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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 23, 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 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

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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.

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 restructure their business and financial affairs.

5. By judgment rendered on September 10, 2010, this Court approved the selection of BD White Birch Investments LLC ("**BDWBI**") as the proposed stalking horse bidder, approved (subject to modifications) the terms of an asset sale agreement ("**ASA**") that will define the terms of the transaction with the stalking horse bidder, subject to a higher or better offer at an auction, authorized the Companies to carry out an auction, approved the bidding procedures for this auction ("**Bidding Procedures**") and scheduled a hearing ("**Sale Hearing**").

6. The present report is intended to provide the Court with information on the results of the auction process and to present the Monitor's recommendation to approve a sale transaction as part of the Sale Hearing.

TERMS OF REFERENCE AND DISCLAIMER

7. 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. 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.

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.

AUCTION PROCESS

Qualified Bids

9. The Bidding Procedures provided (amongst other things) that an auction would be held only inasmuch as, in addition to the Stalking Horse Bidder[7], a Phase 1 Qualified Bidder[8] submitted a qualifying offer before a set deadline of September 17, 2010 at 5:00 p.m.

10. On September 17, 2010, the Companies received an offer from Sixth Avenue Investment Co, LLC ("**SAIC**"), a newly formed limited liability corporation created by a group of lenders under the First Term Loan credit facility. The letter from SAIC (Appendix A) indicates that it is funded by a group of lenders (referred to in the letter as the "**Buyer Group**") that holds, in the aggregate, approximately 10% of the debt under the First Term Loan credit facility.

11. The offer from SAIC was considered by the Companies as an offer from a Qualified Bidder[7] and, accordingly, an auction was held at the offices of Kirkland & Ellis LLP (the Companies' U.S. attorneys), 601 Lexington Avenue, New York, New York, U.S.A.

12. As the offer from SAIC was the only Qualified Bid[7] received, there were only two parties that participated in the auction, SAIC and BDWBI. The auction was attended by the two bidders, their financial and legal advisors, the Companies, their financial and legal advisors, the legal

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[7] As defined in the Bidding Procedures.

[8] As defined in the Sale and Investor Solicitation Process ("**SISP**") referred to in the 4th report of the Monitor, dated April 21, 2010.

advisors of Credit Suisse First Boston ("**Credit Suisse**", the administrative agent under the Interim Financing credit agreement and the First Term Loan credit agreement) and the Monitor. The auction was also attended by various other interested parties or their advisors.

13. The auction commenced shortly after the scheduled time of 10:00 a.m.

Assets

14. The auction process was contemplated as part of the stalking horse bidding process approved by the Court, to put to the test the offer received from BDWBI as a stalking horse (i.e. the ASA), with a view to determine whether this offer represents the highest and best offer for the assets of the Companies.

15. Consistent with the terms of the ASA, the assets offered for sale consisted of all assets and undertakings of the Companies, comprised of current assets, fixed assets and all other property of the Companies of any kind, wherever situated, as they will exist on the date of closing of the transaction contemplated in the ASA ("**Closing**"), which is expected to be November 29, 2010.

16. In view of the fact that the contemplated transaction is based on a sale of assets and assumption of liabilities as they will exist in the future, i.e. at Closing, we cannot determine precisely the carrying value of the assets to be sold or the amount of liabilities to be assumed in the context of the transaction. The financial information used to gauge the reasonableness of the ASA (and of the bids received during the auction) was based on the most recent available detailed financial information, namely the Companies' internal financial statements as at May 31, 2010, and the cash flow projections prepared thereafter by the Companies on a weekly basis. Based on these internal financial statements at May 31, 2010, the carrying value of the assets of the Companies can be summarized as follows:

	(in thousands of US$)		
	Canada	**US**	**Total**
Current assets			
Accounts receivable	88,812	12,634	101,446
Inventories	58,704	13,209	71,913
	147,516	25,843	173,359
	85.1%	14.9%	100.0%
Property, plant and equipment	380,284	108,279	488,563
	77.8%	22.2%	100.0%
Other assets	30,995	-	30,995
	100.0%	0.0%	100.0%
Total assets	558,795	134,122	692,917
	80.6%	19.4%	100.0%

17. As mentioned in our report dated September 1, 2010, the interim financing lender has security over all assets and undertakings of the Companies, and the remaining security held by first ranking term lenders, swap counterparties and second ranking term lenders encumbers only the assets other than accounts receivable and inventories (hereinafter, the accounts receivable and inventories are referred to as the "**Current Assets**" and the assets other than Current Assets are referred to as the "**Fixed Assets**"). In addition, certain other creditors may have security or rights in respect of some of the assets offered for sale through the auction, as explained more fully in the Monitor's report dated August 10, 2010 (at paragraphs 67-68).

