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

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

IN THE MATTER OF THE PROPOSED PLAN OF COMPROMISE AND ARRANGEMENT OF ESTATE WBPC COMPANY (FORMERLY KNOWN AS WHITE BIRCH PAPER COMPANY) AND VARIOUS SUBSIDIARIES AND AFFILIATES

DEBTORS

- and -

ERNST & YOUNG INC.

MONITOR

REPORT OF THE MONITOR – FEBRUARY 6, 2014

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. ("**EY**" 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 January 15, 2014.

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,

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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.

together with the various orders made by the Bankruptcy Court for the Eastern District of Virginia, Richmond Division ("**U.S. Court**"), can be found on the website of the claims agent retained by BipCo, 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 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 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. A sale of substantially all of the assets of the WB Group was completed on September 12, 2012, although no agreement existed as of the closing date with regards to the allocation of proceeds between WB Canada and BipCo. Discussions have been held since the date of the closing between the interested parties with a view to settle the issue of the allocation of proceeds between the Canadian and US estates, and promote an efficient distribution of proceeds to creditors of these estates in Canada and in the United States.

6. As mentioned in the Monitor's report dated September 23, 2013, the issues have not all been resolved although the Monitor considers that progress had been made towards a settlement[7]. WB Group is hopeful that a settlement agreement can be reached imminently.

7. WB Canada intends to prepare a plan of compromise and arrangement as soon as possible after a settlement of the allocation issues is reached, to address the distribution of proceeds to creditors. Within the framework of the preparation of a plan of compromise and arrangement, the Monitor reviewed transactions of the Companies to assess whether any transactions might be considered void or voidable in the context of a bankruptcy or a restructuring plan, with a focus on related party transactions, for which releases might be sought in the context of an eventual plan of arrangement, including in favour of directors and officers. The present report is intended to provide the Court and the creditors with the results of the Monitor's review to date in this regard. This report is presented under the following headings:

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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 limited Partnership (f/k/a Stadacona Limited Partnership), FFA Limited Partnership (f/k/a F.F. Soucy Limited Partnership), and FFSIP Limited Partnership (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*.

[7] Monitor's report dated September 23, 2013, at paragraph 18.

7.1. Introduction and background;

7.2. Terms of reference and disclaimer;

7.3. Transactions review - unrelated third parties or parties dealing at arm's length;

7.4. Transactions review – related parties or parties dealing other than at arm's length;

7.4.1. Management contract

7.4.2. Transactions amongst affiliates;

7.4.3. 2009 Payments;

7.5. Overall comments and conclusions.

TERMS OF REFERENCE AND DISCLAIMER

8. In preparing this report and making the comments herein, EY has been provided with, and has relied upon certain unaudited, draft and/or internal financial information, company records, company prepared financial information and projections, discussions with Management and employees of WB Group, and information from other third party sources (collectively, the "**Information**").

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 the report, some of the financial information herein may not comply with generally accepted accounting principles.

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.

The work performed in preparing this report consisted primarily of a cursory review of the books, records and documents of the Companies to determine whether any transaction could be considered as a preferential payment, transfer at under value, dividend or share redemption, or other similar void or voidable transaction in the context of section 36.1 of the CCAA or sections 95 to 101 of the *Bankruptcy and Insolvency Act* ("**BIA**")[8]. Our review consisted primarily of

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

inquiries, cursory review of disbursements, review of accounting records, review of internally prepared financial statements, review of miscellaneous documentation provided by the Companies and discussions with employees involved in the accounting process. In this regard, we caution the reader that:

8.1. While efforts have been made to identify all significant transactions, there can be no assurance, due to the nature of the review, that all void or voidable transactions have in fact been identified.

8.2. Our review focuses on transactions that could be considered void or voidable in the context of a recourse under the BIA or CCAA, as the case may be, although it is possible that the transactions could be voided under some other statutory provision.

8.3. The objective of this report is to provide creditors and the Court with factual information concerning the transactions that have been identified. No opinion is given or should be inferred regarding whether the transactions are, in fact, void or voidable, as such determination should be made by the Court after a proper hearing. The reader should not interpret the comments herein as a legal opinion regarding the validity of transactions.

8.4. As well, the financial information referred to herein is intended to provide creditors and the Court with factual information regarding the financial position of the Companies contemporaneously with the dates on which the transactions occurred. The comments made by the Monitor regarding the financial position of the Companies should not be interpreted as determinative of whether or not the Companies were solvent at any given date or rendered insolvent as a result of any transaction.

EY has prepared this report in its capacity as a court appointed officer for the purpose set out in paragraph 7 hereof and has made a copy of this report available on EY's website for purpose of transparency. The reader is cautioned that this report may not be appropriate for any other purpose and consequently should not be used 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.

TRANSACTIONS REVIEW – UNRELATED THIRD PARTIES OR PARTIES DEALING AT ARM'S LENGTH

10. We performed a cursory review of transactions that took place during the period immediately prior to the filing of the application for an initial order, to determine whether any payment could be considered as a preferential payment. Based on the responses received to our inquiries, we believe that the payments were made either because they were required to be made under trade terms, or they were necessary to secure an on-going supply of goods and services.

