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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 Act¹*

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 26, 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. as monitor (“**EY**” or “**Monitor**”) and granting certain relief to the Applicants and various partnerships in which the Applicants have an interest (“**Partnerships**”) (the Applicants and the Partnerships are hereinafter referred to collectively as “**WB Canada**”)². The Initial Order has since been extended and is now scheduled to expire on March 28, 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, together with the “first day orders” made by the Bankruptcy Court for the Eastern District of

¹ *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended.

² The entities subject to the Initial Order are Estate WBPBC 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.

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 Canada⁴ 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 Order⁵ in the U.S., provided that the Initial Order⁵ 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 Code⁶ (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 28, 2014, and the Applicants have indicated their intention to seek a further extension of the Initial Order, until May 28, 2014.
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. Status of proceedings; and
 - 6.4. Conclusions and recommendation.

TERMS OF REFERENCE AND DISCLAIMER

7. In preparing this report, EY has relied upon unaudited financial information, company records, company prepared financial information and projections, discussions with management and employees of WB Group, and information from various other sources.

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*.

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.

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.

STATUS OF PROCEEDINGS

9. 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 February 14, 2014 and grants an extension until March 28, 2014.
10. 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 status report dated January 10, 2014.

Closing of the transaction with BDWBI

11. 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, the principal one being the creation and funding of pension plans having hybrid characteristics between a defined benefit and a defined contribution plan.

12. At the hearing held on January 15, 2014, the Court heard from the attorneys representing Unifor (formerly, the Syndicat Canadien des Communications, de l'Énergie et du Papier)⁷ and the Regroupement des Employés Retraités de White Birch Stadacona ("**Regroupement**"), that they were complaining that the implementation of the new pension plans was not being pursued quickly enough and that Unifor and the Regroupement believed the delays were attributable to the Purchaser.
13. The Monitor has since received a copy of a letter from a non-profit organization purporting to represent the non-unionized retired employees of F.F. Soucy, expressing a similar complaint (Appendix A).
14. At the hearing held on February 10, 2014, following the filing of motions for directions on behalf of the Regroupement⁸ and by Unifor⁸, essentially requesting orders compelling the Purchaser to finalize the texts and proceed with the implementation of the new hybrid pension plans, the attorneys representing the Purchaser indicated that a recent judgment issued in another proceeding (the "**Timminco**" proceedings)⁹, pertaining to the potential priority ranking of claims represented by unpaid amounts due to registered pension plans under the Quebec *Supplemental Pension Plans Act*¹⁰, was creating uncertainty that could affect, *inter alia*, the finalization and implementing of the new pension plans.
15. A motion for directions and for declaratory judgment was filed by BDWBI and the Purchaser on February 13, 2014¹¹, essentially requesting that the Court confirm that the decision made in the matter of the Timminco proceedings does not apply to and does not affect the proceedings in the present case.
16. A hearing was held on February 14, 2014, at which time the Court extended the initial order (which was scheduled to expire on March 12, 2014) until March 28 2014, and the Court requested that all interested parties agree on a short and efficient process to hold a hearing to debate the motions presented on February 6 and 13, 2014, together with any contestation that might be filed in respect thereof (collectively, the "**Motions**").
17. In connection with this request from the Court, the attorneys representing the Monitor coordinated discussions leading to a schedule with a short time line, to hold examinations and file contestations (as the case may be), with a view to be ready to debate the motions as soon as possible based on the Court's availability.
18. In accordance with this schedule, an examination was held of Mr. Les Meier, the representative of BDWBI and the Purchaser, on March 21, 2014.

⁷ The SCEP has since changed its name as a result of a merger and is now called Unifor.

⁸ Accessible on the Monitor's website at www.ey.com/ca/WhiteBirch, in the folder titled "Motion Materials".

⁹ 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).

¹⁰ R.S.Q., chapter R-15.1

¹¹ Accessible on the Monitor's website at www.ey.com/ca/WhiteBirch, in the folder titled "Motion Materials", in the subfolder titled "Motion for declaratory judgment Feb 13, 2014".

19. As of the date of drafting the present report, no contestation had yet been filed in respect of the Motions. The next step in the process is March 28, 2014, by which time the contestations, if any, are expected to have been filed and the parties can enquire as to the Court's availability for a hearing.

