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CANADA
PROVINCE OF QUÉBEC
DISTRICT OF MONTRÉAL
NO: 500-11038474-108

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 – FEBRUARY 21, 2012

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 now scheduled to expire on February 24, 2012.

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

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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.

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 ("**U.S. Court**") 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 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 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 restructure their business and financial affairs.

5. The Initial Order as previously extended is scheduled to expire on February 24, 2012, and the Applicants have indicated their intention to seek a further extension of the Initial Order, until March 30, 2012.

6. The present report is intended to provide the Court with information relevant to the motion for an extension of the Initial Order, and more particularly on the current activities of WB Group and the progress of its restructuring efforts. As well, the present report comments the results for the fiscal year ended December 31, 2011. This report is presented under the following headings:

    6.1. Introduction and background;

    6.2. Terms of reference and disclaimer;

    6.3. Internal Financial Statements for the year ended December 31, 2011;

    6.4. Current activities;

    6.5. Status of Proceedings;

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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*.

6.6. Available options; and

6.7. Conclusions and recommendations.

TERMS OF REFERENCE AND DISCLAIMER

7. 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 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.

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.

8. 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.

INTERNAL FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2011

9. The Companies' fiscal year ends on December 31. The internally prepared financial statements for the year ended December 31, 2011 are attached to this report as Appendix A. While the financial statements are not complete as they do not include all of the disclosure that is required to conform with generally accepted accounting principles, we have been informed that Management considers that the internally prepared financial statements provide reasonable information on the financial position and results of operations.

10. The financial statements indicate the following:

    10.1. The assets are reported to have a carrying value of US$710.6 million, comprised primarily of current assets (cash, accounts receivable, inventories and other current assets) of US$259.9 million, fixed assets of US$425.1 million and investments in affiliated entities (SP Newsprint) of US$24.6 million. The liabilities are reported to total US$972.8 million, including US$173.4 million in pension and other post retirement benefit obligations, leaving an equity deficit of US$262.2 million.

    The Company has not yet updated the information regarding the pension deficit. Based on the information presented to us in the context of the motions filed by the labour unions, pension plans and retirees with a view to obtain a modification of the Initial Order[7], the obligations relating to pension and other post retirement benefit costs are significantly higher than US$173.4 million, and are presently estimated to be in the $300 million to $400 million range[8]. If the pension plan deficit liability were adjusted to reflect a $400 million liability, the equity deficit would increase to approximately US$655.5 million[9]

    Based on our understanding of the security granted by the Companies to their lenders, the interim financing lender has a Court ordered prior ranking charge and security as per the terms of the Initial Order creating the Interim Financing Charge (ranking after only the Administration Charge and the D&O Charge) over all assets and undertakings of the Companies, in support of its debt of approximately US$87.9 million at December 31, 2011. The conventional first ranking term lenders, swap counterparties and conventional second ranking term lenders have security over all assets and

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[7] Motions filed in connection with the WB Group's motion for an extension of the Initial Order in November 2011. These motions were heard by the Court on January 26 and 27, 2012, and the Court has not yet ruled on these motions.

[8] In the context of the preparation for the hearing held on January 26 and 27, 2012, the Company's actuaries prepared an estimate of the union and non-union pension plan's solvency deficit at October 31, 2011, and indicated that the deficit is estimated to be $310 million at that date. This amount does not take into consideration the potential increase in pension plan deficit due to the effect of "cliffs", or pension members who have reached or are reaching an age at which they can take an early retirement. In the material filed in connection with the motions to vary the initial order, in November 2011, the impact of the "cliffs" was estimated to be approximately $101 million for the union pension plans.

[9] Using an exchange rate of CDN$ = US$0.9833.

undertakings of the Companies, except for the cash, accounts receivable and inventories, which have a carrying value of approximately US$223.8 million[10].

We point out that while the Companies report that the assets have a carrying value of US$710.6 million[11], the results obtained from the auction held in connection with the Sales and Investor Solicitation Process ("**SISP**") undertaken by the Companies suggest that the assets have a realizable value far lower than their current reported carrying value. Based on the transaction that is presently contemplated with BD White Birch Investments LLC and certain of its subsidiaries ("**BDWBI**"), the assets' value would be in the US$200 million to US$250 million range[12]. The transaction with BDWBI is outlined in the Monitor's reports dated August 10 and September 23, 2010.

10.2. The Companies report a net loss before taxes of US$42.6 million for the year ended December 31, 2011, after taking into consideration a loss on foreign currency translation of US$11.3 million. Although a net loss was incurred, the results from operations for the year ended December 31, 2011 represent an improvement over the reported results for the same period last year, in which the reported loss was US$55.8 million after taking into consideration a gain on foreign currency translation of US$21.9 million.

The results as presented indicate that the Companies report a profit of US$5.9 million for the last quarter of fiscal 2011, after taking into consideration a gain of US$9.2 million on foreign currency translation.

10.3. The net losses from operations do not translate into an equivalent cash outflow, in view of the fact that some of the components of the revenues and expenses do not involve an outflow of cash. The Companies report net cash provided by operations of US$34.6 million, after adjusting for the non-cash items. This translates into a net increase in cash attributable to operations of US$11.9 million, after taking into consideration the changes in working capital balances.[13]

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[10] This amount includes cash collateral of US$3.3 million. 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, totalling US$43.5 million, 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.

[11] Including cash collateral of US$3.3 million.

[12] The sale price (and thus the value of the assets) cannot be determined with greater accuracy, in view of the fact that the transaction with BDWBI is based on the purchase of the assets as they will exist at closing, and that the sale price takes into consideration contract cure costs which are not yet determined.

[13] Although the accounting treatment describes the changes in working capital as cash provided by or used for working capital, this is a misnomer as some of the working capital changes are merely an adjustment to the cash actually provided by operations. For example, an increase in accounts receivable is not in reality cash used to increase working capital, but rather an adjustment to reflect the fact that cash has not yet been received in respect of current operations. Conversely, an increase in accounts payable is not in reality cash provided by working capital, but an adjustment to reflect the fact that cash has not yet been paid to a supplier.

While the operations generated cash, the overall cash position decreased by approximately US$33.6 million in the year ended December 31, 2011. The decrease is attributed for the most part to a partial repayment of the interim financing loan (US$33 million), although cash was also used for capital expenditures to maintain the fixed assets (US$11.9 million).

11. While the cash position has decreased, we consider this decrease is substantially due to the fact that the Companies repaid amounts that were borrowed in excess of the current financing requirements. As such, we consider that the decrease in cash is not indicative of an adverse change in the Companies' financial position.

CURRENT ACTIVITIES

12. The Monitor prepared several reports to the Court addressing the activities of the WB Group. The matters discussed in the said reports are still relevant, and will not be repeated herein. The present report only addresses matters that have changed since our report dated November 17, 2011.

Cash flow results/Interim Financing

13. The most recent cash flow projections filed with the Court were prepared for the 15 weeks ending February 17, 2012. For ease of reference, these cash flow projections are attached hereto as Appendix B.

14. WB Group and its advisors prepared a comparison of the actual and projected results, for the 14 weeks ended February 10, 2012, annexed to this report as Appendix C. The Monitor reviewed this comparison with management, and as a result of this review, the Monitor has no reason to doubt the reasonableness of the explanations provided for the variances.

15. Essentially, the comparison of actual and projected results for the 14 weeks ended February 10, 2012 indicates that while the projections contemplated a positive cash flow of US$17.2 million for the 14 week period, the actual results yielded a positive cash flow of US$41.5 million, or a favourable variance of US$24.2 million. A portion of this variance, or approximately US$8.2 million, is attributable to the fact that costs were forecasted to be paid contemporaneously with the closing of the transaction, and the closing has not yet taken place, and as such the "real" variance between actual and projected results is US$16.0 million.

16. As a result, WB Group's cash on hand stands at approximately US$77.6 million, as at February 10, 2012. The variance is attributed primarily to the following:

    16.1. Higher than projected collection of accounts receivable, by approximately US$10.2 million, or 4.9% of the projected amount. A portion of the variance, or US$4.8 million, is attributed to a receipt of a refund of goods and services tax ("**GST**") input tax credits that had not been provided for in the forecasts. The remainder of the variance, US$5.4 million or 2.6%, is attributed to a timing variance in the receipts and an improvement in the performance as compared with the projections.

The accounts receivable were projected to be US$53.4 million as at February 10, 2012, and they are reported to amount to US$72.5 million as at that date. If the variance were strictly related to a more rapid collection period, the variance would translate into lower accounts receivable by a like amount. The difference between the actual and projected accounts receivable, in view of the favourable variance in the cash receipts, suggests that the revenues were higher than anticipated during the projection period, by approximately US$24.5 million. The higher than projected revenues are attributed primarily to the fact that the revenues for the period were set conservatively due to the difficulty in forecasting the impact of the closure of the Stadacona plant on orders in the short term. We are informed that the projections contemplated, among other things, a very sharp decrease in volume from the Stadacona plant starting in early December 2011, while the shipments continued for a longer period while the Companies sell the merchandise on hand.

16.2. Lower than projected disbursements, by approximately US$14.0 million[14], or 7.3% of the projected amount. As mentioned earlier herein, a large part of this variance (US$8.2 million) is due to the delay in the closing of the transaction with BDWBI. The remainder of the variance, US$5.8 million or 3.0% of the projected amount, is attributable in part to a timing variance, as the Companies' purchases and payment patterns are slightly different from the projections.

The inventories were projected to be US$86.7 million as at February 10, 2012, and they are reported to amount to US$80.7 million as at that date. The Companies are reducing their inventory levels, in view of the decreased requirements resulting from the closure of the Stadacona plant in early December 2011.

We do not have current information on the accounts payable on a week by week basis, but in view of the proceedings under the CCAA and the Code, we would expect these to remain fairly stable. As such a variance on disbursements should be a fair estimate of the variance in purchases and expenses. If this assumption is correct, the difference between the actual and projected inventories, in view of the favourable variance in the cash disbursements, suggests that the costs (costs of goods sold, operating expenses, professional fees and interest) were lower than anticipated during the projection period, by approximately US$8.0 million. Taking into consideration the fact that US$8.2 million of this amount is attributed to the delay in the closing of the transaction with BDWBI, it appears that the Companies' costs were substantially in line with the projections.

