ERNST & YOUNG

Ernst & Young Inc.
800, boul. René-Lévesque Ouest
Bureau 1900
Montréal, Québec H3B 1X9
Tél/Tel: 514 875 6060
Téléc/Fax: 514 879 2600
ey.com/ca

CANADA
PROVINCE OF QUÉBEC
DISTRICT OF MONTRÉAL
NO: 500-11-038474-108

SUPERIOR COURT
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 – AUGUST 10, 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"

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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.

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 forming part of WB Group while they prepare a restructuring plan.

5. In the context of its restructuring efforts, WB Group undertook a sale and investor solicitation process ("**SISP**"), as described in the Monitor's previous reports[7]. The process has progressed to a stage where WB Group is requesting that the Court approve the proposed stalking horse bidder and 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 to be held within a short delay.

6. The present report is intended to provide the Court with information relevant to the motion for approval of the proposed stalking horse bidder and ASA ("**Motion**"). This report is presented under the following headings:

   6.1. Introduction and background;

   6.2. Terms of reference and disclaimer;

   6.3. Outline of the SISP and results to date;

   6.4. Offer from BD White Birch Investment LLC;

   6.5. Comments of the Monitor on the offer from BD White Birch Investment LLC;

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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*.

[7] More particularly, the 3rd report, dated March 25, 2010, the 4th report, dated April 21, 2010 and the 6th report dated July 7, 2010.

6.6. Stalking horse offer and auction;

6.7. Creditors affected by the proposed sale; and

6.8. Overall comments and recommendations.

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.

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 forming part of WB Group and their operations in the context of the current CCAA proceedings. 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.

OUTLINE OF THE SISP AND RESULTS TO DATE

9. The Monitor's 3rd report, dated March 25, 2010, outlined the milestones established pursuant to the provisions of the Interim Financing agreement, for the restructuring process. The milestones were designed to ensure that the restructuring process progresses rapidly. The

milestones imposed a finite timeline upon the Companies to discuss a settlement with the creditors, whereby the Companies had to obtain a lock-up and plan support agreement with the First Term Loan[8] lenders by June 15, 2010, and file a plan of arrangement under the CCAA and a plan of reorganization under Chapter 11 of the Code by June 30, 2010, failing which the Companies would have to seek to sell the business as a whole.

10. In view of the tight timeline, the milestones contemplated that a sale and investor solicitation process would be undertaken in parallel with the efforts to negotiate and file a plan, and that the focus would move entirely to the sale process ("**Sale Process**") if and when WB Group determined that a settlement with the creditors would not be feasible within the required delays.

11. Discussions were held between the senior management of the Companies and representatives of Black Diamond Commercial Finance LLC ("**Black Diamond**")[9], regarding the possibility of filing a plan of reorganization and the general parameters of such a plan. However, Black Diamond indicated that it had no interest in exploring a restructuring plan at the present time. In view of the voting power implied by Black Diamond's holdings in respect of the Interim Financing and the First Term Loan, the efforts of the WB Group have been focused on the Sale Process.

12. The Sale Process was initiated in mid April 2010, with the preparation of SISP procedures, identification of potential purchasers, and the presentation of a Motion to the Court to approve the SISP. The Monitor reported to the Court on April 21, 2010, in respect of WB Canada's motion, and recommended that the Court authorize WB Canada to implement the SISP Procedures as contemplated in the motion[10]. The SISP and related procedures were approved by this Honourable Court by order made on April 29, 2010 ("**SISP Order**"). A similar motion was filed by Bear Island in the U.S. Court on April 19, 2010 and was granted by order of the U.S. Court entered on April 28, 2010.

13. The Sale Process was managed by Lazard Frères & Co. LLC ("**Lazard**"), a firm that specializes in mergers and acquisitions, restructuring and corporate finance (among other things), that was retained by WB Group to act as one of its advisers.

14. As per the SISP, Lazard suggested an appropriately targeted approach to identify prospective purchasers and invite them to participate in the SISP. As mentioned in the Monitor's report dated April 21, 2010, the Monitor believed, and still believes, that this was reasonable under the circumstances.

15. Lazard contacted 52 prospective purchasers, chosen from strategic prospects (16 contacts) and financial investors (36 contacts). The strategic prospects were comprised of direct competitors and businesses in the same industry, while the financial investors were comprised of investment funds, equity providers, and some members of the First Term Loan

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[8] As defined in the Monitor's 1st report dated February 23, 2010.

[9] We are informed that as of July 2010, Black Diamond was the largest First Term loan lender, with over 30% of all First Term Loan claims. Black Diamond is also the largest lender under the Interim Financing (as defined in the 2nd report of the Monitor dated March 17, 2010 at paragraph 7), with over 50% of all claims in respect of that facility.

[10] Monitor's 4th report dated April 21, 2010.

lender group, who were thought to have an interest in investing in the Companies' industry. This list of contacts was shared for review and comments with advisors to the First Term Loan lenders and advisors to the Official Committee of Unsecured Creditors of Bear Island.

16. The prospects targeted by Lazard were provided with a background document setting out limited information on the Companies and their market (a "teaser" document), and were invited to sign a confidentiality agreement to receive more detailed information.

17. In all, 16 interested parties signed and returned confidentiality agreements to Lazard. The execution of the confidentiality agreement, together with the delivery of various documents ("**Participation Documents**"), entitled the interested party to be designated as a "**Phase 1 Qualified Bidder**". The various documents to be delivered were intended to ensure that the interest in acquiring the assets was genuine, that the prospective purchaser has the financial means to acquire the business, and that any relationships between the Companies and the interested parties were properly disclosed. As permitted by the SISP, an exception to these rules was made with regards to the Interim Financing and First Term Loan lenders, thus deeming them automatically to be Phase 1 Qualified Bidders, the whole as authorized pursuant to the SISP Order.

18. In all, 14 interested parties returned the Participation Documents, and were consequently provided with more detailed information on the Companies and their operations, through a confidential information memorandum (the "**CIM**").

19. The SISP Order required that the Phase 1 Qualified Bidders provide Lazard with a non-binding expression of interest by June 15, 2010. The Companies and Lazard were then required to analyze the expressions of interest to assess whether the expressions of interest could reasonably be expected to result in a sale. Where that was the case, the interested party would be designated as a "**Phase 2 Qualified Bidder**"[11], and would be invited to participate in a due diligence process, with a view to prepare a formal offer.

20. By the June 15, 2010 deadline, Lazard had received 4 responses from the Phase 1 Qualified Bidders, although 2 responses were discarded as they did not meet the criteria set out in the SISP, primarily because they lacked a valuation[12].

21. The discussions continued between the Companies and the two Phase 2 Qualified Bidders, and additional information was provided to satisfy the preliminary due diligence requests of the prospective purchasers through management presentations, tours of the plants and transmission of financial information.

22. The SISP Order required that the Phase 2 Qualified Bidders provide Lazard with a formal binding offer by July 15, 2010. By that date, one of the Phase 2 Qualified Bidders indicated that it would not present a formal offer, and the sole remaining Phase 2 Qualified Bidder submitted an offer.

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[11] Similarly to the process in the first phase of the SISP, an exception to these rules exists with regards to the members of the Interim Financing and First Term Loan lender groups, as these are deemed to be Phase 2 Qualified Bidders.

[12] Lazard also received inquiries from 14 other parties, including First Term Loan lenders, after June 15, 2010. These parties were provided with confidentiality agreements in the interest of inclusiveness.

23. The offer received was formulated by BD White Birch Investments LLC ("**BDWBI**"), by letter dated July 15, 2010. This letter does not provide the details of the offer, but essentially introduces BDWBI as an asset acquisition vehicle formed by Black Diamond Capital Management LLC, Credit Suisse Loan Funding LLC, and Caspian Capital Advisors LLC as well as their respective affiliates. The letter indicates that the sponsors of BDWBI hold, in the aggregate, approximately 65.5% of the debt under the First Term Loan credit facility (including certain unsettled trades).

24. From July 15, 2010 to date, discussions have continued between BDWBI and the Companies, with a view to obtaining clarification of certain elements of the offer, and to resolve certain remaining due diligence issues. The offer made by BDWBI is discussed in greater detail below.