11. In view of these explanations, nothing has come to our attention that would cause us to question the appropriateness of any payment made by the Companies in the 3 months preceding the Initial Order.

12. In particular, in view of the fact that the proposed settlement agreement referred to above at paragraphs 5 and 6 hereof may well provide for a release of any liability with respect to any potential recourse against the First Lien Lenders, Second Lien Lenders or Black Diamond under section 36.1 of the CCAA, the Monitor performed a cursory review of the transactions reported by the Companies as representing the transactions with such parties in the year prior to the filing of the application for an initial order. The Monitor has no reason to question the appropriateness of the transactions with the First Lien Lenders, Second Lien Lenders or Black Diamond parties as reported in the information presented (reproduced as Appendix A).

TRANSACTIONS REVIEW – RELATED PARTIES AND PARTIES DEALING OTHER THAN AT ARMS' LENGTH

13. The transactions that were identified by the Monitor are the following:

    13.1. a management and administrative service agreement ("**Management Contract**") between WB and Brant Industries, Inc. ("**BII**"), dated April 8, 2005, through which BII provided services to the Companies in exchange for a remuneration calculated as a percentage of sales and paid periodically;

    13.2. White Birch Paper Company performed certain services and incurred costs on behalf of some of its affiliates; and

    13.3. a series of payments made to the shareholders of WB in the year preceding the Initial Order, namely in the period from February 28, 2009 to February 24, 2010, which seem to be represented by: payments of US$250,000 per month in each of March 2009 to September 2009 inclusively; a payment of US$15.0 million in March 2009; and a payment of US$53.3 million in April 2009, for total payments of US$70.0 million (collectively the "**2009 Payments**").

    These transactions are described in greater detail hereunder.

Management Contract

14. A copy of the Management Contract, dated April 8, 2005, is attached to this report as Appendix B. The Management Contract provides that BII will provide certain services for a remuneration calculated as 3% of sales revenues. The services that are contemplated in the Management Contract include providing sales, marketing, credit and collection services to the WB Group, technical support, customer services, treasury and risk management, budgeting and forecasting, operations' coordination and supervision, human resources management and executive management including the provision of a management team.

15. The Monitor requested information on the cost of comparable services in the industry, but was unable to obtain comparable information that is verifiable, as it is considered to be sensitive data from a competitive standpoint. In its plan of argumentation filed in connection with legal proceedings initiated by the Syndicat Canadien des Communications, de l'Énergie et du Papier ("**SCEP**")[9] and others, which proceedings sought to amend the Initial Order[10], WB provided

[9] The SCEP has since changed its name as a result of a merger and is now called Unifor.

information on the levels of selling, general and administrative expenses of its major competitor, AbitibiBowater, and asserted that these expenses were essentially for the same type of services as those covered by the Management Contract, and that these expenses represented in excess of 3% of the sales of its competitor[11].

16. Although we did not receive information on the cost of obtaining similar services from an unrelated source, we have no reason to believe at this juncture that there was a difference (significant or not) between the value of the consideration received by the Companies in the context of the Management Contract (i.e. the value of the services received) and the value of the consideration given by the Companies (i.e. 3% of sales revenues). Our opinion in this regard is based on the information received to date, and in particular:

    16.1. Our discussions with representatives of the Companies, who explained that this costing structure has been in place for a very long time, even before the Management Contract was entered into, as similar agreements were in place with respect to each of the Soucy, Stadacona and the BipCo plants before they were acquired and became part of the WB Group.

    16.2. The fact that the Management Contract was disclosed to the major lenders of the Companies and accepted by the lenders as being reasonable in the circumstances. The Management Contract was disclosed to the First Term Lenders and Second Term Lenders at the time of the refinancing in 2005 and was specifically approved by the lenders at that time[12]. The Management Contract remained an approved agreement when the Term Loan Credit Agreements were amended in 2006 and 2007. The Management Contract was also disclosed to the operating lender and was specifically approved by the operating lender at that time.[12]

    16.3. The fact that the Management Contract was disclosed to the Interim Financing lender and was specifically approved by the Interim Financing Lender at that time.[13]

17. In view of the foregoing, the Monitor has no reason to question the reasonableness of the consideration received and given by the Companies in the context of the Management Contract.[14]

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[10] See the Report of the Monitor dated February 21, 2012, at footnote no 18 and the judgments of the Court rendered on December 9, 2011, January 27, 2012 and April 20, 2012. These judgments, as well as all proceedings related to the CCAA restructuring of WB Canada are available on the Monitor's website at www.ey.com/ca/WhiteBirch.

[11] Paragraph 69 of the Contestation and Argument Plan of the Debtors in respect of the Motion by Syndicat Canadien des Communications, de l'Énergie et du Papier (SCEP-Quebec) and its Local Sections 11, 137, 200, 250, 299, 625, 627, 905 and 1104, the Motion by the Regroupement des Employés Retraités de White Birch Stadacona and the Motion by Comités de Retraite des Employés Non Syndiqués, dated December 22, 2011.