17. The comparison of actual and projected results (Appendix C) also presents data compiled to isolate the results of WB Canada. The results for WB Canada indicate a favourable variance of US$15.9 million or 9.5% in receipts, and a favourable variance of US$11.1 million or 7.4% in disbursements, for a net favourable variance of US$26.9 million in the cash flow as compared with the projections. The explanations for the variances are similar to those outlined above in paragraphs 15 and 16.

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[14] Including operating disbursements, professional fees and interest.

18. The results for the 14 weeks ended February 10, 2012 indicate a significant improvement in the cash balance, by US$41.5 million for WB Group (US$42.7 million for WB Canada). This is attributed primarily to the drawdown in accounts receivable and inventory balances that result from the closure of the Stadacona plant. In effect, the reduction in accounts receivable and inventory levels represents a monetization of the working capital assets and their conversion into cash.

Overall, the changes in cash, accounts receivable and inventory positions suggest that the Companies' position improved during the14 weeks period ended February 10, 2012. However, the Monitor considers that this change is not significant in the circumstances and could be artificial if it is the result of a timing difference in the payment of accounts payable.

Updated projections

19. Management provided us with an updated cash flow projection for WB Group, for the 15 weeks ending May 25, 2012, and these cash flow projections are attached to this report as Appendix D[15]. The opening cash position on these cash flow projections represents the actual cash on hand as of February 10, 2012. The remainder of the amounts represents a projection, as the actual results for the week of February 17, 2012 have not yet been compiled.

20. The updated projections suggest that WB Group and WB Canada expect to have sufficient liquidity to carry out their business in the normal course, throughout the period covered by these projections. It should be noted that the projections contemplate that the monetization of current assets due to the closing of the Stadacona plant will continue during the projection period, which tends to increase cash on hand while decreasing the asset base.

STATUS OF PROCEEDINGS

21. 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 was made on January 27, 2012 and grants an extension until February 24, 2012.

22. As mentioned in the most recent reports of the Monitor[16], the Companies' restructuring activities, at this stage, continue to be focused on the sale process, as the Companies are preparing for the closing of the transaction that was approved by the Court by order made on

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[15] Management has also provided us with an updated cash flow projection for WB Canada, for the 15 week period ending May 25, 2012, extracted from the above-mentioned projection for the WB Group, and prepared on the same basis. This cash flow projection is attached as Appendix E.

[16] Reports of the Monitor dated December 7, 2010, February 18, May 6, and August 17, 2011, all of which address requests by the Companies for an extension of the delay to file a plan of arrangement, and the report of the Monitor dated September 27, 2011, addressing the allocation of proceeds from the proposed sale between the Canadian and U.S. estates.

September 28, 2010[17], which transaction contemplates the sale of substantially all of the Companies' assets and undertakings to BDWBI.

23. The conditions to closing have not yet been fulfilled. We understand that the issue of negotiating an agreement with the union representing the employees of WB Canada remains the principal unresolved matter, and that the main hurdle is still the issue of the pension deficit and pension benefits on a going forward basis.

Status of negotiations concerning pension issues

24. In its report dated September 27, 2011, the Monitor indicated that a conciliator had been appointed at the request of WB Canada, with a view to assist in advancing the negotiations. In its report dated November 17, 2011, the Monitor indicated that although the negotiations has been set to resume in mid October 2011, the negotiations were suspended indefinitely by the conciliator who had come to the conclusion that the parties were at a deadlock and that it would not be productive to hold further discussions until the parties are willing to compromise their positions.

25. In November 2011, the Companies decided to temporarily shut down the Stadacona plant, in view of the decrease in demand for paper products and the higher production costs at that facility.

26. The union representing the employees ("**SCEP**") applied to the Court requesting, inter alia, that the decision to close the Stadacona plant be stayed, or in the alternative that the Court declare that the closure of the Stadacona plant is a disguised lock-out and authorize the employees to initiate a strike action.

27. The hearing on this aspect of the motion by SCEP was held on November 28 and 29, 2011, and the Court's decision in respect thereof was rendered on December 9, 2011. The Court decided that it would hear at a later stage the various arguments raised by the union, the pension plans and the retirees by way of their motions to amend the Initial Order. The issues raised in these motions to amend the Initial Order were addressed in the Monitor's report dated November 25, 2011.

    A hearing was held in connection with some of the issues raised in these motions, namely whether or not the Initial Order should be modified to provide for on-going payment of past service contributions due to the pension plans and/or to provide that the unpaid amounts due to the pension plans for past service contributions rank in priority to the interim financing charge. The Court has taken the matter under advisement.[18]

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[17] A motion for leave to appeal from this judgment was filed on October 15, 2010, and a judge of the Court of Appeal dismissed such motion on October 25, 2010.

[18] At this stage, there remains one issue raised in the motions to amend the Initial Order which has not yet been dealt with by the Court, namely the issue of the appropriateness of the continued payment of a management fee to the Companies' management group. The Court decided this issue should be addressed at a later date, although the timing of this hearing has not yet been determined.

28. At the hearing on November 29, 2011, the Monitor was presented with a report from the Companies and BDWBI summarizing the negotiations to date and outlining an intention to reinitiate negotiations on a plant by plant basis.

29. We understand that offers were forwarded to the local union sections for the Soucy and Masson plants in mid December 2011. These offers were overwhelmingly rejected by the employees, as recommended by the president of SCEP (Appendix F).

30. In early January 2012, Management had meetings and discussions with representatives of the government of Québec to assess the possibility of restarting the operations at Stadacona. Based on preliminary discussions, the Companies made a "final" offer to the union in connection with the collective agreements for Stadacona, with a view to recommence operations with some support from the government and the City of Quebec.

31. The second part of the hearing of the motions by the union, the pension plans and the retirees, which was initially scheduled to proceed on January 11 and 13, 2012, was postponed to allow the union and its members to focus their attention on the Companies' offer with respect to Stadacona.

32. We have been informed that this offer was rejected by the employees in a vote of the members, by a very large majority. As a result of the rejection of the offer, the Companies decided that the shutdown of the Stadacona plant should be permanent, and issued termination notices to the employees.

33. During the period from mid December 2011 to the end of January 2012, we understand there has been some discussion with the local union sections representing the Soucy and Masson plants, although we were informed that little or no progress was made in these discussions.

34. The second part of the hearing on the motions by the union, the pension plans and the retirees was held on January 26 and 27 2012. The Court has not yet rendered its decision regarding this aspect of the motions.

35. The Monitor received a report from the Companies and BDWBI at the end of the hearing at Court on January 27, 2012 (Appendix G). The report suggests that representatives of the government of Québec continue to be in communication with Management to assess whether it is possible to reverse the decision to permanently shut down the Stadacona plant. We understand from this report and subsequent discussions with Management that the Companies and BDWBI have agreed to participate in a negotiation session that was scheduled to commence at the end of January 2012.

36. The Monitor has been informed that meetings are being held and discussions are continuing, on a plant by plant basis for each of the plants including Stadacona. The most recent status report that was communicated to the Monitor was made by the attorney representing the SCEP (Appendix H). This report suggests that significant progress was made between the end of January and the middle of February 2012, in respect of each of the three plants. The report states that intensive negotiation sessions are continuing with the assistance of the Québec Ministry of Labour, with a view to arrive at an agreement regarding the pension plan issues.

37. At the date of drafting of the present report, the actual content of these discussions had not been disclosed to the Monitor, although the Monitor was informed by Management that a tentative agreement was reached on February 20, 2012, in connection with the Soucy and Masson locations. The Monitor was informed that the tentative agreement still has to be submitted for approval by a vote of the union members. The Monitor has not been informed of the timing of this vote.

The Monitor understands that the discussions are continuing in connection with the Stadacona plant.

38. As mentioned in previous reports[19], the Companies and BDWBI still have to obtain an authorization from Industry Canada pursuant to its review of the proposed transaction under the *Investment Canada Act*[20], before the Companies can proceed to the closing of the proposed transaction with BDWBI, once an agreement with the employees regarding the collective bargaining agreement is finalized.

Allocation of Proceeds between the Canadian and U.S. estates

39. The issue of the allocation of the proceeds from the sale contemplated with BDWBI was addressed in the Monitor's report dated September 27 and November 17, 2011.

40. Since the issuance of the report dated November 17, 2011, there has been little or no progress on the issue. The Monitor has been advised that Bear Island postponed the hearing on its motion for confirmation of its plan, originally scheduled for November 22, 2011. The hearing has been postponed on several occasions, as the determination of the allocation is premature until the impediments to the closing of the sale are resolved.

AVAILABLE OPTIONS

41. In the course of the hearings held since the filing of the Companies motion for an extension of the Initial Order, in November 2011, the Court requested that the Monitor provide it with its comments on alternatives, in the event that the conditions precedent to a closing are not satisfied (or about to be satisfied imminently) at the time of the next motion for an extension of the Initial Order.

42. The Initial Order is scheduled to expire February 24, 2012, and although the Monitor has been informed that progress has been made in the negotiations for a new collective agreement and the treatment of the pension plan liabilities, the issues have not yet been resolved.

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[19] See in particular the report of the Monitor dated May 9, 2011, at paragraph 13.

[20] *Investment Canada Act*, R.S.C. 1985, c. 28 (1st supp.), as amended.

43. The Monitor considers that in the event it became impossible to complete the transaction contemplated in the agreement of purchase and sale negotiated with BDWBI, as approved by the Court on September 28, 2010, two alternatives are imaginable, namely:

43.1. That the Companies forego the process of restructuring through a sale of assets and try to offer a settlement or compromise to the creditors, through a payment of a portion of their debt over time.

43.2. That the Companies' assets are offered for sale in a new, alternative sale process.

44. With regards to the first option, a settlement with the creditors, the Monitor believes this alternative is likely not viable. The Monitor makes this assessment in view of the need to obtain financing for the operations; the limited cash flow generated by the operations in the present structure; and the extent of the secured and unsecured debt load of the Companies.

The Monitor believes that if the restructuring is carried out as a settlement with the creditors, the Companies would still have to obtain significant concessions from the employee unions, which have publicly criticized the current management and principals of the Companies, bringing doubt to the possibility of a rapid settlement and compromise of the issues.

