title 11, chapter 15.

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 Canada's stakeholders as general information relating to the Applicants 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.

CURRENT LIQUIDITY CRISIS

15. WB Canada is an important producer of paper for use in the newsprint industry. In addition to this industry being affected by the worldwide economic conditions, this industry is experiencing a sharp decline in demand as electronic alternatives have been replacing printed media. The decline in demand has resulted in substantial decreases in prices for the products sold by the WB Group. The decrease in demand and in revenues due to falling prices has put a strain on profitability, such that WB Group is presently incurring losses.

16. The losses are exacerbated by foreign exchange losses, as a substantial part of the expenses of WB Canada are incurred in Canadian dollars, while the sales are largely made in U.S. currency. The recent strengthening of the Canadian dollar as compared to the U.S. dollar results in additional losses, in view of the fact that WB Canada does not have hedges to protect itself against currency fluctuations.

17. White Birch reported pre-tax losses of US$39.3 million and US$80.1 million on a consolidated basis for its fiscal years ended December 31, 2007 and 2008 respectively. The most recent available financial information, for the 11 months ended November 30, 2009, indicates that White Birch reports a profit of US$14.9 million for the first 11 months of fiscal 2009, however this 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. In fact, White Birch reports a substantial loss for the months of October and November 2009, of US$20.3 million in aggregate, and the preliminary information available to date suggests that the losses continued during December, such that White Birch incurred a net loss for fiscal 2009 (although not yet quantified, as the financial statements for December are not finalized). The internal financial statements for the 11 months ended November 30, 2009 indicate that White Birch is experiencing a sharp decline in revenues as compared with the same period for the previous year.

18. The losses accumulated to date are putting a strain on the cash flow.

19. WB Canada also has to pay interest on its term debt, and amounts due in connection with interest swap agreements. The interest and payments in connection with the interest swap agreements that were scheduled to be paid at the end of September 2009 totalled US$10.8 million. That

amount increased to US$19 million when a swap counterparty asserted a right to an acceleration of the amounts due because of a purported default, and further increased to US$69 million when all swap agreements became due because of the default.

20. WB Canada did not consider it prudent, in view of the cash flow strain, to pay the amounts due in connection with the interest on its term debt and the interest swap agreements on the due date in late September 2009, and communicated with its lenders to negotiate forbearance agreements, while it explored its alternatives to refinance its debt. In the course of the negotiations, one of the lenders took aggressive steps to freeze certain bank accounts maintained at this financial institution, which restricted WB Group's access to its banking facilities and further restricted the available cash. WB Canada has since regained access to its banking facilities, however the interim agreement with the lender to reinstate the banking facilities requires that significant funds remain frozen on deposit in these accounts at all times.

21. The negotiations with the lenders have resulted in temporary forbearance agreements with some of the lenders only. The forbearance agreements have been extended from time to time, and are now scheduled to expire on February 26, 2010.

22. WB Canada is also required to make pension plan contributions in the short term, in an amount of approximately CDN$5 million. WB Canada reports that the special payments required in connection with the amortization of the solvency deficit based on the most recent actuarial calculation is approximately CDN$1.4 million per month. WB Canada has not made a provision for a disbursement in connection with these special payments in its cash flow projections, as WB Canada considers these payments would put an additional strain on its cash flow.

CASH FLOW FORECAST

23. In order to fulfill the requirements of section 10(2)(a) of the CCAA, WB Canada has prepared a statement of projected cash flow, on a weekly basis, for the 13 weeks ending May 14, 2010. The statement of projected cash flow is accompanied by the representations of the Applicants as prescribed, and by notes outlining the significant assumptions made in preparing the statement of projected cash flow. The statement of projected cash flow, the representations of the Applicants and the notes outlining the assumptions are appended to the Applicants' Petition for the Issuance of an Initial Order..

24. The statement of projected cash flow is presented on a combined basis for WB Canada, as Bear Island is not expected to be an applicant in the proceedings under the CCAA.

25. The statement of projected cash-flow of WB Canada, including the notes attached thereto for the 13 weeks ending May 14, 2010, has been prepared by the management of WB Group for the purpose described in the notes accompanying the statement of projected cash-flow, using probable and hypothetical assumptions set out in the said notes.

