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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 – MARCH 12, 2013

INTRODUCTION AND BACKGROUND

1. On February 24, 2010, on a Motion made by Estate WPBC Company (formerly known as White Birch Paper Company and hereinafter referred to as "**WB**") and various of its affiliates (collectively referred to as the "**Applicants**"), the Superior Court of the Province of Québec for the District of Montréal ("**Court**"), sitting as the designated tribunal pursuant to the *Companies' Creditors Arrangement Act* ("**CCAA**")[1] issued an order ("**Initial Order**") declaring that the Applicants are debtor companies to which the CCAA applies, appointing Ernst & Young Inc. as monitor ("**EYI**" or "**Monitor**") and granting certain relief to the Applicants and various partnerships in which the Applicants have an interest ("**Partnerships**") (the Applicants and the Partnerships are hereinafter referred to collectively as "**WB Canada**")[2]. The Initial Order has since been extended and is now scheduled to expire on March 15, 2013.

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.,

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).

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

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. The Initial Order as previously extended is scheduled to expire on March 15, 2013, and the Applicants have indicated their intention to seek a further extension of the Initial Order.

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. This report is presented under the following headings:

   6.1. Introduction and background;

   6.2. Terms of reference and disclaimer;

   6.3. Financial information and cash flows;

   6.4. Status of Proceedings; and

   6.5. Conclusions and recommendation.

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

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

5 As amended, modified or extended from time to time by the Court.

6 Sections §361 and §362 of the U.S. *Bankruptcy Code*.

TERMS OF REFERENCE AND DISCLAIMER

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.

FINANCIAL INFORMATION AND CASH FLOWS

9. As mentioned in the Monitor's most recent report to the Court, dated November 28, 2012, the closing with BD White Birch Investment LLC ("**BDWBI**") of the asset sale agreement dated August 10, 2010, as amended from time to time (the "**ASA**") occurred on September 13, 2012. As a result of the closing, the Companies do not presently have any activity other than working towards a resolution of the remaining issues arising from the closing, winding down the estates and preparing a plan of distribution of the proceeds.

10. Updated financial projections have not been prepared, in view of the stage of advancement of the restructuring proceedings. In view of these limited activities, the Companies considered that financial projections would not be relevant, and the Monitor concurs with this assessment.

STATUS OF PROCEEDINGS

11. 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 November 30, 2012 and grants an extension until March 15, 2013.

12. The Monitor prepared several reports to the Court addressing the status of the proceedings and the Companies' progress towards the formulation of a plan of compromise and arrangement. 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 latest report dated November 28, 2012.

Closing of the transaction with BDWBI

13. 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 ("**Purchaser**"). 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.

14. Some of these issues pertain to the payment of certain obligations that were incurred by the Companies prior to the closing. The ASA provided (at paragraph 2.1.3 thereof) that the Purchaser assumed certain liabilities as part of the sale price for the assets, in particular liabilities that arise in the normal course of business and that would be considered as "accounts payable and accrued liabilities' in a financial statement. To the extent that pre-closing liabilities are identified that were not previously disclosed to BDWBI, discussions are required with representatives of BDWBI to ensure these are paid by the Purchaser, or to assess why the Purchaser does not consider that these amounts form part of the assumed liabilities, as the case may be.

15. The main issue that is still pending however pertains to the finalization of the agreements between the Purchaser and the union representing the former employees of WB Canada ("**SCEP**") regarding the creation of a new pension plan having hybrid characteristics between a defined benefit and a defined contribution pension plan, and the contribution that may be made by BDWBI, to alleviate some of the losses sustained by some of the employees and former employees of the WB Group as a result of the termination of the Companies' pension plan[7].

16. The Monitor understands that the discussions are continuing with the Québec government to implement legislation and regulations necessary to give effect to the agreement made between BDWBI and SCEP. We attach as Appendix A the correspondance addressed by the Minister of Labor and Social Security to Mr. Christopher Brant, dated February 13, 2013, outlining the progress made to date in resolving the outstanding issues relating to the new pension plan.

17. The Monitor understands that there are still unresolved issues regarding the entitlement of retired employees to obtain a share of the contribution of BDWBI referreed to in paragraph 15 above, in view of the recent correspondence received from Mtre Jocelyn Morency of Boily Morency Roy,

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[7] See the Monitor's report dated Septermber 12, 2012, at Appendix F.

dated February 6, 2013 (Appendix B). Subsequent to the issuance of this correspondence, Mtre Morency filed on March 11, 2013 a Motion for Directions on behalf of the Regroupement des retraités de la White Birch – Stadacona Inc., presentable on March 20, 2013, and the attorneys representing BDWBI responded to Mtre Morency's correspondence, by letter dated March 11, 2013 (attached to this report as Appendix C).