As well, the Monitor believes the Companies will require financing on an on-going basis for its operations and for capital improvements, and this financing may be difficult to obtain without additional capital injections from the Companies' shareholders. Additional capital injections by the shareholders are only likely to be made in situations where there is concession from the employees on the pension deficit issue, and/or where the Companies' debt load is significantly curtailed.

Considering the extent of the secured and unsecured debt, the requirement for financing and capital injection presupposes that significantly all of the secured debt due to the First Term Loan be written off, and that an insignificant amount be offered to the ordinary unsecured creditors, if at all.

As such, the likelihood of success of such a restructuring process is doubtful at best.

45. With regards to the second option, namely the inception of a new, alternative sale process, this option is the most likely possibility.

46. The Monitor believes, however, that the sale process would have to be significantly modified, to allow flexibility from the perspective of the potential purchasers, regarding whether they are interested in the assets on a going concern basis, or in parcels to liquidate same.

More specifically, the Monitor believes that it is unlikely that a sale process would yield a going concern solution for all of the Companies' plants, in view of the fact that a prospective purchaser interested in acquiring the plants on a going-concern basis will undoubtedly require that an agreement be reached with the employees regarding the terms and conditions of employment for the future.

As the pension deficit issue has proven to be a difficult hurdle for BDWBI in completing a transaction, it is likely that a prospective purchaser interested in the plants to operate them as a going concern would encounter similar hurdles and experience similar delays in completing a transaction. BDWBI has indicated that unless the pension deficit issue is resolved, it would be impossible to attract investors and satisfy lenders. The Monitor expects a prospective purchaser contemplating an acquisition of the plants to operate them as a going concern would be faced with the same difficulties.

47. In view of the foregoing, the Monitor believes the sale process should be structured in a way such that a prospective purchaser could acquire the assets by parcels or lots, such that a prospective purchaser would not be compelled to purchase an entire plant or several or all of the plants, but would have this opportunity if the prospective purchaser wishes.

48. Again, while it is not excluded that an offer or offers could be received for one or more of the plants on a going concern, the Monitor believes it is unlikely that such an offer would be received for one of the Canadian plants, and that indeed it is far more likely that the process would result in a liquidation of the Companies' assets and dismantling of the plants. The Monitor comes to this assessment in view of the current environment, where there is an overcapacity in the market, demand is dwindling and on the need for any prospective purchaser to resolve on a going-forward basis the pension deficit.

49. The Monitor strongly believes that it would be preferable to await the conclusion of the currently undertaken sale process before implementing a new sale process, given the likelihood that it would lead to a liquidation of the plants, resulting in significant loss of employment and dire consequences for all important stakeholders.

To date, the operations during the pendency of the Initial Order do not appear to have caused a prejudice to any of the creditor groups.

The pension funds and retirees have indicated in the past that their position has deteriorated since the issuance of the Initial Order. While the pension deficit appears to have increased significantly, this increase is not attributed to the operations, nor to the suspension of amortization payments since the issuance of the Initial Order, but rather to changes in actuarial methods used in estimating the pension deficits, changes in expectations regarding market conditions, and the fact that retirees continue to receive their pension without abatement although the pension plan is underfunded. These factors are not linked to current operations, but rather represent for the most part a refining of an estimate that is prepared periodically by actuaries, regarding a liability that will only be known with certainty when the pension plan is liquidated.

Since the operations do not appear to cause a significant prejudice to creditors, and in view of the fact that BDWBI has the largest economic interest at stake, we consider the discussions should be allowed to continue until BDWBI decides that it will be impossible to reach a compromise with the employee union, as the case may be.

CONCLUSIONS AND RECOMMENDATIONS

50. The Initial Order as previously extended is scheduled to expire on February 24, 2012, and the Applicants have indicated their intention to seek a further extension of the Initial Order, until March 30, 2012.

51. The Monitor believes it is reasonable and appropriate to grant the extension requested in order to allow the discussions between the Companies, BDWBI and the union representing the employees of WB Canada to continue, to see the transaction close as soon as possible.

52. In the present circumstances and based on the projections submitted by the Companies, the Monitor believes that a further extension of the stay of proceedings until March 30, 2012, to allow WB Group to complete the sale process, would not be prejudicial to the creditors of WB Group, provided the delay is used productively.

53. Based on discussions with representatives of WB Group, the Monitor believes WB Group has acted and is continuing to act in good faith and with due diligence.

54. Based on the foregoing, the Monitor recommends that the Court grant an extension of the stay of proceedings as requested by WB Group, namely up to and including March 30, 2012.

All of which is respectfully submitted this 21st day of February 2012.

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 – Internal financial statements for the year ended December 31, 2011

WHITE BIRCH PAPER COMPANY
CONSOLIDATED
FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2011

(IN UNITED STATES DOLLARS)

CONSOLIDATED WHITE BIRCH PAPER COMPANY

BALANCE SHEET
(IN U.S.$)
DECEMBER 31, 2011

ASSETS

CURRENT ASSETS :		
Cash		$ 47,463,585
Cash Collateral		3,269,584
Accounts Receivable - Trade		84,771,489
Accounts Receivable - Miscellaneous		21,491,011
Inventory:		
Raw Materials & Stores	$ 66,836,534	
Finished	22,237,162	89,073,696
Prepaid Expenses		12,956,854
Timberdeeds		0
R&D Credit Receivable		294,990
Due from Affiliates		588,379
Total Current Assets		259,909,588
PROPERTY, PLANT AND EQUIPMENT AT COST	$ 1,192,025,997	
Less - Accumulated Depreciation	(766,900,035)	425,125,962
OTHER LONG TERM ASSETS		398,545
LONG TERM INVESTMENT		553,106
INVESTMENT IN SP NEWSPRINT		24,607,107
DEFERRED FINANCING COSTS		0
Total Assets		$ 710,594,308

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES:		
Accounts Payable and Accrued Liabilities		$ 21,879,753
Pre-Petition Account Payable		52,845,996
Current Portion Long-Term Debt		0
Accrued Service Charges		596,914
Income Taxes Payable		27,502,959
Derivative Contracts		51,807,858
DIP Loan		87,955,000
First Lien Term Loan	$ 428,293,961	
Second Lien Term Loan	100,000,000	528,293,961
Accrued Interest		28,519,832
Total Current Liabilities		799,402,273
NON-CURRENT PENSION AND POSTRETIREMENT		88,052,677
DEFERRED PENSION COSTS		85,365,050
Total Liabilities		972,820,000
STOCKHOLDERS' EQUITY		
Contributed Capital		129,642,930
Retained Earnings		(345,209,854)
Accumulated Other Comprehensive Loss		(58,671,218)
Translation Adjustment		12,012,450
Total Stockholders' Equity		(262,225,692)
Total Liabilities and Stockholders' Equity		$ 710,594,308

CONSOLIDATED WHITE BIRCH PAPER COMPANY

STATEMENT OF INCOME
(IN U.S.$)
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2011 AND 2010

	2011 YEAR TO DATE	2010 YEAR TO DATE
SALES		
Gross	$ 823,835,150	$ 764,845,795
Freight	(94,888,943)	(87,926,231)
Net Sales	728,946,207	676,919,564
COST OF GOODS SOLD	(710,858,489)	(683,935,355)
Gross Profit	18,087,718	(7,015,791)
GENERAL AND ADMINISTRATIVE EXPENSE		
Service Fee	(24,715,048)	(22,945,463)
Other	(9,412,601)	(22,161,586)
Operating Profit (Loss)	(16,039,931)	(52,122,840)
OTHER INCOME (EXPENSE)		
Interest Expense	(14,590,444)	(25,536,964)
Gain (Loss) on Currency Translation	(11,313,647)	21,916,365
Deferred Financing	0	0
Interest Income	131,169	75,586
Other Income (Expense)	(777,113)	(690,880)
Net Income (Loss) from Operations	(42,589,966)	(56,358,733)
TAX PROVISION	(3,161,804)	541,450
Net Income (Loss)	(45,751,770)	(55,817,283)
RETAINED EARNING BEGINNING OF PERIOD	(299,458,084)	(243,640,801)
PRIOR PERIOD ADJUSTMENT	- 0 -	- 0 -
DISTRIBUTION DURING THE PERIOD	- 0 -	- 0 -
RETAINED EARNING END OF PERIOD	$ (345,209,854)	$ (299,458,084)

CONSOLIDATED WHITE BIRCH PAPER COMPANY

STATEMENT OF CASH FLOWS
(IN U.S.$)
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2011 AND 2010

CASH PROVIDED BY (USED FOR):			
		2011	2010
OPERATIONS			
Net Income (Loss)		$ (45,751,770)	$ (55,817,283)
Translation Adjustment		5,282,754	(9,716,842)
Accumulated Other Comprehensive Loss		0	0
Items not affecting cash			
Effect of exchange rate fluctuations on cash		7,014,715	(19,249,113)
Depreciation		57,256,193	57,907,409
Gain on sale of Property, Plant and Equipment		0	0
Amortization of Deferred Costs		1,361,802	5,741,276
Derivative Contracts		0	0
Deferred Income Taxes		0	0
Deferred Pension Costs		11,249,139	2,390,929
Non-current Pension and Postretirement		(1,799,918)	4,289,356
Other Long Term Assets		(1,832)	(54,374)
ITC & R&D Credit Receivable		0	0
Goodwill		0	0
Property, Plant and Equipment (ITC & Capital Tax)		0	0
Long Term Investment		11,307	(26,944)
Provided from operations		34,622,390	(14,535,586)
WORKING CAPITAL			
Accounts Receivable Trade	$ 6,263,222		
Accounts Receivable Miscellaneous	(7,792,700)		
Inventory	(12,041,264)		
Prepaid Expenses	2,971,021		
Timberdeeds	52,894		
Due from Affiliates	(130,608)		
R&D Credit Receivable	6,030		
Deferred Costs	0		
Income Taxes Payable	2,376,912		
Accounts Payable and Accrued Liabilities	(13,176,643)		
Accrued Service Charges	(149,609)		
Due to Affiliates	0		
Accrued Interest	(1,127,678)		
Cash provided by (used for) noncash working capital		(22,748,423)	(6,995,360)
		11,873,967	(21,530,946)
FINANCING			
Increase in Long-Term Debt		0	125,955,000
Decrease in Long-Term Debt		(33,864,555)	(46,860,869)
		(21,990,588)	57,563,185
INVESTMENT			
Disposal of Property, Plant and Equipment		363,509	503,598
Additions to Property, Plant and Equipment		(11,945,676)	(5,907,471)
		(33,572,755)	52,159,312
DISTRIBUTION TO BRANT PAPER COMPANY		0	0
INCREASE (DECREASE) IN CASH DURING THE PERIOD		(33,572,755)	52,159,312
CASH BEGINNING OF PERIOD		84,305,924	32,146,612
CASH END OF PERIOD		$ 50,733,169	$ 84,305,924