Our review consisted of inquiries, analytical procedures and discussions related to information supplied to us by the management and employees of WB Group. Since hypothetical assumptions need not be supported, our procedures with respect to them were limited to evaluating whether they were consistent with the purpose of the projection. We have also reviewed the support provided by management for the probable assumptions and the preparation and presentation of the projection.

Based on our review, nothing has come to our attention that causes us to believe that, in all material respects:

(a) the hypothetical assumptions are not consistent with the purpose of the projection;

(b) as at the date of this Report, the probable assumptions developed by management are not suitably supported and consistent with the plans of WB Canada or do not provide a reasonable basis for the projection, given the hypothetical assumptions; or

(c) the projection does not reflect the probable and hypothetical assumptions.

Since the projection is based on assumptions regarding future events, actual results will vary from the information presented even if the hypothetical assumptions occur, and the variations may be material. Accordingly, we express no assurance as to whether the projection will be achieved. We express no opinion or other form of assurance with respect to the accuracy of any financial information presented in this Report, or relied upon by us in preparing this Report.

The projection has been prepared solely for the purpose described in the notes accompanying the statement of projected cash flow and readers are cautioned that it may not be appropriate for other purposes.

INTERIM FINANCING

26. The statement of projected cash flow prepared by management for WB Canada (appended to the Applicants' Petition for the Issuance of an Initial Order) suggests that the Applicants will need to borrow funds imminently in the course of the proceedings under the CCAA. The projections indicate that although some cash is available to pay current obligations in the early days of the proceedings, additional borrowings will be required.

27. Management of WB Group had negotiations with prospective lenders to provide financing (customarily referred to as "**DIP Financing**"), during the restructuring proceedings. WB Group has retained the services of a financial advisor to assist it in the search for the interim financing. The financial adviser that was retained in this regard is Lazard Frères & Co. ("**Lazard**"), a firm that specializes in capital raising and corporate finance (among other things).

28. WB Group, with the assistance of Lazard, has prepared presentations for prospective interim lenders containing financial projections under various assumptions and an outline of proposed terms and conditions of the financing, in terms of sizing, interest rates, fees, and margining conditions (or availability conditions), and these presentations have been shared with prospective interim lenders who have agreed to execute a confidentiality agreement.

29. We have been informed that several prospective lenders had expressed an interest in looking at the material, have signed a confidentiality agreement, have been given access to a virtual data room containing the presentation to prospective lenders, and that discussions have been initiated

with some of them. We have been made aware of the progress of the negotiations, and continue to be kept informed of any progress by management.

30. WB Group has been actively pursuing its search for an interim lender, since the execution of the first forbearance agreement (referred to in paragraph 21 above). From the beginning, WB Group focused its attention on financial institutions or lenders who are participants in the Applicants' existing financing agreements (without however limiting the search and the discussions to such participants), primarily for the following reasons:

    30.1. The participants in the existing financing agreements were considered particularly suitable candidates, in view of their knowledge and familiarity with the operations of WB Group.

    30.2. As it is expected that an interim lender will ask for a prior ranking charge, it was considered that an interim financing agreement that involves participants in the existing agreements would reduce the resistance to such a prior ranking charge and minimize the unfavourable impact on existing secured creditors of such a prior ranking charge, in view of the fact that the participants in the existing financing agreements would, in fact, have priority over themselves.

31. As such, the discussions towards an interim lending facility has been carried out with General Electric Capital Corporation ("**GE**"), who is presently providing a credit facility to the WB Group as an asset based loan facility ("**ABL**"), and with several participants in the syndicated loan agreement that comprises the first ranking term loan facility ("**First Term Loan**") or the second ranking term loan facility ("**Second Term Loan**").

32. As mentioned earlier, WB Group did not limit its search to discussions with existing participants or with GE, but also approached significant players in the asset based lending and DIP Financing market.

33. The most significant level of interest was expressed by GE and by two groups drawn from the First Term Loan syndicate. We have been informed that little interest has been expressed by the large players in the interim financing market, and that there existed potential problems with the expressions of interest that were formulated by some of the prospective lenders. As a result, most of the efforts in negotiating an interim financing agreement were concentrated on the discussions with GE and with the two groups from the First Term Loan syndicate.

