**Court File No. _________**

***ONTARIO***
**SUPERIOR COURT OF JUSTICE**
**COMMERCIAL LIST**

IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*, R.S.C. 1985, c. C-36, AS AMENDED

AND IN THE MATTER OF A PROPOSED PLAN OF COMPROMISE OR ARRANGEMENT WITH RESPECT TO FRASER PAPERS INC., FPS CANADA INC., FRASER PAPERS HOLDINGS INC., FRASER TIMBER LTD., FRASER PAPERS LIMITED, FRASER N.H. LLC

Applicants

**FIRST REPORT TO THE COURT**
**SUBMITTED BY PRICEWATERHOUSECOOPERS INC.**
**IN ITS CAPACITY AS PROPOSED CCAA MONITOR**
**OF THE APPLICANTS**

**JUNE 18, 2009**

## INTRODUCTION

1. PricewaterhouseCoopers Inc. ("PwC" or the "Proposed Monitor") understands that Fraser Papers Inc. ("FPI"), FPS Canada Inc. ("FPSC"), Fraser Papers Holdings Inc. ("Fraser Holdings"), Fraser Timber Ltd., Fraser Papers Limited and Fraser N.H. LLC (collectively, the "Fraser Group" or the "Applicants") intend to make an application to the Ontario Superior Court of Justice (the "Ontario Court") seeking certain relief under the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the "CCAA"), and appointing PwC as monitor ("Monitor").

2. PwC has consented to act as Monitor and has prepared this report in its capacity as the proposed Monitor (the "Proposed Monitor.").

3. The Proposed Monitor also understands that the Applicants have prepared petitions for recognition under Chapter 15 of the United States Bankruptcy Code.

4. The purpose of this Report is to provide this Honourable Court with information concerning:

   i) Background information about the Applicants

   ii) The reasons for the CCAA proceedings

   iii) The contemplated insolvency process, including:

      (a) The proposed restructuring strategy of the Applicants

      (b) The Applicants' COMI and the Chapter 15 filing

      (c) The terms of the debtor-in-possession ("DIP") facilities

      (d) Overview of the 5 week Cash Flow Forecast

      (e) The request of the Applicants to pay certain pre-filing amounts owed to critical suppliers

      (f) Payment of ongoing landfill costs

      (g) Cash management systems

      (h) Inter-company transactions and the Inter Company Charge

      (i) Treatment of the Pension Plans

      (j) Insurance

      (k) Directors' and officers' charge

   iv) The Applicants' relationship with Brookfield Asset Management Inc.

   v) The Proposed Monitor's conclusions

5. Unless otherwise stated, all monetary amounts contained herein are expressed in United States Dollars, the Applicants' reporting currency.

6. Capitalized terms used herein not otherwise defined are as defined in the affidavit as sworn by the CEO, Mr. J. Peter Gordon (the "**Gordon Affidavit**") and the draft Initial Order.

7. In preparing this Report, the Proposed Monitor has relied upon unaudited financial information, the Applicants' books and records, the financial information prepared by the Applicants and discussions with management of the Applicants and their legal advisors. The Proposed Monitor has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the information and, accordingly, PwC expresses no opinion or other form of assurance on the information contained in this Report. Future oriented financial information included in this Report is based on the Applicants' assumptions regarding future events, and actual results achieved will vary from this information and the variations may be material.

8. The Proposed Monitor was retained by the Applicants on May 26, 2009 to assist the Applicants and their professional advisors in analyzing options available to refinance and restructure their operations. Since being retained, PwC has been reviewing the Applicants' available financial information to gain knowledge of the business and financial affairs of the Applicants and, more recently, has been preparing for the Applicants' anticipated CCAA application.

9. Assuming the Applicants are granted protection under the CCAA, and assuming that PwC is appointed monitor by this Honourable Court, PwC, in such capacity, intends to make copies of certain material documents pertaining to the Applicants' CCAA proceedings available on its website at www.pwc.com/car-fraserpapers.

10. The Proposed Monitor does not act as auditor to FPI or any of the other Applicants.

**BACKGROUND**

11. Detailed information concerning the background of the Applicants, their creditors and their financial status form part of the Gordon Affidavit. Key to the Fraser Group's ability to carry on its business operations as usual, is the ongoing multi-dimensional support provided by Brookfield Asset Management Inc. ("**BAM**", the Fraser Group's principal shareholder), as detailed in paragraphs 68 to 78 below.

12. In brief, the Fraser Group is a specialty paper company with integrated paper, pulp and lumber operations. The operations of the Applicants comprise two paper mills, one market pulp mill, two internal pulp mills, a biomass cogeneration power plant, and four lumbermills in New Brunswick, Quebec, Maine and New Hampshire. Appendix A contains a more detailed overview of the Applicants operations.

13. The Fraser Group operates largely as an integrated business. While the Applicants' operations include the above-noted locations in both Canada and the U.S., each location provides to or receives product from another location creating an integrated nature to the business.

14. For fiscal 2008, the Applicants had consolidated net sales of approximately $688.6 million and suffered a net loss of $71.9 million. For the four months ended May 2, 2009, the Applicants recorded a net loss of $22.1 million on consolidated net sales of $202.8 million.

15. The Fraser Group's debt structure and approximate current amounts outstanding is as follows (excluding any amounts in respect of pensions, post-employment benefits, guarantees, potential exposure under foreign exchange hedging contracts and potential environmental liabilities):

| **Lender/Type of debt** | **Outstanding Amount US$million** |
|---|---|
| CIT – secured | 56 |
| NB Loan – secured | 29 |
| CIBC – unsecured | 25 |
| 3rd party trade creditors – Canadian entities * | 43 |
| 3rd party trade creditors – US entities * | 30 |
| Intercompany payable to FPI – US entities * | 32 |

* Balances as at May 2, 2009

16. FPI is the borrower under the CIT facility. The CIT facility is guaranteed by all of the other Applicants. CIT has a first charge over inventory and accounts receivable of each of the Applicants. BAM has also guaranteed $25 million of the outstanding amount under this facility.