Appendix B – Cash flow projections of WB Group - 15 weeks ending February 17, 2012

White Birch Paper

15-Week Cash Flow Forecast

Weeks Ending Nov. 11, 2011 through Feb. 17, 2012

17/11/2011

Confidential

White Birch Paper
Rolling Weekly Forecast
Weeks Ended November 11, 2011 - February 17, 2012

CONSOLIDATED
In $000's

CONFIDENTIAL

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	
	Wk Ended	Wk Ending	Wk Ending	Wk Ending	Wk Ending	Wk Ending	Wk Ending	Wk Ending	Wk Ending	Wk Ending	Wk Ending	Wk Ending	Wk Ending	Wk Ending	Wk Ending	15 Week
	11/11	11/18	11/25	12/2	12/9	12/16	12/23	12/30	1/6	1/13	1/20	1/27	2/3	2/10	2/17	Total
Operating Receipts																
Bear Island	$ 2,359	$ 2,311	$ 3,992	$ 3,116	$ 2,806	$ 2,400	$ 3,975	$ 3,200	$ 3,110	$ 2,500	$ 3,700	$ 2,505	$ 3,500	$ 2,450	$ 3,838	$ 45,761
Stadacona	7,863	7,839	8,109	7,656	5,787	7,712	6,240	10,058	7,381	748	-	2,908	-	-	-	72,300
F. F. Soucy	7,646	2,452	2,297	3,703	2,838	2,500	3,012	3,000	3,969	4,024	3,128	3,100	4,501	3,262	3,070	52,502
Papier Masson	3,279	3,108	3,271	4,485	3,659	3,185	2,602	2,832	3,678	2,429	2,703	2,743	3,836	2,807	2,653	47,268
Total Operating Receipts	21,146	15,710	17,669	18,959	15,090	15,796	15,830	19,089	18,138	9,701	9,531	11,256	11,837	8,518	9,560	217,830
Operating Disbursements																
Fiber	(4,127)	(3,861)	(3,860)	(3,809)	(3,105)	(2,442)	(2,248)	(1,993)	(1,107)	(1,826)	(2,045)	(2,056)	(2,056)	(2,134)	(2,146)	(38,817)
Chemicals	(889)	(1,091)	(951)	(923)	(1,107)	(1,249)	(568)	(308)	(319)	(548)	(278)	(293)	(283)	(594)	(271)	(9,672)
Electricity	(3,454)	(3,364)	(4,369)	(2,772)	(2,299)	(2,215)	(2,215)	(3,164)	(2,219)	(2,219)	(2,219)	(2,219)	(2,219)	(2,217)	(2,217)	(39,384)
Recycle Material	(1,291)	(1,187)	(1,231)	(1,335)	(707)	(255)	(255)	(305)	(255)	(255)	(255)	(255)	(305)	(255)	(255)	(8,400)
Other Materials and Other Utilities	(1,793)	(1,981)	(1,835)	(2,050)	(1,728)	(2,056)	(1,297)	(864)	(993)	(1,134)	(586)	(964)	(1,006)	(1,049)	(688)	(20,025)
Property Taxes	(5)	(15)	-	(660)	-	(5)	-	-	-	(5)	-	-	-	(5)	-	(695)
Salaried and Hourly Payroll- Gross	(1,879)	(1,364)	(1,696)	(1,540)	(1,894)	(1,381)	(1,696)	(1,325)	(1,385)	(1,065)	(1,278)	(1,007)	(1,332)	(1,005)	(1,205)	(21,053)
Pension Plan and Group insurance	(3)	(178)	(666)	(441)	(79)	(142)	(666)	(328)	(79)	(2)	(382)	(2)	(3)	(72)	(312)	(3,354)
Freight	(2,726)	(2,460)	(2,601)	(2,349)	(2,427)	(2,349)	(1,895)	(1,251)	(1,413)	(1,287)	(1,287)	(1,337)	(1,713)	(1,287)	(1,300)	(27,680)
Maintenance Equipment	(393)	(311)	(388)	(296)	(432)	(290)	(441)	(400)	(301)	(267)	(407)	(288)	(261)	(278)	(424)	(5,176)
Major Maintenance	(294)	(36)	(388)	(94)	(26)	(168)	(26)	(98)	(26)	(56)	(32)	(16)	(66)	(112)	(29)	(1,469)
Capital Expenditures	(155)	(87)	(166)	(80)	(119)	(26)	(182)	(213)	-	-	(100)	-	-	(13)	(141)	(1,282)
Professional Fees	(25)	(53)	(25)	(35)	(51)	(25)	(53)	(50)	(50)	(30)	(25)	(25)	(26)	(53)	(26)	(551)
Leases	-	(43)	(1)	(3)	(85)	(37)	-	(3)	(1)	(3)	(35)	(3)	-	(20)	(18)	(252)
Other	(77)	(27)	(127)	(152)	(52)	(282)	(127)	(52)	(127)	(27)	(382)	(77)	(77)	(255)	(155)	(1,998)
Management Fee	-	(707)	-	(1,500)	-	(707)	-	(1,500)	-	(429)	-	-	(675)	-	(429)	(5,946)
Total Operating Disbursements	(17,111)	(16,764)	(18,304)	(18,037)	(14,113)	(13,629)	(11,670)	(11,854)	(8,277)	(9,153)	(9,311)	(8,542)	(10,024)	(9,349)	(9,615)	(185,752)
Net Operating Cash Flow	4,035	(1,053)	(635)	921	978	2,167	4,160	7,235	9,861	548	220	2,714	1,813	(830)	(55)	32,078
Non Operating Cash Flow and Restructuring																
Restructuring Professional Fees	(4)	(191)	(830)	(60)	-	(275)	(1,010)	(8,225)	(300)	-	-	(100)	(1,110)	-	-	(12,105)
Restructuring Bank Fees and Other Expenses	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Intercompany Transfers	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Interest Payments	-	-	-	(925)	-	-	-	(925)	-	-	-	-	(925)	-	-	(2,775)
Total Non-Operating Cash Flow and Restructuring	(4)	(191)	(830)	(985)	-	(275)	(1,010)	(9,150)	(300)	-	-	(100)	(2,035)	-	-	(14,880)
Net Operating Receipts (Disbursements)	$ 4,031	$ (1,244)	$ (1,465)	$ (64)	$ 978	$ 1,892	$ 3,150	$ (1,915)	$ 9,561	$ 548	$ 220	$ 2,614	$ (222)	$ (830)	$ (55)	$ 17,198
BEG. BOOK CASH BALANCE	$ 36,105	$ 40,136	$ 38,892	$ 37,427	$ 37,363	$ 38,341	$ 40,233	$ 43,383	$ 41,468	$ 51,029	$ 51,576	$ 51,796	$ 54,410	$ 54,188	$ 53,358	$ 36,105
Net Receipts (Disbursements)	4,031	(1,244)	(1,465)	(64)	978	1,892	3,150	(1,915)	9,561	548	220	2,614	(222)	(830)	(55)	17,198
DIP Term Loan (Repayment) / Borrowing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
ENDING BOOK CASH BALANCE	40,136	38,892	37,427	37,363	38,341	40,233	43,383	41,468	51,029	51,576	51,796	54,410	54,188	53,358	53,303	53,303
Unused DIP Commitment	34,045	34,045	34,045	34,045	34,045	34,045	34,045	34,045	34,045	34,045	34,045	34,045	34,045	34,045	34,045	34,045
LIQUIDITY	$ 74,181	$ 72,937	$ 71,472	$ 71,408	$ 72,386	$ 74,278	$ 77,428	$ 75,513	$ 85,074	$ 85,621	$ 85,841	$ 88,455	$ 88,233	$ 87,403	$ 87,348	$ 87,348
DIP TERM LOAN BALANCE																
DIP Loan Balance at Beg. of Week	$ 87,955	$ 87,955	$ 87,955	$ 87,955	$ 87,955	$ 87,955	$ 87,955	$ 87,955	$ 87,955	$ 87,955	$ 87,955	$ 87,955	$ 87,955	$ 87,955	$ 87,955	$ 87,955
DIP Term Loan (Repayment) / Borrowing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
DIP Loan Balance at End of Week	$ 87,955	$ 87,955	$ 87,955	$ 87,955	$ 87,955	$ 87,955	$ 87,955	$ 87,955	$ 87,955	$ 87,955	$ 87,955	$ 87,955	$ 87,955	$ 87,955	$ 87,955	$ 87,955

White Birch Paper
15 Week Cash Flow Forecast CONFIDENTIAL
Weeks Ended November 11, 2011 - February 17, 2012

Key Assumptions:

1 - Bankruptcy Filing:
- Petition Date was February 24, 2010
- Prior service cost component of pension contributions in Canada of CAD $1.5 million are assumed suspended until emergence - savings of approximately $1.5 million CAD per month
- Except for restructuring professional fees (as discussed below), no cash payments or other assumptions regarding emerging from CCAA and Chapter 11 Bankruptcy, or a 363 Sale of the Company, are reflected in the forecast
- Restructuring professional fees for the week ended Dec. 30, 2011 includes approximately $3.6 million for estimated professional fees accrued and unpaid through that date, as well as a $4.6 million sale transaction fee

2 - Includes the Following DIP Financing Assumptions:
- Pre-petition ABL facility was replaced with a super priority delayed draw term loan facility of $140 million (DIP Facility) on March 1, 2010 with terms, as follows:
  - Interest at L+1,000 bps; 2% Libor floor
  - DIP facility priced with a 250bps arrangement fee, a 250bps commitment fee and $100k annual administrative fee
  - Interest on borrowings paid monthly, as due
  - DIP loans paid or repaid may be reborrowed (subject to the prior written consent of the Majority Lenders)
- Aggregate reserves approximate $18.0 million for the D&O charge and the administrative charge, a carve-out for professional fees and a Canadian Priority Reserve
- Liquidity reflected at any given week includes unused DIP commitment
- Forecast does not reflect any repayment of DIP loans that may occur in connection with emerging from CCAA and Chapter 11 Bankruptcy, or a 363 Sale of the Company

3 - Assumes spot rate of C$0.98 to US $1.00 throughout the forecast period

4 - Assumes cessation of production at Stadacona mill during the week ended Dec. 2
Full production at all other mills

5 - Assumes no payment will be made for notice, severance or other similar labour cost in connection with the idling of the Stadacona mill, as the initial order contemplates these will be dealt with through the plan of arrangement.