34. In view of the size of the financing needs, WB Group determined that an interim financing facility based strictly on an ABL facility would not be sufficient, and as a result WB Group explored the possibility of having parallel interim financing facilities, one of which would be structured as an ABL, and the other as a term loan.

35. During the month of February 2010, one of the groups drawn from the First Term Loan syndicate withdrew from the discussions.

36. The discussions continued with GE and with the remaining group drawn from the First Term Loan syndicate (hereinafter "**Black Diamond Group**"). The offer from the Black Diamond Group was considered by WB Group and its advisors as the more attractive offer, in view of the fact that it is expected to provide sufficient financing to meet the funding needs of WB Group during the pendency of the restructuring proceedings, is perceived to have a lesser degree of

execution problems, and is believed by WB Group's advisor to represent a fair offer in the circumstances, in terms of conditions and pricing.

37. Based on the longer term projections prepared with the assistance of Lazard, management of WB Group believes that the net interim financing needs (i.e. after the customary prior claims reserves that are taken into consideration by the interim lender in calculating availability) would translate into an interim financing facility of approximately US$140 million.

Although the needs were identified separately for WB Canada and Bear Island, the interim financing offer received from the Black Diamond Group provides that the entities are joint borrowers, such that each of WB Canada and Bear Island may borrow in accordance with its needs up to the full amount of the interim financing available, and each is responsible for the entire debt.

The above mentioned estimated needs take into consideration:

- The wide variation in cash balances within a given month due to the timing differences between the collection and payment patterns. The cash flow projections prepared by management for WB Canada suggest that there can be a large variation in disbursements from week to week, depending on the timing of payment of salaries, utility charges, pension costs, etc. The cash flow projections indicate that the difference between high and low disbursement weeks could be US$15 million to US$20 million.

- The possibility of having to issue letters of credit or letters of guarantee in connection with the on-going operations of WB Group, which would have to be collateralized by cash, thereby removing this cash from WB Group's liquidity availability.

- A projected repayment of the advances under the existing ABL facility, which would be replaced by new advances under the interim financing facility, in view of the necessity to release the security over the accounts receivable and inventories, to provide a first ranking charge thereon to the interim lender.

- The objective of avoiding having to renegotiate the financing while WB Group prepares its restructuring plan.

38. The statement of projected cash flow filed by WB Canada and the projections of WB Group indicate that WB Group intends to draw all or substantially all of the proceeds of the interim financing facility early in the restructuring proceeding, and that the funds will be used to replace the ABL facility, finance working capital, pay costs related to the restructuring process and fund the operations. The additional financing needs, together with the funds required to repay the ABL facility, represents a total funding need of approximately US$126 million, although the projections prepared by WB Group indicate that WB Group expects to maintain cash balances of US$20 million to US$25 million throughout the projection period.

39. Based on our reviews and discussions with management of WB Group and representatives of Lazard, the Monitor believes that the estimates made regarding the financing needs are reasonable in the circumstances.

40. At the time of drafting of this Report, WB Group had received an offer of financing from the Black Diamond Group, and is was expecting a credit agreement which it intends to execute, subject to Court approval.

41. The interim financing offer from the Black Diamond Group is expected to meet the needs of WB Group in the short to medium term. In substance, the interim financing offer provides for the following:

41.1. A delayed draw term loan facility totalling US$140 million. After the repayment of the ABL credit facility, the drawings under the term loan facility are intended to be limited by the disbursements provided for in WB Group's cash flow projections (considered on a cumulative basis) or in subsequent cash flow projections that may be prepared and approved by the Black Diamond Group.

41.2. The interim financing offer contemplates a tight timeline for the negotiation and execution of a plan of compromise, arrangement or reorganisation with the creditors. The maturity date is set for 9 months after the commencement of the proceedings under the CCAA and the Code, and the offer provides for a series of milestones, including milestones that contemplate a sale process for the business as a whole, if and when WB Group realizes that a settlement with the creditors will not be feasible before the deadlines required in the interim financing offer.

41.3. The interim financing is intended to be secured by a charge over all assets and undertakings of WB Group, ranking in priority to the existing security, subject only to specific prior charges for the claims that may arise under sections 81.3 to 81.6 of the *Bankruptcy and Insolvency Act*[4], the Administration Charge, a portion of the D&O Charge, certain permitted liens under the First Term Loan facility and certain other specific provisions.

