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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 WHITE BIRCH PAPER HOLDING COMPANY AND VARIOUS SUBSIDIARIES AND AFFILIATES

DEBTORS

- and -

ERNST & YOUNG INC.

MONITOR

REPORT OF THE MONITOR – MAY 29, 2012

INTRODUCTION AND BACKGROUND

1. On February 24, 2010, on a Motion made by White Birch Paper Holding Company ("**White Birch**") and various of its affiliates (collectively referred to as the "**Applicants**"), the Superior Court of the Province of Québec for the District of Montréal ("**Court**"), sitting as the designated tribunal pursuant to the *Companies' Creditors Arrangement Act* ("**CCAA**")[1] issued an order ("**Initial Order**") declaring that the Applicants are debtor companies to which the CCAA applies, appointing Ernst & Young Inc. ("**EYI**" or "**Monitor**") as monitor and granting certain relief to the Applicants and various partnerships in which the Applicants have an interest ("**Partnerships**") (the Applicants and the Partnerships are hereinafter referred to collectively as "**WB Canada**")[2]. The Initial Order has since been extended and is now scheduled to expire on May 31, 2012.

2. Also on February 24, 2010, Bear Island Paper Company, LLC ("**Bear Island**"), a subsidiary of White Birch with activities in the U.S., commenced a case under the provisions of Chapter 11 of the U.S. *Bankruptcy Code*[3] (the "**Code**") (Bear Island and WB Canada are hereinafter referred to collectively as "**WB Group**" or "**Companies**"). The information regarding the proceedings initiated by Bear Island under the Code, together with the "first day orders" made by the

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

[2] The entities subject to the Initial Order are White Birch Paper Holding Company, White Birch Paper Company, Stadacona General Partner Inc., Black Spruce Paper Inc., F.F. Soucy General Partner Inc., 3120772 Nova Scotia Company, Arrimage De Gros Cacouna Inc., Papier Masson Ltée., Stadacona Limited Partnership, F.F. Soucy Limited Partnership, and F.F. Soucy, Inc. & Partners, Limited Partnership.

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

Bankruptcy Court for the Eastern District of Virginia, Richmond Division ("**U.S. Court**") at the request of Bear Island, can be found on the website of the claims agent retained by Bear Island, Garden City Group, Inc., at www.gardencitygroup.com/cases/bip.

3. Also on February 24, 2010, some of the entities within WB Canada[4] applied for relief under the provisions of Chapter 15 of the Code. On February 26, 2010, the U.S. Court issued a temporary restraining order under the provisions of Chapter 15 of the Code, and on March 5, 2010, it granted a preliminary injunction, pending a more complete hearing to be held on March 22, 2010. At the hearing held on March 22, 2010, the U.S. Court granted recognition of the Canadian proceedings under the CCAA as foreign main proceedings, recognised White Birch Paper Company as the duly appointed foreign representative, declared that all of the provisions of section 1520 of the Code apply to the proceedings initiated by some of the entities within WB Canada, and gave full force and effect to the Initial Order[5] in the U.S., provided that the Initial Order[5] is not revoked, terminated or expired.

4. The orders granted by this Court and by the U.S. Court (collectively, the "**Courts**"), together with the relief provided under the CCAA and the Code[6] (collectively, the "**Orders**") provide, among other things, for a stay of proceedings against the entities comprising WB Group while they restructure their business and financial affairs.

5. The Initial Order as previously extended is scheduled to expire on May 31, 2012, 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. Internal Financial Statements for the first quarter of fiscal 2012 (i.e the 3 months ended March 31, 2012);

   6.4. Current activities;

   6.5. Status of Proceedings; and

   6.6. Conclusions and recommendations.

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[4] The entities which requested relief under Chapter 15 of the Code are White Birch Paper Company, Stadacona General Partner Inc., Papier Masson Ltée., Stadacona Limited Partnership, F.F. Soucy Limited Partnership and F.F. Soucy, Inc. & Partners, Limited Partnership.

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

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

TERMS OF REFERENCE AND DISCLAIMER

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

While we reviewed various documents and believe that the information therein provides a fair summary of the transactions as presented to us or as reflected in the documents presented to us, such work does not constitute an audit or verification of such information for accuracy, completeness, or compliance with generally accepted accounting principles. Accordingly, EYI expresses no opinion or other form of assurance in respect of such information.

Some of the information used in preparing this report consists of financial projections. We caution the reader that these projections are based upon assumptions about future events and conditions that are not ascertainable, and that the actual results may vary from the projections, even if the assumptions materialize, and the variations could be significant.

In the course of our mandate, we have assumed the integrity and truthfulness of the information and explanations presented to us, within the context in which it was presented. To date, nothing has come to our attention which would cause us to question the reasonableness of this assumption.

Finally, we have requested that management bring to our attention any significant matters which were not addressed in the course of our specific inquiries. Accordingly, this report is based solely on the information (financial or otherwise) made available to us.

This report has been prepared for the use of this Court and WB Group's stakeholders as general information relating to the entities comprising WB Group and their operations. Accordingly, the reader is cautioned that this report may not be appropriate for any other purpose. We will not assume responsibility or liability for losses incurred by the reader as a result of the circulation, publication, reproduction or use of this report contrary to the provisions of this paragraph.

8. Terms not otherwise defined herein shall have the meaning ascribed to them in the Initial Order, or in previous reports of the Monitor, as the case may be.

INTERNAL FINANCIAL STATEMENTS FOR THE FIRST QUARTER OF FISCAL 2012

9. The Companies' fiscal year ends on December 31. The internally prepared financial statements for the first quarter of fiscal 2012, i.e. the 3 months ended March 31, 2012 are attached to this report as Appendix A. While the financial statements are not complete as they do not include all of the disclosure that is required to conform with generally accepted accounting principles, we have been informed that Management considers that the internally prepared financial statements provide reasonable information on the financial position and results of operations.

10. The financial statements indicate the following:

10.1. The assets are reported to have a carrying value of US$713.6 million, comprised primarily of current assets (cash, accounts receivable, inventories and other current assets) of US$268.7 million, fixed assets of US$419.0 million and investments in affiliated entities (SP Newsprint) of US$25.0 million. The liabilities are reported to total US$989.1 million, including US$179.8 million in pension and other post retirement benefit obligations, leaving an equity deficit of US$275.5 million.

The Company has not yet updated the information regarding the pension deficit. Based on the information presented to us in the context of the motions filed by the labour unions, pension plans and retirees with a view to obtain a modification of the Initial Order,[7] the obligations relating to pension and other post retirement benefit costs are significantly higher than US$179.8 million, and are presently estimated to be in the $300 million to $400 million range.[8] If the pension plan deficit liability were adjusted to reflect a $400 million liability, the equity deficit would increase to approximately US$495.9 million.[9]

Based on our understanding of the security granted by the Companies to their lenders, the interim financing lender has a Court ordered prior ranking charge and security as per the terms of the Initial Order creating the Interim Financing Charge (ranking after only the Administration Charge and the D&O Charge) over all assets and undertakings of the Companies, in support of its debt of approximately US$87.9 million at March 31, 2012. The conventional first ranking term lenders, swap counterparties and conventional second ranking term lenders have security over all assets and undertakings of the Companies, except for the cash, accounts receivable and inventories, which have a carrying value of approximately US$253.5 million.[10]

We point out that while the Companies report that the assets have a carrying value of US$713.6 million,[11] the results obtained from the auction held in connection with the Sales and Investor Solicitation Process ("**SISP**") undertaken by the Companies suggest that the

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7 Motions filed in connection with the WB Group's motion for an extension of the Initial Order in November 2011.

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

9 Using an exchange rate of CDN$ = US$1.0009.

10 This amount includes cash collateral of US$3.2 million. We expect such cash collateral would be required to discharge the obligations to which it relates. We understand that the accounts receivable, cash and inventories of Bear Island, totalling US$54.1 million, may be encumbered by the security of the first term lenders and swap counterparties, through a replacement charge granted by the U.S. Court to provide adequate protection to the lenders with a senior charge, however we understand such charge would only apply inasmuch as the security granted in favour of the interim financing lender affects the security that is otherwise available to secure the debt to the first term lenders and swap counterparties.

