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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 OF ESTATE WBPC COMPANY (FORMERLY KNOWN AS WHITE BIRCH PAPER COMPANY) AND VARIOUS SUBSIDIARIES AND AFFILIATES[2]

DEBTORS

- and -

ERNST & YOUNG INC.

MONITOR

REPORT OF THE MONITOR – APRIL 14, 2015

INTRODUCTION AND BACKGROUND

1. On February 24, 2010, on a Motion made by Estate WPBC Company (formerly known as White Birch Paper Company and hereinafter referred to as "**WB**") 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. as monitor ("**EY**" or "**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].

2. Also on February 24, 2010, Estate Bipco LLC (formerly known as Bear Island Paper Company, LLC and hereinafter referred to as "**Bipco**"), a subsidiary of WB with activities in the U.S., commenced a case under the provisions of Chapter 11 of the U.S. *Bankruptcy Code*[3] (the "**Code**") (Bipco and WB Canada are hereinafter referred to collectively as "**WB Group**" or "**Companies**"). The information regarding the proceedings initiated by Bipco under the Code, together with the "first day orders" made by the Bankruptcy Court for the Eastern District of Virginia, Richmond Division ("**U.S. Court**") at the request of Bipco, can be found on the website of the claims agent retained by Bipco, Garden City Group, Inc., at www.gardencitygroup.com/cases/bip.

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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 Estate WBPHC Company (f/k/a/ White Birch Paper Holding Company), Estate WBPC Company (f/k/a White Birch Paper Company), Estate SGPI Inc. (f/k/a Stadacona General Partner Inc.), Estate BSPI Inc (f/k/a Black Spruce Paper Inc.), Estate FFSGPI Inc. (f/k/a F.F. Soucy General Partner Inc.), 3120772 Nova Scotia Company, Estate GCSI Inc. (f/k/a Arrimage De Gros Cacouna Inc.), Estate PML Inc. (f/k/a Papier Masson Ltée.), SSEC L.P. (f/k/a Stadacona L.P.), FFS L.P. (f/k/a F.F. Soucy L.P.), and FFSIA L.P. (f/k/a F.F. Soucy, Inc. & Partners, Limited Partnership).

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

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 more complete 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 Estate WBPC 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 the 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 restructure their business and financial affairs.

5. The stay of proceedings has been extended from time to time, and the most recent order extending the stay of proceedings was made on March 13, 2015, and provides for an extension of the stay of proceedings until May 1, 2015.

6. Also on March 13, 2015, the Court made an order authorizing WB Canada to call a meeting of creditors to consider a proposed plan of compromise. The proposed plan of compromise ("**Plan**") was filed on March 17, 2015, and the meeting of creditors to consider the Plan is scheduled to take place at the Sheraton Center Hotel, 1201 René-Lévesque Blvd. west, in Montréal (Québec), on April 22, 2015 at 9:30 a.m. (Montreal time).

7. The present report is intended to provide the creditors and the Court with information relevant to consider and vote on the Plan. This report is presented under the following headings:

   7.1. Introduction and background;

   7.2. Terms of reference and disclaimer;

   7.3. Description of Plan; and

   7.4. Conclusions and recommendation.

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[4] The entities which requested relief under Chapter 15 of the Code are Estate WBPC Company (f/k/a White Birch Paper Company), Estate SGPI Inc. (f/k/a Stadacona General Partner Inc.), Estate PML Inc. (f/k/a Papier Masson Ltée.), SSEC L.P. (f/k/a Stadacona L.P.), FFS L.P. (f/k/a F.F. Soucy L.P.), and FFSIA L.P. (f/k/a 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*.

TERMS OF REFERENCE AND DISCLAIMER

8. In preparing this report, EY has relied upon unaudited 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, EY expresses no opinion or other form of assurance in respect of such information. Indeed, in view of the purpose of this report, some of the financial information herein may not comply with generally accepted accounting principles.

   Some of the information referred to in this report consists of forecasts and projections, which were prepared based on estimates and assumptions. Such estimates and assumptions are, by their nature, not ascertainable and as a consequence no assurance can be provided regarding the forecasted or projected results, which should be considered as a mere estimate and expectation of what may occur.

   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.

9. 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.

DESCRIPTION OF PLAN

Summary of proceedings to date

10. The Initial Order was made on February 24, 2010 and was extended on several occasions since that date. The most recent order of the Court extending the Initial Order until May 1, 2015 was made on March 13, 2015. The application for an extension of the stay of proceedings provided for in the Initial Order was the 27th such application since the inception of the proceedings under the CCAA.