41.4. The interim financing offer is subject to the following costs and fees:

41.4.1. Interest rate of LIBOR plus 10%, it being understood that the rate shall not be less than 12%. An additional 2% applies where there is a default.

41.4.2. An arranger fee of 2.5% of the committed funds, for the administrative agent.

41.4.3. An initial fee of 2.5% of the committed funds, to be shared amongst the lenders participating in the lending syndicate that will be formed by the Black Diamond Group.

41.4.4. A commitment fee of 2.0% per year of the amounts that are available to be drawn, but remain undrawn.

41.4.5. A prepayment fee of 4.0% of the amounts prepaid (although this fee is waived in certain circumstances), to be shared amongst the lenders participating in the lending syndicate.

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[4] *Bankruptcy and Insolvency Act*, R.S.C. 1985, c. B-3, as amended.

41.4.6. A work fee of US$350,000 (which has already been paid in the past)

41.4.7. An administrative fee of US$100,000 at closing, plus US$25,000 if the maturity date is extended beyond 9 months, plus US$25,000 for each extension of 3 months that is subsequently requested, payable to the administrative agent.

The above costs and fees are estimated to represent approximately 17.5% per annum.

42. We discussed the pricing of the interim facility with representatives of Lazard. Lazard provided us with a sample of pricing terms in significant interim financing agreements negotiated over the last 12 months, and based on this analysis and the explanations provided to us, the pricing appears reasonable in the circumstances.

43. As indicated above, the interim financing facility is intended to be secured by a prior ranking charge over all assets of the WB Group, and as a result the existing secured creditors could suffer a prejudice by seeing the value of their security downgraded. We do not presently have sufficient information on the value of the assets of WB Group to assess the extent to which the existing secured creditors could be prejudiced, if any. However, we offer the following comments in this regard:

43.1. In view of the cash flow strain that is presently being experienced by WB Group, we are concerned that it may not be viable unless it obtains funding for its current operations, and as such we are concerned that a failure to obtain the required financing might lead to a forced liquidation.

43.2. We believe there is presently an excess capacity in this industry, such that the value of the assets in the context of an outright, forced liquidation would be significantly lower than their going concern value.

43.3. As such, to the extent that the operations of WB Group can be restructured and returned to profitable levels, the going concern could enhance value for the creditors as a whole.

43.4. In view of the intention to repay the ABL lender, a significant portion of the security in support of the interim financing would consist of security over accounts receivable and inventories, which are not presently given as security, except in support of the ABL financing. The margining value allocated to the accounts receivable and inventories in the context of the ABL loan (and, similarly, in the context of the interim financing offer) is approximately US$70 million. The carrying value of the inventories and accounts receivable is estimated to be approximately US$160 million.

43.5. The internally prepared financial statements of WB Group suggest that the fixed assets (property, plant and equipment) have a carrying value of $508 million (on an original cost of $1.1 billion), segregated as follows:

		US$ ('000s)	
		Cost	**Carrying value**
	WB Canada	883,556	392,743
	Bear Island	254,982	115,525
	Total	1,138,538	508,268

43.6. In summary, the interim financing facility of US$140 million represents an additional indebtedness of approximately US$70 million[5], which needs to be secured by the assets of WB Group, and the principal asset of WB Group is fixed assets having a carrying value of approximately US$500 million.

44. Based on the information and explanations received, and the discussions with management of WB Group and representatives of Lazard, we have no reason to question the good faith character of the negotiations between WB Group and the proposed interim lender, and we consider that the terms of the financing are reasonable in the circumstances.

FINANCIAL THRESHOLDS CONTEMPLATED IN THE DRAFT INITIAL ORDER

45. The draft Initial Order provides for a number of charges and financial thresholds that are described herein:

Administration Charge

46. The Administration Charge as described in the draft Initial Order provides for an amount of CDN$3 million for the Monitor, the Monitor's Canadian and U.S. legal counsel, the Applicants' Canadian and U.S. legal counsel and the Applicants' financial advisors, as security for the professional fees and disbursements incurred both before and after the making of the Initial Order in respect of these proceedings, in addition to the retainers already provided. The Administration Charge threshold has been established based on the various professionals' previous history and experience with large cross border restructurings of similar magnitude and complexity. EYI believes that such charge is required and reasonable under the circumstances.