6 - Preliminary and subject to change

Appendix C – Comparison of actual and projected results for the 14 weeks ended February 10, 2012

White Birch Paper

Cash Flow Forecast - Variance Report
Actual Compared With 15-Week CFF (Dated Nov. 17, 2011)

For the Weeks Ended February 10, 2012

17/02/2012

Confidential

White Birch Paper
Cash Flow Forecast Variance Report to 15-Week CFF (Dated 11/17/11)
Weeks Ended February 10, 2012
In $000's

	Cumulative 14-Week Variance to 15-Week CFF		
	Actual 11/5 Through 2/10	Forecast 11/5 Through 2/10	B (W) than Forecast 2/10
Operating Receipts			
Bear Island	$ 36,308	$ 41,924	$ (5,616)
Stadacona	90,735	72,300	18,435
F.F. Soucy	48,588	49,432	(844)
Papier Masson	42,884	44,615	(1,731)
Total Operating Receipts	218,515	208,270	10,245
Operating Disbursements			
Fiber	(35,454)	(36,671)	1,216
Chemicals	(7,037)	(9,401)	2,364
Electricity	(37,145)	(37,167)	22
Recycle Material	(7,129)	(8,145)	1,016
Other Materials and Other Utilities	(19,047)	(19,337)	290
Property Taxes	(1,000)	(695)	(305)
Salaried and Hourly Payroll - Gross	(20,427)	(19,848)	(579)
Pension Plan and Group Insurance	(3,917)	(3,042)	(875)
Freight	(23,987)	(26,380)	2,393
Maintenance Equipment	(5,536)	(4,753)	(783)
Major Maintenance	(1,606)	(1,440)	(166)
Capital Expenditures	(1,679)	(1,141)	(538)
Professional Fees	(214)	(525)	310
Leases	(199)	(235)	36
Other	(1,442)	(1,843)	401
Management Fee	(5,466)	(5,517)	51
Total Operating Disbursements	(171,284)	(176,138)	4,853
Net Operating Cash Flow	47,230	32,132	15,098
Non Operating Cash Flow and Restructuring			
Restructuring Professional Fees	(2,494)	(12,105)	9,611
Restructuring Bank Fees and Other Expenses	0	-	0
Intercompany Transfers	0	-	0
Interest Payments	(3,246)	(2,775)	(471)
Total Non-Operating Cash Flow and Restructuring	(5,740)	(14,880)	9,140
Net Operating Receipts (Disbursements)	$ 41,490	$ 17,252	$ 24,238
BEG. BOOK CASH BALANCE	$ 36,106	$ 36,105	$ 0
Net Receipts (Disbursements)	41,490	17,252	24,238
DIP Term Loan Borrowing	-	-	-
GE ABL Borrowing (Repayment)	-	-	-
ENDING BOOK CASH BALANCE	77,596	53,358	24,238
Unused DIP Commitment	34,045	34,045	-
LIQUIDITY	$ 111,641	$ 87,403	$ 24,238
DIP TERM LOAN BALANCE			
DIP Loan Balance at Beg. of Week / Period	$ 87,955	$ 87,955	$ -
DIP Term Loan Borrowing	-	-	-
DIP Loan Balance at End of Week / Period	$ 87,955	$ 87,955	$ -

White Birch Paper Holding Company - WB Canada Only

Cash Flow Forecast - Cumulative Variance Report to 15-Week CFF (Dated 11/17/11)

Weeks Ended February 10, 2012

In $000's

	Cumulative 14-Week Variance to 15-Week CFF		
	Actual 11/5 to 2/10	**Forecast 11/5 to 2/10**	**B (W) than Forecast 2/10**
Operating Receipts			
Stadacona	90,735	72,300	18,435
F.F. Soucy	48,588	49,432	(844)
Papier Masson	42,884	44,615	(1,731)
Total Operating Receipts	182,207	166,346	15,861
Operating Disbursements			
Fiber	(31,148)	(32,391)	1,243
Chemicals	(3,834)	(5,647)	1,813
Electricity	(28,948)	(29,211)	263
Recycle Material	(4,418)	(4,314)	(104)
Other Materials and Other Utilities	(14,616)	(15,552)	936
Property Taxes	(294)	-	(294)
Salaried and Hourly Payroll - Gross	(14,974)	(14,636)	(338)
Pension Plan and Group Insurance	(3,917)	(3,042)	(875)
Freight	(20,752)	(23,061)	2,309
Maintenance Equipment	(4,050)	(3,290)	(760)
Major Maintenance	(854)	(841)	(13)
Capital Expenditures	-	(255)	255
Professional Fees	(204)	(500)	296
Leases	(90)	(95)	6
Other	(1,442)	(1,843)	401
Management Fee	(4,393)	(4,265)	(128)
Total Operating Disbursements	(133,934)	(138,942)	5,010
Net Operating Cash Flow	48,273	27,404	20,871
Non Operating Cash Flow and Restructuring			
Restructuring Professional Fees	(1,437)	(8,815)	7,378
Restructuring Bank Fees and Other Expenses	0	-	-
Intercompany Transfers	(838)	-	(838)
Interest Payments	(3,246)	(2,775)	(471)
Total Non-Operating Cash Flow and Restructuring	(5,521)	(11,590)	6,069
Net Operating Receipts (Disbursements)	$ 42,753	$ 15,815	$ 26,938
BEG. BOOK CASH BALANCE	$ 15,496	$ 15,495	$ -
Net Receipts (Disbursements)	42,753	15,815	26,938
DIP Term Loan Borrowing	-	-	-
GE ABL Borrowing (Repayment)	-	-	-
ENDING BOOK CASH BALANCE	58,248	31,310	26,938
Unused DIP Commitment	34,045	34,045	-
LIQUIDITY	$ 92,293	$ 65,355	$ 26,938
DIP TERM LOAN BALANCE			
DIP Loan Balance at Beg. of Week / Period	$ 87,955	$ 87,955	$ -
DIP Term Loan Borrowing	-	-	-
DIP Loan Balance at End of Week / Period	$ 87,955	$ 87,955	$ -

