

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 NINTH REPORT TO THE COURT
February 22, 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

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

INTRODUCTION

1. The Applicants have brought a motion returnable on February 24, 2010 for an Order extending the existing stay of proceedings to April 9, 2010. The Applicants' motion also seeks relief to facilitate either: (a) a closing of the SPB Transaction (as defined below) subject to final approval of this Honourable Court, or (b) an orderly liquidation of the Applicants' assets under the supervision of the Monitor in the event the conditions precedent to a closing of the SPB Transaction cannot be satisfied.
2. The relief sought by the Applicants is framed as alternative relief, as negotiations with the stakeholders to determine whether the conditions under the SPB Transaction can be met are ongoing, and are expected to continue until shortly before the hearing of the motion. The Applicants and the Monitor will advise this Honourable Court as soon as it is known which of the alternative relief is to be pursued on the hearing of the motion.

3. The purpose of this, the Monitor's ninth report (the "**Ninth Report**"), is to provide the Court with information pertaining to:
 - a) The current status of the Applicants' operations;
 - b) Update on the proposed SPB Transaction;
 - c) The potential liquidation of the Applicants' assets;
 - d) The status of the Claims Process;
 - e) An update on the Residual Assets; and
 - f) The Monitor's analysis and recommendations.
4. A historical overview of the Applicants' proceedings and a summary of the previous Orders granted by this Honourable Court is set out at Appendix "A" hereto.
5. 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 Appendix "A" hereto, the Initial Order, the Monitor's eight prior reports, the affidavits of J. Peter Gordon sworn February 20, 2010 (the "**February Gordon Affidavit**"), and December 3, 2009 (the "**December Gordon Affidavit**"), and as defined in the Claims Process Order.
6. 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.
7. Some of the information referred to in this report consists of forecasts and projections. An examination or review of the financial forecast and projections, as outlined in the Canadian Institute of Chartered Accountants Handbook, has not been performed. Readers are cautioned that, since these forecasts and projections are based upon assumptions about future events and conditions, the actual results will vary from the

forecast/projections, even if the assumptions materialize, and the variations could be significant.

A. THE CURRENT STATUS OF THE APPLICANTS' OPERATIONS

8. Since November 16, 2009, the effective date of the last financial information reported on by the Monitor, the Applicants have maintained operations in the normal course. While customers have expressed concern over the Applicants' uncertain future, they are generally continuing to support the Applicants.
9. The market for specialty papers has remained weak but stable since the Monitor's Sixth Report. Demand is also stable in the packaging grades of paper; however the entry of new competitors in this market has led to increased pricing pressure. Price increases were recently announced for commodity paper products; however it is uncertain whether the price increases are sustainable. The Madawaska mill is preparing for the normal seasonal increase in demand for its financial print business, which provides paper for the financial industry (proxies, prospectuses, circulars, etc). This has not yet translated into the higher margins that would be required to achieve the forecast EBITDA for 2010.
10. While market conditions in the lumber market remain difficult, as demand continues to be weak due to low housing starts and seasonality, lumber prices have improved since the date of the Monitor's Sixth Report, due to a temporary reduction in capacity in response to weak demand. Revenue from the Applicants' lumber operations was below forecast during late 2009, due to later than forecast resumption of full operations at the Plaster Rock lumber mill following the completion of its modernization program. The Applicants' Plaster Rock and Masardis lumber mills are currently operating on a two shift basis.
11. As forecast, the Juniper, New Brunswick and Ashland, Maine lumber mills and the Thurso, Quebec pulp mill did not operate during the period due to continued poor market conditions.

B. UPDATE ON THE PROPOSED SPECIALITY PAPER BUSINESS TRANSACTION

12. As detailed in the Monitor's Sixth Report, the Applicants had decided to sell the Specialty Paper Business ("SPB") assets using a "stalking horse" bid process (the "**Bid Process**"), where the stalking horse bid was provided by a new company to be incorporated by BAM ("**Newco**"). The Bid Process was approved by this Court on December 10, 2009.
13. As detailed in the Monitor's Eighth Report, the Bid Process ran until January 26, 2010 but ultimately did not result in a competing bid being submitted by a third party.
14. As a result, in accordance with the December 10, 2009 Order of this Court, the Bid Process was then terminated and the Applicants have focussed their efforts on attempting to complete the sale to Newco (the "**Newco Transaction**"). The Newco Transaction requires that certain conditions be met by the Applicants, which requires that agreements be reached with third parties. If those conditions cannot be met, it will not be possible to conclude the Newco Transaction and the Applicants will seek an Order authorizing the commencement of an orderly liquidation.
15. Set out below are the Monitor's comments on key aspects of the Newco Transaction:

Comparison of the Adjusted Net Present Value of the SPB Consideration to the Estimated Net Liquidation Proceeds for the SPB

16. The gross consideration offered in the Newco Transaction is approximately \$185 million (the "**SPB Consideration**") and is subject to the following adjustments:
 - a) Net working capital adjustment – accurate forecasts of the projected working capital balances at closing are not currently available, and therefore it is not yet clear whether there will be any adjustment to the SPB Consideration as a result of a working capital adjustment; and
 - b) Thurso PPTGP Credits if they are not otherwise utilized at the Thurso mill and can be transferred to Newco - the letter of intent received from a third party with respect

to the potential acquisition of the Thurso mill, discussed in more detail below, includes the purchase of the Cdn\$9.9 million Thurso PPTGP Credits (as defined in the Monitor's Sixth Report). As a result, if the Thurso sale closes, these credits would not be available for purchase by Newco and, as such, there would be no adjustment to the SPB Consideration in this respect.

17. As a portion of the SPB Consideration is non-cash (i.e. it includes non-interest bearing long term notes and preferred and common equity) and in order to make it comparable, the Monitor has estimated the net present value of the SPB Consideration to be received, after considering a potential range of values for the common equity based on the risks and uncertainties of same (the "**Adjusted NPV**").
18. The Monitor has also prepared a liquidation analysis for the SPB to estimate the range of potential net liquidation proceeds available to creditors after a liquidation of the SPB assets (i.e. where the SPB assets are sold on a piecemeal basis to third parties and removed from the existing sites (the "**Net Liquidation Proceeds**")). The assets that would be liquidated include the machinery and equipment, cogen plant, real estate, accounts receivable, inventory, timber rights, intangibles and other assets. Due to their nature, location and age of these assets, the liquidation analysis indicates the range is quite broad.
19. Due to certain of the underlying terms and conditions not yet being finalized related to the SPB Consideration, together with the commercial sensitivity of these ranges, particularly given the current circumstances, the Monitor has not quantified same in this report. However, based on these calculations and using the mid points of both ranges, the Adjusted NPV of the SPB Consideration is greater than the Net Liquidation Proceeds.
20. The Monitor notes that:
 - a) at the lower end of the range of Net Liquidation Proceeds, there is likely a sizeable shortfall to secured creditors (i.e. there would likely be no recoveries for any unsecured creditors); and

- b) the upper end of the Net Liquidation Proceeds range is greater than lower end of the range of the Adjusted NPV of the SPB Consideration. However, the upper end of the Net Liquidation Proceeds range would only be achieved in very favourable circumstances.
21. The liquidation analysis also does not take into account several significant other benefits that would be obtained from the Newco Transaction, including:
- a) Preservation of approximately 1,200 direct jobs in rural parts of Northern New Brunswick and Maine (which would for the most part be lost if the assets are liquidated);
 - b) Preservation of the indirect jobs created by the mills in Edmundston and Madawaska (i.e. retail, service industry, municipal). The Monitor understands that the Applicants are a significant employer in each locale and the economic impact on these communities from the permanent closure of the mills would be very significant. In addition, the likelihood of finding alternate employment in the region for all these employees at similar pay-scales would be low given the current economy;
 - c) Opportunity for the pension plans' beneficiaries to avoid an immediate wind up of the plans, that would otherwise necessitate a purchase of annuities at a sub-optimal time and the plan assets having no further opportunity to recover some of the value lost in the recession; and
 - d) Preservation of residential real estate values in these locations – if the mills shut down and the employees had to move to other locations to get alternate employment, there could be a significant decline in real estate values as large numbers of houses get sold into a market where there are few buyers. This could have a significant additional negative financial impact on pensioners who have large parts of their net worth invested in real estate in these areas.

