

Court File No. CV-09-8241-00CL

**FRASER PAPERS INC., FPS CANADA INC.,
FRASER PAPERS HOLDINGS INC., FRASER
TIMBER LTD., FRASER PAPERS LIMITED,
FRASER N.H. LLC**

**MONITOR'S EIGHTH REPORT TO THE COURT
February 2, 2010**

**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 PLAN OF COMPROMISE OR ARRANGEMENT WITH
RESPECT TO FRASER PAPERS INC., FPS CANADA INC., FRASER PAPER HOLDINGS
INC., FRASER TIMBER LTD., FRASER PAPERS LIMITED, FRASER N.H. LLC

Applicants

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

INTRODUCTION

1. The purpose of this, the Monitor's eighth report (the "**Eighth Report**"), is to provide the Court with information pertaining to:
 - a) The Bid Process in respect of the sale of the Specialty Papers Business ("SPB"); and
 - b) An offer to purchase the Thurso mill.
2. Unless otherwise stated, all monetary amounts contained herein are expressed in U.S. Dollars. Capitalized terms used herein not otherwise defined are as defined in the Initial Order, the Bid Process Order, the Monitor's seven prior reports, in the affidavit of J. Peter Gordon sworn December 3, 2009 (the "**December Gordon Affidavit**").
3. The Monitor has based this report, in part, on information it has obtained from the Applicants but has not audited, reviewed, or otherwise attempted to verify the accuracy

or completeness of such information and, accordingly, the Monitor expresses no opinion or other form of assurance in respect of such information contained in this Report.

A. SPECIALTY PAPERS BUSINESS BID PROCESS

4. The Bid Process for the SPB was approved by this Honourable Court by Order dated December 10, 2009 (the “Bid Process Order”).
5. In accordance with the terms of the Bid Process Order, the Monitor, with the assistance of the Applicants, has solicited the market to obtain offers to purchase, on a going concern basis, the SPB as set out in Schedule A of the Bid Process Order. A summary of the activities conducted by the Monitor is set out below.
6. The Monitor prepared a list of potential strategic and financial buyers (the “Prospective Purchasers”) for the SPB. This list was prepared based on several sources including:
 - a) pulp and paper industry and packaging industry association membership listings;
 - b) analyst reports and research reports on the pulp, paper and packaging sectors;
 - c) a listing of potential buyers provided by the Applicants consisting of competitors, customers, suppliers and financial buyers;
 - d) buyer lists from prior sales processes that were conducted by the Monitor in the pulp and paper industry; and
 - e) industry research conducted by the Monitor including research to identify financial buyers with a focus on operational turnaround/distressed situations and/or current or historical investments in the forestry or paper sectors.
7. The initial buyer list was completed on December 10, 2009 and consisted of 101 Prospective Purchasers, including 53 strategic buyers and 48 financial buyers.

8. Immediately after the approval of the Bid Process by this Honourable Court on December 10, 2009, the Monitor began contacting Prospective Purchasers by telephone. Information regarding the Bid Process and the Bid Process Order was posted on the Applicants' website and the Monitor's website.
9. The Bid Process and a description of the opportunity to acquire the SPB was also mentioned in several newswire, print and electronic media sources including Bloomberg, The Globe and Mail, Pulp and Paper Canada and RISI. We attach as Exhibit 1, a listing of several relevant media releases describing the Bid Process.
10. In accordance with the Bid Process Order, commencing Monday, December 14, 2009, an introductory "teaser" letter, which had been prepared by the Applicants with input from the Monitor, was sent to Prospective Purchasers and posted on the Applicants' web site. We attach a copy of the teaser letter as Exhibit 2.
11. Additionally, on December 15, 2009, the Monitor sent an email communication to the 900 members of its global corporate finance practice. The email included the teaser letter and an outline of the Bid Process and requested that recipients contact the Monitor with the names and contact details of any additional potential interested parties.
12. As a result of the email communication by the Monitor to its global corporate finance practice and the electronic and print media outlining the opportunity to acquire the SPB, the Monitor either identified or was contacted by an additional 32 Prospective Purchasers including 14 strategic purchasers and 18 financial purchasers.
13. By close of business on December 15, 2009, the Monitor had contacted 93 Prospective Purchasers and had distributed 60 Teaser Letters. The Monitor had also distributed 60 Confidentiality Agreements ("CA"), the execution of which was a prerequisite to any Prospective Purchaser commencing its due diligence.