Allocation of proceeds between WB Canada and Bipco

18. The issue of allocation of proceeds between WB Canada and Bipco is explained in the Monitor's report dated November 28, 2012. Based on the issues that have been identified, the allocation issues could represent a potential variance in outcome of up to approximately $40.5 million, out of total proceeds of $75.7 million.

19. In an attempt to settle the differences between the various points of view regarding allocation the allocation of proceeds, the Monitor had meetings and discussions with representatives of the creditors of WB Canada, of the Companies, of the official committee of unsecured creditors of Bipco ("**UCC**") and of Black Diamond, including two meetings in New York at the offices of the Companies' counsel in the U.S., on January 23 and February 12, 2013.

20. The Monitor is of the view that the meeting of January 23, 2013 was very productive, as the various stakeholders had an opportunity to discuss and explain the various different assumptions and arguments that would result in a variance in the allocation outcome. The Monitor understood that while the various parties do not necessarily agree on the treatment of the issues, the various parties were able to understand that the other parties' position may have merit and are not asserted arbitrarily. The Monitor was left with the impression that the issues could be resolved through negotiation, and in fact a basis of settlement of the issues was outlined at the end of the meeting, but was not discussed in detail in view of the fact that some key decision makers were not in attendance at the meeting or that their representatives lacked authority to reach a final settlement.

21. The meeting was thus rescheduled and reconvened on February 12, 2013, for the stated purpose of entering discussions to settle the issues on the basis outlined at the end of the previous meeting.

22. However, the parties could not reach a consensus at this meeting, which terminated without a settlement.

23. Although a follow up meeting has not been scheduled, the parties have expressed a preference to settle the issues through negotiation rather then through protracted litigation.

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

24. As mentioned in the Monitor's report dated November 28, 2012, a hearing was held in the U.S. Court connection with the Motion to Recharacterize, during November 2012.

25. The parties have all made written written submissions to the U.S. Court regarding the proposed findings of fact and of law, and the proposed form of order.

26. As of the date of this Report, the U.S. Court has not yet rendered its written decision regarding the recharacterization of the claim of WB Canada against Bipco, as is explained the Monitor's last report[8].

Legal proceedings – Lazard & Freres Co LLC

27. The Companies had retained Lazard & Freres Co LLC ("**Lazard**") as a financial adviser, in particular to assist the Companies with the sizing of an interim financing loan facility, identification and selection of an interim lender and preparation and management of a Sale and Investor Solicitation Process[9].

28. A dispute arose between the Companies and Lazard regarding the quantification of Lazard's remuneration. The Monitor understands that the dispute relates primarily to the following:

    28.1. the interpretation of the terms and conditions of Lazard's letter of engagement;

    28.2. the fee is set in part in relation to the purchase price for the assets sold through the ASA, and Lazard and the Companies have not agreed as to how to quantify the purchase price.

29. Lazard has retained Gowling Lafleur Henderson to represent it and filed a motion which has been postponed while Lazard and the Companies attempt to resolve the dispute.

CONCLUSIONS AND RECOMMENDATION

30. The Initial Order as previously extended is scheduled to expire on March 15, 2013, and the Applicants have indicated their intention to seek a further extension of the Initial Order.

31. The Companies have made substantial progress, in that the closing of the transaction with BDWBI has occurred, and the operations of the plants are continuing, through new entities. However, the process is not complete, as the parties have not yet been able to agree on an allocation of the proceeds resulting from the sale transaction. While there have been difficulties in discussing a settlement of the issues surrounding the allocation of proceeds amongst the estates, the Monitor has not abandoned hope of a consensual resolution of the issues.

32. The Monitor considers that the most significant hurdle in moving towards a process to distribute funds to the creditors is that of the allocation of proceeds between WB Canada and Bipco. The Monitor considers that the delay to reach an agreement or to obtain a judicial determination of the allocation of proceeds is independent of whether or not the Initial Order is extended, in that a similar delay would be incurred if the Initial Order were terminated and the Companies became bankrupt.

33. 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.

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[8] See Monitor's report dated November 28, 2012, at paragraph 42.

[9] See the Monitor's reports dated February 23, 2010 and April 21, 2010.

34. 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.

35. 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 12th day of March 2013.

