

**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 and FRASER N.H. LLC

Applicants

AFFIDAVIT OF J. PETER GORDON
(Sworn February 20, 2010)

I, J. Peter Gordon, of the City of Toronto, in the Province of Ontario, **MAKE OATH AND
SAY AS FOLLOWS:**

1. I am the Chief Executive Officer and a Director of Fraser Papers Inc. ("Fraser Papers" or the "Company"), and hold the office of Chairman of each of the other Applicants (collectively, with Fraser Papers, the "Applicants") and as such I have personal knowledge of the matters to which I herein depose. Where the source of my information or belief is other than my own personal knowledge, I have identified the source and the basis for my information and I believe it to be true.

2. All monetary amounts referred to in this Affidavit are in United States (“U.S.”) currency unless otherwise stated, and all capitalized terms used herein and not otherwise defined are as defined in the Initial Order of Mr. Justice Morawetz dated June 18, 2009.

3. This Affidavit is sworn in support of the relief requested by the Applicants in a Notice of Motion dated February 19, 2010 seeking, among other things, an Order extending the existing stay of proceedings to April 9, 2010. The Applicants also seek further relief on an alternate basis, which is dependent upon the outcome of ongoing negotiations that are expected to continue until the hearing of this motion returnable on February 24, 2010. That alternative relief is as follows:

- (a) if agreements in principle are reached by February 24, 2010 to satisfy the main conditions precedent under the Asset Purchase Agreement (“APA”) annexed as Exhibit “A” to my affidavit sworn on December 3, 2009 and previously filed with this Honourable Court (the “December Affidavit”), an Order authorizing and directing the Applicants to execute and deliver all definitive documentation to permit a closing of the APA transaction with a further court attendance within thirty (30) days to seek: (i) final approval of the APA; (ii) a Vesting Order; and (iii) related relief to permit the closing of the APA on terms satisfactory to the parties;

or

- (b) if agreements in principle are not reached to satisfy the main conditions precedent under the APA by February 24, 2010, an Order authorizing the Applicants to commence an orderly liquidation of their assets under the supervision of the Monitor.

4. Part I of this Affidavit provides the Court and all stakeholders with an update as to operations and any recent developments. Part II outlines the status of negotiations as it relates to the various conditions under the APA, which efforts are ongoing and are expected to continue after the filing of this Affidavit.

If an agreement in principle on the outstanding conditions is reached by February 24, 2010, Part II of this Affidavit also describes the steps that will be taken over the following thirty days to prepare for a further motion seeking final approval of the APA, a Vesting Order and a closing of the sale transaction. Part III of this Affidavit outlines the steps requested to be taken by the Applicants under the supervision of the Monitor to effect an orderly liquidation, in the event agreements in principle on the outstanding conditions are not reached by February 24, 2010.

PART I: Update on Operations

5. Since the December Affidavit was sworn, the Applicants have continued to complete a number of initiatives related both to their day-to-day operations and to their efforts to restructure the business.

i. Labour Negotiations at Madawaska

6. Since last Fall, the Applicants had been meeting with the bargaining committee for United Steel Workers (“USW”) Locals 4-1247, 4-365 and 4-291 representing 455 unionized employees at the Madawaska paper mill. The USW collective agreement expired on October 31, 2009 but was most recently extended to February 26, 2010. On February 15, 2010, after extensive negotiations, a new three-year collective agreement was ratified by the members, subject to closing of the APA transaction.

7. The Applicants had also been meeting with the bargaining committee for Office and Professional Employees International Union, Local 232 (“OPEIU”) representing 63 unionized employees at the Madawaska paper mill. The OPEIU collective agreement expired on October 31, 2009 but was most recently extended to February 26, 2010. A formal offer was provided to these employees on February 18, 2010 and is expected to be voted on by employees on February 24, 2010. Based on the ratification of agreement with the USW, the Company is optimistic that the employees will vote to ratify the new terms, in which case the condition under the APA relating to new collective bargaining agreements at Madawaska will have been satisfied.

ii. Status of DIP Financing

8. Pursuant to the Initial Order, as amended, DIP financing was made available by each of CIT Business Credit Canada Inc. (“CIT”) and Brookfield Asset Management Inc. (“BAM”), with further advances under an existing facility being made available by GNB. Current borrowings under the CIT DIP facility are approximately \$8 million and there is no further availability under the CIT DIP as the Applicants do not have the required borrowing base to support further borrowings.