14. All parties that signed the CA were then provided with the following:

- a) a Confidential Information Memorandum (“CIM”) providing in-depth information on the SPB, its operations and financial results which had been prepared by the Applicants, with input from the Monitor. The CIM placed a particular focus on the operational improvements and restructuring initiatives that are being implemented for the SPB and are expected to significantly improve profitability. The CIM also outlined the Sale Agreement (being the Sale Agreement with BAM) and the Bid Process;
- b) an opportunity to attend a webcast management presentation (“Management Presentation”), which was held at 11:00am EST on December 21, 2009. The Management Presentation provided further detail on the SPB’s business plan and was presented by Mr. Jeff Dutton, President and Chief Operating Officer, together with input from Mr. Jim Gehrman, Vice President of Sales, Mr. Matt Nightingale, Vice President of Marketing and Mr. Wayne Johnson, Corporate Controller. The webcast was recorded and subsequently made available to all Prospective Purchasers that executed a CA and were not able to attend the December 21, 2009 presentation. The Management Presentation required viewers to submit questions by email to the Monitor and did not permit an interactive dialogue between the Applicants and the Prospective Purchasers that were viewing the presentation live. Consequently, Potential Purchasers that subsequently listened to the webcast recording were not disadvantaged in comparison to the Prospective Purchasers that participated in the live presentation; and
- c) access to an electronic data room (the “Data Room”), which consisted of detailed financial, operational, human resources, legal, customer and supplier information to assist Prospective Purchasers in analyzing the SPB and determining if they would submit an LOI. The Data Room also contained the Sale Agreement together with all Schedules. All Prospective Purchasers that executed a CA were

informed in writing that they could access the Data Room upon submission to the Monitor of the name, phone number and email address for those individuals requesting Data Room access. For Prospective Purchasers that had executed the CA but had not requested Data Room access, the Monitor either telephoned or communicated by email to provide them with a second notice that they could access the Data Room. The Data Room was opened to Prospective Purchasers on December 22, 2009.

15. In summary, during the Bid Process, the Monitor contacted a total of 133 Prospective Purchasers including 67 strategic purchasers and 66 financial purchasers. The Monitor contacted each Prospective Purchaser at least three times during the Bid Process by either telephone call or email unless the Prospective Purchaser declined the opportunity on a previous contact. The Monitor distributed 113 Teaser Letters and CAs to 52 strategic purchasers and 61 financial purchasers. Of the Prospective Purchasers contacted, 19 executed the CA and received the CIM and had the opportunity to access the Management Presentation and Data Room.
16. On January 14 and 15, 2010, the Monitor contacted all Prospective Purchasers that had executed the CA, other than those that had already informed the Monitor that they declined to submit an LOI. The Monitor reminded each of the remaining Prospective Purchasers of the January 22, 2010 bid deadline and enquired if they had any requests for additional information or questions pertaining to the SPB or Bid Process. For the Prospective Purchasers that had accessed the Data Room, the Monitor offered to arrange a conference call with the management of the SPB to address any due diligence questions.
17. On January 14, 2010, the Monitor arranged and facilitated a conference call with one Prospective Purchaser (the "Interested Party") and Mr. Jeff Dutton and Mr. Wayne Johnson to answer the Prospective Purchaser's due diligence questions.

18. By January 21, 2010, of the 19 Prospective Purchasers that had executed a CA, 18 had declined to submit an LOI. While not all parties explained their rationale for not submitting an LOI, the reasons that were provided are summarized below:
 - a) The purchase price reflected in the Sale Agreement was in excess of the fair value of the SPB in the opinion of several Prospective Purchasers;
 - b) Potential synergies between the SPB and certain Prospective Purchasers were less than initially anticipated due to minimal customer overlap and geographic synergies;
 - c) A lack of strategic fit between the SPB and certain Prospective Purchasers that are more focused on commodity paper grades; and
 - d) Concerns regarding the economic attractiveness of the paper sector in general, and the SPB's competitive positioning in the industry.
19. Prior to the bid deadline, on January 22, 2010 at 12:00pm EST, the "Interested Party indicated to the Monitor that they were considering submitting an LOI but would not be able to meet the bid deadline. The Monitor consulted with the Applicants and jointly concluded that it was in the best interest of the creditors to extend the bid deadline to provide the Interested Party with an opportunity to submit an LOI. By Endorsement of Justice Pepall dated December 10, 2009, the Bid Process could be extended by the Monitor for up to a two week period if facts and circumstances required modification to the terms or timelines of the bid process.
20. The Monitor contacted the Interested Party on January 22, 2010 and, after consultation with the Applicants, it was agreed that the bid deadline would be extended until January 26, 2010 at 9:00pm EST. From January 22, 2010 until January 26, 2010, the Interested Party had several due diligence questions, which, to the knowledge of the Monitor, were responded to. On January 26, 2010, the Interested Party contacted the Monitor to