25. According to the milestones and the SISP, the remaining steps include selecting the "stalking horse" purchaser, finalizing an asset sale agreement ("**ASA**") that will serve as the basis of a transaction unless a higher or better offer is obtained in an auction process, proceeding with an auction using the ASA as the yardstick against which prospective purchasers are bidding, and concluding a transaction, the whole subject to the supervision and authorization of the Courts. The timeline to complete a transaction is tight and will be difficult to meet, as certain issues still need to be resolved in the context of the ASA before a transaction can be consummated (discussed below in the context of the offer from BDWBI).

OFFER FROM BD WHITE BIRCH INVESTMENT LLC

26. As indicated hereinabove, only one offer meeting the criteria for a Phase 2 Qualified Bid was received, and this offer was formulated by BDWBI. The offer is presented in a letter dated July 15, 2010 addressed by BDWBI to the Companies, their attorneys and to the Monitor. A copy of this letter is attached to this report as Appendix A.

27. The terms of the offer are detailed in a draft ASA that accompanied the above-mentioned letter of presentation. In the period from July 15 to the date of this report, the Companies and their advisers have continued discussions with BDWBI to improve and clarify the offer, by negotiating the draft ASA. The current version of the ASA is appended to the Motion.

28. Through the Motion, the Companies are requesting that the Court approve the ASA, subject to a higher or better offer at an auction process (discussed in greater detail below). Essentially, the Court is asked to approve the ASA as the yardstick to define the terms of the transaction that would result from the auction process, either with BDWBI as winning bidder or stalking horse purchaser, as the case may be, or with another prospective purchaser if a higher or better offer is obtained at the auction.

    It should be noted however that although the Companies have approved and executed the ASA, there still remains a pending issue, from the Companies' perspective, concerning the management of the business after the Closing. This issue is addressed later on in this report.

29. The more significant elements of the offer, as detailed in the ASA, are outlined as follows:

29.1. The ASA includes substantially all of the assets of WB Group. The only excluded assets would be books, records and rights that are considered to have little or no value. The ASA also does not purport to affect the rights relating to transfers at undervalue, preferential payments and other such void or voidable transactions, and rights of the Companies against their directors, officers or shareholders, which have an undetermined value.

29.2. The purchase price is defined as being US$90 million plus an amount of cash to be set aside and held in trust by the Monitor to pay certain disbursements anticipated to be necessary to wind down the Companies' estates ("**Wind-Down Amount**") after the closing of the transaction contemplated by the ASA ("**Closing**"), plus the assumption of certain selected liabilities of the Companies (the "**Assumed Liabilities**"). Although the ASA indicates that the cash on hand forms part of the purchased assets, the ASA provides that immediately prior to Closing, the cash on hand must be applied firstly to pay the Wind-Down Amount, and the remainder must be applied to repay the Interim Financing loan. As such, the cash on hand is not purchased per se, but rather used to fund the Wind-Down Amount and repay the Interim Financing loan or a portion thereof.

29.3. In the context of the ASA, BDWBI would assume certain specific liabilities, comprised of the accounts payable that relate to ordinary course transactions in the period subsequent to the Initial Order, obligations under capital leases, obligations relating to Assigned Contracts[13], a Reserve Payment Amount[13] and certain obligations relating to employment agreements.

The ASA provides that BDWBI will not assume any obligations except those that are specifically listed therein and specifically provides for certain "excluded liabilities". Notably, amongst the excluded liabilities are obligations relating to an environmental condition, liability for taxes, and obligations relating to pension or retirement liability of the Companies to their current and former employees.

Based on its estimate of the Assumed Liabilities and Wind-Down Amount, BDWBI believes that, as of the present time, the purchase price is approximately US$178 million in total, although the Monitor estimates the purchase price would be approximately US$150 million based on the information presently available (i.e. the internally prepared financial statements at May 31, 2010). Such purchase price may change by Closing and indeed may decrease, for example if the purchaser elects to eliminate some agreements from the list of Assigned Contracts.

29.4. With respect to the non-unionized workforce, the ASA provides that BDWBI will retain all of the current employees, on terms substantially similar to those in effect immediately before the Closing, in terms of annual base salary or hourly wages. In addition, BDWBI will assume and honour the accrued and unused vacation days of

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[13] As defined in the ASA.

the non-unionized employees, and will establish employee benefit plans with benefits substantially comparable, in the aggregate, to those provided prior to Closing.

The ASA provides that BDWBI may retain existing benefit plans or may provide plans with benefits that are substantially comparable, in the aggregate, to those provided prior to Closing. As a consequence, the Monitor believes it is possible, in the context of the ASA, that the benefits that were available to employees, former employees and retirees may be curtailed, if the existing plans are replaced.

29.5. With respect to the unionized workforce, the ASA provides that the existing benefit plans will have to be terminated, and that new collective bargaining agreements or an amendment to the existing collective bargaining agreements acceptable to BDWBI will have to be adopted by a sufficient number of employees. Provided that the collective bargaining agreements (or amendments thereof) are acceptable to BDWBI and are adopted by the unionized workforce and its bargaining agents, all employees would be retained by BDWBI, on the terms stated in the collective bargaining agreements.

The execution of new collective bargaining agreements (or acceptable amendments to existing collective bargaining agreements) becomes a key condition of the Closing.

The Monitor believes it is possible, in the context of the ASA, that the benefits that were available to employees, former employees and retirees may be curtailed, if the existing plans are replaced.

29.6. The ASA provides that in the event that an alternative transaction[14] occurs, a break-up fee shall become payable to BDWBI as the stalking horse purchaser, in an amount of US$5 million. Based on the terms of the ASA, the break-up fee would be secured by a charge ranking in priority to all charges other than the Interim Financing Charge, Administration Charge and D&O Charge[15].

As well, in the event that an alternate transaction occurs or that the transaction is not consummated for any reason (other than for some specific exceptions), the ASA provides that BDWBI is entitled to reimbursement of its reasonable expenses incurred in connection with the ASA, to a maximum of US$2.5 million. The expense reimbursement would also be secured by a charge ranking in priority to all charges other than the Interim Financing Charge, Administration Charge and D&O Charge.

29.7. The ASA also contains a number of representations and warranties to be provided by the Companies, and a number of conditions to Closing, the most significant of which, in the Monitor's views, is the condition relating to the adoption of new collective bargaining agreements (or acceptable amendments to the existing collective bargaining agreements) before the Closing. Under the ASA, Closing must take place before November 19, 2010.

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[14] As defined in the ASA, but essentially consisting of a sale to a purchaser other than BDWBI, or a plan of arrangement or reorganization that is not sponsored by BDWBI.

[15] As defined in the Initial Order.

COMMENTS OF THE MONITOR ON THE OFFER FROM BD WHITE BIRCH INVESTMENT LLC

Purchase Price

30. If the transaction is completed on the terms of the ASA without an increase in the purchase price at the auction, the funds available for distribution to the creditors are estimated to be less than US$124 million, represented by the following:

    30.1. US$90 million; plus

    30.2. Cash on hand estimated at approximately US$34 million[16]; less

    30.3. The Wind-Down Amount[17].

31. In view of the fact that the debt in connection with the Interim Financing credit agreement is then expected to amount to approximately US$122 million, we can expect that the ASA, unless the purchase price is enhanced at the auction, would yield an insignificant recovery, if any at all, for the creditors other than the Interim Financing lender. As such, the advantages that can be expected from the transaction as it is presently contemplated are that (i) the Assumed Liabilities will be assumed by BDWBI; (ii) the suppliers will have a continuing customer; and (iii) the employment of the workforce will continue, without a loss of arrears of salaries and vacation pay.

32. The Monitor prepared a draft liquidation analysis (Appendix B), to present the expected results of a theoretical liquidation carried out on or around May 31, 2010. The date of May 31, 2010 was chosen because it is the date of the most recent internal financial statements of the Companies, available at the time the analysis was prepared[18].

33. The analysis prepared by the Monitor suggests that the liquidation value of the assets, in a context of an outright forced liquidation carried out at or near May 31, 2010, would have yielded approximately US$161 million[19]. This amount would have yielded an estimated dividend of 1.7% on average for the unsecured creditors.

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[16] The amount indicated herein reflects the estimated position as at October 15, 2010. The ASA provides that the Closing must take place on or before November 19, 2010, however the Companies' cash flow projections filed with the Court in connection with the motion for an extension of the Initial Order, with the Monitor's report dated July 7, 2010, do not extend beyond October 15, 2010. The estimated position as at October 15, 2010 was used, in view of the fact that Management believes that the Companies' financial position is expected to have stabilized by the middle to the end of October 2010, so that the cash burn thereafter, if any remains, should be minimal.