17. The Province of New Brunswick has a fixed charge over the fixed assets in New Brunswick and a second charge on inventory and accounts receivable in New Brunswick in connection with FPI's indebtedness to it (the "**NB Loan**").

18. FPI is the borrower under the unsecured CIBC facility. BAM has guaranteed $25 million of the outstanding amount under this facility.

19. The two BAM guarantees noted above are secured by guarantees of each of the Applicants and a general security agreement over all of the Applicants' assets, which security is subordinate to the CIT and NB Loan security.

20. FPI is listed on the Toronto Stock Exchange under the symbol FPS. As of June 17, 2009, the shares closed at a price of $0.14.

## REASONS FOR THE CCAA PROCEEDINGS

21. Based on discussions with management, the principal causes of the need for the CCAA filing include:

i) The poor economic conditions of the past few years, resulting in significant operating losses and a severe working capital shortfall;

ii) The impact of the US “black liquor tax credit”, which the Applicants are not entitled to receive, which has further lowered the price of pulp;

iii) The uncertainty associated with negotiating new collective bargaining agreements and obtaining concessions under the existing collective bargaining agreements with certain of its unions; and

iv) The recent stock market crash which has resulted in material funding deficiencies in the Applicants’ defined pension benefit plans and will require a significant increase in pension funding over the next five years, and the Applicants inability to obtain the necessary relief in respect of these pension funding obligations; and

v) The continued poor outlook for the housing, lumber and pulp markets.

22. In addition, the Proposed Monitor has been advised by the Applicants that it does not have the liquidity required to meet the following near term obligations:

i) the ongoing losses associated with the pulp and lumber operations;

ii) the repayment of the $25 million CIBC term loan which matures in September 2009;

iii) $7.8 million of severance payments related to the temporary shutdown at the Thurso pulp mill, due for payment in two equal amounts in November 2009 and December 2009. Should the shutdown become permanent, $9.5 million of additional severance (i.e. in addition to the $7.8 million noted above), would be payable six weeks after the date the permanent shutdown is announced;

iv) the approximate amount of $10 million required to bring their overdue supplier balances back to normal credit terms; and

v) the approximate amount of $7.7 million owing to various municipalities for property taxes.

## CONTEMPLATED INSOLVENCY PROCESS

### THE PROPOSED RESTRUCTURING STRATEGY OF THE APPLICANTS

23. As set out in the Gordon Affidavit, a comprehensive operational and balance sheet restructuring is to be pursued by the Applicants and, in that respect, the Applicants have already commenced dealing with the numerous issues that are currently negatively impacting the profitability of its various business units.

24. However, significant additional time is required in order to be able to meet with all of the relevant parties, attempt to negotiate revisions to contract terms, determine which parts of the business are viable based on these contract revisions, update business plans, arrange exit-financing and develop a plan of arrangement and compromise for consideration by the Applicants' creditors.

25. The Proposed Monitor understands that the negotiations will take place throughout the summer and management will present a plan to creditors as soon as possible. Once the Fraser Group's business has been stabilized, the Applicants and the Proposed Monitor will update this Honourable Court with respect to the Fraser Group's restructuring activities and alternatives.

### THE APPLICANTS' COMI AND THE CHAPTER 15 FILING

26. Based on the Proposed Monitor's understanding of the Applicants' structure, discussions with management and, as set out in paragraphs 23 and 27 of the

Gordon Affidavit, the Proposed Monitor concurs with the Applicants' view that their COMI is Ontario.

27. Based on the Proposed Monitor's understanding of the integrated nature of the Applicants' management, operations and financing as between the Canadian and US Applicants, the poor liquidity situation of the US Applicants which have no separate borrowing facilities, and our view that the Applicants' COMI is Ontario, the Proposed Monitor concurs with the Applicants commencing auxiliary proceedings under Chapter 15 of the US Bankruptcy Code.

28. The Applicants' survival is predicated upon a centralized, efficient, restructuring proceeding. The CCAA and Chapter 15 proceedings will provide an environment to stabilize the Fraser Group's business and provide for the continuation of going concern operations.

29. The Proposed Monitor understands that FPI seeks to be appointed as the Applicants' Foreign Representative with respect to the Chapter 15 proceedings and has retained Delaware counsel in this respect. The Monitor has been advised that FPI will keep the Proposed Monitor apprised of developments in respect of the Chapter 15 proceedings.

### THE TERMS OF THE DIP FACILITIES

30. As detailed in the Gordon Affidavit, the Applicants have received two term sheets in respect of the provision of DIP financing – one from BAM and one from CIT (as defined below), the Applicants' existing revolving credit lender (collectively the "**DIP Facilities**"). If approved, the DIP Facilities will provide additional liquidity to the Applicants during the restructuring.

31. The principal terms of the BAM DIP financing (the "**BAM DIP Financing**") are:

    i) FPI is the borrower under the BAM DIP Financing and each of FPI's subsidiaries is a guarantor;

ii) subject to the terms of the BAM DIP Financing term sheet, an aggregate amount of $15 million is immediately available to FPI, which is increasable up to a maximum of an additional $5 million, upon request by FPI and approval by the BAM DIP Financing lenders;

iii) the BAM DIP Financing will be used for working capital and for other general corporate purposes;

iv) up to $7 million of the BAM DIP Financing amount may be assigned to the Province of New Brunswick (the "**GNB Tranche**" and "**GNB**", respectively, both as defined in the BAM DIP Financing term sheet), which amount shall only be used to finance the Applicant's Plaster Rock facility in New Brunswick. Additional terms and conditions may be imposed by GNB at its sole discretion in respect of the GNB Tranche;

v) unless terminated sooner or extended, the BAM DIP Financing matures 12 months following the closing date of the BAM DIP Financing;

vi) once the condition precedents have been satisfied and assuming there are no events of default, there is no availability calculation with respect to the quantum that can be borrowed;

vii) the interest payable on the BAM DIP Financing is payable monthly in arrears under one of the following two bases, at the option of FPI:

    1. Base Rate (which is subject to an interest rate floor of 3%) plus 1.75% per annum; or
    2. LIBOR (which is subject to an interest rate floor of 3%) plus 1.75% per annum.

viii) FPI will pay primary commitment, structuring, closing and sponsor upfront fees totaling 4.41% of the committed amount on closing, plus a 1% per annum standby fee for any part of the BAM DIP Financing that is committed but not drawn. In addition, all professional and advisory fees and expenses of BAM related to these proceedings and the BAM

DIP Financing are payable by the Applicants, as well as an exit fee of 1%;

ix) the term sheet contains restrictions on the uses of the BAM DIP Financing unless approved by the BAM DIP Financing lenders, including that it may not be used to pay any amounts to non-active employees, past-service or special pension payments or repayment of pre-filing indebtedness except in respect of the CIT Pre-Filing Amount, as defined below;

x) the BAM DIP financing imposes a dollar limit on the amount that can be paid for retiree benefits, limited also to a period of 6 months from the Closing Date**;**

xi) mandatory prepayments are generally required on the sale of any property or assets of FPI or its subsidiaries (other than in the ordinary course of business), upon the receipt of insurance proceeds on account of loss or damage to any property or assets of FPI or its subsidiaries, and upon the incurrence of indebtedness for borrowed money by any of FPI or its subsidiaries;

xii) the BAM DIP Financing has a super-priority claim over all assets of FPI and its guarantor subsidiaries, except in respect of (i) CIT Pre-Filing Amount, in respect of the Existing CIT Collateral (each as defined below); (ii) the CIT DIP Portion (defined below); and (iii) the Carve Out (i.e. claims subject to the CCAA Administrative Charge).

32. CIT Business Credit Canada Inc. ("**CIT**") currently extends credit to Fraser Papers under an amended and restated financing agreement dated as of May 2, 2008 between FPI and CIT (as amended from time to time, the "**CIT Financing Agreement**"). The Applicants and CIT have negotiated amendments to the CIT Financing Agreement to permit CIT's revolving credit facility to continue to revolve and to address the

provision by BAM of the BAM DIP Financing. Some of the principal terms of the amendments to the CIT Financing Agreement include as follows:

i) FPI is the borrower and all of FPI’s subsidiaries are guarantors;

ii) the principal amount of the credit facilities under the CIT Financing Agreement will be reduced to U.S. $80 million, made on a revolving basis;

iii) the total availability under the amended CIT Financing Agreement is subject to the existing CIT Financing Agreement borrowing base calculation;

iv) the credit extended to FPI by CIT as at the commencement of the CCAA and Chapter 15 proceedings (the “**Pre-Filing Amount**”, estimated to be approximately $56 million) will continue to be secured by all of the present and future inventory, accounts receivable and certain other assets and proceeds thereof of the Applicants (the “**Existing CIT Collateral**”);

v) any credit extended to FPI under the amended CIT Financing Agreement after the commencement of the Proceedings (the “**CIT DIP Portion**”) will also be secured by the Existing CIT Collateral. CIT will now also have a super-priority security interest and charge over all present and future real, personal and mixed property and assets of the Applicants (including fixed assets) to secure $24 million of the total CIT advances;

vi) all post-filing accounts receivable collections are to first be applied against the Pre-Filing Amount;

vii) as of the filing date, the amended CIT Financing Agreement is expected to provide the Applicants with approximately $8 million of additional financing, based on the latest available borrowing base calculation;

viii) amounts advanced under the amended CIT Financing Agreement are to be used to pay transaction costs, fees and expenses incurred in connection with these proceedings, for working capital, and for other general corporate purposes;

ix) mandatory prepayments are generally required on the sale of any property or assets of FPI or its subsidiaries (other than in the ordinary course of business), upon the receipt of insurance proceeds on account of loss or damage to any property or assets of FPI or its subsidiaries, and upon the incurrence of indebtedness for borrowed money by any of FPI or its subsidiaries;

x) the interest payable on the CIT DIP Portion is payable monthly in arrears at the rate of Base Rate (which is subject to a floor of 3%) plus 2% per annum, provided that upon an event of default, an additional 2% per annum will be payable on demand. The interest rate on the CIT Pre Filing Amount remains at the pre-filing rate;

xi) the Borrower will pay a commitment fee of 1% on the CIT DIP Portion on closing, plus a 1% per annum standby fee for any part of the CIT Financing amount that is committed but not drawn. In addition, all professional and advisory fees and expenses of CIT related to these proceedings and the amended CIT Financing Agreement are payable by the Applicants, as well as an exit fee of 1%;

xii) CIT must be satisfied with the terms of the BAM DIP Financing;

xiii) CIT must also receive within 15 days of the closing date, written evidence that each of BAM and the Province of New Brunswick

("**NB**") shall have consented to the amended CIT Financing Agreement security arrangements; and

xiv) CIT's right to receive payment of the credit extended to FPI under the CIT Financing Agreement will rank senior to the BAM DIP facility, as to the Pre-Filing Amount, solely in respect of the Existing CIT Collateral, and as to the CIT DIP Portion, in respect of all collateral.

33. The two DIP Facilities have super-priority charges and would be in priority to the existing charges granted to NB in respect of its advances to fund capital expenditures in NB.

34. The Proposed Monitor has inquired into the marketing process for the DIP financing arrangements, and has been advised by management of the company that the DIP financing requirement was not marketed externally to other potential lenders given the nature of the industry and the willingness of the existing lenders to fund ongoing operations.

35. Management has advised the Proposed Monitor that the two DIP Facilities term sheets represent the only alternative available to the Applicants to ensure the continuation of the Applicant's operations at this time.