indicate that it had decided to not submit an LOI, as it concluded that the proposed consideration in the Sale Agreement was in excess of its view of the fair value of the SPB.

21. While the time-frame of the Bid Process was condensed, particularly given the Christmas vacation period, the Monitor received the full cooperation of the Applicants during the Bid Process, including over the holiday period. Within three business days of receiving the Bid Process Order, the Monitor had contacted 93 Prospective Purchasers and had distributed 60 Teaser Letters and CAs. The Monitor and Applicants were available throughout the Bid Process to respond to Prospective Purchasers and the Monitor continued to solicit the market during the holiday period. The Monitor also notes that from commencement of the CCAA proceedings on June 18, 2009 to approval of the Bid Process on December 10, 2009, the Monitor did not receive any serious expressions of interest to invest in or acquire the Applicants or the SPB and, to the knowledge of the Monitor, neither had the Applicants.
22. It is the opinion of the Monitor that the market has been fully canvassed and that it is unlikely that any further marketing would generate an offer superior to the Sale Agreement. To the best of its knowledge, the Monitor believes that all requests for additional information made through the Monitor by Prospective Purchasers were satisfied. Other than for the Interested Party for which the Bid Process was extended, to the best of its knowledge, the Monitor is unaware of any Prospective Purchaser that either requested an extension to the Bid Process or indicated to the Monitor that the time-frame of the Bid Process was unreasonable.
23. The Monitor notes that as no LOIs were received by the bid deadline, as extended, the Applicants, in consultation with the Monitor, have terminated the Bid Process in accordance with the Bid Process Order. The Monitor understands that the Applicants now are working towards satisfying the conditions precedent in the Sale Agreement. If all the conditions precedent are satisfied, the Monitor understands the Applicants will

then appear before this Honourable Court to seek to have the Sale Agreement with BAM and the transaction pursuant thereto approved, and the Monitor will provide a further report to this Honourable Court at that time..

B. OFFER ON THE THURSO MILL

24. As set out in the Monitor's Sixth Report, the Residual Assets were not going to be actively marketed in the period from December 2009 until the SPB Bid Process was complete.
25. The Residual Assets include a pulp mill located in Thurso, Quebec (the "Thurso Mill"), which has been closed since June 2009, due to market conditions. The Applicants had been working on a business plan, which would have seen the mill re-started and a co-generation plant built on the site and, in this respect, had secured an expression of interest from the Quebec government to provide new funding. Any future commitment for funding is subject to obtaining a strategic equity investor to invest in the Thurso Mill on terms acceptable to the Quebec government. The Applicants had contacted a number of third parties in this respect, but no such strategic equity investors had been found.
26. In late December, the Monitor was approached by a third party (the "Third Party") who expressed an interest in purchasing the Thurso Mill. Discussions between the Applicants and the Third Party were held during late December and early January, which appeared promising.
27. As a result of this interest, the Applicants decided, in conjunction with the Monitor, that the Thurso Mill should be actively marketed to Potential Purchasers to ensure the Thurso Mill had been exposed to the market.
28. Accordingly, in conjunction with the Applicants and including prior activities by the Thurso Mill management to obtain a strategic equity investor, the Monitor created a list of 36 potential purchasers for the Thurso Mill ("Thurso Potential Purchasers"). The Thurso Potential Purchasers included wood product companies, pulp and paper

companies, energy companies and financial buyers. The Thurso Potential Purchasers were contacted by telephone and email by the Monitor and provided with an email summarizing the opportunity to either invest in, or acquire the Thurso Mill along with a confidentiality agreement. Those parties that executed the confidentiality agreement were provided with a copy of the Thurso Mill's detailed business plan which also contained detailed financial projections.