[17] The Wind-Down Amount is an estimate of the costs anticipated to be necessary to wind down the Companies' estates, and that amount will vary depending on a number of factors, such as the complexity of issues to be resolved after Closing, and the property left to distribute to the creditors, if any. To the extent that the actual wind-down costs are less than the Wind-Down Amount, the difference would be returned to the purchaser.

[18] The Monitor has since received the internal financial statements for June 2010, although has not yet received all the information necessary to update the liquidation analysis. Based on the information received, the Monitor believes the information disclosed in the liquidation analysis is still relevant.

[19] As mentioned in the liquidation analysis, this amount does not take into consideration the liquidation value of the assets encumbered by the security of the First Term Loan lenders, as such value would accrue entirely to the secured creditors

We caution the reader that this estimate is based on a number of assumptions that may not materialize, and that the actual results of a realization process may be different. By way of example only, and without limiting the generality of the foregoing, the liquidation analysis was prepared based on an effective date of May 31, 2010, at a time when the cash on hand amounted to US$77.5 million. We are aware that the cash on hand has decreased from that level to an amount of approximately US$59.6 million as at July 23, 2010, and is projected to further decrease to a level of approximately US$34 million by October 15, 2010. Based on the cash flow projections included in the Monitor's report dated July 7, 2010, the Companies appear to be incurring a cash loss of approximately US$8.1 million per month, which would reduce the net realizable value of the assets by a similar amount[20].

This adjustment alone would decrease the liquidation value of the assets to an amount of approximately US$145 million by July 31, 2010 and approximately US$124 million by October 15, 2010.

34. Based on the calculations made in estimating the value of the assets in the event of an outright liquidation, we consider that the purchase price as contemplated in the ASA represents, in substance, the liquidation value of the current assets, without any value allocated to the property, plant and equipment.

35. This would suggest that BDWBI attributes an very low value, if any, to the capital assets of the business, considering the estimated quantum of the purchase price and the fact that the cash on hand, accounts and inventories have an aggregate carrying value of US$200 million or more, throughout the period covered by their projections[21].

Assignments of agreements

36. The assets purchased in the context of the ASA include Assigned Contracts. The term Assigned Contracts is defined in the ASA, and essentially refers to all contracts and leases that relate to the business of the Companies and that are listed in a separate disclosure letter, except for contracts that are not capable of being assigned. Based on this definition, the concept of Assigned Contracts tends to be inclusive rather than exclusive. The ASA also provides however that no later than 5 days before the Closing, the purchaser may by notice in writing exclude contracts and thus effectively remove them from the list of Assigned Contracts and prevent their assignment, at which point such contracts become excluded assets.

37. The CCAA provides that the Court may make an order assigning the rights and obligations of the Companies to a specific person that agrees to the assignment, in respect of any

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and would have little effect on the amount available to ordinary unsecured creditors, other than reducing the pool of creditors that would share in a distribution. An assumption that the value of the capital assets is insignificant is, in any event, consistent with the offer submitted by BDWBI, which appears to approximate the liquidation value of the current assets only.

[20] See the comments at footnote 16.

[21] Based on the cash flow projections filed with the Court in connection with the motion for an extension of the Initial Order, with the Monitor's report dated July 7, 2010.

agreement, save for specific exceptions, and outlines the requirements and factors to be considered in deciding whether to grant an authorization to assign a contract[22].

38. If the ASA is approved, the milestones provide that the ASA will be subjected to an auction process, and that thereafter the Court will be asked to approve a transaction with the winning bidder or with BDWBI as the stalking horse purchaser, likely on terms substantially consistent with the ASA. At that time, namely at the Sale Hearing[23], the Court may be requested to approve the assignment of the Assigned Contracts.

39. In preparation for this eventuality, the Monitor offers the following comments:

39.1. We note that to date, notice has not yet been given to the co-contracting parties, as is required under the CCAA.

39.2. We are unsure when the authorization of the assignment would be sought from the Court. As indicated above, the ASA contemplates an approval of the transaction at the Sale Hearing, such that presumably the Court would be requested to approve the assignments at that time. However, the ASA provides that the Closing will take place subsequently, and that the purchaser may remove contracts from the list of Assigned Contracts up to 5 days before the Closing, i.e. after the Court has authorized the assignment.

39.3. From our review and discussions with representatives of the Companies, we believe that the Assigned Contracts are not in the nature of agreements described in section 11.3(2)(a), 11.3(2)(b) or 11.3(2)(c) of the CCAA, i.e. the Assigned Contracts do not relate to an agreement entered into after the date of the Initial Order, do not constitute an eligible financial contract and do not include a collective agreement.

39.4. In view of the nature of the transactions contemplated by the ASA, the assignment of the Assigned Contracts would benefit the Companies by reducing slightly the quantum of their liabilities. As well, in view of the terms of the ASA, the Assigned Contracts do not affect the cash component of the purchase price, notwithstanding the fact that the purchaser is assuming the Cure Costs[24], and as such the assignment of the Assigned Contracts is not expected to cause an erosion of value that would otherwise be available for distribution to the creditors. As a result, the assignment of the Assigned Contracts is in the best interest of the Companies.

39.5. The ASA provides that the purchaser will assume the Cure Costs and will perform the obligations of the Companies under the agreements. In view of the transactions contemplated by the ASA, the co-contracting parties do not appear to be in a worse position than if the Assigned Contracts were not assigned, and in fact appear to be in a better position, if they can recover the Cure Costs.

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22 Section 11.3 CCAA.

23 As defined in the ASA.

24 As defined in the ASA.

We note however that the ASA provides that the Companies may be required to pay a portion of the Cure Costs, if such costs exceed a specified amount. From the Monitor's perspective, the Cure Costs that relate to an Assigned Contract should be assumed unconditionally by the purchaser, without an obligation for the Companies to pay a portion thereof, as a condition of authorization of the assignment.

39.6. Subject to the foregoing comments, the Monitor approves the proposed assignments.

Steps to Closing

40. The date of the Closing is relevant, in view of the fact that the projections provide for an on-going cash loss over time, and that under the terms of the ASA this cash loss erodes the value, if any, that is available to the creditors.

41. From the Monitor's perspective, there is some degree of execution risk with regard to the transaction contemplated in the ASA, as some items are still pending, the most significant of which are the adoption of new collective bargaining agreements (or acceptable amendments to the existing ones), and seeking and obtaining approval of the transaction by regulatory authorities, to ensure compliance with Antitrust Laws[25].

42. The ASA provides that the Closing must take place on or before November 19, 2010. This timeline is a serious challenge in view of the matters that need to be resolved before Closing can take place. In the event that Closing does not take place within the required delay, the ASA provides that BDWBI may terminate the ASA and claim an entitlement to an expense reimbursement. In such a circumstance, the Companies' financial position may have further eroded in the interim period.

Allocation of purchase price

43. The ASA does not provide an allocation of value between the assets located in the US and Canada, or between the current assets (and in particular accounts receivable and inventories) and the capital assets. While these allocations are somewhat academic inasmuch as the value allocated to the assets does not exceed the amount due under the Interim Financing credit agreement, these allocations could become relevant if the purchase price is enhanced at the auction.

44. The ASA currently states that an allocation of the purchase price amongst the various entities comprising WB Group and between the various categories of assets will be provided by BDWBI prior to the auction (but after the hearing on the Motion to approve the stalking horse), so that it is available before the Sale Hearing. Although this appears academic for the time being, the Monitor considers that the proposed timing is too late, and that a basis of allocation should be predetermined, in order to remove the possibility of a strategic allocation of value to benefit the First Term Loan lenders at the expense of the ordinary unsecured creditors, in view of the fact that the sponsors of BDWBI purport to hold 65.5% of the First Term Loan debt.

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[25] As defined in the ASA.

45. The Monitor suggests 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 and capital assets, the Monitor suggests that all the value be allocated to accounts receivable and inventories, 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. This is based on the fact that the offer from BDWBI apparently does not attribute any significant value to the capital assets, and that if a transaction is executed with a view to preserving a going-concern, the proper basis of valuation of the accounts receivable and inventories should not be liquidation values but rather their carrying value, as they should be able to realize their carrying value in a going concern context.

