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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[2]

DEBTORS

- and -

ERNST & YOUNG INC.

MONITOR

REPORT OF THE MONITOR – JULY 16, 2014

INTRODUCTION AND BACKGROUND

As discussed more fully below, most issues with respect to the on-going restructuring of the Debtors have been held in abeyance following the hearing on various motions, on May 1, 5 and 6, 2014, which motions remain under advisement.

As a result, the Monitor proposes to limit its report herein to providing an update of the matters discussed in its previous full report, dated May 23, 2014, which was itself an update of the report dated March 26, 2014. The comments herein should be read in the context of the Monitor's report dated March 26, 2014, and are subject to the same terms of reference and disclaimer, as outlined in paragraphs 7 and 8 of the said report.

STATUS OF PROCEEDINGS

1. 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 May 27, 2014 and grants an extension until July 21, 2014.

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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).

Timminco issue

2. A hearing was held on May 1, 5 and 6, 2014, to consider the motion filed by BDWBI, requesting essentially that the Court confirm that the decision made in the Timminco file[3] does not apply to the proceedings in respect of WB Canada, together with the related motions, contestations, counterclaims and interventions, and the matter is now under advisement by the Court.

Closing of the transaction with BDWBI

3. The closing of the transaction with BDWBI occurred on September 13, 2012. In the context of this transaction, BDWBI designated some of its affiliates to be the purchaser of the assets. Although the closing has occurred, there remain certain issues that need to be resolved between the Purchaser, the Companies and certain stakeholders, more particularly the former employees and the retired employees of the Companies, the principal one being the creation and funding of pension plans having hybrid characteristics between a defined benefit and a defined contribution plan.

4. During the May hearing referenced above, the Court also dealt with two motions by Unifor and the Regroupement seeking amongst other things the implementation of the new pension plans as contemplated by certain letters of understandings dated July 13, 2012. BDWBI has confirmed its commitment to implement promptly said pension plans when the Timminco issue is resolved satisfactorily. The Regroupement has also asked the Court to force BDWBI to confirm its commitment in favour of the Stadacona non-unionized retirees following the termination of their pension plan.

5. The Court has indicated its intention to render a single decision dealing with the Timminco issue and the various other issues raised during the May hearing.

Allocation of proceeds between WB Canada and Bipco

6. There has been no progress in the discussions regarding the allocation of proceeds between WB Canada and Bipco since our last report dated May 23, 2014. The lack of progress in this respect is attributed by BDWBI to the Timminco issue, since the motion filed by BDWBI on February 13, 2014 suggests that the Timminco issue could affect the negotiations[4]. In view of this position expressed by BDWBI, the Monitor understands that the Timminco issue needs to be resolved before the negotiations on the estate allocation issues can be completed.

Proceedings in the US to recharacterize the claim of WB Canada against Bipco

7. The hearings in the U.S. keep being postponed and the issue is left pending for the time being, as there is a possibility that this issue could become moot if a settlement is reached concerning the allocation of proceeds between the estates of Bipco and WB Canada.

Claims from the Canada Revenue Agency

8. This issue was addressed in the Monitor’s report dated May 23, 2014. There has been no development regarding the above issues since our last report.

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[3] In the matter of the plan of compromise and arrangement of Timminco Limitée and Bécancour Silicon Inc., 500-11-043844-121 (Quebec Superior Court, Montreal district, Mongeon J., judgment issued January 24, 2014).

[4] Motion of BDWBI, paragraph 37.

Claims Process to address potential claims against Directors and Officers

9. The D&O Claims Process was authorized by an order of the Court made on February 10, 2014.[5]

10. The Monitor received 10 claims purporting to be D&O claims, further to the notice sent to creditors and publication made in compliance with the D&O Claims Process Order. To date, all claims have been contested:

    10.1. Nine of the claims were contested by way of notices sent on April 22, 2014. No appeal was lodged of the decision of the Monitor and the Companies regarding these notices of contestation.

    10.2. One of the claims was contested by way of a notice sent on July 7, 2014. No appeal had been filed in respect of this notice of contestation as of the date of this report. In virtue of the judgment of this Court on the D&O Claims Process,[5] the delay to appeal this notice of contestation expires on July 22, 2014, unless the Court extends the delay.

CONCLUSIONS AND RECOMMENDATION

11. The Initial Order as previously extended is scheduled to expire on July 21, 2014, and the Debtors have indicated their intention to seek a further extension of the Initial Order, until September 30, 2014.

12. The estate allocation issues are not yet settled, and it appears discussions cannot continue until the Timminco issue has been clarified by the Court.

13. In the present circumstances, the Monitor believes that a further extension of the stay of proceedings would not be prejudicial to the creditors of WB Group.

14. 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.

15. Based on the foregoing, the Monitor recommends that the Court grant an extension of the stay of proceedings as requested by WB Canada.

All of which is respectfully submitted this 16th day of July 2014.

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, CPA, CA, CIRP
Senior Vice-President

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

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[5] A copy of the order made by the Court is accessible through the Monitor's website at www.ey.com/ca/WhiteBirch.