29. However, to date, no expressions of interest have been received as a result of this marketing process.
30. During this period, additional discussions were held between the Applicants, the Quebec Government and the Third Party, which culminated with a letter of intent to acquire the Thurso Mill being received from the Third Party (the "Thurso LOI") on January 22, 2010. The Thurso LOI has been subsequently negotiated by the Applicants and the Third Party, which culminated with an amended Thurso LOI being signed by both the Applicants and the Third Party on February 1, 2010.
31. The Thurso LOI is conditional and subject to confidentiality restrictions pending completion of the Third Party's due diligence activities and, hence, the Monitor has not summarized the terms of the Thurso LOI in this report.
32. The Applicants and the Third Party have until March 5, 2010 to enter into a definitive agreement of purchase and sale. During this period of time, the Third Party has exclusivity with respect to the Thurso Mill and the Applicants may not continue to market or solicit offers to purchase the Thurso Mill. If a definitive agreement is reached, the Applicants will then appear before this Honourable Court to seek to have the definitive agreement and the transaction pursuant thereto approved and the Monitor will provide a further report to this Honourable Court at that time.

The Monitor respectfully submits to the Court this, its Eighth Report.

Dated at Toronto, this 2nd day of February, 2010.

PricewaterhouseCoopers Inc.
in its capacity as Monitor of
Fraser Papers Inc. et al

A handwritten signature in black ink that reads "John McKenna". The signature is written in a cursive, flowing style with a large initial 'J' and 'M'.

John McKenna
Senior Vice President

Exhibit 1 – Bid Process Media Releases:

- bloomberg.com
 - <http://www.bloomberg.com/apps/news?pid=20601082&sid=aISn7luV4CdM>
- Papermoney [pulp & paper industry website]
 - <http://www.globalpapermoney.org/news.php?viewStory=4165>
- Pulp and Paper Canada
 - <http://www.pulpandpapercanada.com/issues/Search.asp?ntkws=t>
- Lesprom [Russian wood industry website]
 - <http://wood.lesprom.com/news/42203/>
- Marketwire
 - <http://www.marketwire.com/press-release/Fraser-Papers-Receives-Approval-for-Restructuring-Proposal-1089482.htm>
- RISI [leading information provider for the global forest products industry]
 - <http://www.risiinfo.com/wood/news/Fraser-Paper-gains-approval-to-sell-mills.html>
- 680 News
 - <http://www.680news.com/business/article/6825--fraser-papers-wins-approval-for-restructuring-plan-first-phase-to-go-ahead>
- Earthtimes [PR website]
 - <http://www.earthtimes.org/articles/show/fraser-papers-receives-approval-for-restructuring-proposal,1085474.shtml>
- Globeandmail
 - http://www.globeinvestor.com/servlet/story/CCNM.20091203.572403_1/GIStory
- Trading Markets [traders website]
 - <http://www.tradingmarkets.com/.site/news/Stock%20News/2699871/>
- News Blaze [news agency]
 - <http://newsblaze.com/story/2009120318340200001.cc/topstory.html>
- FinanzNachrichten [German news source]
 - <http://www.finanznachrichten.de/nachrichten-2009-12/15627509-brief-fraser-papers-files-restructuring-proposal-020.htm>

FORWARD-LOOKING INFORMATION

The attached information document contains forward-looking information and statements about the specialty papers business (the "Business") operated by Fraser Papers Inc. (together with its subsidiaries ("the Company")) relating, but not limited to: anticipated or prospective financial performance; results of operations; future investment in the Business; projected or anticipated cost savings, the operating platform of the Business; manufacturing capacity, energy reduction initiatives; expectations of the results of the modernization of the Plaster Rock lumbermill; the expected impact of economic events on financial results in the future; and the certain details about the process of selling the Business.

Forward-looking information typically contains statements with words such as "potential" "proposed", "providing", "estimate", "long-term", "continue", "can", "future", "expected", "will", "are to be", and similar words, or variations of those words that suggest future outcomes. In addition, forward-looking statements may reflect the outlook on future changes in production volumes, prices, costs, estimated amounts and timing of cash flows of the Business, or other expectations or beliefs, objectives or assumptions about future events or performance. Readers should be aware that these statements are subject to known and unknown risks, uncertainties and other factors that could cause actual results to differ materially from those suggested by the forward-looking statements.