Allocation of proceeds between WB Canada and Bipco

20. The issue of allocation of proceeds between WB Canada and Bipco is explained in the Monitor's previous reports, in particular those dated November 28, 2012 and March 12, 2013. 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.
21. Since the hearing held on January 15, 2014, there has been very little progress in the discussions regarding the allocation of proceeds between WB Canada and Bipco.
22. The lack of progress in this respect is attributed by BDWBI to the Timminco issue, since the motion filed by BDWBI on February 13, 2014¹² suggests that the Timminco issue could affect the negotiations¹³.
23. 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

24. The hearings that were scheduled to determine the amount of the intercompany claim following the Bankruptcy Court's consideration of the motion to recharacterize the claim of WB Canada against Bipco have been 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

25. The Monitor received correspondence from the Canada Revenue Agency ("CRA"), dated October 29, 2013, claiming that the Companies were in default of making remittances of payroll source deductions for the period subsequent to the Initial Order, and informing the Monitor that CRA intends to modify its claim filed in connection with the canvassing of claims required in the order made by the Court in May 2010¹⁴.
26. With respect to the claim that the Companies were in default of making remittances of payroll source deductions, it appears that the claim is attributable to errors made in the early weeks of the proceedings in respect of a few reporting periods, at a time when the provincial and federal governments were denying the Companies the right to continue an existing agreement whereby the Companies could apply their net refundable claims for the goods and services tax ("GST") and Quebec sales tax ("QST") in payment of their payroll source deductions. The decision to

¹² Accessible on the Monitor's website at www.ey.com/ca/WhiteBirch, in the folder titled "Motion Materials", in the subfolder titled "Motion for declaratory judgment Feb 13, 2014".

¹³ Motion of BDWBI, paragraph 37.

¹⁴ Order Establishing the Claims Process, dated May 6, 2010. A copy of the order is accessible through the Monitor's website at www.ey.com/ca/WhiteBirch.

terminate the administrative agreement allowing set-off was subsequently reversed, but the changes in process resulted in certain amounts being misapplied and/or refunded to the Companies, resulting in unremitted federal payroll source deductions that only came to light and were reconciled in February 2013.

27. As mentioned in the Monitor's report dated January 10, 2014, the Companies accepted to pay the assessment for unremitted deductions at source, amounting to approximately \$1.0 million, and this amount was paid to CRA. Contemporaneously, the Companies contested the charges for penalties and interest, of approximately \$300K.
28. The Companies have since been advised by CRA that their request for relief from the penalties and interest charges has been substantially denied. The Monitor understands that the Companies intend to appeal this decision.
29. With respect to the claim filed by CRA, the Monitor was informed that CRA intends to modify this claim, to claim a right to preferential treatment under section 6(3) of the CCAA, instead of claiming as an ordinary unsecured creditor as mentioned on CRA's claim dated June 21, 2010. The claim for a preferential treatment would apparently pertain to an amount of approximately \$7.1 million, out of CRA's total claim of approximately \$42.2 million.
30. The Monitor wrote to CRA to indicate that the Monitor does not believe that the claims referred to in CRA's proof of claim are of the nature of a claim that could benefit from the treatment referred to in section 6(3) of the CCAA, and that in any event, CRA would have to seek the Court's authorization to modify its claim, in view of the fact that the claim bar date is passed. To date, the Monitor has not received any additional communication from CRA on this matter.

Monitor's report on transactions

31. The Monitor's report has been finalized and was filed with the Court on February 6, 2014. A copy of the report is accessible through the Monitor's website at www.ey.com/ca/WhiteBirch.

Claims Process to address potential claims against Directors and Officers

32. The Companies applied to the Court to set up a process to identify and document the claims, if any, that could be made against directors and officers of the Companies ("**D&O Claims Process**"). The D&O Claims Process was authorized by an order of the Court made on February 10, 2014. A copy of the order made by the Court in this respect is accessible through the Monitor's website at www.ey.com/ca/WhiteBirch.
33. In compliance with the order made by the Court regarding the D&O Claims Process, the Monitor has published a notice in the Wednesday, February 26, 2014 publication of La Presse, Le Soleil, The Globe and Mail and The Gazette. As well, the Monitor issued a notice by ordinary mail to all creditors who have filed claims with the Monitor, informing the creditors of the D&O Claims Process and directing them to the Monitor's website if they wish to obtain proofs of claim forms and an instruction sheet on how to complete the proof of claim form. All material has been made available to the creditors on the Monitor's website. The claims need to be filed with the Monitor by April 11, 2014, which was set as the D&O Claims Bar Date.