[12] See paragraphs 7.6(j) and 7.10 of the First Lien Term Loan Agreement and of the Second Lien Term Loan Agreement, both dated April 8, 2005, as well as the amendments thereto dated May 8, 2007 (paragraphs 7.6 and 7.10 in each of the agreements). See also paragraphs 7.6(j) and 7.10 of the Second Amended and Restated Revolving Credit Agreement dated February 26, 2008.

[13] See paragraphs 5.10 and 6.6(h) of the Senior Secured Super Priority Debtor-in-Possession Term Loan Credit Agreement dated March 1, 2010.

[14] It should be noted that the Management Contract has been the object of a legal proceeding by the Unsecured Creditors' Committee of the estate of BipCo ("**UCC**"), alleging that the payments made to BII in the two year period preceding the inception of the proceedings under the Code, which payments totalled US$9.3 million in

Transactions amongst affiliates

18. WB Group is comprised of several entities, as described at Appendix C to this report. Essentially, there are entities for each of the mills and the stevedoring operation (limited partnerships in the case of Soucy and Stadacona, corporations in the case of Papier Masson Ltée. and Arrimage de Gros Cacouna Inc.) and corporations that are acting as holding companies, general partners and limited partners. In the course of the activities of the group, certain services were provided by some entities to others, and costs were paid by some entities on behalf of the others.

19. From a global corporate point of view, these transactions amongst the various entities are inconsequential, as the financial position and results of operations are presented on a consolidated basis, and the impact of these transactions is eliminated through the consolidation process.

20. As well, to the extent that the entities are being considered on a consolidated or combined basis, the past transactions amongst the entities are inconsequential. A problem with these types of transactions can only surface where the entities are considered on a stand-alone basis, or where a distribution is considered on an entity by entity basis.

21. The Monitor understands that with regards to WB Canada, the plan of distribution that is being contemplated is a combined plan for all entities where the distribution would occur based on a substantive consolidation, and as such it is not necessary to examine in detail the transactions among the member entities comprising WB Canada.

22. With respect to transactions with BipCo, it should be noted that certain expenses of BipCo or attributable at least in part to BipCo were paid by WB. The records of the Companies indicate that during the year preceding the Initial Order, WB charged expenses to BipCo in an amount of US$10,506,387 as an allocation of interest charges incurred by WB attributable to BipCo (approximately US$8.7 million) and miscellaneous charges such as insurance and other costs (approximately US$1.8 million).

23. During the same period, the Monitor considers that payments totalling US$6,567,120 were made, on account of these charges and there was a sizable intercompany balance, estimated at US$52.1 million, as at February 28, 2009.

24. In view of the size of the previous balance, the Monitor considers that the payments made were in respect of the pre-existing balance, and not in respect of the charges incurred in the year preceding the Initial Order. As a result, it would appear that there is a conspicuous difference between the value of the consideration given by WB to BipCo and the consideration paid by BipCo to WB.

25. The Monitor considers that the amount, recorded as the value of the services provided to, charges paid or costs incurred by WB Canada on behalf of BipCo, is a proper estimate of the fair value of the services rendered, monies provided to or charges incurred on behalf of BipCo. However, the

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respect of BipCo, were preferential payments or fraudulent preferences that should be voided (See docket entry no 960 in the BipCo proceedings, accessible through Garden City's website at www.gcginc.com/cases/bip/). The Monitor understands this proceeding has been settled by agreement between the UCC and BII.

Monitor considers that no consideration was paid for those services during the year preceding the Initial Order. As such, it would appear that the services rendered, monies provided to or charges incurred on behalf of BipCo could be considered as a transfer at undervalue.

26. For greater clarity, the Monitor understands that the normal process of allocating common charges between affiliated entities resulted in an allocation to BipCo of expenses paid for by WB Canada, and that these expenses would typically have been paid by BipCo in the normal course of business, at a later date, but could not be paid in view of the fact that BipCo initiated restructuring proceedings pursuant to the provisions of Chapter 11 of the US Code. The Monitor has no reason to question the value of the services provided to, charges paid or costs incurred by WB Canada on behalf of BipCo and charged to BipCo through the intercompany account, nor does it have any reason to doubt that the only reason why the charges were not paid was because of the restructuring proceedings. However, the services that were rendered, monies provided to or charges incurred on behalf of BipCo, which were not ultimately reimbursed or repaid, might be considered as a transfer at undervalue.

27. It should be noted however that the proposed settlement presently under discussion, pertaining to the allocation of proceeds of the sale of the assets between WB Canada and BipCo, as referred to in paragraph 6 above, would also settle proceedings initiated by the Unsecured Creditors' Committee of the estate of BipCo ("**UCC**") before the U.S. Court, seeking a recharacterization of the claim of WB Canada against BipCo as equity. If there is a settlement of the estate allocation issues, the settlement would cover all claims between the estates of WB Canada and BipCo, which would include any assertion that the transactions between WB Canada and BipCo may constitute a transaction at under value.