Allocation of sale price

18. In the Monitor's report dated August 10, 2010, we expressed our concern with the fact that the ASA did not provide for an allocation of the sale price between the various categories of assets or between the Canadian and U.S. assets of the Companies. We therefore suggested that a proper allocation formula would be to allocate value between the estates on a pro-rata basis, in proportion to the carrying value of the assets of each of the entities, net of any "post-filing" accounts payable of the Companies assumed by the purchaser. As regards the allocation in value between Current Assets and Fixed Assets, we suggested that all the value of any bid be allocated in priority to Current Assets, until such time as the purchase price reaches the carrying value of such assets, net of any "post-filing" accounts payable of the Companies assumed by the purchaser.

19. In discussions in the period subsequent to our report and before the auction, the issue of the allocation of the sale price was raised on many occasions. The Companies' advisors expressed the concern that a process that compels an allocation towards Current Assets in priority to the Fixed Assets would be problematic, in particular for the following reasons:

    19.1. Arguably, an enhancement of value in the Current Assets, over their liquidation value, has to be associated with a going concern, which means that the enhancement of value over the liquidation value could be attributed to the Fixed Assets component of the business.

    19.2. An allocation that omits any value to the Fixed Assets would be inconsistent with the Bidding Procedures approved by the Court, which specifically allow for the possibility of a credit bid and discretionary allocation of value between asset classes by the bidders. In view of the security on the Fixed Assets held by some of the secured creditors, a credit bid made by them would automatically entail an allocation of value to the Fixed Assets.

    19.3. To the extent that there is more than one bidder, it may be impossible to discount or ignore the allocation made by the bidders as a condition of their offers during the auction, and more specifically when it encompasses a credit bid on assets affected by their security.

    19.4. A credit bid at the auction would represent a valuable consideration for the Companies, through the elimination of the related secured debt.

    19.5. There was concern that a process that does not allow full value to a credit bid might be problematic in the U.S. proceedings, which may result in an inability to obtain approval of a transaction in the U.S.

20. The Monitor considered that these were valid concerns and as a result the following methodology was developed with the Companies and their advisors, to assess the bids received at the auction as follows:

20.1. The cash component of an offer would need to be at least equal to the estimated liquidation value of the Current Assets, which was estimated by the Companies to be approximately US$90 million and accordingly allocated firstly to the Current Assets. This value is consistent with the liquidation value referred to in the Monitor's report dated August 10, 2010, in Appendix B thereof;

20.2. A credit bid can be made in respect of a portion or all of the First Term Loan for the Fixed Assets;

20.3. When a credit bid is made for the Fixed Assets, the bidder must first provide additional cash sufficient to pay the debt related to the existing valid legal hypothecs affecting the properties in Canada, or assume said hypothecs.

Auction results

21. During the auction, attended by the Qualified Bidders, namely SAIC and BDWBI, the offers were modified on several occasions, by incremental bids of at least $500,000 as was required under the Bidding Procedures. When the bidding was declared completed, at 11:15 p.m., the Companies' representatives announced that the Winning Bid[9] and Alternative Bid[9] were the following:

- **Winning Bid: BDWBI**
    - Cash amount: US$94.5 million (of which US$4.5 million is first allocated to pay the debt related to the existing legal hypothecs affecting the immovable properties in Quebec (Canada) pursuant to Article 2726 of the *Quebec Civil Code*, if they are valid).
    - Credit Bid: US$78.0 million allocated to Fixed Assets in Canada
    - Assumed liabilities (estimated): US$36.7 million
    - Assumed cure costs: Up to US$26.9 million
    - Total consideration (estimated): Up to US$236.1 million
    - Allocation of value (estimated, but excluding the cure costs):
        - US$126.7 million to the Current Assets (i.e. US$90 million cash plus an estimated US$36.7 million for assumed liabilities)
        - US$82.5 million for the Fixed Assets in Canada (i.e. US$4.5 million cash, and US$78.0 credit bid).

9 As defined in the Bidding Procedures.

- **Alternative Bid: SAIC**
    - Cash amount: US$175.0 million
    - Assumed liabilities (estimated): US$36.7 million
    - Assumed cure costs: Up to US$26.9 million
    - Break-up fee and expense reimbursement: Up to US$3.0 million cash
    - Total consideration (estimated): Up to US$235.6 million
    - Allocation of value (estimated, but excluding the cure costs):
        - US$173.4 million to the Current Assets (i.e. US$136.7 million cash plus an estimated US$36.7 million for assumed liabilities, or the carrying value of the Current Assets at May 31, 2010),
        - US$35.3 million cash for the Fixed Assets. The cash allocated to the Fixed Assets would thus be sufficient to pay the debt related to the existing valid legal hypothecs affecting the immovable properties in Quebec (Canada) pursuant to Article 2726 of the *Quebec Civil Code*.