Break-up fee and reimbursement of expenses

46. As indicated above, the ASA provides for a break-up fee of US$5 million, and reimbursement of expenses to a maximum amount of US$2.5 million.

47. In the context of a "stalking horse bidding process", the break-up fee can take several different forms, including for instance a combination of a break-up fee and a reimbursement of expenses, as is contemplated in the ASA.

48. However calculated, the break-up fee is intended to compensate the stalking horse for the risk associated with the stalking horse bidding process. The break-up fee may represent a reimbursement for the expenses incurred by the stalking horse in performing the due diligence process, and may include a compensation for the time and efforts expended in taking on the role of the stalking horse. The reimbursement of expenses is easily justifiable in a context where the stalking horse may not be the ultimate purchaser and the due diligence work performed is useful in implementing a transaction quickly. However, the compensation for time and efforts expended is likely to be scrutinized and questioned, as this compensation, if significant, would act as a disincentive for other potential acquirers[26].

49. In the context of the present ASA, we offer the following comments on the break-up fee and expense reimbursement:

49.1. The Monitor is concerned that a break-up fee of US$5 million together with an expense reimbursement of up to US$2.5 million may have a "chilling effect" to the formulation of offers by other prospective purchasers at the auction.

The break-up fee and expense reimbursement, as provided in the ASA, would represent approximately 4.2% of the total purchase price as estimated by BDWBI, as of the present time, although the total purchase price cannot be ascertained in view of the fact that the Assumed Liabilities and Cure Costs will only be known at Closing.

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[26] See "Concepts imported from the U.S. – Something borrowed or something new?" in J Sarra, ed., 2007 Annual Review of Insolvency Law (Toronto: Carswell, 2008).

The Monitor is aware that in at least one Canadian case, the Court has authorized a fee of slightly less than 5%[27], although the break-up fee and expense has to date tended to be 3% or less[28]. However, the Monitor has been informed by Lazard that in their experience, the break-up fee and expense reimbursements is on average approximately 2.9% in the aggregate, for transactions of similar size[29]. This would suggest that the break-up fee and expense reimbursement may be overstated by approximately US$3 million, assuming that the purchase price is approximately US$150 million.

49.2. Furthermore, and in any event, the Monitor believes that the expense reimbursement should only be payable in the context of an alternative transaction, or if the transaction is terminated by the Companies.

Management

50. As indicated earlier in this report, there still remains a pending issue, from the Companies' perspective, concerning the management of the business after the Closing.

51. The issue stems from the fact that the very first draft of the ASA submitted by BDWBI indicated specifically, in reference to Assigned Contracts, that the current agreement pursuant to which Brant Industries Inc. ("**BII**") is responsible to manage the operations of the Companies (the "**Management Services Agreement**") would not be included in the list of Assigned Contracts, although the draft ASA submitted by BDWBI did not reveal its plans for the continued management of the Companies.

52. We understand that in the discussions between management and representatives of BDWBI, the issue was addressed, and BDWBI indicated that it may extend offers of employment to members of the management team, although this aspect was never specifically addressed in the subsequent drafts of the ASA.

53. The Board of directors of the Companies feels strongly that a plan for the continued management of the Companies has to be disclosed by the purchaser, in order to ensure that the Companies will not be left rudderless after Closing, and that there will be competent management in place to fulfill the functions contemplated in the Management Services Agreement.

The functions contemplated in the Management Services Agreement include primarily providing administrative and managerial support, management of the sales and marketing

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[27] See re : Pope and Talbot, Monitor's Third report dated November 28, 2007, in which the Monitor recommends a transaction that has an estimated purchase price of $81 million, for which the break-up fee and expenses totalled $3.9 million, or 4.8%.

[28] Source – Re Brainhunter Inc., 2009 CarswellOnt 8207 at par 20, Re Mecachrome Canada Inc., 2009 CarswellQue 9963 at par. 62. Re: Abitibibowater Inc., Montreal C.S. no. 500-11-036133-094, Forty Fourth Report of the Monitor dated June 6, 2010, at Appendix N.

[29] Source – database of selected transactions in the U.S. from 2008 onwards, for transactions having a valuation from US$50 million to US$250 million, as provided by Lazard. The database suggests the weighted average break-up fee and expense reimbursement is 2.9% of the stalking horse bid amount, with a median of 3.0%.

activities, providing accounting services, supervising the operations, and providing human resources management.

54. Although the ASA does not address this issue, management indicated that it has received assurances from BDWBI that discussions will continue with a view to ensure that the issue will be resolved.

Assessment of the merit of the offer

55. The CCAA provides that a debtor company may not sell or otherwise dispose of assets outside the ordinary course of business unless authorized to do so by the Court[30]. If the ASA is approved, the result may be an eventual sale of the business assets, and this sale would necessarily be outside of the ordinary course. In deciding whether to grant an authorization to sell the assets, the Court should consider, among other things, whether or not the sale or disposition would be more beneficial to the creditors than a sale or a disposition under a bankruptcy.

56. In the present context, the advantage of the proposed transaction with BDWBI as compared with a bankruptcy is, at first sight, not obvious.

57. The Monitor considers that it is possible that the purchase price as provided in the ASA does not represent the fair market value for the assets. Fair market value is usually defined as the value that can be obtained by a knowledgeable willing seller from a knowledgeable willing buyer, neither of whom are compelled to buy or sell, when acting independently of each other in an open market without restriction. In the context of the present contemplated transaction, at least one of these elements is lacking, in that the Companies are compelled to sell and are subject to strict timelines to negotiate the ASA, by virtue of the undertakings made in the context of the Interim Financing credit agreement.

58. The Monitor would have expected that without attaining fair market value, an amount higher than liquidation value would have been generated from the Sale Process, in view of the fact that the SISP was designed to be a fair, transparent process, with appropriate marketing by a firm that specializes in mergers and acquisitions, restructuring and corporate finance. However, as mentioned in the Monitor's report dated April 21, 2010, appropriateness of the process is not a guarantee of the outcome, and it is apparent that the current conditions in this industry are not conducive to a high degree of interest in the Companies' assets.

59. Notwithstanding the fact that the proposed transaction as contemplated in the ASA does not reflect a value that is higher than liquidation value as estimated by the Monitor (Appendix B), the Monitor still believes that the proposed transaction represents fair value in the circumstances, obtained after a thorough and transparent marketing process, and would be more beneficial to the creditors than a sale or disposition in a bankruptcy context, for the following reasons:

    59.1. The estimated liquidation value is based on a number of assumptions, which may affect the ultimate result. Although the estimated realizable value analysis indicates

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30 Section 36 CCAA.

some limited value may be recoverable by the ordinary unsecured creditors in a bankruptcy context, this value is insignificant and uncertain, and does not justify jeopardizing the possibility of preserving the enterprise as a going concern;

59.2. The offer as contemplated in the ASA provides an opportunity for creditors whose claims are Assigned Liabilities to obtain payment of their debt. These would include creditors who have provided goods and services in the normal course in the period subsequent to the Initial Order, and Cure Costs relating to Assigned Contracts;

59.3. The offer as contemplated in the ASA provides for a continuity of employment for the approximately 1,250 employees of the Companies (approximately 1,050 in Canada and 200 in the US), and the possibility to preserve their entitlement to wage arrears and vacation pay;

59.4. The offer provides an opportunity for suppliers to have a continuing customer;

59.5. There still exists a possibility that the purchase price could be enhanced as a result of the auction.

60. However, the Monitor considers that the ASA should be adjusted as follows:

60.1. To remove some of the execution risk arising from the very numerous representations and warranties required from the Companies. Considering that BDWBI is working closely with the Companies to complete certain due diligence analysis, the only conditions to Closing should be the approval of the Courts, the adoption of new collective bargaining agreements (or acceptable amendments to the existing agreements), and approval from the regulatory authorities.

60.2. To provide for a formula to allocate the value between the various enterprises comprising the Companies, and between the current assets and the capital assets.

60.3. To provide that the purchase price must be paid entirely in cash and must be held by the Monitor until such time as the Court is satisfied that the requirements of section 36(7) of the CCAA have been met, and that the obligations that would rank in priority to the Interim Financing Charge have been satisfied.

60.4. To limit the break-up fee and expense reimbursement, as suggested in paragraph 49 above.

In any circumstance, an approval of the ASA, if the Court considers it is appropriate to approve it, should be under reserve and subject to approval of the allocation between the estates and between the categories of assets by the Monitor and the Court.