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

Appendix A – Letter from the Minister of Labour and Social security, dated February 13, 2013

Québec

Gouvernement du Québec
Députée de Taschereau
Ministre de l'Emploi et de la Solidarité sociale
Ministre du Travail
Ministre responsable de la Condition féminine
Ministre responsable de la région de la Capitale-Nationale
Ministre responsable de la région de la Chaudière-Appalaches

Québec, le 13 février 2013

Monsieur Christopher Brant
Président et chef des opérations
Compagnie de Papiers White Birch Canada
80 Field Point Rd., 3e étage
Greenwich, CT, USA, 06830

Objet : Mesures particulières requises pour accommoder les ententes conclues avec le SCEP

Monsieur le Président,

Dans la lettre que je vous adressais en décembre dernier, je faisais état de la volonté du gouvernement du Québec de tout mettre en œuvre pour que la compensation visant à rétablir partiellement la réduction de rente subie par les retraités de Papiers White Birch à la suite de la terminaison de leurs régimes de retraite puisse leur être versée le plus rapidement possible.

Cette volonté d'agir rapidement s'est exprimée par l'adoption, le 6 décembre dernier, de la « *Loi permettant l'établissement de régimes de retraite à prestations cibles dans certaines entreprises du secteur des pâtes et papiers* ». Cette loi permet l'existence du volet à prestations cibles des trois régimes de retraite que vous avez établis pour vos travailleurs syndiqués.

Par ailleurs, certaines mesures particulières doivent être autorisées par un projet de règlement pour concrétiser les ententes que vous avez conclues avec le SCEP. C'est avec plaisir que je vous soumets, pour commentaires, un document qui définit ces mesures particulières. Cela traduit à nouveau la volonté du gouvernement d'agir rapidement dans ce dossier. Ces mesures particulières visent à préciser les règles applicables au volet à prestations déterminées des trois nouveaux régimes de vos travailleurs syndiqués. Elles établissent aussi dans ce volet deux comptes distincts pour séparer l'actif des retraités de celui des autres participants pour les régimes de F.F. Soucy et de Papiers Masson.

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Enfin, dans la mesure où le régime prévoit le financement d'un passif additionnel qui correspond à la valeur des avantages supplémentaires liés à la retraite anticipée, ces mesures permettent que la modification qui sera faite annuellement pour accorder ces avantages se fasse sans créer un déficit actuariel de modification, ni exiger une cotisation d'équilibre spéciale.

À la lecture de ce document, vous constaterez que son rédacteur (la Régie des rentes du Québec, ci-après « Régie ») a fait l'hypothèse que les déficits initiaux de ces trois régimes seraient financés en utilisant les mesures d'allègement générales plutôt que des mesures d'allègement particulières qui en permettraient l'amortissement sur 15 ans. La Régie a fait ce choix puisque nous sommes toujours en attente de votre décision quant à la période d'amortissement de ces déficits. Toutefois, soyez assuré que les ajustements requis seront apportés dans le cas où vous décideriez d'amortir ces déficits sur 15 ans.

En parallèle, la Régie procède également à l'élaboration des dispositions réglementaires qui définiront le fonctionnement des régimes de retraite à prestations cibles. Elle devrait avoir complété cet exercice d'ici quelques semaines. Avec ce dernier projet de règlement, le gouvernement du Québec aura mis en place tous les éléments requis pour permettre l'existence des nouveaux régimes de retraite de vos travailleurs syndiqués.

Dans les ententes conclues avec le SCEP, il est prévu que la compensation visant à rétablir en partie les réductions de droits subies lors de la terminaison des anciens régimes sera versée aux retraités à compter de la date où les textes des nouveaux régimes auront été enregistrés auprès de la Régie. Il s'agit là d'une condition contractuelle qu'une disposition de ces ententes vous permet de ne pas appliquer. Sur ce point, je ne peux que réitérer la demande que je vous ai formulée récemment de renoncer à cette condition et de verser la compensation promise dans les meilleurs délais.

Enfin, aucune proposition concrète n'a été portée à notre connaissance en ce qui a trait aux retraités non syndiqués. Comme vous le savez, le gouvernement souhaite que vous offriez à ces retraités un traitement équivalent à celui prévu pour les retraités syndiqués.

Veuillez accepter, Monsieur le Président, mes salutations les plus sincères.

La ministre,

Agnès Maltais

Appendix B – Correspondence from Boily Morency Roy dated February 6, 2013

BOILY MORENCY ROY
a v o c a t s

Québec, le 6 février 2013

Sans préjudice
Par courriel

Me Jean-Yves Simard
jysimard@lavery.ca
LAVERY, S.E.N.C.R.L.
1, Place Ville-Marie, 40e étage
Montréal (Québec) H3B 4M4

Objet: **Regroupement des employés retraités de la White Birch-Stadacona**
N/D: 2897.01

Cher confrère,

La présente fait suite à notre lettre du 21 décembre 2012 dernier ainsi qu'à un courriel de rappel du 15 janvier 2013.