11 Including cash collateral of US$3.2 million.

assets have a realizable value far lower than their current reported carrying value. Based on the transaction that is presently contemplated with BD White Birch Investments LLC and certain of its subsidiaries ("**BDWBI**"), the assets' value would be in the US$200 million to US$250 million range.[12] The transaction with BDWBI is outlined in the Monitor's reports dated August 10 and September 23, 2010.

10.2. The Companies report a net loss before taxes of US$7.9 million for the 3 months ended March 31, 2012, after taking into consideration a gain on foreign currency translation of US$8.3 million. The loss for the first quarter represents a slight deterioration as compared with the results of the equivalent period last year, in which the reported loss was US$1.4 million, after a gain on foreign currency translation of US$12.5 million.

10.3. The net losses from operations do not translate into an equivalent cash outflow, in view of the fact that some of the components of the revenues and expenses do not involve an outflow of cash. The Companies report net cash provided by operations of US$0.4 million, after adjusting for the non-cash items. This translates into a net increase in cash attributable to operations of US$53.2 million, after taking into consideration the changes in working capital balances.[13]

The overall cash position increased by approximately US$51.7 million in the three months ended March 31, 2012. The increase is attributed for the most part to the monetization of accounts receivable and inventories, as a result of the closure of the Stadacona plant.

CURRENT ACTIVITIES

11. The Monitor prepared several reports to the Court addressing the activities of the WB Group. The matters discussed in the said reports are still relevant, and will not be repeated herein. The present report only addresses matters that have changed since our latest report dated April 27, 2012.

Cash flow results/Interim Financing

12. The most recent cash flow projections filed with the Court were prepared for the 13 weeks ending July 20, 2012. For ease of reference, these cash flow projections are attached hereto as Appendix B.

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

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

13. WB Group and its advisors prepared a comparison of the actual and projected results, for the 4 weeks ended May 18, 2012, annexed to this report as Appendix C. The Monitor reviewed this comparison with management, and as a result of this review, the Monitor has no reason to doubt the reasonableness of the explanations provided for the variances.

14. Essentially, the comparison of actual and projected results for the 4 weeks ended May 18, 2012 indicates that the projections contemplated a negative cash flow of US$9.2 million for the 4 week period,[14] and the actual results yielded a negative cash flow of US$0.4 million,[14] or a favourable variance of US$7.3 million. The variance is attributed primarily to a combination of the following:

14.1. Lower than projected receipts by US$1.9 million or 4.5% of the projected amount, of which approximately US$2.7 million (or 6.6% of the projected amount) relates to accounts receivable.

The accounts receivable were projected to be US$54.4 million as at May 18, 2012, and they are reported to amount to US$61.3 million as at that date. If the variance were strictly related to a slower collection period, the variance would translate into higher accounts receivable by a like amount. The difference between the actual and projected accounts receivable, in view of the variance in the cash receipts, suggests that the revenues were higher than anticipated during the projection period, by approximately US$4.2 million, or approximately 11.8%.

14.2. Lower than projected disbursements, by approximately US$9.2 million,[14] or 17.9% of the projected amount.

The inventories were projected to be US$79.8 million as at May 18, 2012, and they are reported to amount to US$73.7 million as at that date.

We do not have current information on the accounts payable on a week by week basis, but in view of the proceedings under the CCAA and the Code, we would expect these to remain fairly stable. As such a variance on disbursements should be a fair estimate of the variance in purchases and expenses. If this assumption is correct, the difference between the actual and projected inventories, in view of the favourable variance in the cash disbursements, suggests that the costs (costs of goods sold, operating expenses, professional fees and interest) were lower than anticipated during the projection period, by approximately US$3.1 million or 6.1% of the projected amount.

We point out that a large part of this variance in costs and disbursements, or approximately US$8.8 million thereof, is due to the delay in the closing of the transaction with BDWBI, as the projections for the 13 weeks ending July 20, 2012 were based on an assumption that a large payment of professional fees would be required in the week of May 11, 2012, partly to bring arrears of professional fees up to date and partly to pay costs associated with the transaction with BDWBI.

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

15. The comparison of actual and projected results (Appendix C) also presents data compiled to isolate the results of WB Canada. The results for WB Canada indicate an unfavourable variance of US$1.7 million or 5.8% in receipts, and a favourable variance of US$7.2 million or 19.9% in disbursements, for a net favourable variance of US$5.5 million in the cash flow as compared with the projections. The explanations for the variances are similar to those outlined above in paragraph 14.

16. The results for the 4 weeks ended May 18, 2012 indicate a deterioration in the cash balance, by US$1.9 million for WB Group (US$1.5 million for WB Canada). As a result, WB Group's cash on hand stands at approximately US$100.4 million, as at May 18, 2012 (US$74.5 million for WB Canada).

    Overall, the changes in cash, accounts receivable and inventory positions suggest that the Companies' position deteriorated slightly during the 4 week period ended May 18, 2012. However, the Monitor considers that this change is not significant in the circumstances and could be artificial if it is the result of a timing difference in the payment of accounts payable.

Updated projections

17. Management provided us with an updated cash flow projection for WB Group, for the 13 weeks ending August 17, 2012, and these cash flow projections are attached to this report as Appendix D.[15] The opening cash position on these cash flow projections represents the actual cash on hand as of May 19. The remainder of the amounts represents a projection, as the actual results for the week of May 25, 2012 have not yet been compiled.

18. The updated projections suggest that WB Group and WB Canada expect to have sufficient liquidity to carry out their business in the normal course, throughout the period covered by these projections.

Pension issues

19. In its report dated April 27, 2012, the Monitor indicated there presently exists a dispute between the collective bargaining agent representing the unionized employees, the Communication, Energy and Paperworkers' Union ("**SCEP**"), and the Companies, regarding the obligation to make normal cost contributions to the pension plans for the Stadacona unionized employees, during the month of January 2012. The amount in dispute is approximately $111,000. The Monitor has been informed by the attorney representing the SCEP that the issue has not yet been resolved.

STATUS OF PROCEEDINGS

20. 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 2, 2012 and grants an extension until May 31, 2012.

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[15] Management has also provided us with an updated cash flow projection for WB Canada, for the 13 week period ending August 17, 2012, extracted from the above-mentioned projection for the WB Group, and prepared on the same basis. This cash flow projection is attached as Appendix E.

21. At the hearing held on May 2, 2012, the Court requested that the Monitor provide its views on what might be an appropriate deadline to complete the contemplated transaction with BDWBI, failing which the transaction should be abandoned and an alternative strategy should be implemented, as outlined in the Monitor's report dated March 15, 2012.

22. At that hearing, it was indicated that the Monitor thought it would be inappropriate to suggest an absolute deadline without consulting the principal stakeholders involved in the contemplated transaction, namely BDWBI, the Companies and the employees.

23. The Court then requested that the parties continue working towards finalizing the transaction, and come back before the Court on or before May 31, 2012, to inform the Court that the transaction will be completed and the contemplated timing for a closing of the transaction, or in the alternative to advise the Court on what should be an appropriate absolute deadline.

24. In order to form an assessment of the exact status of the discussions in respect of the various issues preventing the closing and the likelihood that these will be resolved in the short term, the Monitor requested from all parties that it be invited to participate in:

24.1. the discussions with the government of the province of Québec and/or the City of Québec, pertaining to the financial assistance and incentives offered to achieve the cost savings necessary to make the Stadacona plant viable;

24.2. the discussions with the Régie des Rentes du Québec ("**RRQ**") pertaining to the technical problems raised by the RRQ regarding the terms of the proposed settlement with regards to the existing pension plans; and

24.3. any further discussion between the Companies, BDWBI and SCEP regarding the finalization of the collective bargaining agreement.

25. All of the parties involved, namely BDWBI, the Companies and SCEP, were reluctant to allow the Monitor to attend and observe the discussions, as all parties were concerned that the introduction of a new participant in the discussions at this late stage might disrupt the process and prevent the free exchange of "off the record" comments to explore solutions.

26. In view of the collective consensus that the Monitor should refrain from participating in the discussions, the Monitor agreed to limit its involvement to requesting a progress report from the Companies, BDWBI and the SCEP, and seeking their input on what they would consider an appropriate absolute deadline for the contemplated transaction with BDWBI.