ANALYSIS OF OFFERS

22. During the auction, the prospective purchasers (BDWBI and SAIC) limited the changes to their offers to changing the amount and allocation of the cash and credit bid components of their respective offers, and consequential changes in the provisions of the ASA. No mention was made of any change in the terms of the offers as they relate to assumed liabilities, which are the same under the two offers.

23. Throughout the auction, it became apparent that the allocation from BDWBI was more beneficial to the secured lenders (by favouring an allocation of value to the Fixed Assets), while the allocation from SAIC was more beneficial to the ordinary unsecured creditors (by favouring an allocation of value to the Current Assets).

24. In assessing the relative value of the offers, the Companies decided, after consultation with their financial and legal advisors and the Monitor, that the assessment should only take into consideration the total value allocated to the assets.

25. Based on this assessment methodology, the offer from BDWBI was declared to be the highest or best offer, in view of the fact that this offer provides the highest yield to the Companies, in terms of overall value.

26. As the auction progressed, the allocation made towards the Current Assets by SAIC was modified, but the highest allocation was reached on the final bid made by SAIC, where the value allocated to the Current Assets was said to be the full amount of the bid up to the carrying value of the Current Assets (estimated to be approximately US$173.4 million based on the information

provided by the Companies as at May 31, 2010), with the remainder allocated to the Fixed Assets.

27. As well, as the auction progressed, BDWBI started making allocations to specific assets, firstly on a plant and then to a portion of a plant. The Monitor perceived this process as designed to isolate value to create a disparity in treatment between the members of the First Term Loan lenders' group. This concern was communicated to the Companies and the representatives of BDWBI. As a result of this concern, the Companies advised BDWBI that it considered such an offer to be higher but not better than the previous bid. BDWBI raised objections to the characterization of its credit bid as being a higher but not better offer. Despite these objections, the Companies did not recognize an attempt to allocate the value associated to a credit bid to a parcel of the assets as an appropriate credit bid, although the Companies allowed BDWBI to make an allocation of the credit bid to all of the Canadian Fixed Assets. Considering that the Monitor did not want to comment or interfere with the rights of stakeholders as they relate strictly to the assets of Bear Island, the Monitor did not object to the formulation of a credit bid allocated to the Canadian Fixed Assets only. As such, the US$82.5 million allocated to the Fixed Assets by BDWDI under its offer is entirely associated to the Applicants' Fixed Assets in Canada.

28. Based on the value attributed to the assets through a combination of cash, assumption of liabilities and credit bids, the offer from BDWBI represents a higher value for the Companies.

Strictly from an unsecured creditors' point of view and without regard to the secured creditors' rights and interests, the value represented by the offer from BDWBI would yield a dividend of less than 1% for the unsecured creditors, while an offer providing for the carrying value of the Current Assets may yield a dividend of approximately 5% to 7% to unsecured creditors of WB Canada. Conversely, the offer from BDWBI would yield a higher distribution for the secured creditors, as the First Term Loan lenders and swap counterparties would receive an allocation of value estimated at US$78 million based on the credit bid, representing approximately 17% of the senior secured creditors' debt, while the Alternative Bid would represent a substantially lower value. The estimated distribution to the creditors is illustrated in the attached Appendix B.

As well, the value realized by the secured creditors may not represent an equal allocation of value to all of the First Term Loan lenders on a pro rata basis, in view of the fact that the value of the credit bid was allocated only to the Canadian Fixed Assets. This potential effect is alleviated somewhat by the fact that the vast majority of the Fixed Assets are in Canada, as it is estimated that approximately 80% of the Fixed Assets' net book value is represented by assets in Canada.

In view of the above, the Monitor agrees that the offer from BDWBI represents the highest and best value for the Companies' assets when gauged against total overall value returned to the Companies, the Monitor not having to consider the aspect of allocating value to one group of creditors as compared to the other.

APPROVAL PROCESS AND CONTESTATIONS

29. On September 21, 2010, the Monitor received service of two Motions for leave to appeal from the judgment rendered on September 10, 2010, which are both scheduled to be heard by the Quebec Court of Appeal on September 24, 2010. These two Motions are presented on behalf of holders of legal hypothecs in favour of persons having taken part in the construction or renovation of an immovable property pursuant to Article 2726 of the *Quebec Civil Code* (S3I[10] and KSH[10]).

30. Based on the results of the auction and the fact that the Winning Bid provides sufficient cash to pay the debts related to the legal hypothecs of S3I and KSH (to the extent they are declared valid), which only became known after the service of these Motions for leave to appeal, the Monitor believes that these Motions may become moot and should not interfere with the on-going Court supervised restructuring process unless ordered otherwise by the Court of Appeal.