D&O Charge

47. The directors and officers' charge (the "**D&O Charge**") as described in the draft Initial Order provides for an amount of CDN$13 million to indemnify the directors and officers from and against all costs, charges, expenses, claims, liabilities and obligations which may arise on or after the date of the Initial Order provided that the liability relates to his or her capacity as director and officer and that the costs, charges, expenses, claims, liabilities and obligations are not attributable to a gross or intentional fault of the director or officer.

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[5] after repayment of the ABL loans and the cash collateralization of the letters of credit.

48. White Birch asserts that the directors and officers insurance currently available is not sufficient to adequately protect the directors and officers against the liability they may incur in the context of the restructuring proceedings under the CCAA, and in the context of the insolvency of WB Group, that additional insurance would not be available or would be prohibitively expensive. EYI considers that this assertion is reasonable.

49. The amount of the D&O Charge was estimated by management of WB Group taking into consideration hourly and salaried payroll, sales commissions, vacation pay, fringe benefits, current pension costs and sales taxes. EYI believes that such charge is required and reasonable under the circumstances.

Asset sales

50. The draft Initial Order presented to EYI contemplates some level of discretion of the Applicants in selling or disposing of assets without a specific authorization from the Court. The requested discretionary authority is intended to avoid cluttering the Court with approvals of transactions that are not significant, and is premised on the general power of the Court to make orders, as provided in section 11 of the CCAA.

51. The discretion contemplated in the draft Initial Order would be available to the Applicants only with the approval of the monitor appointed by the Court in respect of these proceedings, and only inasmuch as the amounts of the proposed transactions do not exceed CDN$4 million in the aggregate, and is not a transaction with a party that would be considered a related party (as defined in section 2(2) of the CCAA).

52. EYI considers that the above request of the Applicants is reasonable, and EYI would be prepared to review the proposed transactions as outlined in the draft Initial Order, if the Court agrees that it is appropriate to make such an order.

RESTRUCTURING ALTERNATIVES

53. At this stage, WB Canada expects that its financial difficulties can be resolved through a restructuring of its balance sheet, through a compromise of its debt and/or a conversion of its debt into equity and/or additional injection of capital into WB Canada by its ultimate shareholders.

54. At this preliminary stage, it is not possible to unveil a comprehensive restructuring strategy as WB Canada and its advisors have been engaged in efforts to rescue the business and avert the liquidity crisis. The proceedings in Canada and in the U.S. will contribute to a stable environment to develop a restructuring plan.

55. WB Canada has a very significant market presence in the sectors in which it competes, generates very substantial EBITDA and has a significant asset base. It is clear to EYI that several different restructuring approaches are available to WB Canada including refinancing, asset sales, recapitalization, or a combination thereof.

56. Once the business is stabilized, WB Canada and its advisors will be able to update this Court on WB Canada's restructuring alternatives.

57. Based on the discussions held so far, EYI has no reason to question the good faith of WB Canada in its initiating restructuring proceedings under the CCAA.

CONCLUSIONS AND RECOMMENDATION

58. EYI believes that the Applicants should be granted the benefit of protection provided under the CCAA, so that they could restructure and file a plan of arrangement for the best interest of all stakeholders.

59. EYI believes that WB Group needs additional financing during the pendency of the restructuring proceedings, in a significant amount, consistent with the amount contemplated in the interim financing offer from the Black Diamond Group. EYI further believes that the interim financing offer was negotiated in good faith, is reasonable in the circumstances, and that WB Group should be authorized to execute a credit agreement with terms consistent with the interim financing offer.

60. Further to EYI's review of the proposed Initial Order, EYI supports the thresholds proposed in the Initial Order, including:

60.1. An Administration Charge of CDN$3 million;

60.2. A D&O Charge of CDN$13 million; and

60.3. Asset sales of CDN$4 million in aggregate;

All of which is respectfully submitted this 23rd day of February 2010.

