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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 – NOVEMBER 30, 2010

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 December 17, 2010.

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

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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.

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 Bankruptcy Court for the Eastern District of Virginia, Richmond Division ("**US 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 present report is intended to provide the Court with information on the state of the Companies' business and financial affairs, as a result of the recent finalization by the Companies of their financial statements for the third quarter ended September 30, 2010.

TERMS OF REFERENCE AND DISCLAIMER

6. 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.

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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*.

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.

7. 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 THIRD QUARTER ENDED SEPTEMBER 30, 2010

8. The Companies' third quarter of fiscal 2010 ended on September 30, 2010. The internally prepared financial statements for the third quarter are attached to this report as Appendix A.

9. The financial statements indicate the following:

   9.1. The Companies report a net loss before taxes of US$64.1 million for the 9 months ended September 30, 2010, after taking into consideration a gain on foreign currency translation of US$6.2 million. The net loss before taxes is represented by an amount of US$66.3 million for first six months of the financial year and a profit of US$2.2 million for the third quarter. The profit in the third quarter was substantially affected by the exchange rates on currency, as the Companies reported a gain on currency translation of US$14.2 million during the third quarter.

   9.2. The Companies report a negative cash flow from operations of approximately US$11.2 million, excluding interest and taxes. The negative cash flow from operations (before interest and taxes) is represented by an amount of US$16.4 million for the first six months of the financial year, and a positive cash flow of US$5.2 million for the third quarter.

9.3. The assets are reported to have a carrying value of US$776.6 million, comprised primarily of current assets (cash, accounts receivable, inventories and other current assets) of US$271.5 million, fixed assets of US$476.2 million and investments in affiliated entities (SP Newsprint) of US$24.3 million. The liabilities are reported to total US$998.8 million, including US$151.7 million in pension and other post retirement benefit obligations, leaving an equity deficit of US$222.2 million.

Based on our understanding of the security granted by the Companies to their lenders, the interim financing lender has security over all assets and undertakings of the Companies, in support of its debt of approximately US$121 million at September 30, 2010. The first ranking term lenders, swap counterparties and 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$247.2 million[7].

We point out that while the Companies report that the assets have a carrying value of US$776.6 million, the results obtained from the auction held in connection with the Sales and Investor Solicitation Process ("**SISP**") undertaken by the Companies suggest that the assets have a value far lower than their current reported carrying value. Based on the transaction that is presently contemplated with BD White Birch Investments LLC ("**BDWBI**"), the assets' value would be in the US$200 million to US$250 million range[8]. The transaction with BDWBI is outlined in the Monitor's reports dated August 10 and September 23, 2010.

9.4. The Companies report that the current accounts payable and accrued liabilities at September 30, 2010 total US$91.1 million, compared with a level of US$97.7 million in June 2010. The increase in the cash, accounts receivable and inventories between June and September 2010 and the decrease in accounts payable and accrued liabilities for the same period confirms the Monitor's belief, as expressed in the Monitor's report dated October 8, 2010[9], that the financial position of the WB Group has improved slightly between June and September 2010.

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7 We have excluded cash collateral from this amount, as 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 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.

8 The sale price (and thus the value of the assets) cannot be determined with 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.

9 Monitor's report dated October 8, 2010 at paragraph 22.

CURRENT ACTIVITIES

10. To date, WB Group borrowed US$121 million against the delayed draw term loan. The drawings are US$1 million lower than the amount provided for in the cash flow projections.

11. The Companies' cash position is better than expected, based on the projections for the 13 week period ending December 17, 2010. The cash reports prepared for management indicate that the cash on hand totals US$77.7 million as at November 5, 2010, compared with a projected cash level of US$63.5 million, based on the afore-mentioned projections. We do not yet have information to fully analyse the reasons for the variance, although the preliminary information available suggests that the variance is due for the most part to a better than expected operational performance.

CONCLUSIONS

12. Based on the information available to date, the Monitor has no reason to suspect that a material adverse change has occurred.

All of which is respectfully submitted this 30th day of November 2010.

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, CA, CIRP
Senior Vice-President

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

Appendix A – Internal financial statements for the 9 months ended September 30, 2010

WHITE BIRCH PAPER COMPANY
CONSOLIDATED
FINANCIAL STATEMENTS

AS OF SEPTEMBER 30, 2010

(IN UNITED STATES DOLLARS)

CONSOLIDATED WHITE BIRCH PAPER COMPANY

BALANCE SHEET
(IN U.S.$)
SEPTEMBER 30, 2010

ASSETS

CURRENT ASSETS :		
Cash		$ 74,011,592
Cash Collateral		6,820,904
Accounts Receivable - Trade		87,244,103
Accounts Receivable - Miscellaneous		12,835,518
Inventory:		
Raw Materials & Stores	$ 53,261,103	
Finished	19,861,760	73,122,863
Prepaid Expenses		15,731,483
Timberdeeds		103,294
R&D Credit Receivable		456,417
Due from Affiliates		1,196,362
Total Current Assets		271,522,536
PROPERTY, PLANT AND EQUIPMENT AT COST	$ 1,166,800,440	
Less - Accumulated Depreciation	(690,553,941)	476,246,499
OTHER LONG TERM ASSETS		1,027,622
LONG TERM INVESTMENT		546,244
INVESTMENT IN SP NEWSPRINT		24,301,802
DEFERRED FINANCING COSTS		3,031,539
Total Assets		$ 776,676,242