STALKING HORSE OFFER AND AUCTION

61. The SISP contemplates that once an agreement is reached with the stalking horse purchaser on the terms of the ASA, the proposed ASA will be subjected to an auction process, to assess whether a higher or better offer could be generated.

62. The milestones established in the context of the Interim Financing agreement provide that this auction must be held no later than August 23, 2010, so that the Courts may give an approval of a sale transaction by August 26, 2010.

63. In view of the time required to finalize the ASA, it will be impossible to meet these milestones. The Companies have indicated that they are confident that the Interim Financing lenders will not oppose a deferral of the milestones. Under the updated milestones, the Companies must obtain the approval of the ASA and of the designation of BDWBI as the stalking horse purchaser by August 26, 2010, the auction must be held on September 1, 2010, and the Companies must obtain an order approving the sale by September 8, 2010.

64. The Companies prepared draft bidding procedures, appended to the Companies' Motion ("**Bidding Procedures**"), that outline who will be invited to bid at the auction, where and when it will be held, and the bidding process. The Bidding Procedures provide essentially for the following[31]:

    64.1. The only prospective purchasers that will be invited to participate in the auction (the "**Qualified Bidders**") will be parties that have been, or that may still be designated as Phase 1 Qualified Bidders in the context of the SISP (i.e. parties that have completed and returned a confidentiality agreement and Participation Documents); members of the Interim Financing and First Term Loan lender groups that express an interest in participating in the auction; and BDWBI as the stalking horse purchaser.

    64.2. In order to participate in the auction, the prospective purchasers must submit a Qualified Bid so that it is received by August 30, 2010. A Qualified Bid is defined in the Bidding Procedures, but essentially represents an undertaking to purchase the assets on terms that are at least $1 million more than the purchase price under the ASA (plus the break-out fee and the expense reimbursement as set out in the ASA), accompanied by a deposit and sufficient disclosure to identify the bidder and assess its financial ability to complete a sale transaction.

    64.3. If no Qualified Bid is received, the Bidding Procedures provide that the Companies will report that fact to the Courts, and ask the Courts to approve the transaction with the stalking horse purchaser, based on the ASA.

    64.4. If one or more Qualified Bids are received, the auction would be held at the offices of Kirkland & Ellis (the Companies' US counsel) in New York NY, beginning at 10:00 a.m. on September 1, 2010.

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[31] It should be noted that the description herein merely reflects the Monitor's interpretation of the more significant aspects of the Bidding Procedures and should not be construed as modifying or limiting same.

64.5. During the auction, the Qualified Bidders will be entitled to increase their Qualified Bids, in an open room context, by increments of US$500,000.

64.6. At the end of the auction, the Companies, will be required to designate 2 offers: the winning bid (to be submitted to the Courts for approval) and the second highest and best Qualified Bid (to be used as a back-up transaction in the event the winning bidder does not complete the sale).

65. The Monitor has reviewed the proposed Bidding Procedures and discussed same with representatives of the WB Group and of Lazard. Based on this review and discussions, the Monitor believes the bidding process as documented in the Bidding Procedures is well structured, and appears reasonable in the circumstances.

66. As mentioned earlier herein, the ASA provides that in the event that an alternative transaction, a break-up fee is payable to BDWBI as the stalking horse purchaser, in an amount of US$5 million. As well, in the event that an alternative transaction occurs or that the transaction is not consummated for any reason (other than for some specific exceptions), the ASA provides that BDWBI is entitled to reimbursement of its expenses incurred in connection with the ASA, to a maximum amount of $2.5 million. The Monitor's comments regarding the break-up fee and expense reimbursement are outlined in paragraphs 46 to 49 above.

CREDITORS AFFECTED BY THE PROPOSED SALE

67. If the Court authorizes the selection of BDWBI as the stalking horse purchaser and the bidding process, as the case may be, the process is likely to result in the sale of the assets of WB Group (with the exception of some excluded property which is considered to have little or no value), to either BDWBI or to an alternative purchaser, on terms consistent with the ASA. The ASA provides (among other things) that the sale be free and clear of all liens and claims (other than Permitted Encumbrances as defined in the ASA).

68. Based on the information available to date, the creditors who appear to have security or rights in respect of the assets proposed to be sold as part of the stalking horse bidding process are the following:

68.1. Based on correspondence received and recent discussions with representatives of Revenue Quebec ("**MRQ**"), the Crown in right of the Province of Québec is purporting to have a claim for unremitted payroll source deductions. The claim appears to arise from the fact that MRQ is not allowing a set-off that had been granted to WB Canada in respect of the period preceding the Initial Order, and applied by WB Canada between the refundable sales tax credits due to WB Canada and the payroll source deductions due by WB Canada. The MRQ is not allowing the set-off purportedly because the MRQ has not yet verified the refundable tax credits. Meanwhile, we are informed that the MRQ has assessed or intends to assess WB Canada for amounts due to the suppliers on account of the Québec sales tax ("**QST**"), and intends to deny the set-off of refundable tax credits with payroll source deductions on the basis that the sales taxes assessed in connection with the amounts due to the suppliers have not been paid. We understand that a similar position may be taken by the Crown in right of Canada, in view of the fact that the MRQ is responsible for the administration of the *Excise tax Act*[32] in the Province of Québec, for the goods and services tax ("**GST**"). Based on the information presently available, the Crown could purport to have claims totalling approximately $2.5 million for payroll source deductions[33], if the set-off is denied and reversed, segregated as follows:

	Provincial	Federal	Total
Stadacona	1,214,000	816,800	2,030,800
Papier Masson Ltée	239,500	189,000	428,500
	1,453,500	1,005,800	2,459,300

As at the date of this report, the Monitor had received claims from MRQ totalling $1,000,328 alleging a right as described in section 37(2) of the CCAA. Furthermore, the Monitor has been informed that the MRQ has issued notices of assessment in respect of the period subsequent to the Initial Order, which purport that payroll source deductions have not been remitted, because the MRQ has not applied the claimed input tax credits or refundable tax credits to the payroll source deductions amount. In all, based on the notices of assessment received, the MRQ alleges a debt totalling $4.2 million in dues, interest and penalties relating to payroll source deductions, for both the period before and after the Initial Order, which the Monitor believes is substantially overstated.

68.2. Employees could have a right to receive salaries, vacation pay or other like remuneration, and any eventual plan of compromise or arrangement must provide that these salaries, vacation pay or other like remuneration must be paid immediately after Court sanction, to the extent of an amount equal to the claim that the employee would be entitled to receive under section 136 of the *Bankruptcy and Insolvency Act* ("**BIA**")[34] if the employer had become bankrupt on the date of the Initial Order, and all amounts due for services rendered after the commencement of proceedings under the CCAA. The CCAA also provides that the rights of these employees should be protected in the event of a sale of assets in the context of proceedings under the CCAA. The amounts due to employees have been kept current, however there always exists an amount due for accrued vacation that has not yet been taken. The Companies reported that the amounts due to the employees for accrued wages, vacation pay or other like remuneration amounted to US$8.3 million at May 31, 2010. We have no reason to believe that this amount changed significantly since that date.

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[32] *Excise tax Act,* R.S.C., c. E-15, as amended.

[33] This amount is before taking into consideration interest and penalties, if the Crown can assert that the payments for source withholdings ought to have been made and were not. No potential claim is presented in respect of F.F. Soucy Limited Partnership, and F.F. Soucy, Inc. & Partners, Limited Partnership, as these entities did not set-off the payroll source deductions with refundable GST or QST credits.

[34] *Bankruptcy and Insolvency Act*, R.S.C. 1985, c. B-3, as amended.

68.3. Pension plans could have a right to receive amounts due on account of contributions withheld from the employees' salaries, contributions of the employer in connection with a defined contribution plan, or normal cost payments as defined in the *Pension Benefits Standards Regulations 1985*[35] in connection with a defined benefit plan, and any eventual plan of compromise or arrangement must provide that these amounts must be paid and the Court must be satisfied that the employer can and will make these payments (save for the exception referred to in section 6(7) CCAA). The CCAA also provides that the rights of the pension plans should be protected in the event of a sale of assets in the context of the proceedings under the CCAA. The amounts due with respect to pension plans have been kept current, except for special payments, as authorized by the Initial Order, and the amounts that are accruing but not yet due. The Companies reported that the normal costs and withheld amounts totalled $221,151 at May 31, 2010. We have no reason to believe that this amount changed significantly since that date.