36. The Proposed Monitor has not been involved in the marketing or negotiation of the terms of either DIP Facilities' term sheets, and both DIP Facilities term sheets were only finalized in the evening of June 17, 2009. As a result, the Proposed Monitor has had a limited period of time within which to assess the two DIP financing term sheets. The Proposed Monitor has compared the principal financial terms of the two DIP financing arrangements to a number of other recent debtor in possession financing packages in the forestry, pulp and paper sector with respect to pricing, loan availability and certain security considerations. Based on this comparison, we are of the view that the financial terms of the DIP Facilities' term sheets appear to be commercially reasonable and consistent with current market transactions.

## Overview of The 5-Week Cash Flow Forecast

37. The Applicants have prepared a cash flow forecast for the five week period from June 18, 2009 to July 17, 2009 (the "**June 18 CFF**"), a copy of which is attached hereto as Appendix B.

38. The June 18 CFF shows a net cash out flow of $15.6 million, made up of total receipts of $34.7 million and total disbursements of $50.3 million, resulting in a net usage of the DIP Financing as at July 18, 2009 of $15.6 million and a peak usage in the week commencing June 29, 2009 of $16.8 million.

39. The principal assumptions utilized in the June 18 CFF include:

i) Mills – Only the Edmunston, Madawaska, Goreham and Masardis mills are operational and the following mills remain closed: Plaster Rock, Juniper, Thurso and Ashland;

ii) Receipts – amounts are assumed to be collected based on past collection history and future revenues expected;

iii) Disbursements – pre-filing amounts are assumed stayed and post-filing amounts are forecast to be impacted by reduced credit terms as a result of the CCAA Proceedings;

iv) Input pricing and other assumptions – no significant changes in input prices (e.g. paper, lumber, pulp or oil prices) or foreign exchange rates are assumed;

v) The DIP financing is available immediately;

vi) Severance and termination payments – any such payments due to be made during the period covered by the June 18 CFF are stayed;

vii) Pension obligations – current obligations post-filing are being paid in the normal course of operations, but no payments on account of past service or funding deficiencies are forecast to be paid;

viii) Interest payments – interest is paid to CIBC, CIT and BAM, pursuant to the various loan agreements as described above;

ix) Legal and Professional fees – fees associated with the CCAA Proceedings relating to Applicants' US and Canadian legal counsel and the Monitor and its legal counsel have been included.

## THE REQUEST OF THE APPLICANTS TO PAY CERTAIN PRE-FILING AMOUNTS OWED TO CRITICAL SUPPLIERS

40. The Proposed Monitor has been advised that the Applicants' operations depend on ready supply of key materials and continued provision of essential services. Accordingly, the Proposed Monitor understands the draft Initial Order contemplates that the Applicants will be able to pay to a maximum amount of $12.3 million, subject to approval by the Monitor and the terms of the DIP Financing arrangements, pre-filing amounts to certain suppliers who, in the Applicants' opinion, are critical to the Applicants' ongoing operations.

## PAYMENT OF ONGOING LANDFILL COSTS

41. The Applicants are contractually liable for the ongoing maintenance costs of a landfill site in the United States, which they previously owned but had sold to a third party who subsequently went bankrupt. The Proposed Monitor understands that the Applicants intend to continue making the required payments, while they negotiate the return of some portion of two letters of credit that they had issued to support their liability for the ongoing maintenance costs. The Proposed Monitor understands that the total amount forecast still to be spent is considerably less than the amount of the letters of credit that are expected to be returned.

42. The June 18 CFF includes payments in respect of these ongoing maintenance costs.

### CASH MANAGEMENT SYSTEMS

43. As described in the Gordon Affidavit, the Applicants operate a large interconnected and complex cash management system (with 30 bank accounts), designed to minimize the group's net borrowings and interest charges and simplify the usage and repayment process for the CIT Credit facility.

44. The Proposed Monitor understands that the draft Initial Order provides that the Applicants can continue to use the existing cash management system and bank accounts.

45. Based on discussions with management, the Proposed Monitor understands that the Applicants account for all these transactions through intercompany accounts (as described in more detail in the next section of this report) in an accurate and timely manner

46. BAM and CIT have indicated that they support the continued operation of the existing cash management system during the CCAA proceedings.

47. The Proposed Monitor has reviewed the cash management system with the Applicants and believes that using the existing cash management system will minimize any disruption to the business operations of the Applicants as it seeks to restructure its affairs. The Proposed Monitor will monitor the CCAA Applicants' cash management system, including intercompany and cash flow activities, on a weekly basis and report to this Honourable Court on a periodic basis with respect to its findings.

### INTERCOMPANY TRANSACTIONS AND INTERCOMPANY CHARGE

48. There are a number of intercompany transactions that occur between the Applicants in the normal course of business, the most significant being:

    i) Purchase of goods – on a daily basis; allocation of centrally incurred costs – on a monthly, quarterly or annual basis; and miscellaneous charges –

one time or recurring charges as incurred (collectively the "**Intercompany Goods and Services Transactions**"); and

ii) Movement of cash between mill and corporate accounts, as detailed above – on a daily basis (the "**Intercompany Funding Transactions**")..

49. As the Intercompany Goods and Services Transactions and the Intercompany Funding Transactions (collectively the "**Intercompany Transactions**") between the entities are incurred in the normal course and are essential for the continued operation of the businesses, the Applicants propose the continuation of these transactions as outlined in the Gordon Affidavit, which the Proposed Monitor understands is acceptable to CIT and to BAM. The Proposed Monitor understands the Applicants record these transactions on an accurate and timely basis using intercompany accounts, on a location by location basis.

50. The Proposed Monitor understands that the Applicants will settle the net intercompany balances on at least a monthly basis.

51. In lieu of daily settlement of these intercompany transactions, the Applicants have proposed the granting of a subordinated secured Inter-Company Charge (i.e. subordinated to the CIT Security, the Administration Charge, the CIT DIP Charge, the DIP Lenders Charge and the Directors' Charge) in order to ensure that no creditor of any individual Applicant is prejudiced by the settlement timing differences or the incurring of liabilities by one of the Applicants on behalf of another.