Factors that could cause actual results, manufacturing, investments, cost savings, or the process of selling the business to differ materially from those set forth in the forward-looking statements include: the completion of proposed changes to energy markets in New Brunswick, unforeseen production issues, reduced demand or lower selling prices for the Business's products, increases in production and manufacturing costs, changes in the value of the Canadian dollar relative to the United States dollar, unforeseen administrative or legal issues associated with Government sponsored programs, unforeseen and unknown future changes in environmental regulation, future operating strategies of the Business, unforeseen inability to meet the conditions of certain Government programs; the market position and operating strategies of the competitors of the Business; the impact of previous and future orders made by courts in Canada and the United States under the Company's court supervised restructuring; various and general economic conditions; other risks detailed from time to time in the documents filed by the Company with the securities regulators in Canada and with commercial courts in Canada and the United States.

In addition, the Company and its subsidiaries are currently operating under creditor protection laws in Canada and the United States. Many of the Company's plans are subject to the review of commercial courts in Canada and the United States. The Company cannot anticipate when such plans will be the subject of consideration by the commercial courts or, if they are, what impact that consideration will have on the plans or intentions of the Company.

The significant risks that impact the business and future performance of the Company and the Business are discussed in the Annual Report and other filings with Canadian securities regulatory authorities, as well as documents filed with the commercial courts in Canada and the United States. The Company cautions that the list of risks and factors discussed in those documents may not be exhaustive. Readers should consider those risks, as well as other uncertainties and factors and potential events. Although the Company believes it has reasonable basis for making the forward-looking statements included in this report, readers are cautioned not to place undue reliance on such forward-looking information.

Neither the Company nor the Business undertakes any obligation, except as required by law, to update publicly or otherwise revise any forward-looking information, whether as a result of new information, future events or otherwise.

SPECIALTY PAPERS INVESTMENT OPPORTUNITY

FraserPapers

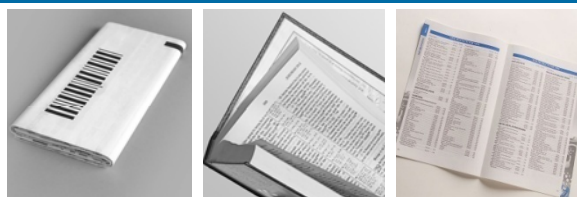
Fraser Papers Inc. (the “Company”) is selling its integrated specialty papers business (the “Specialty Papers Business”) as part of a court supervised restructuring of the Company. The Specialty Papers Business manufactures and markets high-value, specialty lightweight printing and premium packaging papers from its manufacturing facilities in New Brunswick and Maine.

The Specialty Papers Business has the capacity to produce up to 380,000 tons of coated and uncoated groundwood and woodfree papers on five paper machines. Fibre security is achieved through the ownership of two lumbermills, long-term fibre supply agreements and Crown license tenures.

Business improvements through selected capital investments, product development initiatives and product and manufacturing consolidation are available to a potential purchaser of the Specialty Papers Business. In addition to an estimated \$8 million in potential electricity cost savings from the proposed sale of NB Power to Hydro Québec, the Specialty Papers Business is expected to benefit from cost reductions, in excess of \$30 million annually, as a result of a number of initiatives including:

- Approximately \$14 million labour cost savings through job reductions, many through attrition and retirement, and new collective agreements;
- Reduction in fibre costs of approximately \$6 million from new contracts and additional allocation of crown logs, chips and biomass in New Brunswick;
- C\$23 million funding from the Canadian Federal Government’s Green Transformation Program for high-return capital projects in Edmundston, providing approximately \$7 million in long-term savings; and
- An estimated \$4 million benefit from the recent modernization project at the Plaster Rock lumbermill, which provides security of lower cost softwood chips.