68.4. The municipalities, for municipal taxes on the property. The proofs of claim filed by various municipalities suggest that their secured claims are as follows:

68.4.1. Québec City - $81,196.

68.4.2. Rivière du Loup - $88,099.

The records of the Companies indicate that an amount of $97,218 may be due to the City of Gatineau in connection with municipal taxes, although the City of Gatineau has not filed a proof of claim in connection with the Claims Process.

68.5. Various school commissions in the municipalities where the plants are located, for school taxes. We are informed that all taxes have been paid to date, including for the current year.

68.6. KSH Solutions Inc. ("**KSH**"), a creditor that provided engineering services to Stadacona Limited Partnership ("**SLP**") in connection with a plant modernization process, and that is allegedly owed $2.8 million in connection with such services, for which KSH has published a legal hypothec of a person having taken part in the construction or renovation of an immovable and has published a prior notice of the exercise of a hypothecary right. The legal hypothec and the amount due have been contested by SLP, which has filed a counterclaim for $5.8 million. The claim from KSH and the counterclaim from SLP are the object of legal proceedings before the Québec Superior Court in the district of Québec.

68.7. Service d'Impartition Industriel Inc. ("**S3I**") a creditor that provided services to F.F. Soucy Limited Partnership and that is allegedly owed $1.8 million in connection with such services, for which S3I has published a legal hypothec of a person having taken part in the construction or renovation of an immovable and has published a prior notice of the exercise of a hypothecary right.

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[35] Regulations to the *Pension Benefits Standards Plan* R.S.C. 1985, c. 32 (2nd supp.), as amended.

68.8. Credit Suisse AG, as administrative agent and Canadian collateral agent for the Interim Lender, in connection with a charge authorized by this Court. The amount due to the Interim Lender ("**Black Diamond Group**") is approximately US$118 million as of the date of this report.

68.9. Credit Suisse AG, as administrative agent and Canadian collateral agent for the First Term Loan lenders and for various swap counterparties. We understand that the aggregate amount due under the First Term Loan facility and under the swap agreements is approximately US$480 million.

68.10. The administrative agent and Canadian collateral agent for the Second Term Loan[36] lenders. We understand that the aggregate amount due under the Second Term Loan facility is approximately US$100 million.

68.11. Hydro Quebec filed claims as a secured creditor for amounts totalling $18 million, based on purported legal hypothecs that encumber both the movable and immovable property of WB Canada. It should be noted that these legal hypothecs were registered in September 2009, and that the charges which triggered the registration of a legal hypothec have all been subsequently paid.

68.12. A few other creditors have filed claims as secured creditors, based on a retention of title, rights of an unpaid vendor or lease agreement, however these are not significant in the aggregate.

OVERALL COMMENTS AND RECOMMENDATIONS

69. The offer received from BDWBI and the transaction contemplated in the ASA does not appear to generate significant additional value for the creditors in excess of the liquidation value of the assets, as estimated by the Monitor. However, the Monitor still believes that a transaction on terms substantially consistent with the ASA would be more beneficial to the creditors than a sale or disposition in a bankruptcy context, for the reasons outlined in paragraph 59 above.

70. The issue of the on-going management and administration after Closing has to be resolved to the Court's satisfaction. This issue is described in paragraphs 50 to 54 above.

71. The Monitor believes the transaction as contemplated in the ASA should be adjusted to remove some of the execution risk arising from the very numerous representations and warranties required from the Companies; to provide a formula to allocate the purchase price between the various components of the business and types of assets; to provide that the purchase price should be entirely payable in cash and should be held by the Monitor until certain conditions have been met; to simplify the conditions under which an expense reimbursement would be payable to the prospective purchaser; and to define the basis on which a break-up fee is calculated. The proposed adjustments to the ASA are described in paragraph 60 above.

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[36] As defined in the Monitor's report dated February 23, 2010.

72. Based on the foregoing comments, the Monitor recommends that the Court approve the designation of BDWBI as the stalking horse and approve the adjusted ASA. To the extent that it is impossible to determine a basis of allocation between the estates and between the categories of assets at this stage, any approval of the ASA should be strictly under reserve and subject to approval of the allocation by the Monitor and the Court.

73. The Monitor believes that the Bidding Procedures are reasonable in the circumstances, and recommends that the Court authorize WB Group to implement the Bidding Procedures and proceed with the auction.

All of which is respectfully submitted this 10^{th} day of August 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 – Offer from BD White Birch Investment LLC

BD WHITE BIRCH INVESTMENT LLC

July 15, 2010

VIA FEDEX 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
601 Lexington Avenue
New York, NY 10022
christopher.marcus@kirkland.com

Stikeman Elliott LLP
Attn: Kevin Kyte & Jean Fontaine
1155 René-Lévesque Blvd. W., Suite 4000
Montreal, Quebec, Canada, H3B 3V2
kkyte@stikeman.com
jfontaine@stikeman.com

Lazard Frères & Co.
Attn: Stephen Goldstein
30 Rockefeller Plaza
New York, NY 10020
Stephen.goldstein@lazard.com

Ernst & Young Inc.
Attn: Martin Rosenthal
800 René-Lévesque Blvd. West, Suite 1900
Montreal, Quebec, Canada H38 1X9
martin.rosenthal@ca.ey.com

Re: White Birch Paper Company

Ladies and Gentlemen:

Reference is hereby made to (i) that certain Order Approving the Sale and Investor Solicitation Process (the "CCAA SISP 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 Companies' Creditors Arrangement Act (Canada), as amended (the "CCAA") for White Birch Paper Holding Company and its affiliates (the "WB Group") and (ii) that certain Order Approving the Debtor's Sale and Investor Solicitation Process and Procedures Related Thereto (the "US SISP Order" and together with the CCAA SISP Order, the "SISP Orders"), 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"). All capitalized terms used and not otherwise defined herein shall have the meaning set forth in the applicable SISP Order or the procedures annexed thereto.

The purpose of this letter is to submit, pursuant to the deadlines established by the SISP Orders, the Phase 2 Qualified Bid (the "Buyer Group Bid") of Black Diamond Capital Management, LLC and its Affiliates[1] ("Black Diamond"), Credit Suisse Loan Funding LLC and its Affiliates ("Credit Suisse") and Caspian Capital Advisors, LLC and its Affiliates ("Caspian," and together with Black Diamond and Credit Suisse, the "Buyer Group"). Collectively, the Buyer Group holds, in the aggregate, approximately 65.5% of the debt under the First Lien Term Loan Facility (including certain unsettled trades).[2] The Buyer Group will implement the Buyer Group Bid through its acquisition vehicle, BD White Birch Investment LLC or other entity formed to acquire the Assets (the "Buyer"). As set forth in the Asset Sale Agreement (defined below), the Purchase Price 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 White Birch First Lien Term Loan Facility or the White Birch DIP Facility.

The Buyer hereby offers to purchase substantially all of the Assets upon the terms and conditions substantially as set forth in the form of the asset sale agreement attached hereto (the "Asset Sale Agreement"), which is a revised version of the standard form Asset Sale Agreement circulated by counsel for the WB Entities under the SISP Orders (the "Form Asset Sale Agreement"). A blackline comparing the Asset Sale Agreement to the Form Asset Sale Agreement is also attached. As required by paragraph 13(b) of the SISP Orders, this offer is irrevocable until the completion of the Auction and the Buyer Group looks forward to working with the WB Entities and their advisors so as to finalize this offer and become the Stalking Horse party prior to the next established deadline of August 2, 2010.

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1 "Affiliate" shall mean, with respect to any person, any other person that, directly or indirectly, through one or more intermediaries, controls, or is controlled by, or is under common control with, such person. For purposes of this definition, the terms "control," "controlling," "controlled by" and "under common control with," as used with respect to any person, means the possession, directly or indirectly, of the power to direct the management and policies of a person, whether through the ownership of voting securities, by contract or otherwise. For the avoidance of doubt, with respect to any Investor, "Affiliate" shall include all investment funds managed or controlled by such Investor or such Investor's Affiliates.