52. The Proposed Monitor understands that the Inter-Company charge is to cover the Intercompany Funding Transactions from and after June 18, 2009, the date of filing. The Proposed Monitor understands that the Inter-Company charge is also to cover the Intercompany Goods and Services Transactions from and after the date of June 1, 2009 on the basis that, without this charge, it would be unfairly prejudicial to creditors of the parties providing the goods or services and create unnecessary disruption to operations in the immediate post-filing period.

53. As many of these transactions are between the US and Canadian entities, we understand the Applicants will seek recognition of the Inter-Company Charge in the Chapter 15 Proceedings.

54. The Proposed Monitor is of the view that the continuation of the intercompany transactions and the Inter-Company Charge appears appropriate and reasonable in the circumstances, given the highly integrated nature of the Applicants, as set out below. The Inter-Company Charge will allow the Applicants to continue to ensure prompt payment of post-June 1, 2009 Intercompany Goods and Services Transactions and post June 18, 2009 Intercompany Funding Transactions. It will also ensure that each individual Applicant will not fund, at the expense of its stakeholders, the operations of another entity.

55. To change all the existing integrated processes and systems would be very disruptive to the Applicants in their efforts to stabilize their business and develop a restructuring plan on a timely basis:

i) The Applicants operate as a single integrated business;

ii) The cash management system is centralized;

iii) The intercompany accounts have been used to manage activities between locations, regardless of locale, for an extended period of time;

iv) There are very frequent large intercompany transactions between the Edmunston and Thurso pulp mills and the Madawaska and Gorham paper mills related to the sale of pulp, power and steam, and between the New Brunswick and Maine lumber mills and the Edmunston pulp mill related to the sale of byproduct chips and biomass;

v) The pulp and energy operations in Edmunston and Madawaska, (Fraser Group's largest paper manufacturing facilities) are physically connected, with pipelines joining the two plants across the international border between New Brunswick and Maine; and

vi) There is a significant amount of shared services allocated amongst the Applicants on a mill by mill basis.

**PENSION PLANS AND BENEFITS**

56. As at December 31, 2008 Fraser Papers employed approximately 2,400 people at its eight manufacturing locations in Canada and the U.S. Approximately 70% of these employees are represented by labour unions.

57. The Applicants sponsor five defined benefit pension plans in three jurisdictions: two registered in the Province of New Brunswick (an hourly and salaried plan), two registered in the Province of Quebec and one in the U.S. (collectively, the "**Pension Plans**"). The Proposed Monitor understands there are 2,997 retirees and 1,412 active employees who are members of the Pension Plans.

58. In addition, the Applicants have one non-registered, unfunded, Supplemental Employee Retirement Pension Plan ("**SERP**") in Canada and two unfunded SERPs in the U.S. The obligations under these SERPs are "pay-as-you-go". The Applicants also sponsor a registered defined contribution pension plan in Canada and one in the U.S.

59. As at December 31, 2008, the latest date actuarial information is available for, the Proposed Monitor understands that Applicants' accrued pension benefit obligations in respect of the Pension Plans and SERPs exceed the value of the related plan assets by approximately $171.5 million.

60. The Applicants are required to pay $3.3 million and $0.1 million in 2009 on account of normal cost contributions to the Pension Plans and SERP, respectively. The Applicants are also required to make special payments in respect of unfunded going concern and solvency liabilities with respect to the Pension Plans and SERP in the amount of $13.5 million and $0.6 million in 2009, respectively, and $34.7 million in each of the years 2010 through to 2013. Due to liquidity and DIP financing constraints, Fraser Papers intends to suspend the remittance of normal

cost contributions to the SERP and special payments to the Pension Plans and SERP during these CCAA proceedings.

61. Pursuant to the terms of the draft Initial Order, the Applicants will be required to continue to provide all health, dental, insurance and related benefits to Active Employees and will also continue to pay all current pension funding obligations.

62. With respect to retirees and non-active employees, the Applicants' current intention is to continue to pay these amounts, while the restructuring plan is being developed and subject to a total expenditure restriction imposed by the DIP financing agreements.

63. Pursuant to the terms of the proposed Initial Order, the Proposed Monitor further understands that the Applicants will also be seeking authority not to make special payments in respect of their pension obligations, including obligations under its SERP plans, after the date of filing. The Applicants are prohibited from funding the solvency deficit or going-concern deficit in respect of these plans under the terms of the DIP financing arrangements.

### REALTY TAXES

64. The Monitor understands that the Applicants currently owe realty taxes to various municipalities, some amounts of which are in respect of facilities or mills that will not form part of the restructured business operations of the Applicants. The Applicants do not believe it prudent to use any DIP funds to finance realty tax arrears in respect of facilities that may be sold or abandoned and are seeking discretionary authority as to payment of such realty tax arrears on a facility by facility basis.

### INSURANCE

65. The Applicants have three insurance policies that are due to expire June 30, 2009 covering: (i) property; (ii) employee flight insurance and (iii) trucks owned by Fraser Papers. As of the date of filing, the Applicants' have not received any

renewal documents. If the Applicants were unable to obtain a renewal of coverage under the property insurance policy from their present insurer on the same or similar terms, it is unlikely that they would be able to secure alternate coverage from a new insurer on terms that would be financially feasible, resulting in a potential shutdown of the facilities. In order to avoid this situation, the Applicants have sought an order requiring the insurers to renew the existing policies on the same or similar terms and pricing.

**DIRECTORS' AND OFFICERS' CHARGE**

66. The Applicants propose to indemnify their directors and officers by way of the Directors' Charge, for liabilities incurred by the Applicants that result in post-filing claims against the directors and officers in their personal capacities.

67. The amount of the Directors' Charge is US$30 million and was estimated by management taking into consideration the hourly and salaried payroll costs, unremitted employee source deductions, other employment related liabilities that attract liability for directors and officers, outstanding sales commissions, vacation pay, sales taxes and potential "super-priority" pension contribution amounts.

**CREDITOR NOTIFICATION**

68. The draft Initial Order provides for the notice of the CCAA proceedings to only be sent to known creditors, excluding employees, who are owed more than C$1,000.