Status of the Newco Transaction Conditions Precedent

22. The Monitor notes that Article 10 of the Stalking Horse Bid lists a significant number of conditions precedent (the “**Conditions Precedent**”) which are required to be satisfied before the Stalking Horse Bid can close.
23. As noted in the December Gordon Affidavit, there were three major Conditions Precedent that were required to be satisfied and the status of those Conditions Precedent are as follows:
 - a) Obtaining new collective bargaining agreements (“**CBAs**”) with the two US unions in respect of the unionized employees in Madawaska on such terms as may be acceptable to Newco. After extensive negotiation during January and early February, the Monitor understands that on February 15, 2010, the USW (the largest of the two US unions) accepted the required revisions to the CBA. The Monitor understands that members of the OPEIU, the other US union at Madawaska, are to vote on the required modifications to their CBA on February 24, 2010 and the Applicants are optimistic that a favourable outcome will be achieved. As such, the Monitor considers it likely that this Condition Precedent will be satisfied;
 - b) Newco being satisfied, in its sole and absolute discretion, that it will have no liability or obligations whatsoever for any of the Applicants’ existing pension plans. The Applicants and the CEP have met on several occasions to discuss revisions to the affected Canadian CBAs and potential solutions to ameliorate the pension plan deficits, including most recently two lengthy meetings chaired by the Monitor on February 12 and February 18, 2010, but to date this matter has not been resolved and, as a result, as of the date of this Report, this Condition Precedent remains unsatisfied. The Monitor notes further meetings between the Applicants and the CEP are scheduled commencing on February 22, 2010 in Toronto to continue the discussions. As detailed in the February Gordon Affidavit, no meetings have yet been held between the Applicants and the

CMAW, the union representing certain active employees at the Plaster Rock lumber mill. The Monitor understands that if a settlement is reached with the CEP, the Applicants will commence negotiations with the CMAW to obtain the same changes to the collective agreements.

The Monitor understands that the Applicants also continue to work with both the New Brunswick and Ontario pension regulators as well as the Pension Benefit Guarantee Corporation in the US to arrive at mutually acceptable solutions to facilitate this Condition Precedent being satisfied; and

- c) Negotiating a satisfactory resolution with respect to the existing C\$22.9 million of letters of credit issued in favour of NB Power, which are part of the pre-filing CIT secured debt. The Monitor understands that the Applicants are in discussion with the Province of New Brunswick and other parties with respect to potential solutions for this issue. However, as of the date of this report, this Condition Precedent has also not been satisfied.

24. The Monitor sets out below some of the other significant remaining Conditions Precedent and their current status:

- a) Finalizing the Newco credit agreement with CIT (the “**CIT Exit Facility**”). The Newco business plan requires a credit facility of \$50 million. The Applicants have advised the Monitor that negotiations with CIT are in process with respect to this facility;
- b) Reaching satisfactory arrangements with CIT, BAM and GNB with respect to the existing secured debt not being assumed by Newco. The Applicants have advised that negotiations with these lenders are in process with respect to this matter;
- c) Newco receiving confirmation from the Canadian Federal government that the PPGTP Credits in a minimum amount of C\$23 million can be transferred and assigned to Newco on closing. The Applicants have advised the Monitor that this

confirmation has now been received and the Applicants are working with the Federal Government to negotiate the relevant documents;

- d) Finalizing the contracts between Newco and the Applicants (namely the Transitional Services Agreement, Exclusivity Agreement and the Outsourcing Agreement). The Applicants have advised that these documents are close to being ready for review by the Monitor;
 - e) Finalizing the contracts that govern the Promissory Note, the Newco Common Shares and the Newco Preference Shares. The Applicants have advised that these documents are being prepared by Newco's counsel and are close to being ready for review by the respective parties and the Monitor; and
 - f) Obtaining final approval/vesting orders from both this Honourable Court and the US Bankruptcy Court with respect to the assets being sold. These approvals/orders will be sought once all other Conditions Precedent have been satisfied.
25. While not listed as Conditions Precedent in the asset purchase agreement, the following matters are also significant factors in determining whether the Conditions Precedent will be cleared and the Newco Transaction can close:
- a) Obtaining a special regulation under the New Brunswick Pension Benefits Act to facilitate the wind-up of the Applicants existing defined benefit pension plans to be performed in a manner that attempts to maximize the recoveries for the plan beneficiaries, as set out in the February Gordon Affidavit. The Applicants and representatives of the Government of New Brunswick and the provincial pension regulators have been actively discussing the terms and proposed language that would satisfy this requirement; and
 - b) As noted in the February Gordon Affidavit, the CEP have brought proceedings in Ontario, Quebec and New Brunswick before the respective provincial labour boards seeking, among other things, to have BAM deemed to be a "common