CONCLUSIONS AND RECOMMENDATION

34. The Initial Order as previously extended is scheduled to expire on March 28, 2014, and the Applicants have indicated their intention to seek a further extension of the Initial Order, until May 28, 2014.
35. The estate allocation issues are not yet settled, and it appears discussions cannot continue until the Timminco issue has been clarified by the Court.
36. 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.
37. 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.
38. Based on the foregoing, the Monitor recommends that the Court grant an extension of the stay of proceedings as requested by WB Canada.

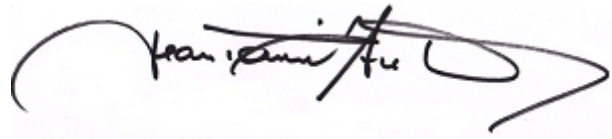
All of which is respectfully submitted this 26th day of March 2014.

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

Appendix A – Letter from the Association des
retraités non-syndiqués de F.F. Soucy

Rivière-du-Loup, le 21 mars 2014.

Honorable Robert Mongeon, J.C.S.

Palais de Justice de Montréal

1, rue Notre-Dame est, bureau 17.71

Montréal(Québec) H2Y 1B6

Objet : Dans l'affaire du plan d'arrangement de White Birch Paper Holding Company et als

Monsieur le Juge Mongeon,

La requérante est un organisme à des fins purement sociales et sans intention de gain pécunière pour ses membres regroupant en personne morale sans but lucratif les anciens employés non syndiqués de F.F.Soucy S.E.C. et de F.F.Soucy Inc. Et Associés, Société en commandite(Papiers White Birch) et prestataires du régime de retraite des employés non syndiqués de F.F.Soucy afin de défendre et veiller à la sauvegarde de leurs intérêts(voir ci-inclus une copie des lettres patentes pour l'Association des retraités non syndiqués de F.F.Soucy, datée du 28 novembre 2013).

Monsieur le Juge, malgré votre intervention lors de votre jugement du 24 juillet 2012, demandant à BDWBI de fournir aux retraités non syndiqués les informations pertinentes et applicables relativement aux effets de la fermeture des fonds de pension, nous n'avons reçu aucune offre de leur part.

Egalement, la lettre adressée aux employés non syndiqués de F.F.Soucy par White Birch Paper Company le 28 août 2012 est demeurée sans suite(voir lettre ci-incluse).

Comme vous le savez, une entente a été conclue entre les employés syndiqués(incluant les employés retraités syndiqués) qui leur permettra de recevoir une rente approximativement de 90% de leur rente originale.

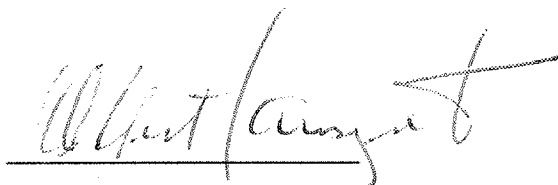
A ce jour, aucune entente de telle sorte n'a été conclue entre les employés retraités non syndiqués et la compagnie.

La requérante qui représente les intérêts des retraités non syndiqués est toujours dans l'attente d'une proposition de BDWBI.

Nous vous demandons d'être reconnus comme requérant et de prendre en considération cette lettre afin de protéger nos droits.

Veuillez recevoir, Monsieur le Juge, l'expression de notre plus haute estime.