27. The written status report received by the Monitor is attached as Appendix "F". The report received from BDWBI and the Companies indicates the following:

27.1. With regards to the issue of financial assistance necessary to make the Stadacona plant viable, the discussions with the Québec provincial government are continuing, and documentation is being prepared. However the assessment of whether the operations at Stadacona are viable cannot be made until all documentation is completed and the issue regarding the pension plan (addressed below) is resolved. At the time of writing the status report to the Monitor, BDWBI and the Companies believed all information would be in hand to allow the Companies to decide to re-open Stadacona or keep it permanently shut, by May 31, 2012.

27.2. With regards to the technical issue raised by the RRQ, the parties met to discuss modifications to the settlement that would be acceptable to the RRQ and would achieve the same result for the Companies, using different measures. The modification to the settlement was discussed in meetings that were held in mid May 2012, and documentation was prepared to clarify the modification to the settlement. The modifications were to be presented to the union members at meetings of the membership scheduled for May 22, 2012, and the Companies and BDWBI expected this would put to rest the issues regarding the pension plan, allowing for the scheduling of a closing of the transaction.

28. The Monitor has been informed that the information session scheduled for May 22, 2012 were re-scheduled for May 23, at which time a vote was taken of the members of the union to approve the modifications to the settlement. The Monitor has been informed that the members of the union have rejected the proposed changes to the settlement, by a wide majority, in votes expressed by the members of the local unions at the PML and Soucy plants.

29. As a consequence of the negative vote, it appears that the issue of the structuring of the benefits within the on-going, new pension plan, which was originally intended by the Companies and BDWBI not to be a precondition of the settlement with the SCEP, has now become a condition of the settlement, and that the technical issue raised by the RRQ as being unacceptable to it has still not been resolved. As such, the main condition that prevents a closing from taking place, i.e. the successful negotiation of a new collective bargaining agreement in form and substance acceptable to BDWBI, has still not been met.

30. As part of its communications to the Companies, BDWBI and the SCEP, the Monitor had requested the views of these stakeholders regarding what would constitute an appropriate absolute deadline. Presumably because all parties were focused on removing the hurdles preventing the closing and these were considered likely to be removed before May 31, none of the parties responded to the Monitor's request by expressing their views of what would be an appropriate absolute deadline.

31. The Monitor believes it would be irresponsible of it to make such a determination without the benefit of a complete input from the stakeholders and analysis of their point of view. From the Monitor's perspective, the likely outcome in dealing with incomplete information, is as follows:

31.1. If the purchaser and the Companies are asked to make a decision immediately regarding the re-opening of Stadacona, and they do not have all of the information necessary to justify a business case that the operations could be viable, they would likely chose the least risky outcome, which appears to be to leave the plant permanently shut down.

A permanent shut down of the Stadacona plant does not necessarily mean that the plant will be put up for sale to find an alternative purchaser. That would depend on whether the contemplated transaction with BDWBI is terminated outright. If the transaction with BDWBI is not terminated and the plant is permanently shut down, the presently existing asset sale agreement would provide that BDWBI could exclude the real estate from the transaction, without any adjustment to the sale price, while acquiring all other assets, thereby ensuring that BDWBI would not be faced with a new competitor shortly after having acquired the assets of the Companies.

Such a scenario would exclude the purchase of the Stadacona plant and the restart of operations as part of a new sale process, unless any such a purchaser could come to terms with BDWBI.

31.2. If the purchaser is asked to make a decision immediately regarding whether to complete the contemplated transaction in the absence of a clear understanding regarding the collective bargaining agreement, it is difficult to assess what would be the purchaser's response. The purchaser's decision in this respect would depend on its assessment of the likelihood that a satisfactory agreement can be reached with the SCEP towards a new collective bargaining agreement after the transaction is completed, at a time when the power equilibrium may have changed in the context of the negotiations.

31.3. In the event that the purchaser does not opt to complete the contemplated transaction, the Monitor believes that the Companies would have to implement a new sale process, as described in the Monitor's report dated March 15, 2012. While it is not excluded that an offer or offers could be received for one or more of the plants on a going concern basis, the Monitor believes it is unlikely that such an offer would be received for one of the Canadian plants, and that indeed it is far more likely that the process would result in a liquidation of the Companies' assets and dismantling of the plants.

In view of the risk of economic loss for the purchaser, employees and suppliers that may lose a continuing customer for their goods and services, the Monitor is not prepared to give an opinion regarding the appropriate absolute deadline in the absence of guidance from the stakeholders.

32. The Monitor is aware that it has taken an inordinately long time to complete the contemplated transaction, which was approved by the Court in September, 2010, and that the process cannot continue without a proper structure and a strong likelihood that it will be completed post haste. As such, the Monitor suggests that the Court should direct the Companies, BDWBI and SCEP to make a joint recommendation on an absolute deadline date, on which an alternative sale process may be implemented, if the purchaser has not elected to waive any remaining condition to closing. This joint recommendation should be presented to the Court within a short delay.

CONCLUSIONS AND RECOMMENDATIONS

33. The Initial Order as previously extended is scheduled to expire on May 31, 2012, and the Applicants have indicated their intention to seek a further extension of the Initial Order.

34. The Monitor has asked for input from the stakeholders on what would be an appropriate deadline to complete the transaction, but to date the stakeholders have not provided this information, as it appears they were confident the issues could be resolved by May 31, 2012 and were focused on resolving these. Notwithstanding the diligent efforts of BDWBI, the Companies and SCEP, the issues that hamper progress towards a closing of the transaction with BDWBI have not yet been fully resolved, and in fact it appears that there was a setback in the progress in this past week when the union members at the PML and Soucy plants were asked to approved a modification to the settlement concerning the pension plan.

35. The Monitor believes it would be irresponsible for it to choose a deadline, without the benefit of the views of the stakeholders thereon. However, the Monitor is aware that the delay to complete the contemplated transaction has become unreasonable.

36. In view of the foregoing, the Monitor recommends that the Court instruct the principal stakeholders, namely the Companies, BDWBI and the SCEP, to provide it with a joint recommendation on what would be an appropriate deadline, after which an alternative sale process would be put in motion, unless the conditions to closing have been fulfilled or waived.

37. In the present circumstances and based on the projections submitted by the Companies, the Monitor believes that a short extension of the stay of proceedings would not be prejudicial to the creditors of WB Group.

38. 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.

39. 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 29th day of May 2012.

ERNST & YOUNG INC.
In its capacity as the monitor appointed by the Court
in the matter of the proposed compromise and
arrangement of White Birch Paper Holding Company *et al.*

Per: Martin P. Rosenthal, CPA, CA, CIRP
Senior Vice-President

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

Appendix A – Internal financial statements for the 3 months ended March 31, 2012

WHITE BIRCH PAPER COMPANY
CONSOLIDATED
FINANCIAL STATEMENTS

AS OF MARCH 31, 2012

(IN UNITED STATES DOLLARS)

CONSOLIDATED WHITE BIRCH PAPER COMPANY

BALANCE SHEET
(IN U.S.$)
MARCH 31, 2012

ASSETS

CURRENT ASSETS :		
Cash		$ 99,216,096
Cash Collateral		3,221,513
Accounts Receivable - Trade		57,393,407
Accounts Receivable - Miscellaneous		11,375,429
Inventory:		
Raw Materials & Stores	$ 67,273,173	
Finished	14,989,192	82,262,365
Prepaid Expenses		14,223,658
Timberdeeds		0
R&D Credit Receivable		300,270
Due from Affiliates		669,463
Total Current Assets		268,662,201
PROPERTY, PLANT AND EQUIPMENT AT COST	$ 1,210,262,454	
Less - Accumulated Depreciation	(791,298,482)	418,963,972
OTHER LONG TERM ASSETS		405,679
LONG TERM INVESTMENT		563,006
INVESTMENT IN SP NEWSPRINT		25,047,548
DEFERRED FINANCING COSTS		0
Total Assets		$ 713,642,406