employer”. The Monitor understands that these proceedings must be discontinued and releases provided in favour of BAM, among other parties, in respect of all potential claims by the CEP and its members if the Newco Transaction is to proceed. These issues are still being discussed between the Applicants and the CEP.

26. The Monitor notes that both the Applicants and the CEP, as well as the representatives of the other employee groups and the Province of New Brunswick, are fully aware of the severe consequences of failing to reach agreement on these matters prior to February 24, 2010 and appear to be negotiating in good faith to see if an acceptable solution can be achieved.

Extension of the APA Termination Date

27. As detailed in the Monitor’s Sixth Report, the APA may terminate if the SPB Transaction does not close by February 26, 2010. The Monitor understands that as a condition of extending the termination date, and due to the resulting additional legal and financial work to be performed by BAM, BAM will require the expense reimbursement cap to be increased from \$1 million to \$1.5 million.

C. THE POTENTIAL LIQUIDATION OF THE APPLICANTS’ ASSETS

28. As noted in the February Gordon Affidavit, in the event the Applicants have not reached an agreement in principle with the parties required to satisfy the key conditions precedent under the APA on or before February 24, 2010, they intend to seek an Order permitting the Applicants to commence an orderly liquidation of the Applicants’ property, assets and undertaking under the supervision of the Monitor.
29. In this respect, the Applicants have provided the Monitor with a proposed high-level wind-down plan (the “**Wind Down Plan**”).
30. The Wind Down Plan provides for certain operations (i.e. the sulphite mill in Edmundston and paper mill in Madawaska) to continue for a limited period of time to enable customers to transition their business on an orderly basis to alternate suppliers,

after which these operations cease and the assets commence being liquidated. Continued operation of the Plaster Rock and Masardis lumber mills would be dependent on finding buyers for each mills' by-product chips and biomass.

31. The Monitor understands that in all scenarios, employee terminations would commence almost immediately.
32. The Wind Down Plan is still in early stages of development and will need to be augmented, once feedback from customers is obtained as to how quickly their paper requirements can be transitioned to alternate suppliers. In addition, the Monitor would propose to re-approach the parties that had expressed an interest as part of the Bid Process to assess whether there was any interest in submitting bids to acquire any of the Applicants' SPB operations as going concerns. However, it is highly likely that:
 - a) significant damage would have been done to the business in the period between when the orderly liquidation commenced and when an offer to purchase the business was consummated, (due to a loss in customer confidence) likely resulting in significantly lower recoveries for all creditors than is currently contemplated by the Newco Transaction; and
 - b) any potential purchaser would require the same or similar Conditions Precedent being satisfied, including revisions to the CBAs to ensure the purchaser has no liability in respect of the existing pension plan deficits and other employee related liabilities.
33. Based on the foregoing, and as the Applicants senior management have indicated that they are prepared to remain with the Applicants in order to manage the liquidation process, and providing the DIP Lenders are prepared to continue to provide the necessary funding to implement the orderly liquidation, the Monitor concurs with the Applicants' view that the liquidation be commenced under the CCAA.

34. For the avoidance of doubt, the Monitor is not proposing that it would become a “super-monitor”, as the term has been used in the Nortel CCAA proceedings, or a court-appointed receiver and would thus continue to have an active supervisory role only.
35. The Monitor is unable to assess at this time the potential impact of actions that may be taken by customers or other third parties upon the commencement of an orderly liquidation by the Applicants. The Monitor reserves the right to re-attend before this Honourable Court if the liquidation proceeds in a materially different manner than as set out above.

D. STATUS OF THE CLAIMS PROCESS

36. Set out in the table below is a summary of the claims received as well as the status of the Monitor’s review of same, as of the close of business on February 17, 2010.