31. It should also be noted that as it is stipulated in the ASA, the completion of a transaction with the Winning Bidder is subject to the approval of both this Court and the U.S. Court. The sale hearing before the U.S. Court is scheduled to be held on September 30, 2010, and all contestations to the transaction should be received before September 24, 2010 at 16:30 ET.

CONCLUSIONS

32. The Monitor refers the Court to its report dated August 10, 2010, and more particularly to paragraphs 55 to 73, which contain *inter alia* an analysis of the relevant criterions provided by Section 36 CCAA. This analysis is still relevant for the purpose of authorizing a sale transaction following the SISP and the auction conducted in accordance thereto.

33. The Monitor notes that the offer submitted by the Winning Bidder (as modified at the auction) represents an improvement over the original offer submitted by the Stalking Horse Bidder and that the Winning Bid provides for the payment of valid legal hypothecs charging immoveable properties in Quebec (Canada) pursuant to Article 2726 of the *Quebec Civil Code*.

34. According to the Monitor, the Winning Bid would be more beneficial to the creditors than a sale or disposition in a bankruptcy context.

35. The Monitor notes that both BDWBI and SAIC are highly sophisticated parties consisting of debt holders under the First Term Loan credit facility, which engaged into the auction with full knowledge of the applicable Bidding Procedures and of the Monitor's previous reports.

36. Based on the information available to date and applying the rules set out at paragraph 20 of this report, the Monitor concurs with the Companies' assessment, that the offer from BDWBI represents the highest and best offer ("**Winning Bidder**") and that the offer from SAIC represents the second highest and best qualified bid ("**Alternative Bidder**"), when gauged against total overall value returned to the Companies.

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[10] As defined in the Monitor's report dated August 10, 2010.

37. The Monitor considers reasonable and supports the Companies' request for an authorization to complete a sale transaction with the Winning Bidder, on terms consistent with the offer submitted by the Winning Bidder, as modified at the auction.

All of which is respectfully submitted this 23rd 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

Bid letter received from Sixth Avenue Investment Co, LLC

September 17, 2010

VIA HAND DELIVERY AND EMAIL

White Birch Paper Company
Attn: Jay Epstein, Vice President – Finance, Treasurer & Secretary
80 Field Point Road
Greenwich, CT 06830
jayepstein@whitebirchpaper.com

Kirkland & Ellis, LLP
Attn: Christopher Marcus
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Stikeman Elliott LLP
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Attn: Martin Rosenthal
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Montreal, Quebec, Canada H3B 1X9
martin.rosenthal@ca.ey.com

Re: White Birch Paper Company

Ladies and Gentlemen:

We are pleased to submit this letter to you as our offer (the "**Buyer Group Bid**") to purchase all or substantially all of the Assets of White Birch Paper Holding Company and its affiliates ("**White Birch**"), on the terms more particularly set out in the attached asset sale agreement (the "**Asset Sale Agreement**"). All capitalized terms used and not otherwise defined herein shall have the meaning set forth in the Asset Sale Agreement and, as applicable, in the relevant Stalking Horse Order[1] or the procedures annexed thereto.

Buyer Group

The asset purchase will be made through the undersigned, a newly incorporated Delaware LLC (the "**Buyer**"), which will be funded by BlueMountain Capital Management, LLC (as investment advisor to several funds managed by it) and its affiliates ("**BlueMountain**"), Steelhead Partners, LLC and its affiliates ("**Steelhead**"), Lombard General Insurance Company of Canada, and its affiliates ("**Lombard**"), Macquarie Bank Limited and its affiliates ("**Macquarie**") and MFP Partners, L.P. and its affiliates ("**MFP**", and together with BlueMountain, Steelhead, Lombard and Macquarie, the "**Buyer Group**"). Collectively, the Buyer Group holds, in the aggregate, approximately 10% of the debt under the First Lien Credit Agreement (as defined in the Asset Sale Agreement). We confirm that each member of the Buyer Group qualifies as a Phase I Qualified Bidder. As set forth in the Asset Sale Agreement, the Purchase Price (as defined in the Asset Sale Agreement) will be comprised of cash and assumed liabilities. In addition, the Buyer maintains the right to alter such formulation by including a credit bid under the First Lien Credit Agreement or the DIP Credit Agreement (as defined in the Asset Sale Agreement).

Offer to Purchase

The Buyer hereby offers to purchase all or substantially all of the Assets upon the terms and conditions substantially as set forth in the Stalking Horse Asset Sale Agreement (as defined below), as rearticulated and modified in the Asset Sale Agreement. The Asset Sale Agreement is a revised version of the form of asset sale agreement entered into between the WB Group and BD White Birch Investment LLC as of August 10, 2010, as amended to date (the "**Stalking Horse Asset Sale Agreement**"). Also attached is a marked agreement to indicate the modifications made to the Stalking Horse Asset Sale Agreement.