9. The Applicants have borrowed approximately \$5 million under the BAM DIP facility to date. Based on the cash flow forecast prepared by the Applicants for the period of the requested stay extension, which will be annexed to the Monitor’s 10th Report to the Court (the “Cash Flow Forecast”), additional borrowings under the BAM DIP facility would be required during the period. If agreements in principle are not reached and the Applicants are authorized to commence an orderly liquidation, BAM reserves all of its rights in connection with the BAM DIP facility.

iii. Plaster Rock Lien Claims

10. The start up of the Plaster Rock lumber mill marked the completion of the CDN\$17.6 million modernization project that was financed by a commercial loan from the Government of New Brunswick (“GNB”). As part of this project, Fraser Papers retained the services of KMW Energy Inc. (“KMW”) to install a biomass fired energy system, pursuant to an agreement dated September 18, 2008 (the “KMW General Contract”).

11. In addition to the KMW General Contract, Fraser Papers and KMW are also party to a further agreement with RHI Canada Inc. (“RHI”) dated August 5, 2009 (the “RHI Agreement”). RHI provided certain materials and services to the Plaster Rock modernization project as a subcontractor to KMW. A dispute exists regarding the proper amount due and owing to RHI under the terms of the RHI Agreement and RHI has registered a lien against the Plaster Rock facility. Fraser Papers intends to pay the amount of

CDN\$553,937.11 to RHI, representing the maximum amount that Fraser Papers believes could be payable to RHI. RHI asserts that further amounts are owing, which will be the subject matter of a subsequent motion before this Honourable Court.

12. As general contractor, KMW retained the services of a number of subcontractors. I am advised by Bill Manzer, Senior Vice President – Business Strategy and Projects for Fraser Papers, that the subcontractors retained by KMW last provided materials and/or services at the Plaster Rock facility in October 2009. Since that date, a number of liens have been registered against the Plaster Rock property. All of the liens were registered by subcontractors hired by KMW for work for which they claim payment, relating to the Plaster Rock modernization project.

13. Fraser Papers has paid all amounts owing to KMW in connection with this project, subject to a certain holdback amount that KMW has directed to be paid to RHI pursuant to the RHI Agreement as described in paragraph 11 above. KMW has not remitted payment to certain of its subcontractors. Fraser Papers is working with KMW to address these outstanding liens, and may seek relief from this Honourable Court if the situation is not resolved forthwith.

iv. Potential Sale of Other Facilities

14. As outlined in prior affidavits filed in this proceeding, the Applicants have been engaged in ongoing discussions with the Government of Quebec with respect to identifying an investor who would be prepared to acquire the Applicants' hardwood pulp mill located in Thurso, Quebec. Seven parties signed confidentiality agreements and on February 1, 2010 a Letter of Intent was executed by the Applicants (the "LOI"). The LOI provides the prospective purchaser with an exclusive period (until March 31, 2010) within which to conclude a transaction for the purchase of the Thurso facility. The Applicants have been working with the prospective purchaser and the Government of Quebec with respect to the terms and conditions that would need to be satisfied to conclude a sale transaction for the

Thurso facility. The LOI contemplates a significant financial contribution by the Government of Quebec and a new collective agreement with the unionized employees at the Thurso mill.

15. The Government of Quebec had agreed to fund the costs incurred by the Applicants until January 31, 2010 related to the care and maintenance of the Thurso facility while it was shut down. Based on the interest expressed by this party and the delivery of the LOI, the Government of Quebec has agreed to continue funding the care and maintenance costs for the Thurso facility until March 31, 2010 to coincide with the exclusivity period requested by the prospective purchaser.

