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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 – SEPTEMBER 1, 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 twice and is now scheduled to expire on October 15, 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

[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 fuller 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 prepare a restructuring plan.

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 second quarter ended June 30, 2010.

TERMS OF REFERENCE AND DISCLAIMER

6. In preparing this report, EYI has relied upon unaudited and audited 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.

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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*.

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.

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 QUARTER ENDED JUNE 30, 2010

8. The Companies' second quarter of fiscal 2010 ended on June 30, 2010. The internally prepared financial statements for the first 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$66.3 million for the 6 months ended June 30, 2010, after taking into consideration a loss on foreign currency translation of US$8.0 million. The net loss before taxes is represented by an amount of US$23.7 million for first quarter, and US$42.6 million for the second quarter. The loss in the second quarter was substantially affected by the exchange rates on currency, as the Companies reported a loss on currency translation of US$20.9 million during the second quarter.

    9.2. The Companies report a negative cash flow from operations of approximately US$16.4 million, excluding interest and taxes. The negative cash flow from operations (before interest and taxes) is represented by an amount of US$12.2 million for the first quarter, and US$4.2 million for the second quarter.

9.3. The assets are reported to have a carrying value of US$785.2 million, comprised primarily of current assets (cash, accounts receivable, inventories and other current assets) of US$276.4 million, fixed assets of US$478.9 million and investments in affiliated entities (SP Newsprint) of US$23.6 million. The liabilities are reported to total US$1,003 million, including US$152.7 million in pension and other post retirement benefit obligations, leaving an equity deficit of US$217.8 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$118 million at June 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$240.4 million[7].

We point out that while the Companies report that the assets have a carrying value of US$785.2 million, the results obtained from 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.

CURRENT ACTIVITIES

10. To date, WB Group borrowed US$118 million against the delayed draw term loan. The drawings are US$4 million lower than the amount provided for in the cash flow projections that were prepared for the WB Group for the 16 week period ending October 15, 2010, presented to the Court with the Monitor's report dated July 7, 2010.

11. While the drawings under the interim financing facility are slightly lower than projected, the Companies' cash position is better than expected, based on the projections for the 16 week period ending October 15, 2010. The cash reports prepared for management indicate that the cash on hand totals US$68.5 million as at August 27, 2010, compared with a projected cash level of US$51.7 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.

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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.

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 1st day of September 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 6 months ended June 30, 2010

WHITE BIRCH PAPER COMPANY
CONSOLIDATED
FINANCIAL STATEMENTS

AS OF JUNE 30, 2010

(IN UNITED STATES DOLLARS)

CONSOLIDATED WHITE BIRCH PAPER COMPANY

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

ASSETS

CURRENT ASSETS :		
Cash		$ 69,468,418
Cash Collateral		11,529,553
Accounts Receivable - Trade		87,300,950
Accounts Receivable - Miscellaneous		11,325,189
Inventory:		
Raw Materials & Stores	$ 51,727,147	
Finished	20,600,288	72,327,435
Prepaid Expenses		22,754,158
Timberdeeds		1,000
R&D Credit Receivable		443,163
Due from Affiliates		1,241,756
Total Current Assets		276,391,622
PROPERTY, PLANT AND EQUIPMENT AT COST	$ 1,139,757,597	
Less - Accumulated Depreciation	(660,850,025)	478,907,572
OTHER LONG TERM ASSETS		1,207,128
LONG TERM INVESTMENT		530,381
INVESTMENT IN SP NEWSPRINT		23,596,096
DEFERRED FINANCING COSTS		4,617,154
Total Assets		$ 785,249,953

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES:		
Accounts Payable and Accrued Liabilities		$ 97,729,839
Current Portion Long-Term Debt		854,505
Accrued Service Charges		700,801
Income Taxes Payable		22,956,761
Derivative Contracts		51,807,858
DIP Loan		117,955,000
Accrued Interest		29,344,903
Total Current Liabilities		321,349,667
NON-CURRENT PENSION AND POSTRETIREMENT		84,434,933
DEFERRED PENSION COSTS		68,263,346
LONG-TERM DEBT:		
First Lien Term Loan	$ 428,293,961	
Second Lien Term Loan	100,000,000	
Capitalized Leases	671,459	528,965,420
Total Liabilities		1,003,013,366
STOCKHOLDERS' EQUITY		
Contributed Capital		129,642,930
Retained Earnings		(308,454,584)
Accumulated Other Comprehensive Loss		(58,671,218)
Translation Adjustment		19,719,459
Total Stockholders' Equity		(217,763,413)
Total Liabilities and Stockholders' Equity		$ 785,249,953