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

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

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

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

SCHEDULE A – LIST OF APPLICANTS AND AFFILIATES

Applicants:

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

Partnerships

Stadacona Limited Partnership

F.F. Soucy Limited Partnership

F.F. Soucy, Inc. & Partners, Limited Partnership

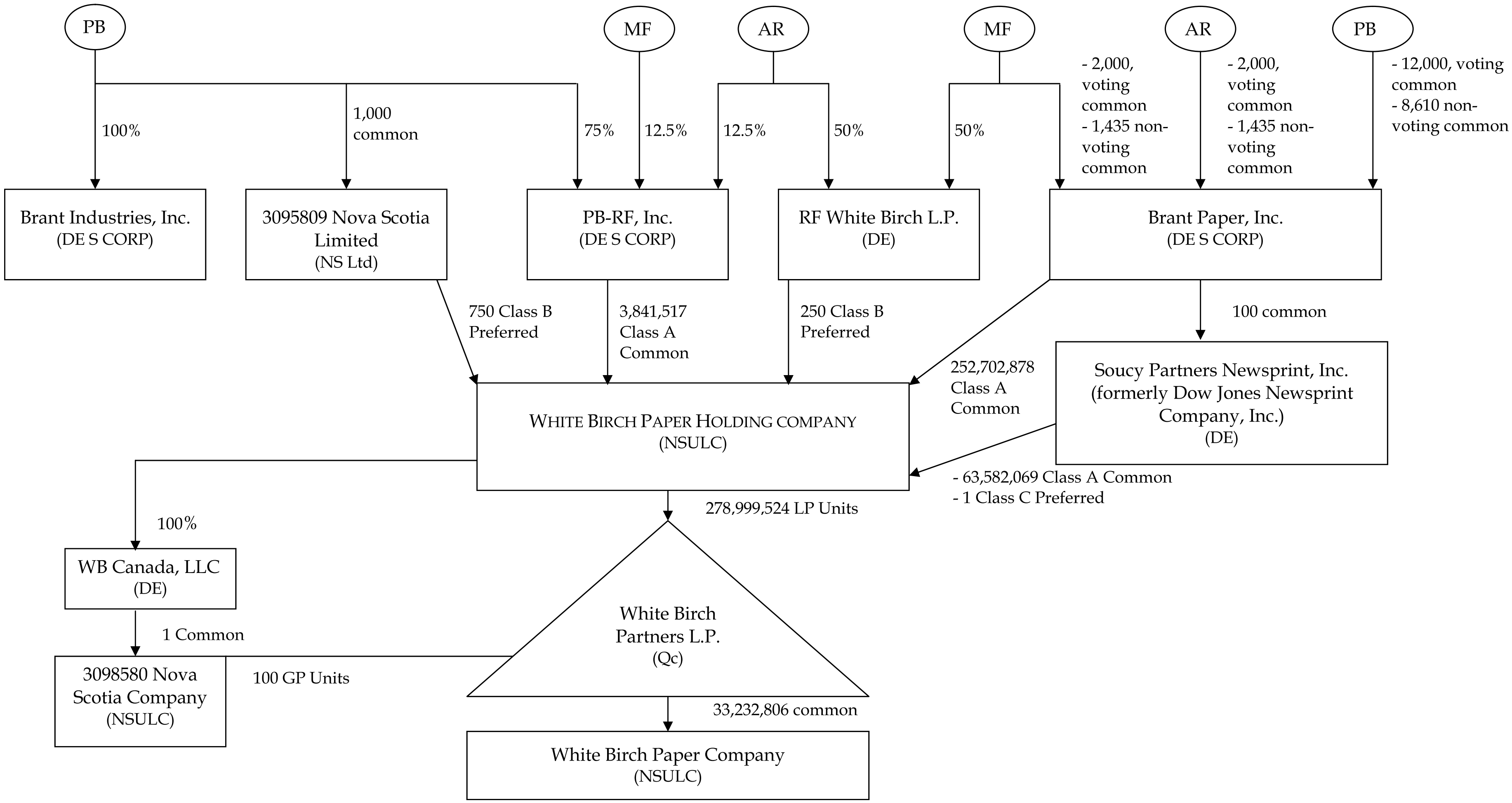
Foreign Affiliate (not addressed by the proceedings under the CCAA)