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[1] Reference is hereby made to **(i)** that certain Order Approving the Sale and Investor Solicitation Process, entered by the Quebec Superior Court, Commercial Division for the District of Montréal, in the proceedings (Case No. 500-11-038474-108) under the Companies' Creditors Arrangement Act (Canada), as amended (the "**CCAA**") for White Birch Paper Holding Company ("**White Birch**") and its affiliates (the "**WB Group**"), **(ii)** that certain Order Approving the Debtor's Sale and Investor Solicitation Process and Procedures Related Thereto, entered by the United States Bankruptcy Court For The Eastern District Of Virginia (Richmond Division), in the proceeding (Case No. 10-31202) under chapter 11 of the Bankruptcy Code for Bear Island Paper Company, L.L.C. ("**Bear Island**" and together with the WB Group, the "**WB Entities**"), **(iii)** that certain Order Approving a Stalking Horse Bidder, an Asset Sale Agreement, Bidding Procedures for the Sale of Substantially all the WB Group's Assets and to Schedule an Auction and Sale Hearing (the "**Canadian Stalking Horse Order**"), entered by the Quebec Superior Court, Commercial Division for the District of Montréal, in the proceedings (Case No. 500-11-038474-108) under the CCAA for the WB Group, and **(iv)** that certain Order Approving **(A)** the Form of the Sale Agreement, **(B)** the Bidding Procedures, **(C)** the Sale Notice and **(D)** the Assumption Procedures and Assumption Notice entered by the United States Bankruptcy Court For The Eastern District of Virginia (Richmond Division), in the proceeding (Case No. 10-31202) under chapter 11 of the Bankruptcy Code for Bear Island (the "**US Stalking Horse Order**" and together with the Canadian Stalking Horse Order, the "**Stalking Horse Orders**").

Purchase Price

The total purchase price for all or substantially all of the Assets is comprised of cash and assumed liabilities, as more particularly set out in section 2.2.1 of the Asset Sale Agreement. The cash component of the purchase price is equal to $100,000,000. We have allocated the cash component of the purchase price to the current assets of White Birch, as more particularly set out in the Asset Allocation Schedule attached to the Asset Sale Agreement.

Management of the Assets

Should our offer be accepted, the Buyer Group looks forward to working with current management to make the Buyer a successful and profitable business. To that end, we are interested in negotiating with management a revised management services agreement and providing for equity incentives in the Buyer. See section 10.16 of the Asset Sale Agreement.

Qualified Bid

For the reasons set forth below, the Buyer Group Bid constitutes a Qualified Bid under the Bidding Procedures. The sections below correspond to the paragraph numbering in the Qualified Bids section of the Bidding Procedures.

(i) The Buyer Group Bid has been submitted by the Bid Deadline (as defined in the Bidding Procedures).

(ii) The terms and conditions of the Asset Sale Agreement are no less favourable than the terms and conditions of the Stalking Horse Asset Sale Agreement, including with respect to certainty and timing of closing. The timing and conditions to closing of the Buyer Group Bid are unchanged from those of the Stalking Horse Asset Sale Agreement.

In fact, the Buyer Group Bid is a higher and better bid than the bid set forth in the Stalking Horse Asset Sale Agreement, on the basis of the following:

(a) the Buyer offers to purchase all or substantially all of the Assets for a higher purchase price (after payment of the Expense Reimbursement and the Break-Up Fee[2]);

[2] Notwithstanding that the aggregate purchase price of the Buyer Group Bid is sufficient to provide for payment of the Break-Up Fee, the Buyer Group is of the view that the Break-Up Fee is not payable under the Stalking Horse Asset Sale Agreement since the Canadian Stalking Horse Order did not approve its payment.

(b) the Asset Sale Agreement includes an Asset Allocation Schedule that provides for allocation of the purchase price as between the various Sellers and their respective current assets; and

(c) the Asset Sale Agreement contains in Section 10.16 thereof, a clear statement of the Buyer's wish to come to an agreement with Brant Industries, Inc. regarding its continued management of the Assets.

(iii) The Buyer Group Bid offers to purchase all or substantially all of the Assets for an aggregate purchase price that is equal to or greater than the sum of the purchase price set forth in the Stalking Horse Asset Sale Agreement plus the amount of the Break-Up Fee,[3] an amount in respect of the Expense Reimbursement and an amount of no less than US$1,000,000.

(iv) The Buyer Group Bid is irrevocable until the closing of the sale of the Assets to a Qualified Bidder if the Buyer is selected as either the Winning Bidder or the Alternative Bidder.