Appendix D – Cash flow projections of WB Group - 15 weeks ending May 25, 2012

White Birch Paper

15-Week Cash Flow Forecast

Weeks Ending Feb. 17 through May 25, 2012

17/02/2012

Confidential

White Birch Paper **CONSOLIDATED** **CONFIDENTIAL**

Rolling Weekly Forecast

In $000's

Weeks Ended February 17 - May 25, 2012

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	
	Wk Ended	Wk Ending	Wk Ending	Wk Ending	Wk Ending	Wk Ending	Wk Ending	Wk Ending	Wk Ending	Wk Ending	Wk Ending	Wk Ending	Wk Ending	Wk Ending	Wk Ending	15 Week
	2/17	2/24	3/2	3/9	3/16	3/23	3/30	4/6	4/13	4/20	4/27	5/4	5/11	5/18	5/25	Total
Operating Receipts																
Bear Island	$ 2,467	$ 4,106	$ 3,985	$ 2,635	$ 2,246	$ 3,550	$ 3,250	$ 3,160	$ 2,350	$ 3,750	$ 3,150	$ 3,050	$ 2,460	$ 3,600	$ 3,260	$ 47,018
Stadacona	2,171	1,393	1,493	1,285	1,708	984	872	577	998	583	259	21	38	174	38	12,594
F. F. Soucy	2,369	6,730	5,085	5,182	3,343	3,213	3,209	4,403	2,430	2,393	3,804	5,621	2,520	2,803	3,398	56,502
Papier Masson	3,893	2,958	4,135	2,931	3,602	3,747	4,002	2,519	3,027	2,541	2,574	3,683	2,549	3,144	2,734	48,040
Total Operating Receipts	10,900	15,187	14,698	12,033	10,898	11,494	11,332	10,659	8,805	9,267	9,786	12,375	7,567	9,721	9,430	164,154
Operating Disbursements																
Fiber	(1,710)	(1,752)	(1,722)	(2,118)	(2,312)	(2,323)	(2,352)	(2,374)	(2,394)	(1,858)	(1,858)	(2,030)	(2,030)	(2,091)	(2,105)	(31,032)
Chemicals	(528)	(288)	(260)	(393)	(505)	(324)	(245)	(336)	(495)	(339)	(260)	(268)	(260)	(337)	(263)	(5,102)
Electricity	(2,168)	(2,925)	(1,820)	(2,274)	(2,206)	(2,206)	(3,043)	(2,255)	(2,169)	(2,169)	(2,275)	(2,890)	(2,273)	(2,187)	(2,298)	(35,153)
Recycle Material	(198)	(197)	(278)	(179)	(255)	(255)	(315)	(255)	(255)	(255)	(255)	(330)	(255)	(255)	(285)	(3,822)
Other Materials and Other Utilities	(1,133)	(1,179)	(1,161)	(1,115)	(886)	(1,073)	(1,043)	(998)	(1,057)	(1,054)	(938)	(1,190)	(1,138)	(1,048)	(1,021)	(16,036)
Property Taxes	(5)	(0)	-	-	(5)	-	-	-	(5)	-	-	-	-	-	-	(15)
Salaried and Hourly Payroll- Gross	(1,203)	(851)	(1,214)	(1,044)	(1,212)	(874)	(1,214)	(909)	(1,369)	(902)	(1,222)	(874)	(1,214)	(888)	(1,218)	(16,207)
Pension Plan and Group insurance	(289)	(461)	(360)	(78)	(143)	(206)	(513)	(180)	(143)	(206)	(258)	(435)	(3)	(206)	(359)	(3,841)
Freight	(1,437)	(1,176)	(1,127)	(1,049)	(1,106)	(998)	(998)	(998)	(1,006)	(998)	(998)	(1,248)	(1,156)	(998)	(998)	(16,288)
Maintenance Equipment	(347)	(327)	(399)	(321)	(433)	(251)	(342)	(275)	(292)	(265)	(265)	(287)	(333)	(258)	(304)	(4,698)
Major Maintenance	(32)	(65)	(158)	(60)	(51)	(70)	(156)	(32)	(78)	(73)	(26)	(10)	(60)	(72)	(91)	(1,037)
Capital Expenditures	-	-	(32)	-	-	-	(170)	-	(160)	-	(170)	-	(160)	-	(170)	(862)
Professional Fees	(25)	(25)	(25)	(26)	(25)	(28)	(25)	(25)	(30)	(25)	(25)	(26)	(25)	(26)	(25)	(386)
Leases	(29)	(4)	-	(1)	(33)	(4)	(1)	(1)	(33)	(4)	-	(1)	(0)	(4)	(0)	(115)
Other	(77)	(77)	(77)	(77)	(77)	(307)	(52)	(52)	(52)	(52)	(307)	(427)	(427)	(52)	(307)	(2,423)
Management Fee	(429)	-	(950)	-	(429)	-	(900)	-	-	(429)	-	(900)	-	(629)	-	(4,664)
Total Operating Disbursements	(9,610)	(9,328)	(9,583)	(8,736)	(9,678)	(8,919)	(11,369)	(8,691)	(9,537)	(8,629)	(8,857)	(10,916)	(9,334)	(9,051)	(9,444)	(141,681)
Net Operating Cash Flow	1,291	5,859	5,116	3,297	1,221	2,575	(37)	1,968	(732)	638	929	1,459	(1,767)	671	(14)	22,473
Non Operating Cash Flow and Restructuring																
Restructuring Professional Fees	(379)	(580)	(104)	(500)	(325)	(350)	(200)	(890)	-	(350)	(350)	-	(8,755)	-	-	(12,784)
Restructuring Bank Fees and Other Expenses	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Intercompany Transfers	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Interest Payments	(205)	(205)	(205)	(205)	(205)	(205)	(295)	(205)	(205)	(205)	(299)	(205)	(205)	(205)	(205)	(3,262)
Total Non-Operating Cash Flow and Restructuring	(584)	(786)	(309)	(705)	(530)	(555)	(495)	(1,095)	(205)	(555)	(649)	(205)	(8,960)	(205)	(205)	(16,046)
Net Operating Receipts (Disbursements)	$ 706	$ 5,073	$ 4,806	$ 2,591	$ 691	$ 2,020	$ (532)	$ 873	$ (938)	$ 83	$ 280	$ 1,254	$ (10,727)	$ 466	$ (219)	$ 6,427
BEG. BOOK CASH BALANCE	$ 77,596	$ 78,302	$ 83,376	$ 88,182	$ 90,773	$ 91,464	$ 93,484	$ 92,952	$ 93,825	$ 92,887	$ 92,970	$ 93,250	$ 94,504	$ 83,776	$ 84,242	$ 77,596
Net Receipts (Disbursements)	706	5,073	4,806	2,591	691	2,020	(532)	873	(938)	83	280	1,254	(10,727)	466	(219)	6,427
DIP Term Loan (Repayment) / Borrowing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
ENDING BOOK CASH BALANCE	78,302	83,376	88,182	90,773	91,464	93,484	92,952	93,825	92,887	92,970	93,250	94,504	83,776	84,242	84,023	84,023
Unused DIP Commitment	34,045	34,045	34,045	34,045	34,045	34,045	34,045	34,045	34,045	34,045	34,045	34,045	34,045	34,045	34,045	34,045
LIQUIDITY	$ 112,347	$ 117,421	$ 122,227	$ 124,818	$ 125,509	$ 127,529	$ 126,997	$ 127,870	$ 126,932	$ 127,015	$ 127,295	$ 128,549	$ 117,821	$ 118,287	$ 118,068	$ 118,068
DIP TERM LOAN BALANCE																
DIP Loan Balance at Beg. of Week	$ 87,955	$ 87,955	$ 87,955	$ 87,955	$ 87,955	$ 87,955	$ 87,955	$ 87,955	$ 87,955	$ 87,955	$ 87,955	$ 87,955	$ 87,955	$ 87,955	$ 87,955	$ 87,955
DIP Term Loan (Repayment) / Borrowing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
DIP Loan Balance at End of Week	$ 87,955	$ 87,955	$ 87,955	$ 87,955	$ 87,955	$ 87,955	$ 87,955	$ 87,955	$ 87,955	$ 87,955	$ 87,955	$ 87,955	$ 87,955	$ 87,955	$ 87,955	$ 87,955

White Birch Paper
15 Week Cash Flow Forecast
Weeks Ended February 17 - May 25, 2012

CONFIDENTIAL

Key Assumptions:

1 - **Bankruptcy Filing:**
- Petition Date was February 24, 2010
- Prior service cost component of pension contributions in Canada of CAD $1.5 million are assumed suspended until emergence - savings of approximately $1.5 million CAD per month
- Except for restructuring professional fees (as discussed below), no cash payments or other assumptions regarding emerging from CCAA and Chapter 11 Bankruptcy, or a 363 Sale of the Company, are reflected in the forecast
- Restructuring professional fees for the week ended May 11, 2012 includes approximately $4.2 million for estimated professional fees accrued and unpaid through that date, as well as a $4.6 million sale transaction fee

2 - **Includes the Following DIP Financing Assumptions:**
- Pre-petition ABL facility was replaced with a super priority delayed draw term loan facility of $140 million (DIP Facility) on March 1, 2010 with terms, as follows:
  - Interest at L+1,000 bps; 2% Libor floor
  - DIP facility priced with a 250bps arrangement fee, a 250bps commitment fee and $100k annual administrative fee
  - Interest on borrowings paid monthly, as due
  - DIP loans paid or repaid may be reborrowed (subject to the prior written consent of the Majority Lenders)
- Aggregate reserves approximate $18.0 million for the D&O charge and the administrative charge, a carve-out for professional fees and a Canadian Priority Reserve
- Liquidity reflected at any given week includes unused DIP commitment
- Forecast does not reflect any repayment of DIP loans that may occur in connection with emerging from CCAA and Chapter 11 Bankruptcy, or a 363 Sale of the Company

3 - **Assumes spot rate of C$0.98 to US $1.00 throughout the forecast period**

4 - **Stadacona mill closed (effective Jan. 12, 2012)**
Full production at all other mills

5 - **Assumes no payment will be made for notice, severance or other similar labour cost in connection with the closure of the Stadacona mill, as the initial order contemplates these will be dealt with through the plan of arrangement.**

6 - **Preliminary and subject to change**

Appendix E – Cash flow projections of WB Canada - 15 weeks ending May 25, 2012

White Birch Paper Holding Company
WB Canada Only
15-Week Cash Flow Forecast

Weeks Ending Feb. 17 through May 25, 2012

17/02/2012

Confidential

White Birch Paper Holding Company

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Rolling Weekly Forecast - WB CANADA ONLY — **In $000's**