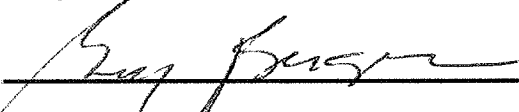
Signé à Rivière-du-Loup, ce 21^e jour de mars 2014 par les administrateurs de l'Association des retraités non syndiqués de F.F.Soucy de Rivière-du-Loup,



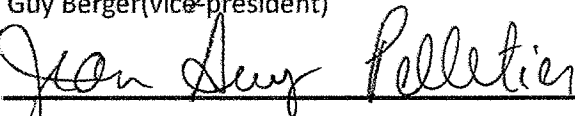
Albert Sansregret(président)

306 rue Fraser, Rivière-du-Loup(Qc) G5R 5S8

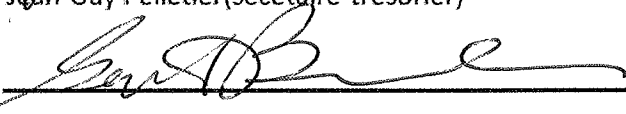
Téléphone 1-418-862-7735, courriel : albertsansregret@videotron.ca



Guy Berger(vice-président)



Jean-Guy Pelletier(secétaire-trésorier)



Gaston Boucher(administrateur)



Réal Gagnon(administrateur)

Lettres patentes

Loi sur les compagnies

Le Registraire des entreprises, en vertu de la Loi sur les compagnies, délivre aux requérants ci-après désignés les présentes lettres patentes, les constituant en personne morale sous le nom

Association des retraités non-syndiqués de F.F.Soucy

Fait à Québec le 28 novembre 2013.

Déposé au registre le 28 novembre 2013 sous le
numéro d'entreprise du Québec 1169651883.




Registraire des entreprises

RÉGIME COMPLÉMENTAIRE DE RETRAITE DU PERSONNEL NON SYNDIQUÉ DE F.F. SOUCY
AVIS AUX RETRAITÉS ET AUX BÉNÉFICIAIRES

Le 24 septembre 2010, le juge Mongeon de la Cour supérieure du Québec a autorisé, en vertu de la *Loi sur les arrangements avec les créanciers des compagnies* (« LACC »), la vente des actifs du Groupe Papiers White Birch à un groupe d'investisseurs ayant à sa tête Black Diamond Capital Management, L.L.C.

F.F. Soucy S.E.C. (« F.F. Soucy ») fait partie du Groupe Papiers White Birch et, tel que permis en vertu de la Convention d'achat d'actifs approuvée par le juge Mongeon, ses actifs seront vendus à Société en Commandite FF Soucy WB (l'« Acheteur »). En vue de la clôture imminente de la transaction de vente, White Birch Paper Company (« White Birch ») et F.F. Soucy ont été informées par l'Acheteur que cette dernière ne prendra pas en charge le *Régime complémentaire de retraite du personnel non syndiqué de F.F. Soucy* (enregistré auprès de la Régie des rentes du Québec sous le numéro 25645) (l'« Ancien Régime WB »). Par conséquent, l'Ancien Régime WB sera terminé par F.F. Soucy avant la clôture de la transaction de vente.

La terminaison de l'Ancien Régime WB déclenchera un processus bien encadré par la *Loi sur les régimes complémentaires de retraite* visant à distribuer l'actif de l'Ancien Régime WB entre tous les participants au régime. Le comité de retraite de l'Ancien Régime WB sera en charge du processus de terminaison, lequel se fera également sous la surveillance de la Régie des rentes du Québec. Étant donné que l'Ancien Régime WB comporte un déficit et que F.F. Soucy est insolvable et placée sous la LACC, il est anticipé que le niveau des prestations versées sera ajusté à la baisse dans le cadre du processus de terminaison, en fonction du degré de solvabilité de ce régime. De plus amples informations concernant ce processus vous seront fournies par le comité de retraite suite à la terminaison de l'Ancien Régime WB.

White Birch et F.F. Soucy ont également été informées par l'Acheteur qu'après la clôture de la transaction de vente, l'Acheteur acceptera de verser un montant aux retraités et aux bénéficiaires qui recevaient une rente de l'Ancien Régime WB à la date de sa terminaison, pourvu que certaines conditions soient satisfaites, incluant la signature d'une quittance par chaque tel retraité ou bénéficiaire.

Des informations additionnelles à cet égard vous seront fournies suite à la clôture de la transaction de vente.

Le 28 août 2012

WHITE BIRCH PAPER COMPANY

- et -

F.F. SOUCY S.E.C.