69. In lieu of this notice being sent to each of the Applicants' approximately 2,400 employees, the Proposed Monitor understands the Applicants will convene employee meetings on the day the Initial Order is granted at each location where operations are continuing to advise the employees of the CCAA filing. The Proposed Monitor shall require that a notice (substantially in the form attached as Appendix C) will be posted prominently in several places at each of the Applicants' locations.

## THE APPLICANTS' RELATIONSHP WITH BROOKFIELD ASSET MANAGEMENT INC.

70. As at April 4, 2009 BAM owned, directly or indirectly, approximately 70.5% of the outstanding common shares of Fraser Papers and, as a result, is the predominant shareholder of the Fraser Group. Historically, the Applicants have been dependent on the financial support of BAM and as a result, the Applicants have a number of financial arrangements with BAM which management advises are on commercially reasonable terms and beneficial to the Fraser Group, all as detailed in the Gordon Affidavit and summarized below.

### 1. FOREIGN EXCHANGE CONTRACTS FACILITY

71. As noted in the Gordon Affidavit, BAM has provided the Fraser Group with a $350 million foreign exchange facility to hedge the group's exposure to the US dollar. As at April 4, 2009, Fraser Papers had $170.2 million in net forward exchange contracts outstanding.

### 2. FUNDING SUPPORT

72. During 2008, the Applicants obtained $110 million of additional funding directly or indirectly as a result of BAM:

i) raised $60 million of equity capital from a rights offering to shareholders that was fully underwritten by BAM;

ii) obtained expanded availability under the existing revolving term facility with CIT Business Credit Canada Inc. ("**CIT**") of $25 million which increase was guaranteed by BAM, and

iii) obtained a $25 million loan under a new one year term facility with Canadian Imperial Bank of Commerce ("**CIBC**") that was also guaranteed by BAM.

### 3. INVENTORY PURCHASE PROGRAM

73. As a means of providing additional liquidity to the Applicants, starting in February 2009, BAM purchased paper inventory from Fraser Papers that was then sold to third party customers by BAM. Under the terms of the Paper Supply Agreement, Fraser Papers receives payment for the sale of this paper to BAM within approximately 2 business days and acts as a collection agent for BAM, as well as coordinating and paying for the shipping and delivery costs of these shipments. As such, Fraser Papers may hold cash that it has collected but not yet remitted to BAM at any point in time, as well as having outstanding supplier amounts payable (in BAM's name) in connection with these sales.

74. The Applicants and BAM have agreed to terminate the Paper Supply Agreement effective June 12, 2009 - however, until all of BAM's third party receivables have been collected, Fraser Papers will continue to act as BAM's collection agent for all inventory sales to BAM prior to June 12, 2009. As such, the Applicants will continue to remit to BAM any amounts received from customers.

75. The Paper Supply Agreement also provides for Fraser Papers to be reimbursed for all freight and warehousing costs incurred by Fraser Papers in respect of these sales. As a result, we understand the Applicants will continue to make payments after the date of the Initial Order for freight and warehousing costs incurred in the period immediately prior to the filing, for which they will then be reimbursed by BAM – the quantum of these amounts is not expected to be significant.

### 4. PURCHASES FROM BAM AND ITS AFFILIATES/SUBSIDIARIES

76. Fraser Paper purchases electricity for its Gorham paper mill from BAM. During the first quarter of F2009, Fraser Paper purchased approximately $1.0 million of electricity.

77. On January 31, 2006 Fraser Papers entered into a 20 year fibre purchase agreement with Acadian Timber Income Fund ("**Acadian**"). Brascan US Holding Inc., a wholly owned subsidiary of BAM, owns 45.3% of Acadian's issued and

outstanding units. During the first quarter of F2009, Fraser Papers purchased $9.7 million of fibre from Acadian, of which $1.5 million remained in accounts payable as of April 4, 2009.

### 5. MANAGEMENT OF KATAHDIN SERVICES COMPANY LLC

78. Fraser Madawaska is the sole member of Katahdin Services Company LLC ("**Katahdin Services**") which, on behalf of the Fraser Group, manages (but does not fund) the Maine paper mill operations of Katahdin Paper Company LLC ("**Katahdin Paper**"), an indirect, wholly owned subsidiary of BAM. The investment earns a preferential cumulative distribution of 5% per annum. Cumulative distributions accrued on this investment amounted to $2.7 million as of April 4, 2009.

79. During the first quarter of 2009, Fraser Papers earned a management fee of $0.9 million from Katahdin Papers which was included in accounts receivable as of April 4, 2009. During the same period, Fraser Papers also sold $0.2 million of goods and services to Katahdin Paper. As of April 4, 2009, there was no balance in accounts receivable related to these sales.

### 6. DIRECTORS

80. The Board of Directors of Fraser Papers is currently comprised of five directors. Three of the directors are non-independent, as defined by the Ontario Securities Act, National Policy 58-201, given their relationship to the Applicants' major shareholder, BAM. The other two directors are independent.

## CONCLUSIONS

81. The Proposed Monitor is of the view that a restructuring and continuation of the Applicants' operations as a going concern is currently the best option available for all stakeholders for a variety of reasons, including:

    i) the Applicants qualify for and require protection under the CCAA due to their liquidity issues and financial position;

ii) without the proposed DIP financing arrangements in place, the opportunity to stabilize the Applicants' business and restructure the Applicants would not be available;

iii) the only prospect of preserving the going concern value of the Fraser Group is for there to be a centralized insolvency proceeding. For the reasons discussed above, Ontario is the appropriate jurisdiction in which to commence such proceeding;

iv) a restructuring will preserve the going concern value of the Applicants, whereas a wind-down of the operations and liquidation of the assets in today's poor market, would likely result in a substantial diminution in realizable value that would reduce or eliminate creditors' recoveries; and

v) a wind-down and liquidation of the Applicants would eliminate a significant number of jobs, some of which may be preserved if a successful restructuring is effected.

82. As such, the Proposed Monitor supports the Applicants' motion for CCAA protection.

83. The proposed DIP Facilities provide the Applicants with the necessary funding in order to continue to develop their restructuring plan.