Weeks Ended February 17 - May 25, 2012

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	
	Wk Ended	Wk Ending	Wk Ending	Wk Ending	Wk Ending	Wk Ending	Wk Ending	Wk Ending	Wk Ending	Wk Ending	Wk Ending	Wk Ending	Wk Ending	Wk Ending	Wk Ending	15 Week
	2/17	2/24	3/2	3/9	3/16	3/23	3/30	4/6	4/13	4/20	4/27	5/4	5/11	5/18	5/25	Total
Operating Receipts																
Stadacona	2,171	1,393	1,493	1,285	1,708	984	872	577	998	583	259	21	38	174	38	12,594
F. F. Soucy	2,369	6,730	5,085	5,182	3,343	3,213	3,209	4,403	2,430	2,393	3,804	5,621	2,520	2,803	3,398	56,502
Papier Masson	3,893	2,958	4,135	2,931	3,602	3,747	4,002	2,519	3,027	2,541	2,574	3,683	2,549	3,144	2,734	48,040
Total Operating Receipts	8,433	11,081	10,714	9,398	8,653	7,944	8,082	7,499	6,455	5,517	6,636	9,325	5,107	6,121	6,170	117,136
Operating Disbursements																
Fiber	(1,430)	(1,472)	(1,462)	(1,858)	(2,052)	(2,063)	(2,052)	(2,074)	(2,094)	(1,558)	(1,558)	(1,730)	(1,730)	(1,811)	(1,805)	-26,752
Chemicals	(102)	(92)	(102)	(92)	(122)	(102)	(92)	(112)	(112)	(113)	(112)	(113)	(112)	(113)	(112)	-1,605
Electricity	(1,581)	(2,338)	(1,617)	(1,617)	(1,617)	(1,617)	(2,338)	(1,617)	(1,617)	(1,617)	(1,617)	(2,338)	(1,617)	(1,617)	(1,617)	-26,376
Recycle Material	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0
Other Materials and Other Utilities	(940)	(849)	(719)	(744)	(691)	(689)	(727)	(800)	(748)	(826)	(727)	(854)	(681)	(742)	(758)	-11,497
Property Taxes	-	(0)	-	-	-	-	-	-	-	-	-	-	-	-	-	-0
Salaried and Hourly Payroll- Gross	(934)	(483)	(961)	(483)	(961)	(483)	(961)	(483)	(961)	(483)	(961)	(483)	(961)	(483)	(961)	-11,041
Pension Plan and Group insurance	(289)	(461)	(360)	(78)	(143)	(206)	(513)	(180)	(143)	(206)	(258)	(435)	(3)	(206)	(359)	-3,841
Freight	(1,239)	(971)	(928)	(850)	(899)	(799)	(799)	(799)	(799)	(799)	(799)	(1,049)	(949)	(799)	(799)	-13,274
Maintenance Equipment	(247)	(183)	(308)	(204)	(326)	(162)	(244)	(178)	(198)	(167)	(172)	(193)	(188)	(165)	(208)	-3,142
Major Maintenance	(20)	(10)	(20)	(10)	(20)	(10)	(20)	(10)	(20)	(10)	(26)	(10)	(20)	(10)	(23)	-242
Capital Expenditures	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0
Professional Fees	(25)	(25)	(25)	(25)	(25)	(25)	(25)	(25)	(25)	(25)	(25)	(25)	(25)	(25)	(25)	-375
Leases	(3)	-	-	-	(3)	-	-	-	(3)	-	-	-	-	-	-	-8
Other	(77)	(77)	(77)	(77)	(77)	(307)	(52)	(52)	(52)	(52)	(307)	(427)	(427)	(52)	(307)	-2,423
Management Fee	(286)	-	(675)	-	(286)	-	(625)	-	-	(286)	-	(625)	-	(486)	-	-3,270
Total Operating Disbursements	(7,173)	(6,962)	(7,254)	(6,039)	(7,222)	(6,463)	(8,449)	(6,330)	(6,771)	(6,143)	(6,562)	(8,283)	(6,713)	(6,508)	(6,974)	(103,846)
Net Operating Cash Flow	1,260	4,119	3,460	3,359	1,431	1,481	(366)	1,168	(316)	(626)	74	1,043	(1,606)	(387)	(804)	13,290
Non Operating Cash Flow and Restructuring																
Restructuring Professional Fees	(379)	(213)	(25)	(450)	(325)	-	(200)	(585)	-	(350)	-	-	(6,605)	-	-	-9,132
Restructuring Bank Fees and Other Expenses	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0
Intercompany Transfers	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0
Interest Payments	(205)	(205)	(205)	(205)	(205)	(205)	(295)	(205)	(205)	(205)	(299)	(205)	(205)	(205)	(205)	-3,262
Total Non-Operating Cash Flow and Restructuring	(584)	(418)	(230)	(655)	(530)	(205)	(495)	(790)	(205)	(555)	(299)	(205)	(6,810)	(205)	(205)	(12,394)
Net Operating Receipts (Disbursements)	$ 676	$ 3,701	$ 3,230	$ 2,704	$ 900	$ 1,275	$ (861)	$ 378	$ (522)	$ (1,181)	$ (225)	$ 838	$ (8,416)	$ (592)	$ (1,009)	$ 897
BEG. BOOK CASH BALANCE - WBPC CANADA	$ 58,248	$ 58,924	$ 62,625	$ 65,855	$ 68,559	$ 69,459	$ 70,735	$ 69,873	$ 70,251	$ 69,730	$ 68,549	$ 68,324	$ 69,162	60,746	$ 60,154	$ 58,248
Net Receipts (Disbursements)	676	3,701	3,230	2,704	900	1,275	(861)	378	(522)	(1,181)	(225)	838	(8,416)	(592)	(1,009)	897
DIP Term Loan (Repayment) / Borrowing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
ENDING BOOK CASH BALANCE	58,924	62,625	65,855	68,559	69,459	70,735	69,873	70,251	69,730	68,549	68,324	69,162	60,746	60,154	59,145	59,145
Unused DIP Commitment	34,045	34,045	34,045	34,045	34,045	34,045	34,045	34,045	34,045	34,045	34,045	34,045	34,045	34,045	34,045	34,045
LIQUIDITY	$ 92,969	$ 96,670	$ 99,900	$ 102,604	$ 103,504	$ 104,780	$ 103,918	$ 104,296	$ 103,775	$ 102,594	$ 102,369	$ 103,207	$ 94,791	$ 94,199	$ 93,190	$ 93,190
DIP TERM LOAN BALANCE																
DIP Loan Balance at Beg. of Week	$ 87,955	$ 87,955	$ 87,955	$ 87,955	$ 87,955	$ 87,955	$ 87,955	$ 87,955	$ 87,955	$ 87,955	$ 87,955	$ 87,955	$ 87,955	$ 87,955	$ 87,955	$ 87,955
DIP Term Loan (Repayment) / Borrowing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
DIP Loan Balance at End of Week	$ 87,955	$ 87,955	$ 87,955	$ 87,955	$ 87,955	$ 87,955	$ 87,955	$ 87,955	$ 87,955	$ 87,955	$ 87,955	$ 87,955	$ 87,955	$ 87,955	$ 87,955	$ 87,955

White Birch Paper Holding Company- CANADA ONLY
15 Week Cash Flow Forecast
Weeks Ended February 17 - May 25, 2012

CONFIDENTIAL

Key Hypothetical Assumptions:

1 **Purpose:**

- The attached statement of projected cash flow has been prepared by Management to present the anticipated cash inflows and outflows resulting from current operations in the period following the making of an initial order, providing for a stay of proceedings, in virtue of the *Companies' Creditors Arrangement Act* , namely the period from February 11 to May 25, 2012.

  The significant hypothetical assumptions made in preparing the projected cash flow statement are presented hereunder.

2 **Basis of presentation:**

- The cash flow projections present the projected receipts and disbursements of the entities comprising WB Canada only. The projections do not include the activities of US based Bear Island Paper Company LLC ("Bear Island")

3 **Stakeholder support:**

- The cash flow projections are based on the assumption that the trade creditors will continue to provide support to the Companies through the delivery of goods and services, and that there will not be any modification in the support extended by other stakeholders such as customers, employees, regulators, etc.

4 **CCAA Filing Scenario:**

- Petition Date was February 24, 2010
- Does not assume future accounts receivable contraction
- Except for restructuring professional fees (as discussed below), no cash payments or other assumptions regarding emerging from CCAA and Chapter 11 Bankruptcy, or a 363 Sale of the Company, are reflected in the forecast.
- Restructuring professional fees for the week ended May 11, 2012 includes approximately $2.0 million for estimated professional fees accrued and unpaid through that date, as well as a $4.6 million sale transaction fee
- Prior service cost component of pension contributions in Canada of CAD $1.5 million beginning with the February payments are suspended until emergence - cash savings of approximately $1.5 million CAD per month
- CAD Utility Deposits - Three weeks of utility deposits (appx. $7.5 million CAD) to secure post-petition service were made subsequent to the CCAA filing.
- Letters of Credit and Cash Deposits - Current letters of credit outstanding on the filing date of $9.5 million were cash collateralized in the repayment of loan balances to the pre-petition ABL lender with a 5% premium.

White Birch Paper Holding Company- CANADA ONLY
15 Week Cash Flow Forecast
Weeks Ended February 17 - May 25, 2012

CONFIDENTIAL

Key Hypothetical Assumptions - Continued:

5 **Includes the Following DIP Financing Assumptions:**

- Pre-petition ABL facility replaced with a super priority delayed draw term loan facility of $140 million (DIP Facility) with terms, as follows:
    - Interest at L+ 1000 bps with 2% floor
    - DIP facility priced with a 250bps arrangement fee, a 250bps commitment fee and $100k annual administrative fee
    - Interest on borrowings paid monthly as due
    - DIP loans paid or repaid may be reborrowed (subject to the prior written consent of the Majority Lenders)
- Aggregate reserves approximate $15.1 million for: the D&O Charge and the Administrative Charge, a carve-out for professional fees and a Canadian Priority Reserve.
- Forecast does not reflect any repayment of DIP loans that may occur in connection with emerging from CCAA and Chapter 11 Bankruptcy, or a 363 Sale of the Company.
- Liquidity reflected at any given week includes unused DIP commitment

6 **Assumes spot rate of C$0.98 to US $1.00 throughout the forecast period**

7 **Stadacona mill closed (effective Jan. 12, 2012)**
Full production at all other mills

8

Assumes no payment will be made for notice, severance or other similar labour cost in connection with the closure of the Stadacona mill, as the initial order contemplates these will be dealt with through the plan of arrangement.

9 **This Cash Flow Forecast is subject to approval by the Court**

Appendix F – Correspondence from SCEP to its members – December 20, 2011

COMMUNICATIONS, ENERGY AND PAPERWORKERS UNION OF CANADA
SYNDICAT CANADIEN DES COMMUNICATIONS, DE L'ÉNERGIE ET DU PAPIER

DAVE COLES
President / président

Le 20 décembre 2011

Aux présidents des sections locales du groupe White Birch

Confrères, consoeurs,

J'ai été informé que votre employeur a fait une offre globale aux travailleurs des usines du groupe WB de Rivière-du-Loup et de Masson, mais pas aux travailleurs de l'usine de Québec. Cette stratégie dont le but est de diviser notre groupe de négociation est inacceptable. De plus, les offres signifiées par huissier à l'adresse des dirigeants de Rivière-du-Loup et de Masson alors que le groupe était en conciliation témoignent d'un manque flagrant de respect face au processus de négociation.

Pour ce qui est du contenu des offres, l'analyse préliminaire démontre que celles portant sur le régime de retraite sont en violation de la résolution sur le règlement modèle pour les entreprises sous la LACC tel que négocié dans l'entente du 7 mars 2010 avec AbitibiBowater. Conséquemment, je recommande le rejet de ces offres présentées par White Birch.

Je comprends que votre situation n'est pas facile, mais nous devons rester solidaires face à cet employeur qui veut s'attaquer à nos régimes de retraite alors que des solutions alternatives qui pourraient assurer la survie des régimes de retraite sont possibles.

En toute solidarité,

Dave Coles

Dave Coles
Président
DC/nb

c.c. Dirigeants du SCEP
Représentants nationaux

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Appendix G – Status report from the Companies and BDWBI – January 27, 2012

January 27, 2012

Hand Delivered

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Dear Sirs:

Re: ***White Birch Paper Holding Company et al***
White Birch's Summary and Update on Transaction for the Sale of its Assets as at January 27, 2012
SCM: 500-11-038474-108

This letter is intended to provide you with an update on the negotiations in connection with the transaction for the sale of all or substantially all of the assets of the White Birch Paper Group ("**White Birch**") to BD White Birch Investments Inc. (the "**Purchaser**") since our letter dated November 29, 2011 which was delivered to you and to the Court.

Over the course of 2011, the economic circumstances affecting White Birch's Quebec mills, as well as the newsprint industry in general, deteriorated. These economic circumstances include the following:

1. The newsprint industry fundamentals have continued to erode. Digital sources of information have caused the demand for North American newsprint to continue to decline. According to RISI, in 2011 North American newsprint demand declined 7.4%. As a result, White Birch's export sales, which generally have lower net price realizations than North American sales, have increased. All of this happened while the Canadian dollar and various inputs have increased in cost. The newsprint industry is simply a more difficult business now than it has been at virtually any time in its history. Since the September 2010 auction of the White Birch assets, ten (10) North American newsprint and coated paper mills have announced partial or full closure.