16. The Applicants have now received a draft Asset Purchase Agreement from the prospective purchaser which is being reviewed by counsel and the Monitor. The Applicants will continue to advise this Honourable Court and their stakeholders of any developments with respect to a potential sale of the Thurso facility.

17. Under the supervision of the Monitor, a sales process has also been commenced with respect to the Applicants' paper mill located in Gorham, New Hampshire. The Applicants have contacted a number of parties with respect to their interest in acquiring the Gorham Paper Mill, and to date confidentiality agreements have been executed with fifteen (15) parties. The Applicants have opened a data room and the Monitor has notified interested parties that letters of intent are due on March 16, 2010.

18. There have also been two inquiries with respect to the Company's two lumber mills in northern Maine, but to date no offers have either been solicited or received. The Applicants intend to commence a sales process for these two facilities during the second calendar quarter of 2010.

19. The Applicants will continue to provide updates to this Honourable Court and all stakeholders as to any developments regarding a potential sale of these other assets.

v. *Impact of Potential Sale of NB Power*

20. As outlined in my Affidavit sworn on June 17, 2009 in support of the Initial Order (the “Initial Affidavit”), Fraser Papers is party to a thirty-year Power Purchase Agreement with NB Power dated May 16, 1995 (the “CoGen Agreement”) whereby Fraser Papers supplies all of the electricity generated at the CoGen facility to NB Power. Fraser Papers is required to post letters of credit with NB Power to secure performance under the CoGen Agreement and at this time the letters of credit that have been posted total approximately CDN \$23 million.

21. As outlined in the December Affidavit, on October 29, 2009 GNB and the Government of Quebec announced that they had reached an agreement in principle whereby Hydro Quebec would purchase substantially all of the assets of NB Power and enter into a long-term electricity supply and service agreement with New Brunswick businesses and residences.

22. Since that time the terms of the proposed purchase of NB Power have been amended such that Hydro Quebec would purchase only the generating assets of NB Power. Under the amended terms, the Applicants estimate the operating cost savings will be approximately \$6 million per year. The transaction is scheduled to close March 31, 2010.

vi. *Customs Bonds*

23. Fraser Papers Limited (“FPL”) maintains a number of customs bonds with the Department of Treasury, U.S. Customs Service. These bonds allow for a continuous and efficient flow of goods across the Canada/U.S. border by guaranteeing the payment of import duties and taxes. By virtue of the customs bonds, FPL is given ten (10) days from date of entry to pay all applicable duties and taxes. Without the bonds, FPL would have to pay all import duties and taxes at each and every border crossing.

24. FPL maintains three U.S. customs bonds (the "FPL Bonds") with C.A. Shea Company, Inc. ("Shea"). The FPL Bonds are continuous bonds and remain in force for one year beginning from the effective date and for each succeeding annual period, or until terminated. The present contract periods for the FPL Bonds are as follows: (i) Bond no. 077729924 - January 12, 2010 to January 11, 2011; (ii) Bond no. 971024010 – April 2, 2009 to April 1, 2010; and (iii) Bond no. 971024011 – April 15, 2009 to April 14, 2010.

25. I have been advised by Danny Nunes, an associate with Thornton Grout Finnigan LLP ("TGF"), our counsel herein, and do verily believe that Shea contacted Aon Reed Stenhouse Inc. ("Aon"), FPL's insurance broker, regarding the FPL Bonds and informed Aon that, due to the Applicants' filing under Chapter 15 of the U.S. Bankruptcy Code, Shea required FPL to post a letter of credit in the amount of USD\$250,000 to secure the FPL Bonds. In the event that FPL failed to comply with Shea's request, the FPL Bonds would be terminated immediately by Shea.