Il ne nous a toujours pas été communiqué à ce jour la liste des toutes les quittances que vous avez reçues. Cette information, à ce stade-ci, nous est essentielle. Il est de notre compréhension que votre cliente la possède de façon détaillée et il vous est très facile de nous la communiquer sans aucun autre délai, bien que nous l'ayons demandé il y a maintenant plus de deux (2) mois.

Nous désirons de plus connaitre où en est la création du nouveau régime de retraite ainsi que les éventuels versements des prestations compensatoires pour les retraités. Avec plus de détails, nous désirons savoir à compter de quelle date chacun des retraités recevra sa prestation compensatoire. De plus, devons-nous comprendre que le premier versement comportera les sommes rétroactives à la terminaison du régime en septembre dernier.

Également, et ce n'est pas là notre moindre demande, les retraités non syndiqués que nous représentons, sont toujours dans l'inconnu suite à la fermeture de leur régime de retraite auquel ils n'ont d'ailleurs jamais consenti.

À défaut de recevoir les réponses et précisions demandées, nous présenterons lors de l'audition du 15 mars prochain devant l'honorable juge Mongeon une requête, lui demandant de nous diriger.

Bien à vous et dans l'espoir de recevoir cette fois-ci une réponse à cette troisième demande.

Bien à vous.

BOILY MORENCY ROY

JOCELYN MORENCY, AVOCAT
JM/cl

c.c. Sylvain Rigaud
Me Matthew Liben
Me Gerry Apostolatos
Me Tina Hobday
Me Richard Bertrand

Appendix C – Correspondence from Lavery De Billy dated March 11, 2013

lavery

▸ lavery.ca

JEAN-YVES SIMARD
SUITE 4000
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MONTREAL, QUEBEC H3B 4M4
DIRECT LINE: 514 877-3039
JYSIMARD@LAVERY.CA

Montreal, March 11, 2013

BY EMAIL
STRICTLY CONFIDENTIAL

BOILY MORENCY ROY
70 Dalhousie Street
Suite 10
Québec, Québec
G1K 4B2

Attention to: Jocelyn Morency

Re: Stadacona
Our file: 004532-00343

Dear Colleague:

In your recent correspondence, you seek information concerning the status of various matters relating to the new pension plan for the Stadacona mill. We have previously responded to your enquiries, both verbally and by letter dated November 22, 2012. On behalf of the Purchaser, we provide the following responses to your most recent queries:

1. We have received a total of 619 executed release forms from individuals who were unionized retirees of Stadacona at the date of termination of the old Stadacona union plan (September 12, 2012). Only 239 of those release forms were on the standard form of release which had been negotiated with the Union and circulated to all unionized retirees, with no amendments. However, as a result of your advice, 380 of the release forms which were received had been unilaterally altered to remove some of the text which had been negotiated with their union and in some cases, new text was added. Because of the manner in which these release forms were unilaterally altered, the Purchaser has had to have professionals review every single release form on a line by line basis to ascertain what alterations may have been made to the standard form of release. The Purchaser has also had to spend significant time dealing with the Union over matters concerning the altered release forms. This exercise has cost the Purchaser considerable time and expense. As you know, the release forms

were altered unilaterally by these individuals largely as a result of the advice which you and your clients provided to various retirees of the Stadacona mill;

2. With respect to the status of the new pension plan for unionized employees at Stadacona, you have been provided with a copy of the letter of understanding which sets out the terms of that new pension plan. As such, you are aware that there are a number of conditions which must be satisfied prior to benefits being provided for under the new pension plan. Those conditions include a number of matters which are outside of the control of the Purchaser. That said, the Purchaser continues to work diligently to attempt to meet those conditions and continues to work with the Union and the Government on many fronts in this regard. The Purchaser wishes to finalize these matters as expeditiously as possible, but the timing of their completion is not something which it can speak to on its own; and

3. With respect to arrangements for the non-union retirees at Stadacona, the Purchaser continues to work through various issues concerning those arrangements. As had been indicated in the August 28, 2012 notice mailed to those non-union retirees, the Purchaser will provide an amount to non-union retirees and beneficiaries who were receiving a pension from the old Stadacona non-union pension plan as of its wind-up date, subject to certain conditions being met, including the execution of a release by each such retiree or beneficiary. However, as you might appreciate, the Purchaser has been quite occupied in attempting to deal with the previously mentioned release issues created by you and your clients, the myriad issues concerning the Union pension plans of the various mills, as well as arrangements for the active non-union employees. The Purchaser continues to work towards finalizing the amount and structure of any payments to be made to non-union retirees of Stadacona, and will advise as soon as those arrangements have been completed.

We intend to update you within the next 60 days on the status of these matters.

Yours very truly,

LAVERY, DE BILLY

Jean-Yves Simard

JYS/sl

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