FRASER PAPERS INC. FPS CANADA INC. FRASER PAPERS HOLDINGS INC. FRASER TIMER LIMITED., FRASER PAPERS LIMITED, FRASER N.H. LLC (collectively the "Applicants")										
Proof of Claims Summary As At February 17, 2010										
(\$000's)	Received (#)	Total Claims Received (\$)	Portion of Claim Disallowed (\$)	Portion of Claim Allowed (b)(f) (#)	Portion of Claim Allowed (b)(f) (\$)	Claims Pending (#) (\$)		Dispute Notices Received (#) (\$)		Notes
Secured										
Lenders	7	76,090	50,000	1	26,090	-	-	-	-	(a)
Liens / Others	42	7,325	762	14	6,563	-	-	10	281	
Employee Claims	17	64,827	64,827	-	-	-	-	10	173	
Pension Claims	1	3,083	3,083	-	-	-	-	1	3,083	
Sub - Total	67	151,325	118,672	15	32,653	-	-	21	3,537	
Unsecured										
Lenders	1	25,000	-	1	25,000	-	-	-	-	
Trade	955	64,186	32,094	947	32,092	-	-	31	62,070	(b)
Employee Claims	125	391,087	230,919	23	9,430	4	150,737	43	3,642	
Pension Claims	14	625,228	405,976	5	219,252	-	-	5	159,490	
Sub - Total	1,095	1,105,501	668,989	976	285,774	4	150,737	79	225,202	
Total	1,162	1,256,826	787,661	991	318,427	4	150,737	100	228,739	(c) (d) (e) & (f)
Claims/Dispute Notices still under Review						4	150,737	69	227,457	(b)
D&O Claims	23	627	627	-	-	-	-	1	123	
Late Claims	60	4,161	3,896	3	265	-	-	16	512	(e)
Notes:										
(a) Allowed Secured Lender claims excludes the Brookfield Asset Management secured guarantee of \$50M provided to CIT and CIBC.										
(b) The value of Notices of Disputes received relating to the trade creditors is higher than the amounts disallowed as Ethyl Corporation filed a claim with the amount as "to be advised". Therefore, no claim amount was included in the Notice of Dispute, which was disallowed in full. However, when they filed a Notice of Dispute, they valued their claim at \$32m.										
(c) Notices of Revision or Disallowances were issued to a total of approximately 410 creditors, for claims disallowed in full or in part or claims filed against the wrong entity.										
(d) The total allowed claims of 991 do not include 13 contingent claims, to be valued if accepted for voting and distribution purposes (being the claims of BAM, Brookfield US and Old Republic Insurance). However, 8 contingent employee claims have been included in this total, valued at \$220M (the majority of which are pension claims of \$219.2M) has been included in the above totals.										
(e) The allowed late claims, being (i) two claims of Cascades; and (i) one claim filed by BNY, are included in the total allowed claims of 991 claims.										
(f) Any liabilities assumed by a purchaser of the SPB, or discharged as a result of such a transaction, will have to be removed from the Allowed Claims amounts.										

37. It is important to note that the allowed amounts in the table above exclude the following:

- a) CIT's pre-filing secured debt totalling approximately \$56 million (CIT was not required to file a proof of claim pursuant to the Initial Order and the Claims Process Order);
- b) claims in respect of the employees' other post employment benefits ("OPEBs") and supplemental employee retirement plans ("SERP") have been filed, totalling \$150.7 million in the aggregate. The Monitor notes that the Applicants are contesting the ability of employees/former employees to file a claim for OPEBs and are also contesting the calculation of the SERP claim;

- c) any balances in respect of DIP Financing provided by the DIP Lenders, which totalled approximately \$10.5 million as of February 12, 2010;
 - d) claims in respect of four construction liens which have been filed in connection with the Plaster Rock improvements (as noted in the February Gordon Affidavit), but where proofs of claim have not been filed;
 - e) Restructuring Claims (as defined in the Claims Process Order) related to future events/restructuring that may be undertaken by the Applicants; and
 - f) claims currently shown as disallowed, which have been appealed and will likely be adjudicated by the claims officer and which may result in additional material claims that will be allowed. At the request of the Applicants to preserve liquidity, resolution of these disputed and pending claims has not been advanced pending the completion of the negotiations with respect to the Newco Transaction.
38. The high number of disallowed claims in the table above is primarily due to numerous claims being filed against the wrong Applicant entity and duplicative pension claims for the unfunded pension liabilities;
39. The Monitor notes that, based on the current claims admitted to date, employee and pension deficit claims collectively represent approximately 87% of the total allowed unsecured claims of the Applicants.
40. As part of the continuing dialogue between the Applicants and its various stakeholders, the Monitor chaired a meeting in Edmundston on February 3, 2010 between the Applicants' senior management team and a number of the Applicants' Pensioners, wherein details on the status of the Applicants pension plan status was provided and the management team answered numerous questions from the floor.