26. I am further advised by Danny Nunes and do believe that on February 19, 2010, he spoke to Aon's contact at Shea, John Sheppard, and advised Mr. Sheppard that, under the terms of the Initial Order and the Order of the U.S. Bankruptcy Court for the District of Delaware dated July 13, 2009 recognizing the CCAA proceeding and giving effect to the stay of proceedings in the U.S. (the "Permanent Injunction Order"), Shea was prohibited from terminating the FPL Bonds or interfering with Fraser Papers' right to renew the FPL Bonds. I am further advised by Mr. Nunes that Mr. Sheppard reiterated Shea's position that it would terminate the FPL Bonds in the event the requested letter of credit was not posted.

27. By letter dated February 19, 2010 from Mr. Nunes, Shea was advised that termination of the FPL Bonds was prohibited by the Initial Order and the Permanent Injunction Order, copies of which were attached to the letter. Mr. Sheppard was asked to confirm that the FPL Bonds would remain in place and I have been advised by Mr. Nunes that, as at the time of swearing this Affidavit, no response has been provided by Shea.

28. If Shea terminated the FPL Bonds it would result in serious logistical problems for Fraser Papers as cross-border shipments will encounter unnecessary delays. The terms of the FPL Bonds are continuous and remain in effect for every succeeding annual period after the effective date on the same terms. FPL has met all of its obligations to Shea with respect to the payment of premiums related to the FPL Bonds and has met all of its obligations as it concerns the payment of import duties and taxes to date.

29. The Applicants may need to seek specific relief from this Honourable Court at a later date, in the event of any actual termination of the FPL Bonds.

vii. CEP Labour Board / Grievance Proceedings

30. The Communication, Energy and Paperworkers Union of Canada (the “CEP”) brought certain proceedings in Ontario, Quebec and New Brunswick before the relevant provincial labour boards and in the form of grievances pursuant to certain collective agreements (collectively, the “CEP Labour Proceedings”). The CEP Labour Proceedings make certain allegations and seek relief against other parties, including BAM. The Applicants dispute all aspects of the CEP Labour Proceedings, including the preliminary issue of whether such actions can be taken without leave of this Honourable Court, by virtue of the stay of proceedings.

31. Due to the ongoing negotiations between the Applicants and the CEP regarding the conditions under the APA, CEP agreed to toll all time periods that would otherwise exist in connection with a response to the CEP Labour Proceedings, to see if an agreement could be reached on the terms required by the APA. If such an agreement is reached it would require a dismissal of the CEP Labour Proceedings. By written agreement dated as of January 8, 2010, all named parties to the CEP Labour Proceedings agreed that the commencement of all time periods would be extended to February 26, 2010, to coincide with the existing stay of proceedings.

32. Accordingly, the Applicants have taken no steps to respond to the CEP Labour Proceedings, or bring any motions regarding the ability of CEP to commence or continue such proceedings. The labour boards in each Province have been notified of the tolling agreement, as it extends the date by which responding materials would be required to be delivered.

33. On January 8, 2010 counsel for the Applicants and the Monitor, with the consent of counsel for the CEP, attended in chambers to advise this Honourable Court that the CEP Labour Proceedings had been brought, and that a tolling agreement had been reached among the parties.

viii. Request for Stay Extension and Cash Flow Forecast

34. The Applicants are requesting an extension of the Stay Period to April 9, 2010. If agreements in principle are reached as described in Part II of this Affidavit, the extension will give the parties an opportunity to conclude all definitive documentation for the APA transaction and obtain any special regulation that may be agreed to by GNB and the Superintendent of Pensions for GNB, all being subject to a further motion to be brought for final approval of the APA, a Vesting Order and related relief.

35. If agreements in principle are not reached and an Order is granted providing for an orderly liquidation of the Applicants' assets, the extension of the Stay Period will provide the Applicants and the Monitor with an opportunity to continue the claims process and implement the orderly liquidation as described in Part III of this Affidavit.

36. The Applicants' Cash Flow Forecast for the period of the requested stay extension will be annexed to the Monitor's 10th Report to the Court. The Applicants' continuing inability to generate any significant positive cash flow stresses the urgency with which the Applicants must either close the APA transaction, or conduct an orderly liquidation of assets.