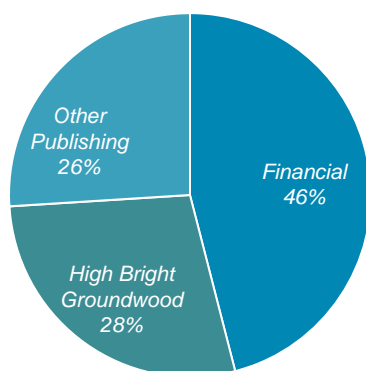
Specialty Publishing Papers 210,000 tons per year



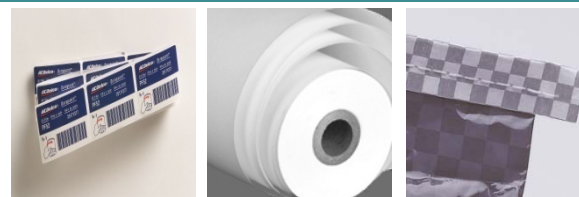
Pharmaceutical

Bible

Financial



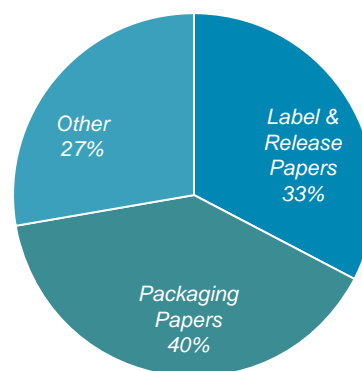
Technical Specialty Papers 170,000 tons per year



Label

Thermal Papers

Pet Food Bags



SELECTED FINANCIAL INFORMATION (US\$ millions)

	2007	2008	Sept. YTD 2009	2010P	2011P	2012P
Revenue	438	435	293	417	424	426
Cost of Sales	480	455	305	397	395	395
EBITDA	(42)	(20)	(12)	20	29	31
Capital Investments ⁽¹⁾	15	20	6	3	5	10

(1) Capital investments exclude C\$15 million invested in 2009 to modernize the Plaster Rock lumbermill. 2010-2011 excludes proposed capital investments of C\$23 million funded through the Green Transformation Program

An integrated pulp and paper complex capable of producing up to 380,000 tons of specialty printing and packaging papers per year

Investment Highlights

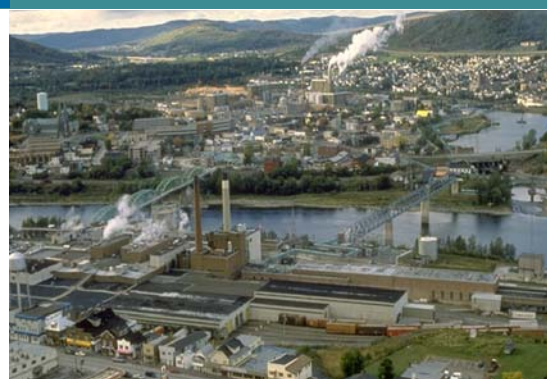
- Integrated pulp and paper complex situated in New Brunswick and Maine
- Broad manufacturing capabilities, certified ISO 9001:2000 and ISO 14001
- Track record of product development, replacing 22% of products per year
- Industry-recognized customer service and technical field representation
- Influential market share in a number of product segments
- Attractive industry dynamics as environmental trends continue to support the use of renewable resources
- Environmental certifications include SFI® fibre sourcing procurement and FSC chain of custody

The pulp and paper manufacturing complex benefits from fibre integration

- 26% of chip requirements can be met from two owned New Brunswick lumbermill operations with 270 MMfbm annual lumber capacity, located at Plaster Rock and Juniper, New Brunswick.
- SFI® fibre sourcing procurement certification at lumbermill operations
- Crown cutting rights up to 360,000 m³ and long-term fibre supply contracts
- Recently completed C\$17.6 million modernization project at Plaster Rock lumbermill

The pulp and paper manufacturing complex is powered by on-site biomass cogenerator

- Self-generates approximately 100% of its steam energy requirements at an on-site 38MW biomass cogeneration plant and pulp recovery boiler
- Future additional energy efficiency is expected from C\$23 million in capital projects funded under the Green Transformation Program



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



Plaster Rock, New Brunswick lumbermill



Juniper, New Brunswick lumbermill

SALE PROCESS OVERVIEW

On June 18, 2009, the Company and all its subsidiaries filed for protection from its creditors under the Companies' Creditors Arrangement Act ("CCAA"). PricewaterhouseCoopers Inc. has been appointed as monitor ("the Monitor") pursuant to the CCAA proceedings. For further information regarding the CCAA restructuring, sale process and timeline, please refer to www.pwc.com/ca/en/car/fraser-papers

A Confidential Information Memorandum and access to an electronic data room will be made available to interested parties that execute a confidentiality agreement.

Non-binding Letters of Intent are to be submitted to the Monitor on or before January 22, 2010.

All Requests for information should be made to the Monitor:

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