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES:		
Accounts Payable and Accrued Liabilities		$ 29,667,035
Pre-Petition Account Payable		53,997,390
Current Portion Long-Term Debt		0
Accrued Service Charges		428,404
Income Taxes Payable		28,557,261
Derivative Contracts		51,807,858
DIP Loan		87,955,000
Accrued Interest		28,519,920
Total Current Liabilities		280,932,868
NON-CURRENT PENSION AND POSTRETIREMENT		90,243,835
DEFERRED PENSION COSTS		89,628,724
LONG-TERM DEBT:		
First Lien Term Loan	$ 428,293,961	
Second Lien Term Loan	100,000,000	
Capitalized Leases	0	528,293,961
Total Liabilities		989,099,388
STOCKHOLDERS' EQUITY		
Contributed Capital		129,642,930
Retained Earnings		(353,948,250)
Accumulated Other Comprehensive Loss		(58,671,218)
Translation Adjustment		7,519,556
Total Stockholders' Equity		(275,456,982)
Total Liabilities and Stockholders' Equity		$ 713,642,406

CONSOLIDATED WHITE BIRCH PAPER COMPANY

STATEMENT OF INCOME
(IN U.S.$)
FOR THE THREE MONTHS ENDED MARCH 31, 2012 AND 2011

	2012 YEAR TO DATE	2011 YEAR TO DATE
SALES		
Gross	$ 131,874,078	$ 192,882,801
Freight	(13,823,687)	(23,021,651)
Net Sales	118,050,391	169,861,150
COST OF GOODS SOLD	(124,710,988)	(169,843,683)
Gross Profit	(6,660,597)	17,467
GENERAL AND ADMINISTRATIVE EXPENSE		
Service Fee	(3,956,217)	(5,786,485)
Other	(2,584,803)	(3,051,600)
Operating Profit (Loss)	(13,201,617)	(8,820,618)
OTHER INCOME (EXPENSE)		
Interest Expense	(2,932,120)	(5,179,533)
Gain (Loss) on Currency Translation	8,310,395	12,517,789
Deferred Financing	0	0
Interest Income	42,227	39,190
Other Income (Expense)	(107,557)	(74,115)
Net Income (Loss) from Operations	(7,888,672)	(1,517,287)
TAX PROVISION	(849,724)	57,626
Net Income (Loss)	(8,738,396)	(1,459,661)
RETAINED EARNING BEGINNING OF PERIOD	(345,209,854)	(299,458,084)
PRIOR PERIOD ADJUSTMENT	- 0 -	- 0 -
DISTRIBUTION DURING THE PERIOD	- 0 -	- 0 -
RETAINED EARNING END OF PERIOD	$ (353,948,250)	$ (300,917,745)

CONSOLIDATED WHITE BIRCH PAPER COMPANY

STATEMENT OF CASH FLOWS
(IN U.S.$)
FOR THE THREE MONTHS ENDED MARCH 31, 2012 AND 2011

CASH PROVIDED BY (USED FOR):		2011	2011
OPERATIONS			
Net Income (Loss)		$ (8,738,396)	$ (1,459,661)
Translation Adjustment		(4,492,894)	(5,378,192)
Accumulated Other Comprehensive Loss		0	0
Items not affecting cash			
Effect of exchange rate fluctuations on cash		(6,382,806)	(10,086,819)
Depreciation		13,604,394	14,300,421
Gain on sale of Property, Plant and Equipment		0	0
Amortization of Deferred Costs		0	1,361,802
Derivative Contracts		0	0
Deferred Income Taxes		0	0
Deferred Pension Costs		4,263,674	(925,236)
Non-current Pension and Postretirement		2,191,158	2,292,432
Other Long Term Assets		(7,134)	(18,395)
ITC & R&D Credit Receivable		0	0
Goodwill		0	0
Property, Plant and Equipment (ITC & Capital Tax)		0	0
Long Term Investment		(9,900)	(14,400)
Provided from operations		428,096	71,952
WORKING CAPITAL			
Accounts Receivable Trade	$ 27,378,082		
Accounts Receivable Miscellaneous	10,115,582		
Inventory	6,811,331		
Prepaid Expenses	(1,266,804)		
Timberdeeds	0		
Due from Affiliates	(81,084)		
R&D Credit Receivable	(5,280)		
Deferred Costs	0		
Income Taxes Payable	1,054,302		
Accounts Payable and Accrued Liabilities	8,938,676		
Accrued Service Charges	(168,510)		
Due to Affiliates	0		
Accrued Interest	88		
Cash provided by (used for) noncash working capital		52,776,383	(3,347,191)
		53,204,479	(3,275,239)
FINANCING			
Increase in Long-Term Debt		0	0
Decrease in Long-Term Debt		0	(203,618)
		53,204,479	(3,478,857)
INVESTMENT			
Disposal of Property, Plant and Equipment		0	363,509
Additions to Property, Plant and Equipment		(1,500,039)	(2,267,259)
		51,704,440	(5,382,607)
DISTRIBUTION TO BRANT PAPER COMPANY		0	0
INCREASE (DECREASE) IN CASH DURING THE PERIOD		51,704,440	(5,382,607)
CASH BEGINNING OF PERIOD		50,733,169	84,305,924
CASH END OF PERIOD		$ 102,437,609	$ 78,923,317