The Proposed Monitor respectfully submits to the Honourable Court this, its First Report.

Dated at Toronto, Ontario this 18th day of June, 2009.

**PricewaterhouseCoopers Inc.**
In its capacity as Proposed Monitor of
Fraser Papers Inc., et al

John McKenna

John McKenna
Senior Vice President

# Fact Sheet

JUNE 2009

FraserPapers

**Fraser Papers is an integrated paper company that produces a broad range of specialty packaging, label, converting and publishing papers. Our paper is known for performance and is backed by a high level of customer service and technical support.**

## FULLY INTEGRATED OPERATIONS BETWEEN CANADA AND THE U.S.

### Canadian Assets

- Sulphite pulp mill, groundwood pulp mill and biomass cogeneration power plant in Edmundston, New Brunswick
- Hardwood pulp mill in Thurso, Québec
- Dimension lumbermill in Juniper, New Brunswick and dimension lumbermill in Plaster Rock

### U.S. Assets

- Paper mill in Madawaska, Maine
- Paper mill in Gorham, New Hampshire
- Two lumbermills in Ashland, Maine and one lumbermill in Masardis, Maine

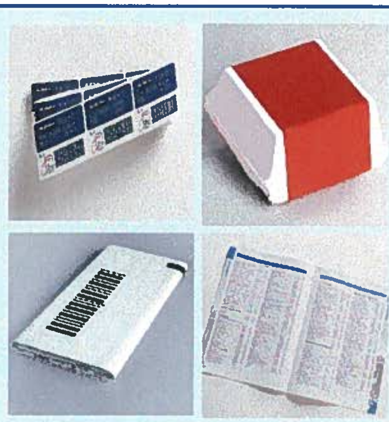
*Madawaska, Maine paper mill in the background and Edmundston, New Brunswick pulp mill in the foreground, connected by cross-border pipelines.*

### Energy

- Cogeneration facility on Edmundston site built in 1995 at a cost of $120 million
  - Processes 800,000 tons of biomass annually
  - Steam used by the Madawaska paper mill
  - Electricity sold to NB Power

### Employees

- Approximately 2,400 employees at year end 2008
- About 70% employees represented by labour unions



### Products

- Paper
  - Specialty Packaging
  - Specialty Printing
  - Specialty high-bright groundwood
  - Commodity freesheet
  - Commodity groundwood
  - Towel
- Pulp
- Lumber, wood chips, bark

APPENDIX A

**FraserPapers**

### Publicly traded on the Toronto Stock Exchange since July 5, 2004

- Formerly a wholly-owned subsidiary of forestry company Nexfor Inc.
- Issued and outstanding capital consists of 50.2 million common shares, of which 70.5% are owned by Brookfield Asset Management

*Plaster Rock, New Brunswick lumbermill*

### Financial Results

- Cash flow from operations:
  - $(65.4) million in 2007
  - $(55.5) million in 2008
  - $(9.7) million for Q1 2009
- $34.2 million reduction in working capital in Q1 2009
- $60 million rights offering and $50 million in additional debt served to fund the deficits

## RESTRUCTURING EFFORTS

### Since 2006 the Company has been proactive in turning around its operations:

- Permanent shutdown of the Berlin, New Hampshire pulp mill
- Efficiency improvements
- Operating cost reductions
- Energy conservation
- Rebuild of the recovery boiler at Edmundston, New Brunswick sulphite mill
- Closure of the two smallest paper machines (PM#1, PM#2) in Madawaska and two additional machines in Gorham
- Increased production of value-added specialty papers

*Thurso, Québec pulp mill*

### More recent initiatives:

- Indefinite closure of paper machine (PM#6) in Madawaska
- Indefinite shutdown of Thurso, Quebec pulp mill

### CONTACT INFORMATION

**Glen McMillan, Chief Financial Officer**
Fraser Papers
tel. 416.359.8635
email. gmcmillan@toronto.fraserpapers.com

APPENDIX B

**Fraser Papers Inc. and Subsidiaries**
**Combined 5 Week Cash Flow Forecast**
**USD (in 000's)**

| | 1 | 2 | 3 | 4 | 5 | | |
|---|---|---|---|---|---|---|---|
| Week Beginning | **18-Jun** | **22-Jun** | **29-Jun** | **6-Jul** | **13-Jul** | **Total** | |
| **Receipts** | | | | | | | |
| Collection of Trade Accounts Receivable | 1,561 | 2,767 | 9,474 | 10,045 | 9,967 | 33,814 | Note 1 |
| Collection of Other Accounts Receivable | 0 | 0 | 0 | 930 | 0 | 930 | Note 2 |
| **Total Receipts** | 1,561 | 2,767 | 9,474 | 10,975 | 9,967 | 34,744 | |
| **Disbursements:** | | | | | | | |
| Raw Material Costs | 1,305 | 9,093 | 5,865 | 5,273 | 5,409 | 26,945 | Note 3 |
| Productions Overhead Costs | 328 | 1,841 | 1,041 | 828 | 816 | 4,854 | Note 4 |
| Selling, General & Admin Costs | 0 | 2,116 | 810 | 745 | 1,495 | 5,165 | Note 5 |
| Employee Costs | 330 | 2,977 | 2,344 | 3,015 | 1,685 | 10,350 | Note 6 |
| Pre-filing Debt Interest & Other Bank Charges | 0 | 24 | 508 | 0 | 17 | 549 | Note 7 |
| DIP Interest & Fees | 0 | 1,122 | 18 | 0 | 0 | 1,141 | Note 8 |
| Hedging Gains/Losses | 0 | (275) | (269) | (323) | (359) | (1,226) | Note 9 |
| Capital Expenditures | 0 | 236 | 192 | 240 | 246 | 914 | Note 10 |
| Other | 0 | 460 | 499 | 334 | 334 | 1,627 | Note 11 |
| **Total Disbursements** | 1,963 | 17,594 | 11,008 | 10,111 | 9,643 | 50,320 | |
| **Net Cash Flow** | **(402)** | **(14,827)** | **(1,534)** | **865** | **324** | **(15,576)** | |
| Estimated Opening Cash Balance | 1,400 | 1,400 | 1,400 | 1,400 | 1,400 | 1,400 | |
| DIP Loan Advance/ (Repayment) | 402 | 14,827 | 1,534 | (865) | (324) | 15,576 | Note 12 |
| **Closing Cash Balance** | 1,400 | 1,400 | 1,400 | 1,400 | 1,400 | 1,400 | |
| **DIP Cumulative Draw** | **(402)** | **(15,230)** | **(16,764)** | **(15,899)** | **(15,576)** | **(15,576)** | |