2009 Payments

28. During the year preceding the issuance of the Initial Order, certain payments were made by WB and recorded as payments to the shareholder of WB, as follows:

28.1. US$250,000 per month in each month from March to September 2009 inclusively, for a total of US$1,750,000 (Appendix D)[15];

28.2. US$14,956,039 (or US$14,208,237 after withholding taxes) in March 2009 (Appendix E);

28.3. US$53,324,652 in April 2009 (Appendix F);

all of which total US$70,030,691, as summarized in Appendix G. With respect to the payments in the approximate amounts of US$1.75 million and US$15.0 million, we were informed that these were "permitted" payments and/or payments that were provided for under WB's financing agreements with the term lenders and operating lenders, and as a result these payments were not specifically addressed in minutes or resolutions of the board of directors of WB. With respect to

[15] The Companies were making a monthly distribution of US$250K, and as such distributions of US$250K were also made during the months of January and February 2009, however these payments fall beyond the period of one year before the Application for an Initial Order. The monthly distributions were for US$250K, although the amount remitted to the shareholder is lower, due to tax withholdings made for the account of the shareholder.

the payment of US$53.3 million, the shareholders' resolutions authorizing the payment and the reduction of the capital are attached (Appendix H).

29. It should be noted that in view of the corporate structure of the WB Group (Appendix C), the shareholder of WB is a limited partnership named WB Partners LP (formerly known as White Birch Partners LP), the limited partner of which is Estate WBPHC Company (formerly known as White Birch Paper Holding Company), who is one of the Applicants.

30. Although the payments were recorded in the Company's records as payments to the shareholder of WB, the wire transfer information provided to us in support of these payments all indicate that the funds were transferred directly to Brant Paper Inc., the main shareholder of Estate WBPHC Company. We were told that the payments of WB to its shareholder were intended to be mirrored by payments by Estate WBPHC Company to its own shareholder, and that to simplify the flow of funds, the funds were in fact sent directly from WB to Brant Paper Inc. The corporate structure chart (Appendix C) indicates that Brant Paper Inc. is a corporation that was related to WB and to a director of WB (within the meaning of section 4 of the BIA) at the time of the payments.

31. We have not been provided with financial statements for Estate WBPHC Company, but we have been informed that its financial position is essentially comprised of the investment in White Birch LP, which essentially represents the investment in WB. As such, the financial position of WB should be a fair indication of the financial position of Estate WBPHC Company.

32. The 2009 Payments are reflected in the financial statements of WB[16], attached hereto as:

32.1. Appendix I - internally prepared unaudited financial statements of WB for February 2009, prepared on a non-consolidated basis.

32.2. Appendix J - internally prepared unaudited financial statements of WB for March 2009, prepared on a non-consolidated basis.

32.3. Appendix K - internally prepared unaudited financial statements of WB for April 2009, prepared on a non-consolidated basis.

32.4. Appendix L - internally prepared unaudited financial statements of WB for September 2009, prepared on a non-consolidated basis.

32.5. Appendix M – audited financial statements of WB for the year ended December 31, 2009, prepared on a consolidated basis.

33. With respect to the payments of US$250,000 per month (or US$237,200 per month after withholdings), and the payment of US$14,956,039 (or US$14,208,237 after withholding taxes) in March 2009, we were informed that these payments were discussed with the term lenders and with the operating lenders and were permitted payments in the context of the First Term Loan,

[16] The reader should note that the amounts therein may not match the amounts referred to in paragraph 28 because the financial statements attached as Appendices H to K are expressed in Canadian currency and some of the amounts are presented net of withholding taxes.

Second Term Loan and Revolving Credit Agreement[17]. The audited financial statements label these payments as "distributions", reducing the retained earnings (or in the present case increasing the deficit).[18]

34. With respect to the payment of US$53,324,652 in April 2009, the audited financial statements label this payment as a return of additional contributed capital, reducing the common stock value.[19]

35. Said payment in the amount of US$53,324,652 is considered by Management as repayment of temporary junior capital contributions made in 2008 to ensure compliance with the interest coverage ratios under the applicable first and second lien credit agreements[20]. The audited financial statements of WB for fiscal 2009 (Appendix M) confirm that a capital contribution of US$65,087,963 was made during fiscal 2008. Note 9 to the 2009 audited financial statements of WB describe said payment as follows:[21]

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

36. It appears that the 2009 Payments, totalling US$70,030,691, were made in compliance with the financing agreements with the term lenders and operating lenders.

37. The First Lien Term Loan Agreement and the Second Lien Term Loan Agreement provide for periodic payments of US$250,000 per month, and for a yearly payment calculated with reference to the Excess Cash Flow[22] generated in the prior year, provided no default or event of default has occurred. The credit agreements provide a formula concerning Excess Cash Flow, pursuant to

[17] See paragraphs 7.6 and 7.10 of the First Lien Term Loan Agreement and of the Second Lien Term Loan Agreement, both dated April 8, 2005, as amended and restated thereafter from time to time.