E. UPDATE ON THE RESIDUAL ASSETS

41. The Newco Transaction excludes the following operations and each operation's related assets (the "**Residual Assets**"):
- a) The pulp mill in Thurso Quebec (the "**Thurso Mill**");
 - b) The paper mill in Gorham, New Hampshire (the "**Gorham Mill**");
 - c) The two lumber mills in Ashland and Masardis, Maine (the "**Maine Lumber Mills**"); and
 - d) Sundry assets that are not associated with, in whole or in part, with the SPB.
42. We set out below a summary of the current status of each of the principal asset groups:

Thurso Mill

43. As set out in the Monitor's Eighth Report, the Thurso LOI was signed by both the Applicants and a third party on February 1, 2010 (the "**Thurso Potential Purchaser**").
44. The Thurso LOI is conditional and subject to confidentiality restrictions pending completion of the Thurso Potential Purchaser's due diligence activities and, hence, the Monitor has not summarized the terms of the Thurso LOI in this report.
45. The Applicants and the Thurso Potential Purchaser have until March 5, 2010 to enter into a definitive agreement of purchase and sale. During this period of time, the Thurso Potential Purchaser has exclusivity with respect to the Thurso Mill and the Applicants may not continue to market or solicit offers to purchase the Thurso Mill.
46. The Thurso Potential Purchaser is continuing its due diligence activities and a draft definitive agreement of purchase and sale has very recently been provided by the Thurso Potential Purchaser to the Applicants and the Monitor for their review. 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.

47. The Monitor notes that consummating this transaction requires a very significant investment by the Quebec government as well as concessions by the unionized employees, who are represented by the CEP, neither of which have yet been obtained.
48. The Monitor notes that, on February 10, 2010, it received an unsolicited brief letter (the **“Unsolicited Letter”**) from a third party expressing an interest in acquiring the Thurso Mill if the terms of the Thurso LOI were not met. Due to the exclusivity provisions of the Thurso LOI, this letter has not been discussed or negotiated nor has the third party been provided with data room or physical access to the Thurso Mill.

Gorham Mill

49. The Gorham Mill’s two principal products are towel and fine papers. The Applicants had been working on a business plan which, providing sufficient new capital was available and certain changes in the steam generating capacity were made, would permit the economically viable expansion of the towel production capacity at the mill. As a result, the Applicants had discussions with several interested parties as set out in the December Gordon Affidavit. Since December 8, 2009, several of these parties have expressed an interest in completing further due diligence to determine if they would submit an offer to purchase the Gorham Mill.
50. As a result of this interest, the Applicants decided, in conjunction with the Monitor, that the Gorham Mill should be actively marketed to Potential Purchasers to ensure the Gorham Mill had been exposed to the market.
51. Accordingly, in conjunction with the Applicants, the Monitor created a list of potential purchasers for the Gorham Mill consisting of both strategic and financial purchasers. (the **“Gorham Potential Purchasers”**).