PART II: Negotiations Concerning APA

37. The December Affidavit identified, at paragraph 32 thereof, that there are three main conditions that would have to be satisfied in order for the specialty papers business to be sold as a going concern, thereby preserving employment and operations in New Brunswick and Maine. Those three conditions are:

- (a) obtaining amendments to all collective agreements related to the purchased assets to delete all references to the existing defined benefit pension plans, and obtaining agreement of the unions that the purchaser will have no obligations with respect to the Pension Plans and, where applicable, obtaining agreement to cease any remaining defined benefit pension accruals;
- (b) securing new collective agreements with the USW and OPEIU at Madawaska in form and substance acceptable to the purchaser; and
- (c) obtaining amendment to the NB Power contract to provide for a first charge security interest in the CoGen Facility or other security to replace the existing letters of credit.

38. As referenced above, a new collective agreement with the USW in Madawaska has been concluded and the Company anticipates that OPEIU employees will vote to ratify the new contract on February 24, 2010 such that the second condition listed above can be satisfied.

39. Discussions have been ongoing between Fraser Papers and GNB with respect to reaching alternate arrangements regarding the outstanding letter of credit under the long-term CoGen Agreement. However, this condition has not yet been satisfied. This represents one of the two agreements in principle that must be reached prior to the return of the within motion. A further update on this condition will be provided at the hearing of the motion.

40. Since our Court attendance on December 10, 2009 the Applicants have been involved in ongoing discussions with various stakeholders with respect to the outstanding conditions under the APA, including counsel and representatives for the CEP. Discussions have also been held with Davies Ward Phillips & Vineberg LLP (“Davies”), court-appointed representative counsel for approximately 2,000 employees and retirees.

41. As outlined in the December Affidavit, the Applicants have attempted to engage the New Brunswick Regional Council of Carpenters, Millwrights & Allied Workers, Local 2450 (“CMAW”) to discuss the APA and the terms of agreement that would have to be reached with the CMAW to allow any ongoing operations to be possible at the Edmundston facility.

42. At the time of swearing this Affidavit, discussions with the CMAW have not taken place but we intend to continue to pursue efforts to engage all parties, including the CMAW, if the necessary agreements in principle are reached. All former CMAW employees (retirees) are represented by Davies pursuant to the Order issued by this Honourable Court on September 17, 2009. Accordingly, those retirees who are beneficiaries under the Pension Plans are represented in the meetings that are described in greater detail below.

43. The Applicants and their counsel have also engaged in extensive discussions and negotiations with various officials in the Department of Justice and Consumer Affairs, the Department of Business New Brunswick and the Superintendent of Pensions in an effort to reach agreement on the framework necessary to conclude the APA transaction.

44. GNB is involved with the Applicants in a number of capacities:

- i. as lender, by providing approximately \$35 million in secured loans for the completion of the modernization project at the Plaster Rock lumber mill and certain capital projects at the Edmundston pulp and energy operations;

- ii. as regulator of two Pension Plans registered in the Province;
- iii. as the grantor of various licences and allocations for the harvesting of timber on Crown land within the Province; and
- iv. through NB Power, a Crown corporation, as party to the CoGen Agreement and beneficiary under substantial letters of credit posted by Fraser Papers to secure performance under the CoGen Agreement.

45. Discussions with representatives of GNB have occurred through a number of conference calls and meetings in Toronto and New Brunswick over the past several weeks. I understand that the Applicants' proposal for addressing the funding requirements under the Pension Plans and the substantial deficit require an agreement on the part of GNB that would involve, at a minimum, the passing of a special regulation under the New Brunswick *Pension Benefits Act*.

46. The special regulation requested by the Applicants:

- i. would provide that compliance with the regulation would satisfy the funding obligations under the *Pension Benefits Act*;
- ii. would expire at a specified date in the future at which time the wind-up of the Pension Plans would be completed and annuities purchased with the available assets; and
- iii. would not involve any guarantee or assurance by GNB with respect to the funded status of the Pension Plans during the term of the special regulation, as we have been advised that this is a fundamental term of any support that GNB may be prepared to consider.