Appendix B – Cash flow projections of WB Group - 13 weeks ending July 20, 2012

White Birch Paper

13-Week Cash Flow Forecast

Weeks Ending Apr. 27 through July 20, 2012

26/04/2012

Confidential

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

Rolling Weekly Forecast **In $000's**

Weeks Ended April 27 - July 20, 2012

	1	2	3	4	5	6	7	8	9	10	11	12	13	
	Wk Ended	Wk Ending	Wk Ending	Wk Ending	Wk Ending	Wk Ending	Wk Ending	Wk Ending	Wk Ending	Wk Ending	Wk Ending	Wk Ending	Wk Ending	13 Week
	4/27	5/4	5/11	5/18	5/25	6/1	6/8	6/15	6/22	6/29	7/6	7/13	7/20	Total
Operating Receipts														
Bear Island	$ 3,613	$ 2,923	$ 2,498	$ 3,682	$ 2,482	$ 3,150	$ 3,310	$ 2,300	$ 4,055	$ 3,250	$ 3,165	$ 2,250	$ 3,805	$ 40,482
Stadacona	818	390	389	513	655	516	518	876	178	263	26	26	231	5,398
F. F. Soucy	3,932	3,483	3,412	2,375	2,130	3,737	2,350	6,423	2,548	3,143	3,773	3,813	4,893	46,011
Papier Masson	3,952	3,495	3,368	3,175	2,962	4,317	2,775	3,009	2,742	3,451	2,986	2,667	2,514	41,415
Total Operating Receipts	12,314	10,292	9,666	9,745	8,229	11,720	8,953	12,608	9,523	10,108	9,949	8,756	11,443	133,306
Operating Disbursements														
Fiber	(2,157)	(2,116)	(2,101)	(2,081)	(2,081)	(2,011)	(2,011)	(2,011)	(2,011)	(2,011)	(2,011)	(2,041)	(2,041)	(26,683)
Chemicals	(274)	(271)	(285)	(551)	(251)	(277)	(264)	(517)	(285)	(267)	(260)	(516)	(315)	(4,334)
Electricity	(2,574)	(2,131)	(2,299)	(2,136)	(2,127)	(1,993)	(2,340)	(2,159)	(2,149)	(2,531)	(2,277)	(2,167)	(2,157)	(29,039)
Recycle Material	(215)	(299)	(248)	(261)	(285)	(360)	(285)	(285)	(285)	(285)	(360)	(285)	(285)	(3,738)
Other Materials and Other Utilities	(1,216)	(1,137)	(1,188)	(989)	(872)	(1,064)	(1,046)	(857)	(826)	(1,043)	(1,176)	(1,069)	(993)	(13,475)
Property Taxes	-	-	(5)	-	-	-	(15)	(5)	-	-	-	-	-	(25)
Salaried and Hourly Payroll- Gross	(1,100)	(1,080)	(1,285)	(972)	(1,115)	(882)	(1,412)	(1,005)	(1,140)	(959)	(1,140)	(1,078)	(1,154)	(14,320)
Pension Plan and Group insurance	(160)	(185)	(79)	(2)	(2,514)	(185)	(79)	(2)	(355)	(119)	(263)	(2)	(355)	(4,300)
Freight	(1,483)	(1,227)	(1,422)	(1,093)	(1,162)	(1,103)	(1,074)	(1,104)	(1,073)	(1,161)	(1,073)	(1,229)	(1,273)	(15,476)
Maintenance Equipment	(492)	(295)	(430)	(289)	(477)	(309)	(395)	(351)	(283)	(266)	(360)	(284)	(304)	(4,537)
Major Maintenance	(149)	(81)	(101)	(98)	(109)	(101)	(10)	(178)	(50)	(26)	(104)	(60)	(45)	(1,115)
Capital Expenditures	(288)	(188)	(42)	(257)	(290)	(56)	(65)	(97)	(85)	(423)	-	(123)	-	(1,914)
Professional Fees	(25)	(25)	(28)	(25)	(25)	(28)	(25)	(25)	(28)	(25)	(25)	(26)	(25)	(335)
Leases	-	(1)	(0)	(34)	-	(1)	-	(36)	-	(1)	-	(35)	-	(108)
Other	(1,073)	(52)	(52)	(427)	(427)	(27)	(27)	(27)	(27)	(27)	(27)	(27)	(537)	(2,759)
Management Fee	-	(775)	-	(429)	-	(750)	-	(429)	-	(725)	-	(429)	-	(3,536)
Total Operating Disbursements	(11,206)	(9,863)	(9,565)	(9,645)	(11,734)	(9,146)	(9,049)	(9,087)	(8,596)	(9,868)	(9,077)	(9,370)	(9,484)	(125,692)
Net Operating Cash Flow	1,109	428	101	100	(3,505)	2,573	(96)	3,522	927	239	873	(614)	1,958	7,614
Non Operating Cash Flow and Restructuring														
Restructuring Professional Fees	(98)	(1,160)	(8,755)	-	-	-	(1,730)	-	(100)	-	(1,730)	-	-	(13,573)
Restructuring Bank Fees and Other Expenses	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Intercompany Transfers	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Interest Payments	(207)	(207)	(299)	(207)	(207)	(207)	(207)	(207)	(207)	(207)	(207)	(207)	(207)	(2,783)
Total Non-Operating Cash Flow and Restructuring	(305)	(1,367)	(9,054)	(207)	(207)	(207)	(1,937)	(207)	(307)	(207)	(1,937)	(207)	(207)	(16,357)
Net Operating Receipts (Disbursements)	$ 803	$ (939)	$ (8,953)	$ (107)	$ (3,712)	$ 2,366	$ (2,033)	$ 3,315	$ 620	$ 32	$ (1,064)	$ (821)	$ 1,751	$ (8,742)
BEG. BOOK CASH BALANCE	$ 102,304	$ 103,107	$ 102,168	$ 93,215	$ 93,108	$ 89,397	$ 91,763	$ 89,730	$ 93,044	$ 93,664	$ 93,696	$ 92,632	$ 91,811	$ 102,304
Net Receipts (Disbursements)	803	(939)	(8,953)	(107)	(3,712)	2,366	(2,033)	3,315	620	32	(1,064)	(821)	1,751	(8,742)
DIP Term Loan (Repayment) / Borrowing	-	-	-	-	-	-	-	-	-	-	-	-	-	-
ENDING BOOK CASH BALANCE	103,107	102,168	93,215	93,108	89,397	91,763	89,730	93,044	93,664	93,696	92,632	91,811	93,562	93,562
Unused DIP Commitment	34,045	34,045	34,045	34,045	34,045	34,045	34,045	34,045	34,045	34,045	34,045	34,045	34,045	34,045
LIQUIDITY	$ 137,152	$ 136,213	$ 127,260	$ 127,153	$ 123,442	$ 125,808	$ 123,775	$ 127,089	$ 127,709	$ 127,741	$ 126,677	$ 125,856	$ 127,607	$ 127,607
DIP TERM LOAN BALANCE														
DIP Loan Balance at Beg. of Week	$ 87,955	$ 87,955	$ 87,955	$ 87,955	$ 87,955	$ 87,955	$ 87,955	$ 87,955	$ 87,955	$ 87,955	$ 87,955	$ 87,955	$ 87,955	$ 87,955
DIP Term Loan (Repayment) / Borrowing	-	-	-	-	-	-	-	-	-	-	-	-	-	-
DIP Loan Balance at End of Week	$ 87,955	$ 87,955	$ 87,955	$ 87,955	$ 87,955	$ 87,955	$ 87,955	$ 87,955	$ 87,955	$ 87,955	$ 87,955	$ 87,955	$ 87,955	$ 87,955

White Birch Paper
13 Week Cash Flow Forecast
Weeks Ended April 27 - July 20, 2012

CONFIDENTIAL

Key Assumptions:

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

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

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

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

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

6 - **Preliminary and subject to change**

Appendix C – Comparison of actual and projected results for the 4 weeks ended May 18, 2012

White Birch Paper

Cash Flow Forecast - Variance Report
Actual Compared With 13-Week CFF (Dated Apr. 26, 2012)

For the Weeks Ended May 18, 2012

5/28/2012

Confidential

White Birch Paper
Cash Flow Forecast Variance Report to 13-Week CFF (Dated 4/26/12)
Weeks Ended May 18, 2012
In $000's

	Consolidated		
	Cumulative 4-Week Variance to 13-Week CFF		
	Actual 4/21 Through 5/18	Forecast 4/21 Through 5/18	B (W) than Forecast 5/18
Operating Receipts			
Bear Island	$ 12,540	$ 12,715	$ (174)
Stadacona	2,308	2,110	198
F.F. Soucy	14,286	13,202	1,084
Papier Masson	11,009	13,990	(2,981)
Total Operating Receipts	40,143	42,017	(1,874)
Operating Disbursements			
Fiber	(7,201)	(8,454)	1,254
Chemicals	(1,355)	(1,381)	26
Electricity	(9,055)	(9,139)	84
Recycle Material	(834)	(1,023)	189
Other Materials and Other Utilities	(4,149)	(4,530)	381
Property Taxes	(147)	(5)	(142)
Salaried and Hourly Payroll - Gross	(5,261)	(4,436)	(825)
Pension Plan and Group Insurance	(2,511)	(426)	(2,085)
Freight	(4,961)	(5,225)	264
Maintenance Equipment	(1,522)	(1,507)	(15)
Major Maintenance	(337)	(430)	93
Capital Expenditures	(760)	(775)	15
Professional Fees	(43)	(103)	60
Leases	(31)	(35)	4
Other	(1,129)	(1,604)	475
Management Fee	(1,247)	(1,204)	(44)
Total Operating Disbursements	(40,544)	(40,279)	(265)
Net Operating Cash Flow	(401)	1,738	(2,139)
Non Operating Cash Flow and Restructuring			
Restructuring Professional Fees	(574)	(10,013)	9,440
Restructuring Bank Fees and Other Expenses	-	-	-
Intercompany Transfers	-	-	-
Interest Payments	(931)	(920)	(11)
Total Non-Operating Cash Flow and Restructuring	(1,505)	(10,934)	9,429
Net Operating Receipts (Disbursements)	$ (1,906)	$ (9,196)	$ 7,290
BEG. BOOK CASH BALANCE	$ 102,304	$ 102,304	$ -
Net Receipts (Disbursements)	(1,906)	(9,196)	7,290
DIP Term Loan Borrowing	-	-	-
GE ABL Borrowing (Repayment)	-	-	-
ENDING BOOK CASH BALANCE	100,398	93,108	7,290
Unused DIP Commitment	34,045	34,045	-
LIQUIDITY	$ 134,443	$ 127,153	$ 7,290
DIP TERM LOAN BALANCE			
DIP Loan Balance at Beg. of Week / Period	$ 87,955	$ 87,955	$ -
DIP Term Loan Borrowing	-	-	-
DIP Loan Balance at End of Week / Period	$ 87,955	$ 87,955	$ -

White Birch Paper Holding Company - WB Canada Only

Cash Flow Forecast - Cumulative Variance Report to 13-Week CFF (Dated 4/26/12)