52. An introductory “teaser” letter, which had been prepared by the Applicants with input from the Monitor, was sent by the Monitor to the Gorham Prospective Purchasers along with a confidentiality agreement (the “**Gorham CA**”) commencing on January 18, 2010. We attach a copy of the teaser letter as Appendix “B” hereto. To date, the teaser letter has been sent to 45 parties and 15 signed CA’s have been received.
53. The Applicants, with input from the Monitor, developed an electronic data room (the “**Gorham Data Room**”), which consists of detailed financial, operational, human resources, legal, customer and supplier information to assist the Gorham Prospective Purchasers in analyzing the Gorham Mill.
54. The Gorham Data Room was made available to Gorham Prospective Purchasers that executed the Gorham CA, commencing on February 4, 2010.
55. The Applicant, with input from the Monitor, developed an initial sales process for the Gorham Mill which is being conducted in two phases. The initial sales process has been communicated in a letter from the Monitor to interested parties that executed the Gorham CA.
56. In Phase One, interested parties that have executed the Gorham CA will be provided access to the electronic data room and will be provided an opportunity to ask questions about the Gorham Mill and conduct site visits. Due diligence and site visits will be permitted until March 12, 2010. On March 16, 2010, interested parties are required to submit a non-binding LOI (“**Gorham LOI**”) outlining the proposed terms of their offer. A template LOI has been provided to the Gorham Prospective Purchasers that have executed the Gorham CA.
57. Upon completion of Phase One and receipt of any Gorham LOIs, the Applicants and the Monitor expect to select one or more interested parties with whom they will invite to Phase Two of the sales process. Interested parties that are invited to Phase Two of the sales process would be provided an opportunity to complete further, in depth due diligence to determine if they will submit a definitive agreement of purchase and sale.

58. A timeframe for Phase Two has not yet been communicated to the Gorham Potential Purchasers as the Applicants and the Monitor seek to have the timeframe approved by this Honourable Court. The Applicant, with input from the Monitor, is proposing a further period of approximately 30 days for the Phase 2 activities with a deadline of April 13, 2010 at 5:00pm EST for submission of a definitive agreement of purchase and sale. The proposed deadline for completion of the Gorham Mill sale process, including approval by this Honourable Court and the US Court of a signed definitive agreement of purchase and sale is on or before May 4, 2010.
59. The Monitor notes that pursuant to the Newco Transaction, Newco and the Applicants have to sign Exclusivity and Outsourcing agreements with respect to certain grades of paper made at Gorham that can also be manufactured at the Madawaska mill. These contracts have not yet been finalized, but could negatively impact the value of any offer made in respect of Gorham if they are overly restrictive.

Maine Lumber Mills

60. The Applicant and the Monitor have been contacted by several parties expressing an interest in the Maine Lumber Mills.
61. Until recently, due to severe time pressures on the Applicants' management personnel, the Applicants have focused on the Newco Transaction and the sale of the Thurso and Gorham mills. The Applicants have now commenced the preparation of a data room and marketing material for the sale of the Maine Lumber Mills. The Applicants, with input from the Monitor, are planning to commence a sale process for these assets in early April and, in this respect, the Monitor expects the Applicants will appear before this Honourable Court to seek approval for the proposed sale process and timeframe for the sale of these lumber mills, once finalized.
62. Prior to commencing the sales process for these assets, the Applicants are not providing any due diligence material to any interested parties or allowing site visits.

F. MONITOR'S ANALYSIS AND RECOMMENDATIONS

63. For the reasons noted earlier in this Report, providing agreements in principle can be reached between the respective parties with respect to the key remaining Conditions Precedent, the Monitor recommends the Court approve the extension of the Stay to April 9, 2010, for the purpose of allowing the parties to finalize the documentation required to close the Newco Transaction and satisfy the balance of the Conditions Precedent. The Monitor notes that, in these circumstances, the Applicants propose to re-attend before this Honourable Court within 30 days to seek final approval of the Newco Transaction and to obtain a vesting order, and the Monitor would file a more comprehensive report summarizing the finalized aspects of the Newco Transaction prior to that hearing.
64. In the event the parties cannot satisfy the key remaining Conditions Precedent by February 24, 2010, and subject to adequate DIP Financing continuing to be available to the Applicants, the Monitor still recommends the Court approve the extension of the Stay to April 9, 2010 to enable the Applicants to commence an orderly liquidation of their assets.
65. The Monitor recommends the Court's approval of the proposed sales processes and deadlines with respect to the marketing and sale of the Residual Assets, as outlined above.
66. The Monitor intends to file a supplementary report prior to the Court hearing on February 24, 2010 with information on the recent actual cash flows, current liquidity status of the Applicants and the cash flow forecast for the period to April 9, 2010.
67. The Monitor is not aware of any material adverse changes to the Applicants' operations in Canada or the US not otherwise detailed in this or prior reports, since the commencement of the Stay.
68. The Monitor is of the view that the Applicants are acting in good faith to maximize value for all stakeholders in the circumstances. The Monitor respectfully submits to the Court this, its Ninth Report.