47. GNB has played an integral role in the ongoing discussions and negotiations between the Applicants and representatives for the employees and retirees, including the CEP and Davies, as any solution to these issues significantly impacts the beneficiaries under the Pension Plans.

48. The Applicants held an information meeting for retired salaried and hourly Pension Plan members in Edmundston on February 3, 2010. Approximately 250 individuals were present. The Monitor chaired the meeting and presentations were made by myself, Mr. Glen McMillan, the Chief Financial Officer of the Applicants, and supported by other managers of the Applicants. Three officials from GNB were also present at the meeting, including the Superintendent of Pensions.

49. The presentation included a summary of the terms of the Pension Plans, assets and annual investment returns, liabilities, and the aggregate deficit in each of the salaried and hourly New Brunswick Pension Plans. A summary of the APA was also provided. Individuals in attendance at the meeting were provided with an opportunity to ask questions. The meeting lasted three hours.

50. Following the February 3, 2010 meeting, at the request of the union executive, similar information meetings were held for unionized employees at the Edmundston pulp mill on February 11, 2010. Management of the pulp mill provided a similar presentation to the active unionized employees. Two officials from GNB were present at this meeting, including the Superintendent of Pensions. Four meetings were held on February 11, 2010 and approximately 150 employees attended.

51. As at the time of swearing this affidavit, no agreement in principle has been reached to satisfy the condition under the APA regarding the Pension Plans. Meetings among the Applicants, CEP and GNB with the Monitor were conducted most recently in Toronto on January 20 and February 12, in Fredericton on February 18 and are resuming in Toronto on Monday, February 22, 2010. A member of the employee and retiree committee that is represented by Davies participated in the meeting in Fredericton on February 18 and Davies has been invited to attend the further meeting to be held in Toronto on February 22, 2010.

52. The Applicants have provided the stakeholders and the Monitor with a confidential term sheet, which provides a framework for the terms upon which an agreement in principle must be reached on this issue by February 24, 2010. Due to the dynamic and very sensitive nature of these negotiations I am not able to provide further details as to the exact terms under discussion or the prospect of an agreement in principle being reached. The Applicants, the Monitor, GNB and their respective counsel have advised all stakeholders that they will continue to commit their full resources over the next several days to see if an agreement in principle can be reached.

53. If an agreement in principle is reached by the return date of this motion, the Applicants will seek an Order from this Honourable Court authorizing and directing the negotiation and execution of definitive documentation required to complete the APA transaction. This could involve a further attendance within thirty days to obtain final approval of the APA, a Vesting Order and all other relief that may be required in connection with a closing of the APA transaction.

54. The APA provides (in Section 15.2(c)(v) thereof) for a termination date of February 26, 2010. The Applicants seek authorization to execute an amendment to the APA to extend the termination date in the event agreements in principle to satisfy the conditions under the APA are reached prior to the return of this motion.

55. The APA also provides, in Section 16.3 thereof, that the Purchaser is entitled to receive payment of all out-of-pocket fees and expenses incurred in connection with the APA, whether or not the transactions are consummated, up to the aggregate maximum amount of \$1 million (the "Expense Cap"). BAM has advised that, in view of the extended period within which negotiations are taking place and the costs incurred to date, it will require an increase in the maximum amount of the Expense Cap from \$1 million to \$1.5 million in consideration of agreeing to extend the termination date in the APA and in recognition of the continuing expenses being incurred. The Applicants are agreeable to such an amendment, subject to receiving authorization from this Honourable Court.

56. If agreements in principle are reached on the outstanding main conditions prior to the return of this motion, the Applicants intend to continue to work diligently with all parties to negotiate and finalize definitive documents and work towards the closing of the APA transaction subject to final approval of the Court.