(v) We have attached hereto **(A)** a duly authorized and executed form of the Asset Sale Agreement, including the purchase price for all or any portion of the Assets expressed in US Dollars, together with all exhibits and schedules thereto, **(B)** any ancillary agreements as described in the Asset Sale Agreement, together with all exhibits and schedules thereto, **(C)** blacklines comparing the Asset Sale Agreement and Exhibits A to E, G and H thereto to the Stalking Horse Asset Sale Agreement and Exhibits A to E, I and J thereto (collectively, the "**Marked Agreements**"), and **(D)** proposed orders for the CCAA Court (as defined in the Bidding Procedures) and Bankruptcy Court (as defined in the Bidding Procedures) to approve the sale under the Asset Sale Agreement.

(vi) The Buyer has delivered in escrow to The Bank of New York Mellon ("**BONY**") a US$5 million certified check from a U.S. bank payable to The Bank of New York Mellon "in escrow", to be deposited into a deposit escrow account with BONY that shall be subject to a deposit escrow agreement duly executed as of the date hereof among White Birch Paper Company, BONY and the Buyer. As Agreed with legal counsel to White Birch, a copy of said certified check and escrow agreement is attached hereto.

(vii) The Buyer Group Bid is not conditioned upon the outcome of unperformed due diligence by the Buyer Group, and the Buyer Group has had an opportunity to conduct any and all required due diligence prior to making the Buyer Group Bid.

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3 Notwithstanding that the aggregate purchase price of the Buyer Group Bid is sufficient to provide for payment of the Break-Up Fee, the Buyer Group is of the view that the Break-Up Fee is not payable under the Stalking Horse Asset Sale Agreement since the Canadian Stalking Horse Order did not approve its payment.

(viii) The Buyer Group Bid is not conditioned upon approval by the Bankruptcy Court or the CCCA Court of any bid protections, such as a break-up fee, termination fee, expense reimbursement or similar type of payment.

(ix) The Buyer Group Bid is not conditioned upon obtaining financing, and this letter shall serve as the Buyer Group's firm, irrevocable commitment to finance the transaction described in the Asset Sale Agreement on closing thereof. Given the financial resources of the Buyer Group, no additional financing will be needed. Blue Mountain is a global privately held investment company that has over US$4 billion under management; Steelhead is a leading US hedge fund with over US$950 million under management; Lombard is part of the Fairfax Financial group of companies, which has invested assets of over US$22 billion; Macquarie is part of a global financial company that has close to US$300 billion under management; and MFP is a leading privately held investment fund with approximately US$750 million under management.

(x) The enumeration of the members of the Buyer Group set forth in the previous paragraph fulfills the requirement of paragraph (x) of the Qualified Bids section of the Bidding Procedures. The Buyer Group's principal advisors in this matter are Fasken Martineau DuMoulin LLP, Kramer Levin Naftalis and Frankel LLP and Canaccord Genuity Corp.

(xi) The Buyer expects to offer employment to substantially all of the approximately 1,200 employees of the WB Entities (approximately 1,000 employees in Canada and approximately 200 employees in the United States) on the terms set forth in the Asset Sale Agreement. Please note that the Asset Sale Agreement sets forth in full the proposed measures associated with **(a)** the continued employment of such employees and **(b)** the employment of all employees who will become employees of the Buyer.

(xii) The Buyer acknowledges and represents that it will assume the obligations of the WB Entities under executory contracts and unexpired leases in the manner set forth in the Asset Sale Agreement. The Asset Sale Agreement contains full details of the Buyer's proposal for the treatment of related cure costs and identifies, with particularity, any contract or lease the assumption and assignment of which is a condition to closing.

(xiii) Each of the Buyer and the Buyer Group acknowledges and represents that it has relied solely upon its own independent review, investigation and inspection of the Assets and any available document in making the Buyer Group Bid. The Buyer and the Buyer Group did not rely on any written or oral statements, representations, promises, warranties or guaranties whatsoever, whether express or implied (by operation of law or otherwise) regarding the Assets or the completeness of any information provided in connection therewith or the Auction, except as expressly stated in the Asset Sale Agreement or the ancillary agreements associated therewith.

(xiv) Attached is an original of the written consent of all of the members of the Buyer (which is a member managed limited liability company) authorizing the submission, execution, delivery and closing of the Asset Sale Agreement and the documents ancillary thereto.

(xv) The Buyer shall use its commercially reasonable efforts to obtain all regulatory approvals (including all applicable anti-trust and Canadian regulatory approvals) and any other consent of a government entity required to be obtained in order to consummate the transactions contemplated by the Asset Sale Agreement by November 19, 2010. In that regard and further to consultation on these matters with its advisors, the Buyer does not anticipate any impediment in obtaining such approvals and consents within the proposed timeline for Closing. Furthermore, the Buyer Group is confident of its ability to structure the ownership interests in the Buyer so as to minimize any risks in obtaining the necessary regulatory approvals for Closing.