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES:		
Accounts Payable and Accrued Liabilities		$ 41,818,815
Pre-Petition Account Payable		49,311,555
Current Portion Long-Term Debt		858,874
Accrued Service Charges		630,621
Income Taxes Payable		23,998,432
Derivative Contracts		51,807,858
DIP Loan		120,955,000
Accrued Interest		29,283,282
Total Current Liabilities		318,664,437
NON-CURRENT PENSION AND POSTRETIREMENT		86,960,190
DEFERRED PENSION COSTS		64,712,722
LONG-TERM DEBT:		
First Lien Term Loan	$ 428,293,961	
Second Lien Term Loan	100,000,000	
Capitalized Leases	210,717	528,504,678
Total Liabilities		998,842,027
STOCKHOLDERS' EQUITY		
Contributed Capital		129,642,930
Retained Earnings		(306,713,113)
Accumulated Other Comprehensive Loss		(58,671,218)
Translation Adjustment		13,575,616
Total Stockholders' Equity		(222,165,785)
Total Liabilities and Stockholders' Equity		$ 776,676,242

CONSOLIDATED WHITE BIRCH PAPER COMPANY

STATEMENT OF INCOME
(IN U.S.$)
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009

	2010 YEAR TO DATE	2009 YEAR TO DATE
SALES		
Gross	$ 556,372,675	$ 493,989,787
Freight	(64,970,166)	(44,233,833)
Net Sales	491,402,509	449,755,954
COST OF GOODS SOLD	(507,896,003)	(423,032,457)
Gross Profit	(16,493,494)	26,723,497
GENERAL AND ADMINISTRATIVE EXPENSE		
Service Fee	(16,691,278)	(14,819,692)
Other	(16,801,994)	(2,618,942)
Operating Profit (Loss)	(49,986,766)	9,284,863
OTHER INCOME (EXPENSE)		
Interest Expense	(19,937,883)	(36,237,090)
Gain (Loss) on Currency Translation	6,188,649	37,916,804
Gain (Loss) on Derivative Contracts	0	21,010,188
Interest Income	38,069	56,258
Other Income (Expense)	(435,344)	1,625,042
Net Income (Loss) from Operations	(64,133,275)	33,656,065
EQUITY IN EARNINGS OF UNCONSOLIDATED SUBSIDIARIES	0	0
Net Income (Loss) before Tax	(64,133,275)	33,656,065
TAX PROVISION	1,060,963	1,541,522
Net Income (Loss)	(63,072,312)	35,197,587
RETAINED EARNING BEGINNING OF PERIOD	(243,640,801)	(81,978,610)
PRIOR PERIOD ADJUSTMENT	- 0 -	- 0 -
DISTRIBUTION DURING THE PERIOD	- 0 -	(16,458,237)
RETAINED EARNING END OF PERIOD	$ (306,713,113)	$ (63,239,260)

CONSOLIDATED WHITE BIRCH PAPER COMPANY

STATEMENT OF CASH FLOWS
(IN U.S.$)
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009

CASH PROVIDED BY (USED FOR):

		2010	2009
OPERATIONS			
Net Income (Loss)		$ (63,072,312)	$ 35,197,587
Translation Adjustment		(2,870,922)	13,676,734
Accumulated Other Comprehensive Loss		0	0
Items not affecting cash			
Effect of exchange rate fluctuations on cash		(6,133,525)	(55,144,501)
Depreciation		43,686,865	40,014,095
Gain on sale of Property, Plant and Equipment		0	(1,850,286)
Amortization of Deferred Costs		3,988,640	3,030,734
Derivative Contracts		0	(13,898,051)
Deferred Income Taxes		0	(6,109,848)
Deferred Pension Costs		(7,012,260)	3,609,821
Non-current Pension and Postretirement		1,396,951	5,886,068
Other Long Term Assets		(23,637)	(1,004,694)
ITC & R&D Credit Receivable		0	(837,440)
Goodwill		0	(4,127,274)
Long Term Investment		(8,775)	(65,306)
Provided from operations		(30,048,975)	18,377,639
WORKING CAPITAL			
Accounts Receivable Trade	$ (9,889,392)		
Accounts Receivable Miscellaneous	(6,573,574)		
Inventory	1,079,029		
Prepaid Expenses	(13,059,849)		
Timberdeeds	(102,294)		
Due from Affiliates	(509,056)		
R&D Credit Receivable	247,930		
Deferred Costs	(7,100,000)		
Income Taxes Payable	241,320		
Accounts Payable and Accrued Liabilities	30,435,467		
Accrued Service Charges	341,915		
Due to Affiliates	0		
Accrued Interest	7,328,351		
Cash provided by (used for) noncash working capital		2,439,847	39,777,262
		(27,609,128)	58,154,901
FINANCING			
Increase in Long-Term Debt		125,955,000	85,000,000
Decrease in Long-Term Debt		(46,655,833)	(51,351,922)
		51,690,039	91,802,979
INVESTMENT			
Repayment of Additional Contributed Capital		0	(53,324,652)
Proceeds from sale of Property, Plant and Equipment		0	2,282,628
Disposal of Property, Plant and Equipment		503,598	0
Additions to Property, Plant and Equipment		(3,507,753)	(6,865,620)
		48,685,884	33,895,335
DISTRIBUTION TO BRANT PAPER COMPANY		0	(16,458,237)
INCREASE (DECREASE) IN CASH DURING THE PERIOD		48,685,884	17,437,098
CASH BEGINNING OF PERIOD		32,146,612	42,749,792
CASH END OF PERIOD		$ 80,832,496	$ 60,186,890