Bear Island Paper Company LLC

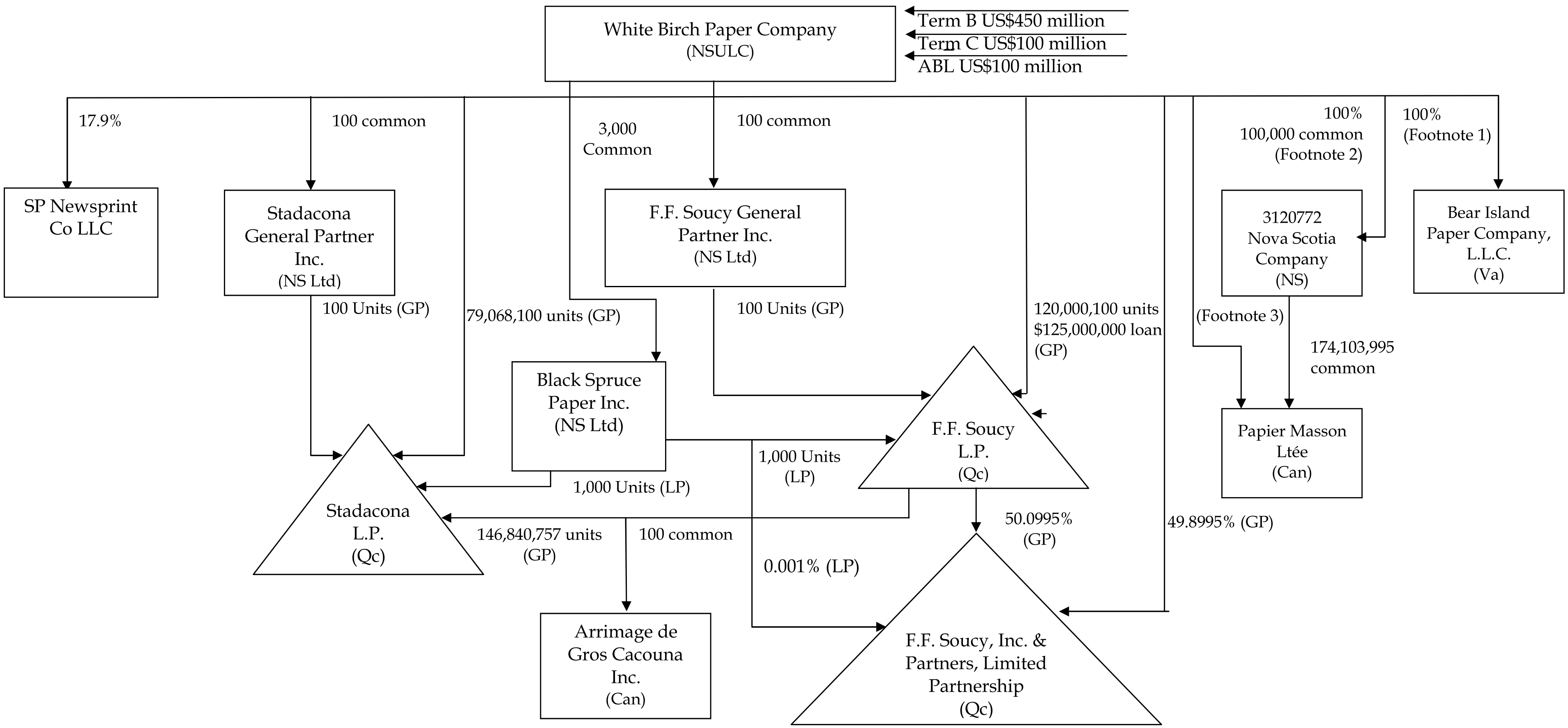
Appendix A – Corporate Organization Chart

Top Structure

Last update: Sept 10, 2009



Bottom Structure



1: Pre-closing membership interests, plus $143,545,115 of interests subscribed for at Closing on April 8, 2005.
2: One common share was issued for C$1, and then 99,999 common shares were issued for C$104,104,000. In November 2006, $2,800,000 was returned to White Birch Paper Company by way of a return of capital.
3: Papier Masson Ltée issued White Birch Paper Company a promissory note for C$45,896,000 on January 27, 2006. Principal payments are made periodically.