[18] See Appendix M, in the schedule titled Consolidated Statement of changes in stockholder's equity (deficiency) and comprehensive income (loss).

[19] See Appendix M, in the schedule titled Consolidated Statement of changes in stockholder's equity (deficiency) and comprehensive income (loss).

[20] See paragraphs 7.1 and 8.2 of the First Lien Term Loan Agreement and of the Second Lien Term Loan Agreement.

[21] See Appendix M, note 9 at page 19.

[22] As defined in the First Lien Term Loan Agreement.

which a portion[23] of the excess cash flow must be offered as a prepayment of the indebtedness, while the remainder can be distributed.[24]

38. As well, the return of capital of US$53,324,652 in April 2009 was specifically contemplated and allowable under the First Term Loan, Second Term Loan and Revolving Credit Agreement. The return of capital was a partial repayment of a Specified Contribution[22] (essentially, a capital contribution accounted for as part of the consolidated EBITDA[25] for the purposes of the agreements) made by the shareholder during fiscal 2008, in order to avoid a default in respect of a financial covenant provided for under the financing agreements, and the agreements provide that such a capital contribution may be repaid under certain conditions, namely that the Companies are in compliance with the credit agreements for a determined number of financial quarters.[26]

39. Management insisted that when they were made in 2008, these contributions were intended to be temporary only and to be repaid or returned as soon as practicable. The financing agreements contemplate the return of the Specified Contributions provided the Companies have complied with the Consolidated Interest Coverage Ratio for the two most recently completed financial quarters. The Companies complied with this ratio for the quarters ended December 2008 and March 2009, which led to the repayment of the capital contribution in April 2009.

40. The audited financial statements of WB for fiscal 2009 and fiscal 2008 (Appendices M and N) indicate that the Companies, as a group, were incurring losses in the two years before fiscal 2009. The Companies incurred losses of US$39.3 million in fiscal 2007 and of US$80.1 million in fiscal 2008, before income taxes. The losses before taxes were reduced to US$22.7 million and US$71.1 million after taxes, largely by capitalizing the benefit of future tax savings.

41. The stockholder's equity decreased from approximately US$161 million in December 2006, to approximately US$72.3 million at December 31, 2008, notwithstanding additional contributed capital in the aggregate amount of approximately US$65.1 million in 2008. This represents a 55.1% decrease in the stockholder's equity, while the liabilities did not change substantially, which results in an increase in leverage and financial risk.

42. The distributions made shortly after the 2008 financial year are very close in amount to the total consolidated stockholder's equity. As such, any error in estimating values for accounting purposes, either in estimating revenues and matching costs, assessing the value of assets or estimating the extent of liabilities, would have a large impact on the Company's financial position, due to the inherent risk from the increased leverage.

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[23] See paragraphs 2.9 of the First Lien Term Loan Agreement and of the Second Lien Term Loan Agreement. Essentially, the portion that must be offered as a prepayment of the debt varies between 25% and 75% of the Excess Cash Flow depending upon the value of the Consolidated Leverage Ratio (i.e. Debt/EBITDA).

[24] See paragraphs 2.9 and 7.6 of the First Lien Term Loan Agreement and of the Second Lien Term Loan Agreement and paragraph 7.6 of the Second Amended and Restated Revolving Credit Agreement dated February 26, 2008.

[25] Earnings Before Interest, Taxes, Depreciation and Amortization. "Consolidated EBITDA" is a term defined in the First Lien Term Loan Agreement.

[26] See paragraphs 7.6 and 8.2 of the First Lien Term Loan Agreement and of the Second Lien Term Loan Agreement and paragraph 7.6 of the Second Amended and Restated Revolving Credit Agreement.

43. The internal financial statements presented to us by Management on a non-consolidated basis, for WB for the months of February to September 2009 (Appendices I to L) all suggest that WB Canada had a large capital base, reported to be CDN$290 million in February 2009, and reducing to CDN$246 million in September 2009. The large capital base would suggest that WB may not have been insolvent at the time the payments were made. However, the non-consolidated financial statements do not provide a strong basis to assess the financial position of Estate WBPC Company or of WB Group as a whole, since the capital could be overstated due to a need to eliminate some intercompany balances in the course of the consolidation exercise for the financial statements. By way of an example, the Companies' consolidation worksheets indicate there is a difference of US$147.9 million between the reported consolidated and non-consolidated equity of Estate WBPC Company as at February 28, 2009, although dealing with a single entity. The difference arises because of intercompany balances that need to be eliminated on consolidation, and is reflected by an overstatement of assets and/or an understatement of liabilities.