2 The "First Lien Term Loan Facility" means that certain Second Amended and Restated First Lien Term Loan Credit Agreement, dated as of May 8, 2007 (as amended, restated, supplemented or otherwise modified from time to time, the "Prepetition Senior Credit Agreement"), by and among White Birch Paper Holding Company, White Birch Paper Company, as borrower, each of the other Loan Parties party thereto, including, without limitation, Bear Island Paper Company, L.L.C., Credit Suisse AG, Toronto Branch, as administrative agent, and the other Buyers party thereto.

The Buyer Group Bid is not conditioned upon (i) completing any unperformed due diligence (other than due diligence related to (x) the proposed schedules to the Form Asset Sale Agreement posted by the WB Entities to the data site yesterday (which the Buyer Group has not yet had an opportunity to review) and (y) any other requisite information not yet posted by the WB Entities relating to Asset Sale Agreement matters) or (ii) obtaining financing. As required by paragraph 13(e) of the SISP Orders, 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. In addition to owning a majority of the debt under the First Lien Term Loan Facility, Black Diamond is a leading privately held asset management firm with over $5 billion under management, Caspian is a leading hedge fund with over $2.6 billion under management and Credit Suisse is part of a global financial company with over $50 billion in assets.

As part of the Buyer Group Bid, the WB Entities shall be required to obtain approval of the expense reimbursement and break-up fee provisions set forth in the Asset Sale Agreement.

The Buyer Group has relied solely upon its own independent review, investigation and inspection of the Assets and any available documents in making the Buyer Group Bid. 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 enclosed the Asset Sale Agreement or the ancillary agreements associated therewith.

Subject to our review of the schedules just posted to the data site (and any other requisite information not yet provided by the WB Entities relating to Asset Sale Agreement matters), the Buyer 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 Buyer Group has the requisite authority to submit the Buyer Group Bid, does not anticipate any impediment for obtaining regulatory approval and is capable of providing adequate assurance of future performance under the contracts and leases to be assumed pursuant to the Asset Sale Agreement. Finally, 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.

The Buyer Group's principal advisors in this matter include the law firms of Skadden, Arps, Slate, Meagher & Flom LLP and Goodmans LLP.

Set forth below is the applicable contact information for the Potential Bidder:

BD White Birch Investment LLC
c/o: Black Diamond Capital Management, L.L.C.
100 N. Field Dr., Suite 300
Lake Forest, IL 60045
Attn: Leslie A. Meier

The Buyer Group is pleased to have had the opportunity to submit this fully-financed offer for substantially all of the WB Entities' assets, which, if implemented, will provide continued employment for substantially all of the approximately 1,200 employees of the WB Entities. While this offer remains conditional on our review of certain information only recently made available by the WB Entities (and any requisite information which the WB Entities have not yet made available relating to Asset Sale Agreement matters), the Buyer Group looks forward to rapidly completing this review and finalizing and executing a definitive Asset Sale Agreement with the WB Entities on or before August 2, 2010 so that the Buyer and the Buyer Group Bid can serve as the Stalking Horse party in the next stage of the WB Entities' sale process.

This proposal letter is delivered to you with the understanding and on the condition that neither this letter nor any part of its substance shall be disclosed by you publicly or privately without our prior written consent except to your respective representatives and advisors.

Sincerely,

BD White Birch Investment LLC

By: Leslie A. Meier

Leslie A. Meier
Authorized Signatory

Appendix B – Estimated position of creditors in the event of a liquidation in bankruptcy

WHITE BIRCH PAPER COMPANY
ESTIMATED POSITION OF CREDITORS
Based on a theoretical liquidation carried out at or near May 31, 2010

		estimated liquidation value							
	Carrying value	**White Birch**	**Stadacona**	**FFSI**	**FFSA**	**Papier Masson**	**Bear Island**	**Total**	**Note**
ASSETS									
Cash	77,486,546	40,240,381	7,852,955	2,279,240	18,776,928	2,876,969	5,460,073	77,486,546	5,
Cash Collateral	11,661,142	0	0	0	0	0	0	0	6,
Trade accts receivable	91,076,117		33,597,333	5,423,982	13,093,423	14,697,591	10,623,871	77,436,200	7, 8
Other accts receivable	9,111,300	0	0	0	0	0	0	0	9,
Inventory								0	
Raw Materials and stores	50,514,228	0	25,544,652	77,758	11,903,297	10,786,075	10,452,546	58,764,327	10,
Finished goods	21,399,062	0	9,939,547	962,471	4,016,947	415,934	2,854,303	18,189,202	
Prepaid expenses	13,321,894	0	0	0	0	0	0	0	11,
Timber deeds	1,000						0	0	12,
R&D tax credit receivable	449,226	0	0	0	0	0	0	0	9,
Due from Brant Industries	1,257,300	35,478	927,264	30,212	0	264,347	0	1,257,300	14,
Due from Brant Paper	1,702	0	0	0	0	0	1,702	1,702	14,
Due from related companies		235,911	11,034	64,464	0		0	311,409	15,
								0	
Property, plant and equipment	1,151,721,634	0	0	0	0	0	0	0	12,
Acc. Depreciation	(663,158,652)							0	
								0	
Long term investment	537,638	0	0	0	0	0	0	0	12,
Other long term asset	1,292,842	0	0	0	0	0	0	0	12,
Investment SP Newsprint	23,918,919	0	0	0	0	0	0	0	12,
Deferred financing costs	5,245,838	0	0	0	0	0	0	0	13,
	795,837,736	40,511,770	77,872,785	8,838,127	47,790,595	29,040,915	29,392,495	233,446,687	
ESTIMATED REALIZATION COSTS									
Operating disbursements - 1 month		0	(24,755,858)	0	(11,259,604)	(10,745,936)	(5,007,124)	(51,768,522)	
Professional fees and costs - say 10%		(27,139)	(9,477,569)	(655,889)	(4,027,327)	(3,690,988)	(2,893,955)	(20,772,866)	16,
Net asset value - estimated	795,837,736	40,484,632	43,639,358	8,182,238	32,503,665	14,603,990	21,491,416	160,905,299	
LIABILITIES									17,
Employee claims (sec. 81.3/81.4 BIA)	2,062,616	7,646	1,185,192	497,245	16,976	355,558	0	2,062,616	18,
Employee claims (potential D&O claim)	6,195,787		2,373,133	2,315,053	79,034	1,428,566		6,195,787	19,
Government claims	0		2,202,245			1,586,663		3,788,908	20,
Interim financing (DIP loan)	117,955,000	34,340,094	32,135,821	4,555,780	27,494,190	9,530,089	15,499,026	123,555,000	21,
Reclamation payable (503(b)(9))	3,222,571						3,222,571	3,222,571	22,
Post petition Accts Payable	8,554,487						2,769,819	2,769,819	23,
KSH and S3i	4,278,584		0		0			0	23, 25
Capital leases	1,556,586	0	0	0	0	0	0	0	23,
1st Lien secured creditor	428,293,961	0	0	0	0	0	0	0	23,
Derivative contracts	51,807,858	0	0	0	0	0	0	0	23,
Accrued interest and service charges	24,594,761	0	0	0	0	0	0	0	23, 24
Accrued interest and service charges	5,742,496	0	0	0	0	0	0	0	23, 24
2nd Lien secured creditor	100,000,000	0	0	0	0	0	0	0	23,
Total secured and preferential claims	754,264,706	34,347,741	37,896,391	7,368,078	27,590,200	12,900,876	21,491,416	141,594,701	
Amount available for distribution	41,573,029	6,136,891	5,742,967	814,160	4,913,465	1,703,115	0	19,310,597	