**This Cash Flow Forecast must be read in conjunction with the Notes and Assumptions attached hereto.**

APPENDIX B

# Fraser Papers Inc. and Subsidiaries
## Unaudited Combined 5 Week Cash Flow for the Period
### Notes and Assumptions

1 Third Party Trade Receivables consist of receipts from the Paper and Pulp and Lumber operations. The timing of receipt collections are based on historical collection rates and have been adjusted for the Company's filing for court protection on June 18, 2009.

2 Collection of Other Accounts Receivable primarily includes the collection of a quarterly management fee paid by Katahdin Paper Company LLC ("Katahdin"), an affiliate of Brookfield, for the management of Katahdin's facilities.

3 Raw material costs represent materials required for production, primarily fibre and chemicals costs. The raw material costs are based on historical costs and expected required purchases throughout the 5 week period. Forecast payment for raw materials have been adjusted for reduced credit terms.

4 Productions Overhead Costs primarily represent supplies and consumables, repairs and maintenance, and property taxes. These costs are based on forecast production levels, historical costs incurred on a mill level and expected costs based on the forecast operations of each of the mills. The paper mills are expected to remain operational throughout the restructuring period. The other operations may be subject to shutdowns during part or all of the restructuring period.

5 Selling, General and Admin costs primarily represent shipping and freight, general and admin fees, insurance payments and legal and professional fees in respect of the CCAA process. Costs are based on historical expenses, with forecast increases for insurance payments. Restructuring professional fees of the Applicants' legal advisors, the Monitor and its legal counsel are based on advice from those advisors.

6 Employee costs represent salaries, wages, vacation pay, current service pension contributions and other post-employment benefits. Hourly payroll, salary costs and benefits are based on forecast headcount required at a mill level. Pension disbursements are in respect of current service costs only.

7 Interest charges are based on CIBC, CIT and Province of New Brunswick interest and fees.

8 Dip Interest and Fees are based on the BAM DIP Financing agreement and the CIT Financing Agreement.

9 Hedging Gains and Losses are based on contractual payments resulting from expiring hedging positions, assuming the actual foreign exchange rate is US$1=C$0.90

10 Capital Expenditures primarily represent forecast maintenance expenditures at the Applicants' East Papers operation.

11 Other expenses primarily represent costs associated with closed landfill sites and regular general and administrative costs pertaining to each mill.

12 DIP Loan Advances represent advance funds received by the Applicants pursuant to the DIP Financing agreement and the CIT Financing Agreement.

13 The Consolidated 5 Week Cash Flow is denominated in USD. A foreign exchange rate of $0.90 has been assumed throughout the 5 Week Cash Flow Forecast.

# NOTICE TO EMPLOYEES OF FRASER PAPERS

## FRASER PAPERS COMMENCES FORMAL RESTRUCTURING PROCESS

**On June 18, 2009, Fraser Papers Inc. and its subsidiaries (collectively, "Fraser Papers") filed for protection from its creditors under the *Companies' Creditors Arrangement Act* (the "CCAA"). The CCAA is a Canadian statute available to insolvent companies who wish to restructure their business within the context of a court-supervised proceeding.**

**Fraser Papers also commenced a similar proceeding in the United States pursuant to Chapter 15 of the U.S. *Bankruptcy Code* (the "U.S. Proceeding"). The U.S. Proceeding is necessary because Fraser Papers and its subsidiaries have assets, operations, employees and other stakeholders that need to be protected in that jurisdiction.**

**Pursuant to the Initial Order obtained in the Canadian Proceeding and an interim Order obtained in the U.S. Proceeding, Fraser Papers has been granted a "stay of proceedings". This gives Fraser Papers an opportunity to stabilize its operations and cash flow for a period of time so that it can develop a restructuring plan that will allow Fraser Papers to remain in operation and be profitable in the future.**

**PricewaterhouseCoopers Inc. has been appointed by the Canadian Court as the "Monitor" in the Canadian Proceedings. The Monitor is a court officer who acts independently from Fraser Papers for the purpose of considering the interests of all stakeholders and reporting any relevant information to the Court. The Monitor also assists Fraser Papers as it seeks to restructure its affairs. During this time, Fraser Papers remains in full possession and control of its assets.**

**Fraser Papers has many challenges to overcome in the near future and the court proceedings that have been commenced provide Fraser Papers with the appropriate framework for resolving these challenges and building a stronger enterprise.**

**Fraser Papers, together with the Monitor, will take all steps necessary to keep employees and all stakeholders fully informed during the Canadian and U.S. Proceedings. The primary methods for keeping stakeholders informed are as follows:**

- **Communications to stakeholders will be posted regularly on the restructuring page of the Fraser Papers website: www.fraserpapers.com.**

- **Fraser Papers has established an email address and telephone line for general employee-related enquiries. Please direct your email questions to Restructuring@fraserpapers.com and your telephone calls to the following number: 1-877-374-3834.**

- **Fraser Papers intends to hold an information meeting. The information meeting will be chaired by the Monitor with key management of Fraser Papers in attendance. Details regarding this meeting will be announced by separate notice.**

- **Communications to stakeholders will be posted regularly on the Monitor's website: www.pwc.com/car-fraserpapers. Additionally, all Court documents filed in the Canadian and U.S. Proceedings will be filed on the Monitor's website.**