44. In view of the Companies' particular circumstances, given the interrelation between the various entities comprising the WB Group, we feel that the consolidated information is more representative, as the primary source of funding of the operations of WB is the operations of its subsidiaries. The internally prepared consolidated financial statements of the Companies are appended to this report as follows:

44.1. Appendix O - Financial position at January 31, 2009 and results of operations for the month then ended;

44.2. Appendix P - Financial position at February 28, 2009 and results of operations for the two months then ended;

44.3. Appendix Q - Financial position at March 31, 2009 and results of operations for the three months then ended;

44.4. Appendix R - Financial position at April 30, 2009 and results of operations for the four months then ended;

45. The financial ratios[27] derived from the financial statements (Appendices N to R) indicate a constantly deteriorating financial position in early fiscal 2009, as noted by the trends in the following ratios:[28]

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[27] The current ratio and the quick ratio are measures of liquidity. The current ratio is defined as current assets divided by current liabilities, while the quick ratio is defined as current assets, excluding inventories, divided by current liabilities. A decreasing current or quick ratio can be indicative of a deteriorating liquidity position. Leverage is a measure of capitalization, and is defined as total debt divided by total net worth. An increasing leverage ratio can be indicative of a higher reliance on external debt rather than owners' equity to finance the activities. Total net worth is the stated value of the shareholders' equity. Tangible net worth is a measure of the value of the total net worth that is supported by tangible assets or working capital.

[28] The reader will note that in the table, two separate calculations are provided regarding the current ratio and the quick ratio. This stems from the fact that the Company's financial statements present a Derivative contract liability as a current liability on the balance sheet, while Management is of the view that the Derivative contract liability should not be considered as a current liability as it is merely a "mark to market" valuation of derivative contracts, which were not expected to translate into a payment requirement in the short term. Management indicated that the Derivative contract liability was only included as a current liability for the sake of expediency

	December 2008	January 2009	February 2009	March 2009	April 2009
Current ratio (incl. derivatives)	1.87	2.12	2.20	2.07	1.54
Current ratio (excl. derivatives)	3.68	3.97	4.05	4.60	2.53
Quick ratio (incl. derivatives)	1.22	1.32	1.30	1.01	0.67
Quick ratio (excl. derivatives)	2.39	2.48	2.39	2.25	1.11
Leverage	10.82	9.21	9.55	11.85	19.45
Total Net Worth (in US$000s)	72,270	83,462	80,104	62,826	40,147
Tangible Net Worth (in US$000s)	(21,523)	(9,462)	(9,440)	(26,626)	(54,143)

The deterioration is particularly notable starting in February 2009, after an improvement in January 2009. The quick ratio (current ratio excluding inventories) decreased, the leverage (debt divided by equity) increased and the tangible net worth deteriorated from minus US$21.5M to minus US$54.1M between December 31, 2008 and April 2009, on a consolidated basis.

46. In considering the financial position of WB at the date of the payments to assess whether the Companies were or were not solvent when the payments were made or were rendered insolvent by the payments, it should be noted that the Companies' liabilities in general, and the pension obligations in particular, are valued based on an assumption that the Companies will continue as a going concern. One of the indications of whether an entity is insolvent is whether the value of the assets would be sufficient, in a context of a fairly conducted sale under legal process, to discharge the liabilities. In the event of a sale under legal process, it is possible that the pension plans would need to be terminated, and as such the valuation of the pension liabilities may need to be prepared on the basis of a solvency test, as opposed to a going concern test. The financial statements indicate net obligations relating to pension plans[29] and other post-retirement benefit plans[30] of approximately US$105 million to US$110 million from December 31, 2008 to April 30, 2009, calculated on the basis of a going concern. The information provided in the application for an initial order suggests that the pension deficit as at April 30, 2009, calculated based on a solvency test, would amount to approximately US$185 million, which would

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and efficiency, as the application of U.S. generally accepted accounting principles would require some level of complexity to assess separately the current and long term portion of the liability. The current and quick ratios referred to in the table are calculated based on the financial statements as presented ("including derivatives"), and based on a reclassification of the Derivative contract liability as a long term liability ("excluding derivatives").

29 Fair value of pension plan assets, less present value of future pension obligations. The solvency basis of valuation of the deficit calculates the pension plan deficit on the assumption that the plan is immediately terminated and plan assets are distributed to the pension plan members based on their current entitlement. The going concern basis of valuation of the pension plan deficit calculates the pension plan deficit on the assumption that the plan assets will continue to generate an investment yield and that pension plan liabilities will be paid over time, as the entitlements become due.

30 The obligations relating to the pension plans the other post-retirement benefit plans are dealt with collectively herein and are referred to as the pension obligations and pension deficits, for ease of drafting.

represent additional liabilities of approximately US$75 million.[31] Using this basis of valuation of the liabilities would eliminate all or substantially all of the reported equity on the adjusted financial statements presented in Appendices O to R.

47. Furthermore, the adjusted financial statements as presented in Appendices O to R present the financial position of the Companies, on a consolidated basis, based on the accounting carrying value of assets. It should be noted that some of the significant assets reported on the balance sheet consist of intangible property (for example, goodwill of approximately US$30 million) or deferred charges (for example, deferred financing costs of approximately US$20 million and deferred income taxes of approximately US$30 million), which would have at best a questionable realizable value in a context of a fairly conducted sale under legal process. These "soft" assets have an aggregate carrying value of in excess of approximately US$90 million to US$95 million in each of the months under consideration. Any decrease in value of these "soft" assets from their carrying value reduces the equity by a like amount, which would result in a further increase in the leverage ratio (debt divided by equity).