11. The restructuring process that was established shortly after the Initial Order was granted provided for a very rapid and aggressive process to negotiate a compromise with the Companies' secured creditors and major unsecured creditors, and in the absence of an agreement, to initiate a sales and

investor solicitation process, with a view to attract new investors or sell the operations. The stated intention was to execute the restructuring and exit the proceedings under the CCAA rapidly. While the objective was a rapid restructuring process, the implementation proved to be lengthy.

12. A sale and investor solicitation process ("**SISP**") was put in place in late April 2010, which led to the approval of a transaction in late September 2010. The transaction closed in mid September 2012. Through this transaction, BD White Birch Investment LLC or entities designated by it (collectively, "**BDWBI**") purchased substantially all of the assets of WB Group. Since the date of the closing, the operations formerly carried on by WB Group have been carried on by BDWBI. Contemporaneously with the closing, the various entities in the WB Group changed their names, to avoid confusion with the newly created operating entities, which have names similar to those formerly used by members of the WB Group[7].

13. Since the date of the closing of the transaction, negotiations have been carried on between the Monitor (in consultation with some of the larger unsecured creditors), BDWBI, the Companies and the Official Committee of Unsecured Creditors of Bipco with a view to resolve various issues that arose from the transaction, and in particular the allocation of the net proceeds of sale between WB Canada and Bipco.

14. An agreement was reached in late February 2015 regarding the allocation of net proceeds between the estates (the "**Estate Allocation Compromise and Settlement Agreement**", or "**EACSA**"), subject to the approval of the creditors and the Court. The EACSA provided WB Canada with the basis to prepare a plan of compromise, which was filed on March 17, 2015.

Estate Allocation Compromise and Settlement Agreement

15. The EACSA was circulated to the creditors together with the Plan, as an Appendix thereof. The EACSA and the Plan are intimately interrelated, in that the Plan is subject to the approval of the EACSA by the Court, and the EACSA is conditional on the approval of the Plan by the creditors and the Court.

16. The provisions of the EACSA are outlined and explained in the Monitor's report dated March 10, 2015[8]. With respect to the EACSA itself (taken in isolation from the Plan), the Monitor considers that the EACSA represents a fair compromise of the estate allocation issues.

Plan of compromise

17. The Plan is essentially a liquidation plan, which provides for a pro rata distribution among all creditors of the proceeds from the EACSA, and certain funds contributed by the Companies' shareholders (discussed later in this report).

18. If the creditors accept the Plan (and, in consequence thereof, accept the EACSA) and if the Court approves the Plan and the EACSA, the distribution to the creditors would occur on a consolidated basis as opposed to a distribution for each individual estate comprising WB Canada.

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[7] See footnote no 2 above.

[8] Monitor's report to the Court dated March 10, 2015, accessible on the Monitor's website at www.ey.com/CA/WhiteBirch, at paragraphs 16 to 20.

19. Based on the information presently available the Monitor expects that the funds available for distribution should be approximately $50 million, and that the total amount of claims that would participate in a distribution would be between $1 billion and $1.2 billion. As such, the Monitor expects that the distribution to the creditors should represent between 4% and 5% of the creditors' claims.

20. The Monitor cautions the reader that this amount cannot be established precisely, as certain factors will affect the distribution, in particular the rate of exchange on U.S. currency, the costs of administration of the Plan, and the quantum of the claims that will ultimately be admitted as valid claims.

21. The Monitor cannot presently determine the amount that would likely be distributed to the creditors if the Plan were rejected and the Companies became bankrupt, however the Monitor is of the view that there is a significant advantage for the creditors from a distribution on a consolidated basis, as is contemplated in the Plan.

    If the distribution is not done on a consolidated basis, significant time and expenses would be required to further segregate the proceeds amongst each of the entities comprising WB Canada, and the distribution could be substantially delayed and diluted, as the First Lien Lenders[9] and Second Lien Lenders[9] could have a claim for the full amount against each of the entities comprising WB Canada.

Preferential payments, transactions at under value and other reviewable transactions

22. The CCAA imports by reference certain provisions of the *Bankruptcy and Insolvency Act*[10] ("**BIA**") and states that the provisions of sections 38 and 95 to 101 of the BIA apply to proceedings under the CCAA, unless the plan provides otherwise. Essentially, the sections referred to provide for the following:

    22.1. Section 38 of the BIA refers to the right of a creditor to take proceedings in its own name, at its own expense and risk, but for its own benefit, in situations where the trustee refuses or neglects to take proceedings that the creditor believes would benefit the estate; and

    22.2. Sections 95 to 101 of the BIA are sections addressing recourses to declare that a transaction is void or voidable if it was a preference, or to annul a transaction or obtain the difference between the consideration received and the fair market value of the property disposed of in the case of a transaction at undervalue, or to recover payments made in connection with dividends or redemption of shares in certain circumstances.