WHITE BIRCH PAPER COMPANY
ESTIMATED POSITION OF CREDITORS
Based on a theoretical liquidation carried out at or near May 31, 2010

		estimated liquidation value							
	Carrying value	**White Birch**	**Stadacona**	**FFSI**	**FFSA**	**Papier Masson**	**Bear Island**	**Total**	**Note**
LIABILITIES - UNSECURED									17,
Post petition Accts Payable	24,119,698		8,194,370	1,975,178	1,975,832	5,875,879		18,021,258	11, 26
Employee claims - US	1,644,493						1,644,493	1,644,493	
Prepetiton Accts payable	43,819,632	136,918	22,107,362	6,179,216	2,649,230	4,050,100	4,913,930	40,036,756	
Current income taxes	23,221,605	24,698,433	13,821	0	0	0	0	24,712,254	
Intercompany accounts payable								0	
Due to White Birch Paper Company	(2)	0	0	9,058,672	29,447,914	11,892,109	138,519,226	188,917,921	
Due to Stadacona		1,248,218	0	0	0	0	0	1,248,218	
Due to FFSA		0	0	0	0	0	0	0	
Due to Bear Island		0	0	0	0	0	0	0	
Due to FFSI		0	0	0	9,626,058	0	5,738	9,631,796	
Due to Brant Industries	104,703	0	0	0	0	0	104,703	104,703	
Pension obligations	155,269,300	0	93,308,952	13,852,948	18,711,155	29,396,245	0	155,269,300	
Capital leases		0	0	0	1,458,099	0	98,487	1,556,586	
1st Lien secured creditor	0	428,293,961	428,293,961	428,293,961	428,293,961	428,293,961	428,293,961	428,293,961	
Derivative contracts	0	51,807,858	51,807,858	51,807,858	51,807,858	51,807,858	51,807,858	51,807,858	
Accrued interest and service charges		30,337,256	30,337,256	30,337,256	30,337,256	30,337,256	30,337,256	30,337,256	
2nd Lien secured creditor	0	100,000,000	100,000,000	100,000,000	100,000,000	100,000,000	100,000,000	100,000,000	
PBGC	0	57,718,501	57,718,501	57,718,501	57,718,501	57,718,501	57,718,501	57,718,501	
Preferential claims not paid			2,607,026		1,671,558		3,886,633	8,165,218	
Total unsecured liabilities	248,179,429	694,241,146	794,389,106	699,223,589	733,697,421	719,371,909	817,330,786	1,117,466,078	
Apparent equity (deficit)	(206,606,400)	(688,104,254)	(788,646,139)	(698,409,430)	(728,783,956)	(717,668,794)	(817,330,786)	############	
Distribution to unsecured creditors		0.9%	0.7%	0.1%	0.7%	0.2%	0.0%	1.7%	

Notes:

1 All amounts are reported in US$. The schedule is preliminary and subject to change as additional information is received. The numbers herein have been compiled from information received from the Companies, their employees and various sources. The information has not been audited or otherwise verified for accuracy or completeness, or compliance wiht GAAP, and accordingly we express no opinion thereon.

2 The estimated position of the creditors is based on the assumption that the security held by the secured creditors is valid and enforceable, and that the claims of the creditors are valid.

3 The information is intended to present for illustrative purposes only the expected outcome of a realisation process carried out at or near May 31, 2010, from the assets of the Companies. In view of the fact that the Companies' operations generate a net cash loss, it can be expected that the net result available for distribution to creditors would decrease over time. Although the deterioration is not linear and depends on a large number of factors (such as, for example, the level of activitiy, exchange rates, price of commodities, etc.), the cash flow projections referred to in the report of the Monitor dated July 7, 2010 provided for an estimated cash loss from operations of $8.1 million per month.

4 The schedule does not take into consideration any recovery from void or voidable transactions, preferential payments or transfers at undervalue.

5 Value of cash as reported on the individual internally prepared financial statements at May 31, 2010

6 Assume realizable value of cash collateral = 0, as creditors will apply the collateral to their debt

7 Assume the value of accounts receivable = 85% of the net carrying value of accounts receivable as reported in the internally prepared financial statements at May 31, 2010

8 The account receivable and account payable appearing in White Birch for approximately $40 million are assumed to be a set-off, with a nil value

9 The "other accounts receivable are comprised primarily of amounts receivable in respect of ITCs or RTCs. In view of amounts due to the governments for corporate taxes, assume the realizable value is nil.

10 The realizable value of inventories assumes operations are continued on a limited basis over a 1 month period, to enhance the value of accounts receivable and wind down the business in an orderly manner. The details of the assumptions made as regards the inventory realization process are presented in appendix A

WHITE BIRCH PAPER COMPANY
ESTIMATED POSITION OF CREDITORS
Based on a theoretical liquidation carried out at or near May 31, 2010

	Carrying value	White Birch	Stadacona	FFSI	FFSA	Papier Masson	Bear Island	Total	Note
		estimated liquidation value							

11 Prepaid expenses are asumed to have a nil realizable value, as it is expected that the creditors will apply the prepaid amounts to their liabilities. See note 26

12 Assumed to have an insignificant or no value, based on the offer received from BD. In addition, an allocation of value to these assets would not have a significant impact on the amount available for distribution to the creditors unless this value is very significant, in view of the fact that these assets are all encumbered by the security held by the secured creditors, that the security is assumed to be valid and enforceable, and that as a result the only benefit from a realization of these assets would be to reduce the amount of ordinary unsecured creditors who would share in the distribution. For illustrative purposes only, if these assets had a value of $100 million, the average dividend to the creditors would be expected to increase to 2.5%

13 Deferred charge - assumed to have no realizable value

14 Assumed to be equal to carrying value

15 Calculated based on the intercompany claims X distribution rate

16 Assumed to be 10% of net realisations (excluding cash on hand). It should be noted that the unpaid professional fees at May 31, 2010 totaled approximately $3 million.

17 The unsecured claims reflect the amounts presented in the records of the Companies, adjusted for large claims received as a result of the Claims Process. The unsecured claims do not make allowance for additional claims that may surface in connection with a purported breach of contract, in the event of an outright liquidation with a cessation of activities, as the case may be.

18 Calculated as CDN$2,000 per employee X 1,079 employees

19 Amount presented in the internal financial statements, net of provision for claims of employees under s. 81.3/81.4 BIA - see note 18 above

20 Based on the assessments received and known to date

21 Allocated on a pro rata basis of net realisations. The Interim Financing debt is reported to be $118 million, but was increased to $124 million to take into consideration a $5.6 million pre-payment fee provided for in the Interim Financing Credit Agreement.

22 Based on information provided by Rick Abbey on July 13, 2010

23 Limited to the value of the assets

24 Amount appearing on the internal financial statements, allocated on a pro rata basis to the First and Second Lien creditors

25 Based on the proofs of claim received

26 The amount is calculated as the amount presented in the Companies' records as at May 31, 2010, less the amount shown as prepaid expenses.

WHITE BIRCH PAPER COMPANY
ESTIMATED VALUE OF INVENTORIES
Based on a theoretical liquidation carried out at or near May 31, 2010
in US$

		estimated liquidation value						
	Carrying value	**White Birch**	**Stadacona**	**FFSI**	**FFSA**	**Papier Masson**	**Bear Island**	**Total**
Inventory - beginning								
Inventory								0
Raw Materials	16,140,915		6,924,235	194,395	3,543,761	2,587,218	2,208,958	15,458,567
Stores	34,373,314		12,744,263	1,329,117	4,681,600	8,082,202	7,536,132	34,373,314
Finished goods	21,399,062	0	11,693,585	1,132,319	4,725,820	489,334	3,358,003	21,399,062
New billings during a one month period			24,852,229		11,548,921	10,527,353	10,231,650	57,160,152
Total disbursements for 1 month as per cash flow (excluding purchases)			(16,332,684)	0	(7,589,857)	(6,918,491)	(2,437,878)	(33,278,910)
Purchases included in disbursements as per cash flow			(9,663,657)	0	(4,490,737)	(4,093,505)	(3,006,730)	(21,254,629)
Other purchased included in disbursements as per cash flow			(3,952,693)	0	(1,836,831)	(1,674,353)	(1,219,235)	(8,683,112)
disb. savings from inventory on hand								
assume 75% of raw materials			5,193,176	0	2,657,821	1,940,413	1,656,719	11,448,129
assume 0% of other inventories			0	0	0	0	0	0
Net inflows from inventories			96,370	0	289,317	(218,583)	5,224,526	5,391,630
Inventory - ending								
Raw Materials			1,731,059	194,395	885,940	646,804	552,240	4,010,438
Stores			12,744,263	1,329,117	4,681,600	8,082,202	7,536,132	34,373,314
Finished goods			11,693,585	1,132,319	4,725,820	489,334	3,358,003	21,399,062
Realizable value of remaining inventories								
Raw Materials @ 40%			692,423	77,758	354,376	258,722	220,896	1,604,175
Stores @ 0%			0	0	0	0	0	0
Finished goods @ 85%			9,939,547	962,471	4,016,947	415,934	2,854,303	18,189,202
New Finished goods @ 100%			24,852,229	0	11,548,921	10,527,353	10,231,650	57,160,152