2. The solvency ratio for each of the pension plans at each of the mills has declined given particularly the low interest rate environment and the poor stock market performance. Coupled with required changes to the actuarial assumptions used in calculating the liabilities of a pension plan, the total pension liabilities of White Birch's union and non-union pension plans increased by nearly 50% through the first 9 months of 2011, rising

from an estimated $209 million as of December 31, 2010 to an estimated $312 million as of September 30, 2011 (excluding cliff liabilities). If one includes the cliff liabilities, the solvency deficit has increased from an estimated $299 million as of December 31, 2010 to an estimated $424 million as of September 30, 2011.

3. Having conducted mill by mill viability analyses and considering the refusal of the Communications, Energy and Paperworkers' Union of Canada (the "**Union**") to negotiate a global solution to the pension problems facing the White Birch business, White Birch determined that it could no longer afford to continue operating the money losing Stadacona plant and therefore announced on November 16, 2011 that it would close the plant temporarily on December 9, 2011. As indicated in the Monitor's November 25, 2011 Report, the underlying rationale behind the closure of the Stadacona plant was the fact that it was losing money and its cost structure was approximately $65 per ton higher than White Birch's other Quebec mills. One of the largest contributors to that cost disadvantage is that Stadacona is dependent upon recycled fibres and chemicals to treat those fibres, the cost of neither of which are within the control of White Birch, the Union or the governments. Recycled fibre pricing increased dramatically during 2011, increasing the overall cost of production at Stadacona.

4. On November 29, 2011, we advised the Court and all parties that White Birch intended to proceed to make mill specific offers and to try to negotiate resolution of these issues on a mill by mill basis. The economics of each mill are different, and historically each mill has held separate negotiations between mill management and mill level union executives to deal with everything from local rules to wages and pensions.

5. On December 9, 2011, with the Court having issued its decision dismissing the Union's motion and finding that the announced closure was not a lock out but a justified shut down for economic reasons, the Stadacona mill was shut down temporarily.

6. After the hearing concluded on November 29, 2011, White Birch attempted to arrange meetings at the Papier Masson Ltée ("**PML**") and F.F. Soucy ("**Soucy**") mills between mill management and executives of the mill union locals. However, White Birch was told by the local union executives that the National Union had directed them not to meet. Meanwhile, Mr. Renaud Gagne, the Quebec Vice President of the National Union, requested further "global" meetings in Montreal. As more fully detailed in our November 29, 2011 letter, White Birch and the Purchaser have already made several good faith attempts to negotiate on such basis, including having attended at least 4 times in either Montreal or Ottawa to have such meetings. In each case, they were rebuffed by the Union. It is White Birch's view, supported by the Purchaser, that such "global" meetings would not be productive and would merely be an attempt by the National Union to urge its locals to push for the Abitibi model.

7. The Abitibi model is predicated on amortizing the solvency deficit over a 15 year period with relatively low payments over the first 10 years and relatively high payments over the final 5 years. Given this payment structure, together with unrealistic return assumptions

for today's economic environment, the Abitibi model will result in exploding deficits in the future, most likely resulting in a subsequent CCAA filing and any new investors losing their entire investment.

8. In the testimony of its representatives on November 29, 2011, the Union has acknowledged that the Abitibi pension model is effectively a gamble that the stock markets and the newsprint industry will recover within 10 years or else there will be an industry wide failure and forced restructuring. These Union representatives also acknowledged that they have been repeatedly advised that a purchaser would never invest amounts sufficient to acquire these assets if to do so it would have to assume the liabilities of the pension plan in their totality under the Abitibi model or otherwise.

9. The Union has demonstrated, over the course of the last year, a shocking lack of economic reality: faced with the very real prospect of mills being closed if changes are not made to the pension plans and structure, the Union has chosen to refuse to negotiate and to demand that its locals not negotiate, and therefore apparently was prepared to sacrifice the jobs of their members to support the Abitibi model, rather than negotiate an arrangement which would see ongoing employment and new pension plans, as well as additional compensation to help ease whatever shortfall retirees and other plan members would face following the wind-up of the existing pension plans.

10. Since they were denied the ability to meet face to face with the locals to negotiate or deliver any proposals, White Birch delivered mill specific offers to each of the Soucy and PML mills by mail on December 15 and 16, 2011. No negotiations were held in advance of the delivery of those offers or after.

11. Press reports around the time of those offers suggested that the National Union recommended rejection of the offers because there was then no offer on the table for Stadacona, and thus solidarity would require the other mills to reject the offers.

12. Meetings of the unionized workers at Soucy and PML were organized by the National Union and held on December 22, 2011, to vote on the proposals provided. The proposals were almost unanimously rejected by PML and Soucy.

13. Meanwhile, White Birch was continuing its analysis of what would be required to restart the Stadacona mill. As the Monitor had stated in its report dated November 25, 2011, and as the Court acknowledged in its December 9, 2011 judgment, the temporary closure could become permanent and a decision on that issue must be made rapidly or the costs of the temporary shut down may outstrip the amount of the losses saved by the closure. During this time period, Christopher Brant of White Birch met with and had telephone calls with Mr. Sam Hamad, the Quebec Minister of Economic Development, and members of his department to discuss the matter. Mr. Brant also communicated to Mr. Hamad the kinds of financial support the Stadacona mill would require from the Quebec government and other governments, that wage and pension concessions from employees

were necessary to make the mill viable and that it did not make sense to discuss economic assistance from the government absent the acceptance of such concessions by the Union.

14. On January 6, 2012, after considerable deliberations, and bearing in mind the need for a rapid decision, White Birch made a final offer to the unionized workers of the Stadacona mill.

15. Accordingly, in fact, White Birch made separate, individual proposals to the unionized workers at each mill, in each case reflective of the economic realities at the particular mill. In other words, the offers made to each of the mills were intended to provide that particular mill with an operating cost structure that White Birch and the Purchaser believe will give it the best chance at long term viability.

16. The Stadacona offer was termed a final offer, the first time White Birch had used that phrase, both to convey the fact that it was the only basis on which the mill could become viable, and to convey the severity of the problems facing the Stadacona mill. In making the final offer, White Birch advised in its cover letter to the Union that governmental support was also a condition of the offer, and that if the offer was not accepted by January 13, 2012, the mill would be closed permanently. The final offer contemplated a termination of the existing pension plans and the establishment of a new defined contribution plan, with lower compensation for past service benefits than had been the case in the August 2, 2011 offer. However, the offer, together with financial support from the governments, reflected the only basis on which White Birch believed that the Stadacona mill could become viable for the long term given the specific issues that mill faces (age of equipment, maintenance costs, input costs, etc.)

17. The Union organized meetings of the Stadacona employees for January 11, 2012 to vote on the final offer. The National Union never contacted White Birch to determine what "final" meant or whether a counter offer would be considered. Rather, press reports mis-characterized the offer and the National Union publicly recommended that their members reject the offer. The unionized employees of Stadacona voted over 90% in favour of rejecting the offer. Together with the reporting of those voting results, the National Union announced that they would be making a counter offer, and suggested that the Abitibi model was the answer. To date, the Union has yet to make a counter-proposal (although, as will be discussed below, meetings are scheduled for next week).

18. Faced with the overwhelming rejection of the final offer by the Stadacona workers, on January 12, 2012 White Birch announced the permanent closure of the Stadacona mill. Prior to making that announcement, White Birch had consulted with the Monitor on its decision to permanently close the Stadacona mill. The Monitor approved the Company's decision.

19. After the permanent closure was announced, the National Union engaged representatives of the government. Also, much was made in the press of the closure and there was considerable mis-information about the content of the offer.

20. During the week of January 16, 2012, Christopher Brant had a number of discussions with Minister Sam Hamad, the result of which was a press release issued by Mr. Hamad's office on Wednesday, January 18, 2012, announcing that White Birch was prepared to meet with the National Union and the government to discuss a "ray of hope" for Stadacona, but recognizing that there are many issues to resolve, and also announcing that there would be meetings for the other mills at the same time.

21. The logistics of those meetings have now been set, and there are supposed to be concurrent meetings for each of the three (3) mills starting on Sunday, January 29, 2012. White Birch is hopeful that this will mean that mill management and mill union local executives will meet to discuss the specifics of their own mills, in the hope of reaching agreement.

Yours very truly,

Jean Fontaine
STIKEMAN, ELLIOTT LLP
Counsel for the Debtors

Jean Yves Simard
LAVERY, de BILLY LLP
Co-Counsel for BD White Birch Investments Inc.

L. Joseph Latham
GOODMANS LLP
Co-Counsel for BD White Birch Investments Inc.

cc: White Birch Paper Holding Company
BD White Birch Investment Inc.

Appendix H – Status report from SCEP – February 14, 2012

TRUDEL NADEAU AVOCATS S.E.N.C.R.L.

† Me Louis-Claude Trudel (1952-2008)

Montréal, le 14 février 2012

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Objet : Dans l'affaire du plan d'arrangement de White Birch Paper Holding Company et als
No : 500-11-038474-108
Notre dossier : YSA-37579

Cher confrère,

La présente répond à votre envoi du 9 février dernier. Tel que déjà indiqué à notre correspondance adressée à l'Honorable juge Robert Mongeon le 3 février dernier, le Syndicat est en profond désaccord avec le prétendu rappel des faits auquel se livre les débitrices et DBWBI à leur rapport du 27 janvier 2012. Afin de ne pas nuire au déroulement des négociations actuellement en cours, le Syndicat estime qu'il serait contre-productif de corriger et rectifier ici toutes les inexactitudes et spéculations erronées apparaissant à ce rapport.

Toutefois, il appert que depuis le 29 janvier dernier, des progrès ont été réalisés ce qui a permis aux parties d'en arriver à des ententes locales concernant chacune des trois (3) usines.

Des négociations intensives, avec l'assistance de la Direction générale des relations de travail du ministère du Travail, se poursuivent aujourd'hui et ce jusqu'au 16 février prochain afin d'en arriver ultimement à une entente satisfaisante concernant les régimes de retraite.

Nous anticipons vous transmettre un bref rapport lorsque cette séance de négociation sera terminée.

Veuillez recevoir, cher confrère, l'expression de nos salutations distinguées.

TRUDEL NADEAU AVOCATS SENCRL

YVES SAINT-ANDRÉ
YSTA/mr

cc. M. Renaud Gagné, SCEP-Québec