23. As indicated above, the CCAA states that a plan may provide that sections 38 and 95 to 101 of the BIA do not apply to the plan, however in such a circumstance, the Monitor is required to comment on the reasonableness of the decision to exclude such provisions from the plan[11].

24. The Plan filed by WB Canada contains such a provision declaring that sections 38 and 95 to 101 of the BIA shall not apply to the Companies' Plan.

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[9] As defined in the Plan.

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

[11] Section 23(1)(d.1) of the CCAA.

25. The Monitor prepared a lengthy report to the creditors and the Court, dated February 6, 2014, regarding the Monitor’s analysis of the Companies’ financial affairs and transactions prior to the filing of the petition for the Initial Order. The Monitor’s report concludes essentially as follows:

    25.1. With regards to transactions with unrelated third parties or parties dealing at arms’ length, nothing has come to the Monitor’s attention that would cause it to question the appropriateness of any payment made by the Companies in the 3 months preceding the Initial Order.

    25.2. With regards to transactions with related parties and parties dealing other than at arms’ length, the Monitor was able to identify certain transactions that may warrant further review and analysis, as such transactions could conceivably be found by a Court to be open for challenge under sections 95 to 101 BIA, depending on the circumstances. The transactions in question were described in some detail in the report dated February 6, 2014.

26. The Plan provides for a contribution of $200,000 on behalf of the shareholders of WB Group, as consideration for various releases in favor of the shareholders under the Plan. The issue of the contribution to be made on behalf of the shareholders has been the object of discussions and negotiation with some of the significant creditors of WB Canada after the filing of the Monitor’s report dated February 6, 2014.

27. In view of the fact that the contribution has been discussed and is acceptable to some of the larger unsecured creditors, and the fact that a distribution on a consolidated basis (as contemplated in the Plan and the EACSA) is advantageous for most of the unsecured creditors both in terms of amount to be received and timing, the Monitor considers that the inclusion of the provision of the Plan excluding therefrom the application of sections 38 and 95 to 101 of the BIA is reasonable in the circumstances.

Plan Releases

28. The Plan (and the EACSA) provides for wide ranging releases, in particular in favour of the shareholders, directors and officers of the Companies, First Lien Lenders, Second Lien Lenders, and BDWBI.

29. As regards the release in respect of the shareholders, directors and officers of the Companies, the issue of the release and the contribution therefor is addressed earlier in the report, in paragraphs 26 and 27.

30. As regards the First Lien Lenders and Second Lien Lenders, and BDWBI, the Monitor considers that the provision of the EACSA and the Plan contemplating a distribution on a consolidated basis, represent a substantial advantage for the creditors, and a valuable contribution to the Plan. In view of the foregoing, the Monitor considers that the contemplated releases are reasonable in the circumstances from the perspective of the estate.

Retired employees

31. In its report dated March 10, 2015, the Monitor reported (*inter alia*) on the status of the discussions between the Regroupement des Employés Retraités de White Birch – Stadacona (“**RERWBS**”) and BDWBI, in connection with an undertaking extended by BDWBI to the retired employees of WB Canada through letters dated August 28, 2012. The Monitor indicated

in this report that it was aware the parties were exchanging correspondence regarding the possibility of continuing negotiations to determine the obligation of BDWBI, if any, in connection with the above-mentioned undertaking, but that based on the most recent correspondence forwarded to the Monitor, it appeared these discussions are at a standstill.

32. The Monitor has also been informed by retired employees of other plants that no offer has yet been made to these retired employees by BDWBI, as of the date hereof. The Monitor is aware that BDWBI has indicated in the past that an offer to the retired employees would only be formulated after various other issues are resolved.

33. The Monitor has communicated with BDWBI to assess its intentions as regards the undertaking formulated in the letters dated August 28, 2012, but these communications have not been answered.

34. The Monitor considers that the releases formulated in the EACSA and in the Plan could have an impact on third parties, and in particular in respect of any remaining obligation of BDWBI towards the retired non-unionized employees.

CONCLUSIONS AND RECOMMENDATION

35. Based on the foregoing, the Monitor believes that the EACSA and the Plan are reasonable in the circumstances and recommends their acceptance by the creditors. The Monitor notes that the releases provided for in the Plan and in the EACSA may affect the obligations, if any, of BDWBI towards the retired non-unionized employees.

All of which is respectfully submitted this 14th day of April 2015.

ERNST & YOUNG INC.
Monitor appointed by the Court in the matter of
the plan of compromise of Estate WBPC Company *et al.*

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

Per: Jean-Daniel Breton, CPA, CA, FCIRP
Senior Vice-President