(xvi) The Buyer is capable of providing adequate assurance of future performance under the contracts and leases to be assumed by, or subleased to, the Buyer Group pursuant to the Asset Sale Agreement.

No other information has been requested from the Buyer pursuant to paragraph (xvii) of the Bidding Procedures.

Set forth below is the applicable contact information for the Buyer:

Sixth Ave Investment Co., LLC
c/o Canaccord Genuity Corp.
161 Bay Street
Suite 3000
Toronto, ON M5J 2S1

Attention: Sachin Mahajan & Barry Goldberg
Facsimile: (416) 869-3876

Concurrently with the delivery of this letter to Lazard Middle Market LLC, we are simultaneously providing copies thereof to counsel to the Sellers, the Monitor in the CCAA Proceedings, counsel to the Purchaser and counsel to the Administrative Agent, the Syndication Agent and Majority Lenders under the DIP Credit Agreement (as each of the foregoing expressions is defined, directly or by reference, in the Bidding Procedures), the whole as required pursuant to the Bid Deadline section of the Bidding Procedures.

This letter together with the documents attached hereto are delivered to you with the understanding and on the condition that neither this letter, nor its attachments, nor any part of the substance of any one thereof shall be disclosed by you publicly or privately without our prior written consent except to your respective representatives and advisors, and except as expressly provided in the Bidding Procedures.

Sincerely,

SIXTH AVE INVESTMENT CO., LLC, by its members:

BLUEMOUNTAIN LONG/SHORT CREDIT MASTER FUND L.P.

By: BlueMountain Capital Management, LLC
its Investment Manager

By:__________________________
Name: Jody Flaws
Title: Head of Accounting

BLUEMOUNTAIN CREDIT ALTERNATIVES MASTER FUND L.P

By: BlueMountain Capital Management, LLC
its Investment Manager

By:__________________________
Name: Jody Flaws
Title: Head of Accounting

BLUEMOUNTAIN TIMBERLINE LTD.

By: BlueMountain Capital Management, LLC
its Investment Manager

By:__________________________
Name: Jody Flaws
Title: Head of Accounting

[Signature Page for Bid Agreement]

BLUEMOUNTAIN DISTRESSED MASTER FUND L.P.

By: BlueMountain Capital Management, LLC
its Investment Manager

By:______________________________

Name: Jody Flaws
Title: Head of Accounting

LOMBARD GENERAL INSURANCE COMPANY OF CANADA,
by its investment manager Hamblin Watsa
Investment Counsel Ltd.

By:______________________________

Name:
Title:

MACQUARIE BANK LIMITED

By:______________________________

Name:
Title:

MFP PARTNERS, L.P.

By:______________________________

Name: Timothy E. Ladin
Title: General Counsel

STEELHEAD NAVIGATOR MASTER, L.P.

By: Steelhead Offshore Partners, LLC, its general partner

By: Steelhead Partners, LLC, its sole member

By:______________________________

Name:
Title:

[Signature Page for Bid Agreement]

BLUEMOUNTAIN DISTRESSED MASTER FUND L.P.

By: BlueMountain Capital Management, LLC
its Investment Manager

By:______________________________
Name:
Title:

LOMBARD GENERAL INSURANCE COMPANY OF CANADA,
by its investment manager Hamblin Watsa
Investment Counsel Ltd.

By:______________________________
Name: F. BRIAN BRADSTREET
Title: MANAGING DIRECTOR

MACQUARIE BANK LIMITED

By:______________________________
Name:
Title:

MFP PARTNERS, L.P.

By:______________________________
Name: Timothy E. Ladin
Title: General Counsel

STEELHEAD NAVIGATOR MASTER, L.P.

By: Steelhead Offshore Partners, LLC, its general partner

By: Steelhead Partners, LLC, its sole member

By:______________________________
Name:
Title:

BLUEMOUNTAIN DISTRESSED MASTER FUND L.P.

By: BlueMountain Capital Management, LLC
its Investment Manager

By:______________________________
Name:
Title:

LOMBARD GENERAL INSURANCE COMPANY OF CANADA,
by its investment manager Hamblin Watsa
Investment Counsel Ltd.

By:______________________________
Name:
Title:

MACQUARIE AMERICAS CORP.

Brian B. Hughes
Director

By:______________________________
Name: Paul B Bach
Title: Director

MFP PARTNERS, L.P.

By:______________________________
Name: Timothy E. Ladin
Title: General Counsel

STEELHEAD NAVIGATOR MASTER, L.P.

By: Steelhead Offshore Partners, LLC, its general partner

By: Steelhead Partners, LLC, its sole member

By:______________________________
Name:
Title:

[Signature Page for Bid Agreement]

BLUEMOUNTAIN DISTRESSED MASTER FUND L.P.