Weeks Ended May 18, 2012

In $000's

	Cumulative 4-Week Variance to 13-Week CFF		
	Actual 4/21 to 5/18	Forecast 4/21 to 5/18	B (W) than Forecast 5/18
Operating Receipts			
Stadacona	2,308	2,110	198
F.F. Soucy	14,286	13,202	1,084
Papier Masson	11,009	13,990	(2,981)
Total Operating Receipts	27,603	29,302	(1,700)
Operating Disbursements			
Fiber	(6,183)	(7,224)	1,041
Chemicals	(475)	(426)	(49)
Electricity	(6,441)	(6,524)	83
Recycle Material	-	-	-
Other Materials and Other Utilities	(2,641)	(3,048)	407
Property Taxes	(14)	-	(14)
Salaried and Hourly Payroll - Gross	(3,834)	(2,867)	(967)
Pension Plan and Group Insurance	(2,511)	(426)	(2,085)
Freight	(4,013)	(4,171)	158
Maintenance Equipment	(1,061)	(1,004)	(57)
Major Maintenance	-	(61)	61
Capital Expenditures	(452)	-	(452)
Professional Fees	(43)	(100)	57
Leases	-	-	-
Other	(1,095)	(1,604)	509
Management Fee	(832)	(786)	(46)
Total Operating Disbursements	(29,597)	(28,244)	(1,354)
Net Operating Cash Flow	(1,994)	1,059	(3,054)
Non Operating Cash Flow and Restructuring			
Restructuring Professional Fees	(496)	(7,231)	6,735
Restructuring Bank Fees and Other Expenses	-	-	-
Intercompany Transfers	1,872	-	1,872
Interest Payments	(931)	(920)	(11)
Total Non-Operating Cash Flow and Restructuring	445	(8,151)	8,596
Net Operating Receipts (Disbursements)	$ (1,549)	$ (7,093)	$ 5,543
BEG. BOOK CASH BALANCE	$ 76,103	$ 76,103	$ -
Net Receipts (Disbursements)	(1,549)	(7,093)	5,543
DIP Term Loan Borrowing	-	-	-
GE ABL Borrowing (Repayment)	-	-	-
ENDING BOOK CASH BALANCE	74,554	69,011	5,543
Unused DIP Commitment	34,045	34,045	-
LIQUIDITY	$ 108,599	$ 103,056	$ 5,543
DIP TERM LOAN BALANCE			
DIP Loan Balance at Beg. of Week / Period	$ 87,955	$ 87,955	$ -
DIP Term Loan Borrowing	-	-	-
DIP Loan Balance at End of Week / Period	$ 87,955	$ 87,955	$ -

Appendix D – Cash flow projections of WB Group - 13 weeks ending August 17, 2012

White Birch Paper

13-Week Cash Flow Forecast

Weeks Ending May 25 through Aug. 17, 2012

5/24/2012

Confidential

White Birch Paper
Rolling Weekly Forecast
Weeks Ended May 25 - August 17, 2012

CONSOLIDATED
In $000's

CONFIDENTIAL

	1	2	3	4	5	6	7	8	9	10	11	12	13	
	Wk Ended	Wk Ending	Wk Ending	Wk Ending	Wk Ending	Wk Ending	Wk Ending	Wk Ending	Wk Ending	Wk Ending	Wk Ending	Wk Ending	Wk Ending	13 Week
	5/25	6/1	6/8	6/15	6/22	6/29	7/6	7/13	7/20	7/27	8/3	8/10	8/17	Total
Operating Receipts														
Bear Island	$ 2,554	$ 3,404	$ 2,909	$ 2,234	$ 3,839	$ 3,550	$ 3,165	$ 2,250	$ 3,805	$ 2,150	$ 4,100	$ 2,420	$ 2,200	$ 38,580
Stadacona	294	405	419	1,092	468	348	365	295	297	158	105	77	179	4,502
F. F. Soucy	2,807	3,701	2,824	6,204	2,788	2,742	3,523	3,078	4,893	2,433	4,028	3,663	2,443	45,126
Papier Masson	3,613	4,159	2,766	3,107	3,171	4,246	2,744	3,348	2,775	3,951	2,613	2,283	2,679	41,456
Total Operating Receipts	9,268	11,669	8,917	12,637	10,267	10,885	9,796	8,972	11,770	8,692	10,846	8,443	7,501	129,664
Operating Disbursements														
Fiber	(1,544)	(1,924)	(1,932)	(1,932)	(2,061)	(2,061)	(2,061)	(2,097)	(2,077)	(1,779)	(1,456)	(1,486)	(1,861)	(24,271)
Chemicals	(284)	(262)	(275)	(502)	(251)	(222)	(235)	(491)	(291)	(236)	(247)	(261)	(465)	(4,023)
Electricity	(2,175)	(1,747)	(2,332)	(2,148)	(2,137)	(2,418)	(2,267)	(2,156)	(2,146)	(2,313)	(2,197)	(2,277)	(2,167)	(28,479)
Recycle Material	(224)	(289)	(263)	(263)	(285)	(285)	(360)	(285)	(285)	(285)	(360)	(360)	(360)	(3,904)
Other Materials and Other Utilities	(970)	(1,177)	(985)	(1,082)	(878)	(944)	(1,139)	(1,009)	(1,049)	(903)	(1,037)	(921)	(926)	(13,020)
Property Taxes	-	-	-	(5)	-	-	-	(5)	-	-	-	-	(5)	(15)
Salaried and Hourly Payroll- Gross	(729)	(882)	(1,458)	(998)	(1,115)	(1,009)	(1,115)	(1,103)	(1,154)	(1,019)	(1,140)	(1,077)	(1,115)	(13,914)
Pension Plan and Group insurance	(473)	(185)	(74)	(2)	(355)	(129)	(258)	(2)	(151)	(333)	(84)	(73)	(2)	(2,122)
Freight	(1,231)	(1,250)	(1,248)	(1,154)	(1,123)	(1,161)	(1,073)	(1,204)	(1,232)	(1,153)	(1,173)	(1,254)	(1,331)	(15,585)
Maintenance Equipment	(409)	(293)	(398)	(260)	(345)	(296)	(355)	(311)	(317)	(347)	(276)	(276)	(273)	(4,155)
Major Maintenance	(85)	(194)	(83)	(214)	(10)	(20)	(135)	(60)	(10)	(93)	(10)	(60)	(45)	(1,022)
Capital Expenditures	(24)	(251)	(378)	(11)	(77)	-	(432)	(166)	(194)	-	(288)	(65)	-	(1,886)
Professional Fees	(54)	(25)	(28)	(25)	(25)	(28)	(25)	(25)	(28)	(25)	(25)	(26)	(25)	(363)
Leases	-	(1)	-	(36)	-	(1)	-	(35)	-	(1)	-	(35)	(0)	(109)
Other	(27)	(927)	(427)	(27)	(27)	(27)	(27)	(27)	(282)	(27)	(27)	(27)	(282)	(2,163)
Management Fee	-	(750)	-	(429)	-	(725)	-	(429)	-	(725)	-	-	(429)	(3,486)
Total Operating Disbursements	(8,230)	(10,156)	(9,882)	(9,088)	(8,688)	(9,325)	(9,482)	(9,404)	(9,216)	(9,239)	(8,321)	(8,199)	(9,287)	(118,517)
Net Operating Cash Flow	1,038	1,513	(965)	3,549	1,579	1,560	314	(432)	2,554	(547)	2,526	244	(1,786)	11,147
Non Operating Cash Flow and Restructuring														
Restructuring Professional Fees	(55)	(581)	(425)	(745)	(425)	-	(1,050)	(405)	-	(8,605)	-	-	-	(12,291)
Restructuring Bank Fees and Other Expenses	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Intercompany Transfers	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Interest Payments	(207)	(207)	(207)	(207)	(207)	(207)	(207)	(207)	(207)	(207)	(207)	(207)	(207)	(2,691)
Total Non-Operating Cash Flow and Restructuring	(262)	(788)	(632)	(952)	(632)	(207)	(1,257)	(612)	(207)	(8,812)	(207)	(207)	(207)	(14,982)
Net Operating Receipts (Disbursements)	$ 777	$ 725	$ (1,597)	$ 2,597	$ 947	$ 1,353	$ (943)	$ (1,044)	$ 2,347	$ (9,359)	$ 2,319	$ 37	$ (1,993)	$ (3,835)
BEG. BOOK CASH BALANCE	$ 100,398	$ 101,175	$ 101,899	$ 100,302	$ 102,899	$ 103,846	$ 105,199	$ 104,257	$ 103,213	$ 105,560	$ 96,200	$ 98,519	$ 98,556	$ 100,398
Net Receipts (Disbursements)	777	725	(1,597)	2,597	947	1,353	(943)	(1,044)	2,347	(9,359)	2,319	37	(1,993)	(3,835)
DIP Term Loan (Repayment) / Borrowing	-	-	-	-	-	-	-	-	-	-	-	-	-	-
ENDING BOOK CASH BALANCE	101,175	101,899	100,302	102,899	103,846	105,199	104,257	103,213	105,560	96,200	98,519	98,556	96,563	96,563
Unused DIP Commitment	34,045	34,045	34,045	34,045	34,045	34,045	34,045	34,045	34,045	34,045	34,045	34,045	34,045	34,045
LIQUIDITY	$ 135,220	$ 135,944	$ 134,347	$ 136,944	$ 137,891	$ 139,244	$ 138,302	$ 137,258	$ 139,605	$ 130,245	$ 132,564	$ 132,601	$ 130,608	$ 130,608
DIP TERM LOAN BALANCE														
DIP Loan Balance at Beg. of Week	$ 87,955	$ 87,955	$ 87,955	$ 87,955	$ 87,955	$ 87,955	$ 87,955	$ 87,955	$ 87,955	$ 87,955	$ 87,955	$ 87,955	$ 87,955	$ 87,955
DIP Term Loan (Repayment) / Borrowing	-	-	-	-	-	-	-	-	-	-	-	-	-	-
DIP Loan Balance at End of Week	$ 87,955	$ 87,955	$ 87,955	$ 87,955	$ 87,955	$ 87,955	$ 87,955	$ 87,955	$ 87,955	$ 87,955	$ 87,955	$ 87,955	$ 87,955	$ 87,955