PART III: Orderly Liquidation

57. The Applicants have not generated positive cash flow from operations for more than three years. Over that period of time the Applicants have funded cash shortfalls through the sale of assets, the liquidation of working capital, loans from its existing secured creditors and the issuance of common shares. In connection with the CCAA filing the Applicants secured additional financing of up to USD\$44 million under DIP facilities provided by CIT and BAM, and CDN\$9 million by way of further advances made by GNB. As outlined in the Initial Affidavit, it is not possible for the Applicants to continue to carry on business in view of their significant obligations and liabilities.

58. As outlined in paragraph 35 of the December Affidavit, the sale of the specialty papers business was determined to be the only asset of the Applicants that could be restructured as a stand-alone business without a significant amount of new capital (which is not available to the Applicants). In addition, it is not feasible to restructure the specialty papers business and retain ongoing operations at the Applicants' other facilities, since the other operations require financial support that is not available.

59. If the APA transaction cannot be concluded due to the inability to reach the necessary agreements in principle, in my view it is highly unlikely for the assets relating to the specialty papers business to be sold in any manner that preserves continued employment for the employees and repays the secured creditors. The Applicants, with the assistance of the Monitor, recently concluded an extensive marketing process of the specialty papers business and did not receive even one offer or letter of intent. Any

purchaser of the business would have the same issues with successor liability and inherited obligations pursuant to the collective agreements and Pension Plans.

60. As the likelihood of any transaction involving going concern operations with continued employment is remote at best, the only other option available to the Applicants is to liquidate these assets through a means that does not involve a purchaser employing the existing employees or taking on any employer liabilities.

61. With a complex, integrated operation of this nature, it is not prudent to cause an immediate shutdown of all machinery, equipment and all facilities, and such actions would negatively affect the recovery available to the Applicants' creditors.

62. Rather, the Applicants propose to effect an orderly liquidation with the operations and wind down by the existing management team, under the supervision of the Monitor. This will provide customers, suppliers and all parties dealing with the Applicants, an opportunity to make alternate arrangements. Upon an Order for an orderly liquidation being issued, the Monitor would contact parties who had previously expressed interest in any of the Applicants' assets to see if any might be interested in making an offer on a particular component or individual facility. I have discussed the Applicants' proposed means of an orderly liquidation with the Monitor, and outlined below are the steps that would be taken at each facility to undertake the orderly liquidation.

(i) *Edmundston/Madawaska*

63. As outlined in the Initial Affidavit, the operations at Edmundston, New Brunswick and Madawaska, Maine are fully integrated, with pipelines physically connecting the two facilities providing steam and pulp from the pulp mill to the paper mill. It is expected that the orderly wind down of these operations would occur over an estimated 30-45 day period, dependent upon customer orders for paper that would be filled during that time. Upon an Order being issued for an orderly liquidation, all

customers would be contacted, advised of the Order and given the opportunity to make arrangements with alternate suppliers for their paper requirements.

64. The Company would review all firm purchase orders received and these would be aggregated and built into a manufacturing production schedule that balances inputs, including pulp requirements from the Edmundston sulphite and groundwood mills. This production schedule would depend in large part upon whether existing customers request that further orders be filled on an immediate basis using existing inventory.

65. Once all purchase orders were aggregated, a final production schedule would then dictate the final shift schedule for all employees. Purchases of supplies required for the manufacturing process would be made only after considering existing inventory at the facility. A closure sequence would then be developed to ensure that the raw materials inventories were depleted and all storage tanks were drained.

66. All suppliers to the Applicants would be provided with the Applicants' forecast requirements for filling prepaid orders during the wind down, which would allow suppliers to make other arrangements where possible.

67. During this period and thereafter, in consultation with the Monitor, the Applicants would solicit offers to purchase the machinery, fixed assets, real estate and any intangible assets.

(ii) Plaster Rock and Masardis Lumber Mills

68. These are the only two lumber mills currently operating, and the time frame and steps to wind down these operations at these facilities would be dependent upon the ability to secure an outlet for the sale of byproduct chips and biomass generated by the processing of logs into lumber. Currently byproduct chips and biomass generated by these lumber mills are utilized at the Edmundston operation.