By: BlueMountain Capital Management, LLC
its Investment Manager

By:________________________________
Name:
Title:

LOMBARD GENERAL INSURANCE COMPANY OF CANADA,
by its investment manager Hamblin Watsa
Investment Counsel Ltd.

By:________________________________
Name:
Title:

MACQUARIE BANK LIMITED

By:________________________________
Name:
Title:

MFP PARTNERS, L.P.

By:________________________________
Name: Timothy E. Ladin
Title: General Counsel

STEELHEAD NAVIGATOR MASTER, L.P.

By: Steelhead Offshore Partners, LLC, its general partner

By: Steelhead Partners, LLC, its sole member

By:________________________________
Name:
Title:

[Signature Page for Bid Agreement]

BLUEMOUNTAIN DISTRESSED MASTER FUND L.P.

By: BlueMountain Capital Management, LLC
its Investment Manager

By:______________________________
Name:
Title:

LOMBARD GENERAL INSURANCE COMPANY OF CANADA,
by its investment manager Hamblin Watsa
Investment Counsel Ltd.

By:______________________________
Name:
Title:

MACQUARIE BANK LIMITED

By:______________________________
Name:
Title:

MFP PARTNERS, L.P.

By:______________________________
Name: Timothy E. Ladin
Title: General Counsel

STEELHEAD NAVIGATOR MASTER, L.P.

By: Steelhead Offshore Partners, LLC, its general partner

By: Steelhead Partners, LLC, its sole member

By:______________________________
Name: Greg M Stevenson
Title: President

[Signature Page for Bid Agreement]

Appendix B

Estimated allocation of proceeds

based on the financial position at May 31, 2010

IN THE MATTER OF THE PROPOSED PLAN OF ARRANGEMENT OF WHITE BIRCH PAPER HOLDING COMPANY AND AFFILIATES
Draft model of allocation of proceeds amongst estates and types of assets - at May 31, 2010

	Carrying value		BDWBI	SAIC
Amount of offer				
cash			90,000,000	175,000,000
cash specifically allocated to fixed assets			4,500,000	
Break fee and expenses			0	(3,000,000)
503(b)(9) assumed			3,222,571	3,222,571
Employee claims			9,902,897	9,902,897
Government claims			4,175,000	4,175,000
Assumed Liabilities (net of ppds)			19,352,291	19,352,291
credit bid			78,000,000	0
Total offer - before cure costs			209,152,758	208,652,758
Cure costs estimate			26,900,067	26,900,067
Total offer - after cure costs			236,052,825	235,552,825
Allocation of offer				
Canada working cap (excl ppds and cash)	120,679,002	86.83%	109,969,960	120,679,002
U.S working cap (excl. Ppds and cash)	18,307,394	13.17%	16,682,798	18,307,394
Canada stores	26,837,182	78.08%	0	26,837,182
U.S stores	7,536,132	21.92%	0	7,536,132
Canada capital assets	411,279,561	79.16%	82,500,000	27,937,792
U.S capital assets	108,278,657	20.84%	0	7,355,256
Total	692,917,928		209,152,758	208,652,758

	Carrying value	BDWBI	%	SAIC	%
Distribution simulation - US					
Employee claims	1,644,493	1,644,493		1,644,493	
Reclamation payable (503(b)(9))	3,222,571	3,222,571		3,222,571	
Post petition Accts Payable	6,656,452	6,656,452		6,656,452	
Interim financing (DIP loan) (net of cash)	85,968,454	5,159,282		12,815,711	
1st Lien and swaps secured creditor		0	0.00%	7,355,256	1.72%
1st lien and Swaps - unsecured	480,101,819	0		900,507	
2nd Term Loan lenders	100,000,000	0		200,421	
PBGC	57,718,501	0		115,680	
Due to WB Canada	138,524,964	0		277,633	
GUCs	5,018,633	0	0.00%	10,058	0.20%
	878,855,886	16,682,798		33,198,782	
Distribution simulation - CDA			%		%
Employee claims	8,258,404	8,258,404		8,258,404	
Government claims	4,175,000	4,175,000		4,175,000	
Post petition Accts Payable	12,695,839	12,695,839		12,695,839	
Interim financing (DIP loan) (net of cash)	85,968,454	80,809,172		73,152,743	
KSH and S3i		4,500,000		4,500,000	
1st Lien secured creditor		78,000,000	16.65%	23,437,792	10.11%
1st lien - unsecured	480,101,819	1,932,403		25,105,449	
KSH and S3i - unsecured (approx)	4,500,000	0	100.00%	0	100.00%
2nd Term Loan lenders	100,000,000	480,576		5,587,571	
PBGC	57,718,501	277,381		3,225,062	
Pension plans	155,269,300	746,186		8,675,783	
GUCs	123,809,879	595,000	0.48%	6,917,965	5.59%
	1,032,497,195	192,469,960	18.64%	175,731,609	17.02%