White Birch Paper
13 Week Cash Flow Forecast
Weeks Ended May 25 - August 17, 2012

CONFIDENTIAL

Key Assumptions:

1 - **Bankruptcy Filing:**
- Petition Date was February 24, 2010
- Prior service cost component of pension contributions in Canada of CAD $1.5 million are assumed suspended until emergence - savings of approximately $1.5 million CAD per month
- Except for restructuring professional fees (as discussed below), no cash payments or other assumptions regarding emerging from CCAA and Chapter 11 Bankruptcy, or a 363 Sale of the Company, are reflected in the forecast
- Restructuring professional fees for the week ended July 27, 2012 includes approximately $4.0 million for estimated professional fees accrued and unpaid through that date, as well as a $4.6 million sale transaction fee

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

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

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

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

6 - **Preliminary and subject to change**

Appendix E – Cash flow projections of WB Canada - 13 weeks ending August 17, 2012

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

Weeks Ending May 25 through Aug. 17, 2012

5/24/2012

Confidential

White Birch Paper Holding Company

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

Weeks Ended May 25 - August 17, 2012

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	1	2	3	4	5	6	7	8	9	10	11	12	13	
	Wk Ended 5/25	Wk Ending 6/1	Wk Ending 6/8	Wk Ending 6/15	Wk Ending 6/22	Wk Ending 6/29	Wk Ending 7/6	Wk Ending 7/13	Wk Ending 7/20	Wk Ending 7/27	Wk Ending 8/3	Wk Ending 8/10	Wk Ending 8/17	13 Week Total
Operating Receipts														
Stadacona	294	405	419	1,092	468	348	365	295	297	158	105	77	179	4,502
F. F. Soucy	2,807	3,701	2,824	6,204	2,788	2,742	3,523	3,078	4,893	2,433	4,028	3,663	2,443	45,126
Papier Masson	3,613	4,159	2,766	3,107	3,171	4,246	2,744	3,348	2,775	3,951	2,613	2,283	2,679	41,456
Total Operating Receipts	6,714	8,266	6,008	10,403	6,428	7,335	6,631	6,722	7,965	6,542	6,746	6,023	5,301	91,084
Operating Disbursements														
Fiber	(1,274)	(1,624)	(1,632)	(1,632)	(1,761)	(1,761)	(1,761)	(1,797)	(1,797)	(1,499)	(1,176)	(1,206)	(1,581)	(20,501)
Chemicals	(161)	(103)	(143)	(123)	(103)	(92)	(112)	(112)	(113)	(113)	(113)	(112)	(112)	(1,513)
Electricity	(1,637)	(1,591)	(1,616)	(1,589)	(1,589)	(1,640)	(1,614)	(1,589)	(1,589)	(1,589)	(1,640)	(1,614)	(1,589)	(20,885)
Recycle Material	-	-	-	-	-	-	-	-	-	-	-	-	-	0
Other Materials and Other Utilities	(709)	(816)	(650)	(751)	(689)	(705)	(793)	(683)	(736)	(750)	(833)	(717)	(740)	(9,572)
Property Taxes	-	-	-	-	-	-	-	-	-	-	-	-	-	0
Salaried and Hourly Payroll- Gross	(435)	(453)	(1,042)	(580)	(869)	(580)	(869)	(529)	(869)	(580)	(894)	(478)	(869)	(9,047)
Pension Plan and Group insurance	(473)	(185)	(74)	(2)	(355)	(129)	(258)	(2)	(151)	(333)	(84)	(73)	(2)	(2,122)
Freight	(1,015)	(984)	(994)	(900)	(869)	(899)	(819)	(950)	(978)	(899)	(919)	(1,000)	(1,069)	(12,293)
Maintenance Equipment	(292)	(176)	(277)	(157)	(225)	(193)	(230)	(202)	(185)	(173)	(183)	(172)	(180)	(2,644)
Major Maintenance	(10)	(20)	(10)	(20)	(10)	(20)	(10)	(20)	(10)	(26)	(10)	(20)	(10)	(199)
Capital Expenditures	-	-	-	-	-	-	-	-	-	-	-	-	-	0
Professional Fees	(54)	(25)	(25)	(25)	(25)	(25)	(25)	(25)	(25)	(25)	(25)	(25)	(25)	(354)
Leases	-	-	-	-	-	-	-	-	-	-	-	-	-	0
Other	(27)	(927)	(427)	(27)	(27)	(27)	(27)	(27)	(282)	(27)	(27)	(27)	(282)	(2,163)
Management Fee	-	(475)	-	(286)	-	(450)	-	(286)	-	(450)	-	-	(286)	(2,234)
Total Operating Disbursements	(6,088)	(7,378)	(6,891)	(6,092)	(6,521)	(6,521)	(6,518)	(6,221)	(6,735)	(6,464)	(5,905)	(5,445)	(6,746)	(83,526)
Net Operating Cash Flow	626	887	(883)	4,310	(93)	815	113	501	1,230	78	842	578	(1,445)	7,558
Non Operating Cash Flow and Restructuring														
Restructuring Professional Fees	(18)	(225)	(375)	(325)	(325)	-	(575)	(225)	-	(6,455)	-	-	-	(8,523)
Restructuring Bank Fees and Other Expenses	-	-	-	-	-	-	-	-	-	-	-	-	-	0
Intercompany Transfers	-	-	-	-	-	-	-	-	-	-	-	-	-	0
Interest Payments	(207)	(207)	(207)	(207)	(207)	(207)	(207)	(207)	(207)	(207)	(207)	(207)	(207)	(2,691)
Total Non-Operating Cash Flow and Restructuring	(225)	(432)	(582)	(532)	(532)	(207)	(782)	(432)	(207)	(6,662)	(207)	(207)	(207)	(11,214)
Net Operating Receipts (Disbursements)	$ 401	$ 455	$ (1,465)	$ 3,778	$ (625)	$ 608	$ (669)	$ 69	$ 1,023	$ (6,584)	$ 635	$ 371	$ (1,652)	$ (3,657)
BEG. BOOK CASH BALANCE - WBPC CANADA	$ 74,554	$ 74,955	$ 75,410	$ 73,945	$ 77,723	$ 77,098	$ 77,705	$ 77,037	$ 77,105	$ 78,128	$ 71,543	$ 72,178	$ 72,549	$ 74,554
Net Receipts (Disbursements)	401	455	(1,465)	3,778	(625)	608	(669)	69	1,023	(6,584)	635	371	(1,652)	(3,657)
DIP Term Loan (Repayment) / Borrowing	-	-	-	-	-	-	-	-	-	-	-	-	-	-
ENDING BOOK CASH BALANCE	74,955	75,410	73,945	77,723	77,098	77,705	77,037	77,105	78,128	71,543	72,178	72,549	70,897	70,897
Unused DIP Commitment	34,045	34,045	34,045	34,045	34,045	34,045	34,045	34,045	34,045	34,045	34,045	34,045	34,045	34,045
LIQUIDITY	$ 109,000	$ 109,455	$ 107,990	$ 111,768	$ 111,143	$ 111,750	$ 111,082	$ 111,150	$ 112,173	$ 105,588	$ 106,223	$ 106,594	$ 104,942	$ 104,942
DIP TERM LOAN BALANCE														
DIP Loan Balance at Beg. of Week	$ 87,955	$ 87,955	$ 87,955	$ 87,955	$ 87,955	$ 87,955	$ 87,955	$ 87,955	$ 87,955	$ 87,955	$ 87,955	$ 87,955	$ 87,955	$ 87,955
DIP Term Loan (Repayment) / Borrowing	-	-	-	-	-	-	-	-	-	-	-	-	-	-
DIP Loan Balance at End of Week	$ 87,955	$ 87,955	$ 87,955	$ 87,955	$ 87,955	$ 87,955	$ 87,955	$ 87,955	$ 87,955	$ 87,955	$ 87,955	$ 87,955	$ 87,955	$ 87,955