    In preparing the financial statements for fiscal 2009, the Companies reassessed the value of these "soft" assets, by writing off assets that had a carrying value of approximately US$91.6 million as at December 31, 2008.

48. The period of November 2008 to April 2009 was a period of turmoil for the paper industry. In the October 2008 issue, RISI, Inc. ("**RISI**")[32] predicts a decrease in demand due to poor economic outlook and an expected recession, and states that prices are likely to decline for most grades of printing and writing paper, although RISI indicated at the time this decrease was expected to be less than that experienced in previous recessions, through supply restrictions. In its November 2008 issue, RISI reported that the largest manufacturers decreased their capacity by some 500K tons, to prevent a price collapse. In its December 2008 issue, RISI reports that it has further decreased the demand expectations, forecasting large demand drops for 2009. The January 2009 issue reports that the demand decreased significantly in the last quarter of 2008, and that the demand is not expected to recover during 2009, but is expected to stay on a downward trend, while pricing is decreasing (although without being a collapse of the pricing structure). The February 2009 issue paints an even bleaker portrait, describing a decrease in demand that beat all records by a large margin, and a situation of continuing price decreases. RISI reported that the decrease in demand during the month of January 2009 was 26%, while the largest monthly drop in demand over the last 32 years of recorded history had been 15%. The March and April 2009 issues describe further drops in demand and pricing. A copy of the RISI reports issued for the months of October 2008 to April 2009 are attached (en liasse) as Appendix S.

49. As further indication of the turmoil in the industry in early 2009, AbitibiBowater Inc. (now Resolute Forest Products Inc.), the largest producer of newsprint in the world and a major producer of uncoated ground wood (commercial printing) papers and wood product, and the Companies' largest competitor, requested and obtained an initial order under the CCAA on

[31] Petition for the issuance of an initial order, filed by WB Group on February 24, 2010, available on the Monitor's website at www.ey.com/ca/WhiteBirch, in the section titled "Motion Materials", at paragraph 68 and exhibit P-2.

[32] RISI, Inc. was described to us by Management as being a reliable source of information on the global forest product and paper industry.

April 17, 2009. In its application for an initial order, AbitibiBowater indicates that at the time of its application[33]:

> "… an advertising recession is in full swing and it is impacting both printed and electronic media. Other factors more closely related to the paper markets, such as consumer destocking, are also pushing down demand for printing and writing papers.
>
> Trends in advertising, electronic data transmission and storage, and the Internet could continue to adversely affect traditional print media, including the ABH Group's products and those of their customers."

50. Management indicated that the goodwill impairment charge and the write down in other intangible assets occurred in the context of the preparation of the financial statements for fiscal 2009, after full extent of the changes in demand, pricing and the costs became known. The various impairment charges and write down in intangible assets are estimated to contribute approximately US$91.6 million in losses, thereby increasing the loss from approximately US$53 million to a net loss of US$144.5 million for the year. Management indicated that these losses were not anticipated before they occurred rather suddenly in the last quarter of fiscal 2009. While the financial statements indicate that the Companies were reporting profits in the early part of fiscal 2009, and it appears that the profitability reported by the Companies was mostly attributable to a very favorable exchange rate in the early part of fiscal 2009, as is indicated below:

	US$000s		% better
	2009	**2008**	**(worse)**
Sales			
January	63,646	69,916	(9.0)
February	49,772	67,966	(26.8)
March	44,571	66,585	(33.1)
	157,989	204,466	(22.7)

	2009	**2008**	**% better (worse)**
Cost of goods sold % - as reported			
January	68.3	95.4	28.4
February	69.2	92.1	24.8
March	79.0	90.6	12.8
	71.6	92.7	22.8

33 Petition for the Issuance of an Initial Order dated April 17, 2009 filed on behalf of AbitibiBowater Inc and several of its affiliates, Quebec Superior Court No. 500-11-036133-094 at paragraphs 253 and 254.

	2009	2008	% better (worse)
Cost of goods sold % - adjusted for FX			
January	82.8	95.4	13.2
February	86.3	92.1	6.3
March	99.7	90.6	(10.0)
	88.7	92.7	4.4

51. The tables above indicate that the Companies were experiencing a sharp decrease in revenues as compared with the previous year, of 22.7% on average for the first quarter, representing a decline in revenue of US$46.5 million. In the same period, the Companies reported a sharp improvement in the gross margin, from an average gross margin of 7.3%, in the first quarter of fiscal 2008, to an average gross margin of 28.4% over the first quarter of fiscal 2009. However, most of the improvement in the gross margin is attributable to a more favorable exchange rate, representing a contribution to income in the first quarter of fiscal 2009 estimated at US$26.9 million. The reported net income before taxes for the first quarter of fiscal 2009 was US$9.6 million.