Upon the Edmundston operation closing, the Plaster Rock and Masardis lumber mills could only continue if a new party was identified to purchase these byproducts. The Masardis lumber mill is better located to sell its byproducts to paper mills in Maine, and accordingly, the Masardis lumber mill may be able to remain open provided it could generate sufficient cash to fund its operations without any further financial assistance being provided.

69. The Plaster Rock lumber mill is not well located in terms of securing an alternate source for delivering byproducts, as the transportation cost would be less cost-effective. Accordingly, it would be expected that the operations at Plaster Rock would be discontinued within a very short time frame.

(iii) Gorham Paper Mill

70. As outlined in paragraph 17 above, a sales process for the Gorham paper mill is underway and letters of intent are due by March 16, 2010. Subject to the cash requirements of the Gorham mill and the results of any letters of intent received by mid-March, the Applicants would consider operating the Gorham facility for a short period of time, in an effort to conclude a transaction with an interested party on an expedited basis.

71. If no acceptable letter of intent was received, the Gorham mill would be shut down on an orderly basis over a 30-45 day period, similar to the process described above with respect to Edmundston / Madawaska.

(iv) Thurso

72. As the Thurso facility is currently shut down, an Order providing for an orderly liquidation would have no impact on the process underway at this facility. As outlined above, the Applicants are negotiating the terms of an asset purchase agreement for the Thurso facility, which is conditional upon, among other things, significant financial support being contributed by the Government of Quebec and a

labour agreement with unionized employees. The Applicants and the Monitor would continue to review and determine if such a transaction is capable of being concluded or, alternatively, pursue other purchasers as part of the liquidation.

73. The orderly liquidation of the Applicants' assets would be carefully reviewed on an ongoing basis by the Applicants' secured creditors, CIT, BAM and GNB. Each of CIT and BAM have confirmed that they reserve all rights as DIP Lenders in the event an Order providing for an orderly liquidation is made.

74. We anticipate that upon an Order being issued authorizing the Applicants to commence an orderly liquidation, the relevant pension regulators in each of Quebec and New Brunswick would move to wind up the Pension Plans registered in each of those Provinces. In addition, it is anticipated that the Pension Benefit Guarantee Corporation would move to immediately wind up the Pension Plan registered in the U.S.

75. In an orderly liquidation the Applicants and the Monitor would have to consider whether it was appropriate to continue the existing claims process to have all claims finally determined. The expenses incurred to complete such a process would be considered with reference to whether there was any possibility of any recovery for unsecured creditors, after payment of secured claims.

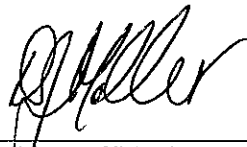
76. In preparation for a potential orderly liquidation the Applicants have been working with the Monitor to obtain liquidation values and to have liquidators review the assets in preparation for an auction or other realization. The review by these liquidators will also have provided those parties with an opportunity to determine if they wish to submit a guaranteed minimum bid to purchase any of the machinery.

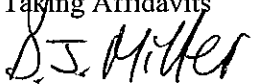
77. Based on my discussions with John McKenna of the Monitor and the preliminary information received from the liquidators to date, it would appear that only in the most favourable circumstances

would there be any recovery for unsecured creditors in an orderly liquidation, and even in the most favourable circumstances, the recovery for unsecured creditors would be minimal.

78. I swear this Affidavit in support of the relief requested in the Applicants' Notice of Motion dated February 19, 2010, and for no other or improper purpose.

SWORN before me in the City of Toronto,
in the Province of Ontario, this 20th day of
February, 2010.



Commissioner for Taking Affidavits




J. PETER GORDON

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 and FRASER N.H. LLC

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

ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)

Proceedings commenced at Toronto

AFFIDAVIT OF J. PETER GORDON
(Sworn February 20, 2010)

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