CONSOLIDATED WHITE BIRCH PAPER COMPANY

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

	2010 YEAR TO DATE	2009 YEAR TO DATE
SALES		
Gross	$ 356,776,542	$ 317,006,669
Freight	(41,488,521)	(26,262,224)
Net Sales	315,288,021	290,744,445
COST OF GOODS SOLD	(336,859,334)	(250,575,708)
Gross Profit	(21,571,313)	40,168,737
GENERAL AND ADMINISTRATIVE EXPENSE		
Service Fee	(10,703,395)	(9,510,200)
Other	(11,365,257)	(834,254)
Operating Profit (Loss)	(43,639,965)	29,824,283
OTHER INCOME (EXPENSE)		
Interest Expense	(14,413,812)	(23,785,583)
Gain (Loss) on Currency Translation	(7,974,682)	8,162,738
Gain (Loss) on Derivative Contracts	0	24,266,245
Interest Income	15,478	61,236
Other Income (Expense)	(262,985)	1,710,648
Net Income (Loss) from Operations	(66,275,966)	40,239,567
EQUITY IN EARNINGS OF UNCONSOLIDATED SUBSIDIARIES	0	0
Net Income (Loss) before Tax	(66,275,966)	40,239,567
TAX PROVISION	1,462,183	(431,035)
Net Income (Loss)	(64,813,783)	39,808,532
RETAINED EARNING BEGINNING OF PERIOD	(243,640,801)	(81,978,610)
PRIOR PERIOD ADJUSTMENT	- 0 -	- 0 -
DISTRIBUTION DURING THE PERIOD	- 0 -	(15,708,237)
RETAINED EARNING END OF PERIOD	$ (308,454,584)	$ (57,878,315)

CONSOLIDATED WHITE BIRCH PAPER COMPANY

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

CASH PROVIDED BY (USED FOR):		2010	2009
OPERATIONS			
Net Income (Loss)		$ (64,813,783)	$ 39,811,532
Translation Adjustment		3,272,921	9,872,535
Accumulated Other Comprehensive Loss		0	0
Items not affecting cash			
Effect of exchange rate fluctuations on cash		5,241,470	(20,570,549)
Depreciation		29,265,998	26,014,173
Gain on sale of Property, Plant and Equipment		0	(1,850,286)
Amortization of Deferred Costs		2,279,964	1,956,808
Derivative Contracts		0	(20,954,655)
Deferred Income Taxes		0	(1,240,053)
Deferred Pension Costs		(3,461,636)	107,025
Non-current Pension and Postretirement		(1,128,306)	2,257,868
Other Long Term Assets		10,572	(836,355)
ITC & R&D Credit Receivable		0	(236,778)
Goodwill		0	(1,549,949)
Property, Plant and Equipment (ITC & Capital Tax)		0	0
Long Term Investment		7,088	(24,525)
Provided from operations		(29,325,712)	32,756,791
WORKING CAPITAL			
Accounts Receivable Trade	$ (9,946,239)		
Accounts Receivable Miscellaneous	(5,063,245)		
Inventory	1,874,457		
Prepaid Expenses	(20,082,524)		
Timberdeeds	0		
Due from Affiliates	(554,450)		
R&D Credit Receivable	261,184		
Deferred Costs	(7,100,000)		
Income Taxes Payable	(800,351)		
Accounts Payable and Accrued Liabilities	37,034,936		
Accrued Service Charges	412,095		
Due to Affiliates	0		
Accrued Interest	7,389,972		
Cash provided by (used for) noncash working capital		3,425,835	(5,199,734)
		(25,899,877)	27,557,057
FINANCING			
Increase in Long-Term Debt		122,955,000	55,000,000
Decrease in Long-Term Debt		(46,199,460)	(35,270,074)
		50,855,663	47,286,983
INVESTMENT			
Repayment of Additional Contributed Capital		0	(53,324,652)
Proceeds from sale of Property, Plant and Equipment		0	2,282,628
Additions to Property, Plant and Equipment		(2,004,304)	(4,656,026)
		48,851,359	(8,411,067)
DISTRIBUTION TO BRANT PAPER COMPANY		0	(15,708,237)
INCREASE (DECREASE) IN CASH DURING THE PERIOD		48,851,359	(24,119,304)
CASH BEGINNING OF PERIOD		32,146,612	42,749,792
CASH END OF PERIOD		$ 80,997,971	$ 18,630,488