52. As can be noted from the above, the Companies benefitted from a very favorable exchange rate in late fiscal 2008 and in the first quarter of fiscal 2009, which led to reporting profits. Management indicated that each 1% change in the exchange rate between the U.S. and Canadian currency has an impact of approximately US$5 million on an annual basis. The average exchange rate during the first quarter of fiscal 2009 was more favourable than the average rate during the first quarter of fiscal 2008, by approximately 20%. The improvement in the exchange rate occurred more particularly after the third quarter of fiscal 2008, when the US$/CDN$ exchange rate decreased by approximately 20%.

53. Management asserts that there was no sign of financial difficulty in early 2009 when the payment of US$15.0 million and the return of capital of US$53.3 million were made. We were informed that although the financial statements for fiscal 2008 (Appendix N) indicated a net loss from operations, the Companies generated significant cash flow, and the internal financial statements for the 3 months ended March 31, 2009 (Appendix J) indicated the Companies were generating profits and cash flow.

54. Management provided us with the budget prepared for fiscal 2009 that was presented to the lenders in January 2009 (Appendix T), and this budget contemplates significant profits and cash flow. The fiscal 2009 year was expected to be a good year for the Companies.

55. Management indicated that the financial difficulties of the Companies only became apparent much later during fiscal 2009, after the payments were made, as demand for paper products and prices fell sharply and the Canadian currency gained strength as compared to the U.S. currency, resulting in higher costs.

56. Although the Companies were generating substantial positive cash flow and cash earnings, Management indicated it forecasted during the second quarter that the Companies would likely not meet the Consolidated Interest Coverage Ratio at the end of the third quarter (i.e. the quarter ending September 30, 2009), which would constitute an event of default under the financing agreements.

57. The prospect of not meeting the Consolidated Interest Coverage Ratio requirement does not mean the Companies were not profitable, but rather that they were not sufficiently profitable to meet the requirement stated in the financing agreements, since the ratio represents essentially a measure of EBITDA over interest charges.

58. Management indicated that the prospect of an event of default led to the retention of Lazard Frères & Co. LLC ("**Lazard**") to provide general restructuring advice and to advise the Companies in connection with any "Restructuring" (as defined in that certain engagement letter dated June 3, 2009, filed as Exhibit R-1 in support of Lazard's Motion for the payment of post-filing amounts), and to increased involvement of the Companies' legal advisers in the U.S, starting in early June 2009.

59. Management indicated that the retention of Lazard as a financial advisor was not in contemplation of any insolvency proceeding, but rather to take advantage of the then prevailing market conditions to renegotiate the financing agreements and obtain concessions from the lenders. Management indicated that the Companies defaulted on the payment of the interest that was due to be paid in September 2009, however this default was not due to a lack of cash resources, but rather was a strategic decision based on the legal representatives' advice, to preserve cash while the negotiations were progressing with the lenders.

60. The Companies considered the possibility of initiating proceedings under restructuring laws in late 2009, however Management stated that this possibility was only considered as a protective measure in the event it became necessary to obtain a stay of proceedings, and this situation did not occur in 2009, as the Companies were able to enter into forbearance agreements with their lenders.

OVERALL COMMENTS AND CONCLUSION

61. In the course of its review of the books and records of the Companies, 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 section 36.1 CCAA or 95 to 101 BIA, depending on the circumstances.

62. The Monitor has no reason to question the Management Contract, for the reasons set out more fully above at paragraphs 14-17 hereof.

63. While the transactions between WB Canada and BipCo during the year prior to the Initial Order may constitute a transaction at under value, any such claim may well be settled by the proposed settlement agreement referred to above at paragraphs 5 and 6 hereof. Any such settlement agreement will be subject to authorization by the Courts after due notice to creditors.

64. The available information suggests that the Companies' financial position was fragile at the time the 2009 Payments were made, with decreasing revenues, over-production and increasing inventory, deteriorating financial ratios, soft assets possibly subject to impairment or write-downs, assets of questionable value and the possibility of additional liabilities in the context of a properly conducted sale under legal process. As well, the industry as a whole was presenting signs of difficulties such as on-going price decreases and loss of demand.

65. The Companies forecasted significant profits and cash flow for 2009 and, as a matter of fact, during the first quarter of 2009, the Companies were reporting substantial increases in profits. Management maintains that the Companies' financial difficulties only surfaced in the second part of the year, at a time when the 2009 Payments had already been made. Management is of the view that the Companies were solvent and profitable when the payments were made, and while demand and the prices for the Companies products were weakening, the Companies' cash flow was always positive at that time.

66. In view of the nature of the present report, which aims at providing a factual review of transactions, the Monitor does not have any recommendation to make.

All of which is respectfully submitted this 6th day of February 2014.

ERNST & YOUNG INC.
Monitor appointed by the Court in the matter of
the proposed compromise and arrangement 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

APPENDICES

The Companies asserts that some of the information contained in the appendices is confidential and competitively sensitive, and accordingly the Companies have requested that the appendices be made available to creditors only on request, and after the creditor requesting access to the appendices has signed an agreement to keep the information therein confidential. A copy of the confidentiality undertaking can be obtained from the Monitor's office.