White Birch Paper Holding Company- CANADA ONLY
13 Weekly Cash Flow Forecast
Weeks Ended May 25 - August 17, 2012

CONFIDENTIAL

Key Hypothetical Assumptions:

1 **Purpose:**

- The attached statement of projected cash flow has been prepared by Management to present the anticipated cash inflows and outflows resulting from current operations in the period following the making of an initial order, providing for a stay of proceedings, in virtue of the *Companies' Creditors Arrangement Act*, namely the period from May 19 to August 17, 2012.

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

2 **Basis of presentation:**

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

3 **Stakeholder support:**

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

4 **CCAA Filing Scenario:**

- Petition Date was February 24, 2010
- Does not assume future accounts receivable contraction
- Except for restructuring professional fees (as discussed below), no cash payments or other assumptions regarding emerging from CCAA and Chapter 11 Bankruptcy, or a 363 Sale of the Company, are reflected in the forecast.
- Restructuring professional fees for the week ended July 27, 2012 includes approximately $1.9 million for estimated professional fees accrued and unpaid through that date, as well as a $4.6 million sale transaction fee
- Prior service cost component of pension contributions in Canada of CAD $1.5 million beginning with the February payments are suspended until emergence - cash savings of approximately $1.5 million CAD per month
- CAD Utility Deposits - Three weeks of utility deposits (appx. $7.5 million CAD) to secure post-petition service were made subsequent to the CCAA filing.
- Letters of Credit and Cash Deposits - Current letters of credit outstanding on the filing date of $9.5 million were cash collateralized in the repayment of loan balances to the pre-petition ABL lender with a 5% premium.

Key Hypothetical Assumptions - Continued:

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

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

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

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

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

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

Appendix F – Status report from WB Group and BDWBI – May 21, 2012

May 21, 2012

Delivered by Email

Sylvain Rigaud
Barrister & Solicitor
Norton Rose Canada
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Martin Rosenthal
Ernst & Young LLP
Bureau 1900
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Dear Sirs:

Re: White Birch Paper Holding Company et al (the "Company")
SCM: 500-11-038474-108

Thank you for your letter of May 18, 2012. This letter is our reply to your request for an update.

Following the May 2, 2012 hearing, you contacted us to enquire about process moving forward and to ensure that the Monitor was kept abreast of developments in real time. We had conference calls on May 7 and May 10, and you received detailed updates from the Company as to the status of the various discussions with the governments and with the Union. On May 10, we all agreed to follow up after the meetings which were scheduled for May 15, 2012 involving both the government and the Union. The Company met with the Union in Montreal over 3 days from May 15 through May 17, 2012 and, during that time, they also had meetings with the provincial government. The purpose of this letter is to update you on the status of those discussions, in an effort to ensure that the Monitor is current on developments and has an understanding of any issues which remain unresolved.

To refresh, after reaching agreements in principle with the Union locals at each of the 3 mills in Quebec, there are 2 sets of issues outstanding in the Purchaser's efforts to proceed fully towards a closing of the transaction. One set of issues involves the question of whether the provincial and municipal governments would provide sufficient financial support to enhance the near-term and long-term viability of the Stadacona mill to permit the mill to re-open, in whole or in part. The second set of issues involves issues regarding the proposed new pension plans for unionized employees. These issues will be explained in greater detail below.

Discussions with the Government regarding Stadacona

Since the Union's ratification of the Stadacona offer, management of White Birch has been in discussions with the provincial and municipal governments attempting to finalize the economic measures they would be prepared to provide to assist in re-opening the Stadacona mill. Although some level of near-term cost savings have been offered, the most significant assistance offered by the Government of Quebec has been in the form of loans for long-term projects which would improve the mill's long-term competitive position. Multiple meetings have been held with the provincial government resulting in the completion of certain documentation and significant further progress being made towards completion of the remaining documentation. We expect the remaining required documentation with the Province of Quebec to be completed in the next couple of weeks.

The level of near-term cost savings which would result from the government assistance under discussion is significantly less than what was requested by White Birch. Prior to making a determination on whether to re-commence operations at Stadacona, the government assistance documentation must be completed and the issues with the Union which are discussed below must be resolved in order to provide further clarity on the economic viability of the Stadacona operation. We believe that with the progress recently made with the government of Quebec and the Union, we are very close to that point. We expect in the very near term to have a definitive conclusion on whether Stadacona will re-open and, if so, on what basis and to what degree. We are optimistic that we will be in a position to make this determination before May 31 and, if so, we will advise you promptly.

Discussions with the Union regarding New Pension Plan Issues

Although the Company and the Union agreed upon term sheets for new pension plans for each of the three Quebec mills, which term sheets were subsequently ratified by the unionized employees at each mill, two significant issues arose. The first issue resulted when the Regie des rentes du Quebec (the "Regie") took issue with the agreement the parties had reached regarding the benefits to be provided to the retirees at the Soucy and PML mills. In the meetings this week, the parties reached a revised agreement which will be submitted to the Regie for its approval.

The second issue arose when the Regie took issue with a request made by the Union regarding the allocation of the assets of the new pension plan in the event of a subsequent termination of the new pension plan. During negotiations of the previously agreed upon term sheets, the Union requested to have the assets in the plan fund allocated in a fashion different from what the pension legislation would provide on a termination of a pension plan. During these negotiations, the Company indicated to the Union multiple times that it was willing to support the Union's request, but the Company needed the flexibility at all times to amortize the pension deficit of the new pension plans in accordance with the funding rules available to all private pension plans under the pension legislation and regulations (as may be amended from time to time), or to seek special regulations to allow the funding of the deficit over 15 years. During the term sheet negotiations, the Company agreed to support the Union's request, contingent upon the new employer choosing to amortize the pension deficit over 15 years, the Regie providing a special regulation to permit the 15 year funding of the deficit and provided that the Union's request does not increase the new employer's costs or liabilities under the new pension plan. On the eve of the ratification vote, the Regie concluded that it would not support the Union's request. Accordingly, the Union and the Regie designed a revised proposal on this issue which was submitted to the Company and the Purchaser on April 24, 2012, trying to achieve the same results but using different measures.

In three days of meetings between the Union, the Company and the Purchaser over May 15 through May 17, these two issues and other clarification points were discussed at length, and a document providing the necessary clarifications was prepared. This document clarifies issues arising from the term sheets and resolves other outstanding issues between the parties. We have been informed by the Union that the Union will be updating the unionized employees of the PML and Soucy mills on Tuesday, May 22, 2012. The Company and the Purchaser are hopeful that this document puts to rest the issues between the Union and the Company which must be resolved to move forward with the transaction.

For your convenience, we have attached the document mentioned above. Should you have any questions, please let us know. We will keep you updated on further developments as we progress towards closing the transaction.

Yours very truly,

s/

Jean Fontaine
STIKEMAN, ELLIOTT LLP
Counsel for the Debtors

s/

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

s/

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

cc: Yves Saint-Andre, *Trudel Nadeau Avocats*

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