Dated at Toronto, this 22nd 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

APPENDIX A

FRASER PAPERS INC. ET AL.

HISTORICAL OVERVIEW OF THE APPLICANTS PROCEEDINGS AND SUMMARY OF PREVIOUS ORDERS GRANTED

1. On June 18, 2009, 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”) made an application under the *Companies’ Creditors Arrangement Act* (the “CCAA”) and an initial order (the “Initial Order”) was granted by the Honourable Mr. Justice Morawetz of the Ontario Superior Court of Justice (Commercial List) (the “Court”) granting, *inter alia*, a stay of proceedings in respect of the Applicants until July 17, 2009 (the “Stay Period”) and appointing PricewaterhouseCoopers Inc. as monitor (the “Monitor”). The proceedings commenced by the Applicants under the CCAA will be referred to herein as the “CCAA Proceedings”.
2. On June 19, 2009, the Applicants sought and obtained recognition and provisional relief in an ancillary proceeding pursuant to Chapter 15 of the U.S. Bankruptcy Code in the United States Bankruptcy Court for the District of Delaware.
3. On June 26, 2009, the Applicants also sought and were granted an Order stating that the Applicants shall not make past service contributions or special payments to fund any going concern unfunded liability or solvency deficiency of the Pension Plans during the Stay Period. The Monitor filed its second report on June 25, 2009 to provide the Court with pertinent information with respect to the Applicants’ Pension Plans.
4. On July 15, 2009, the Applicants sought and were granted an Order of the Honourable Madame Justice Pepall, extending the Stay Period to October 16, 2009. In addition,

amendments to the DIP financing term sheets between Brookfield Asset Management (“**BAM**”) and the Applicants and CIT Business Credit Canada Inc. (“**CIT**”) and the Applicants, and an amendment to the existing credit facility with the Government of New Brunswick (“**GNB**”), were also authorized. A Claims Process and amendments to the Initial Order, both as described in the Monitor’s Third Report, were also approved on July 15, 2009.

5. On September 8, 2009, motions were brought by several different parties seeking to act as representatives for or for the appointment of representative counsel in respect of various groups of current and former employees. Also on September 8, 2009, the Applicants sought and obtained an Order amending the Initial Order, including in respect of the advances secured by the CIT DIP charge, all as described in the Monitor’s Fourth Report.
6. By Endorsement dated September 17, 2009 (the “Representative Party Endorsement”), the Honourable Justice Pepall appointed Davies Ward Phillips and Vineberg LLP (“**Davies**”) as representative counsel for all employees and former employees not already represented by counsel, with Davies’ fees being paid by the Applicants. At the same time, existing counsel for the Communication, Electrical and Paperworkers Union (the “**CEP**”) and the United Steel, Paper and Forestry, Rubber, Manufacturing, Energy, Allied Industrial and Service Workers International Union (the “**USW**”) were confirmed as representing all current and former members of their respective unions. The CEP’s request that its fees be paid by the Applicants was denied. The USW’s original request for funding was withdrawn prior to the return of the motion.
7. On October 1, 2009, the CEP served a Notice of Motion for Leave to Appeal the decision of the Honourable Justice Pepall denying funding, as reflected in the Representative Party Endorsement. Material by the CEP and the Applicants has been recently filed, but this motion in writing has not yet been determined by the Court of Appeal.

8. The extension of the stay of proceedings approved by the Court on July 15, 2009 was due to expire on October 16, 2009. On October 9, 2009, the Applicants sought and were granted an Order of the Honourable Justice Pepall extending the Stay Period by eight days to October 23, 2009 to permit the Applicants full motion and stay extension request, scheduled to be heard on October 22, 2009.
9. On October 22, 2009, the Applicants sought and were granted an Order of the Honourable Madame Justice Pepall, extending the Stay Period to December 4, 2009. In addition, the Honourable Justice Pepall authorized a number of modifications to the Claims Order to clarify dates and timing in respect of Notices of Disallowance and Dispute Notices as well as an Amendment to the Davies' Representative Order to include representation of former (retired) members of the International Brotherhood of Electrical Workers ("**IBEW**") and current and former members of the Office and Professional Employees International Union ("**OPEIU**").
10. On December 2, 2009, the Applicants sought and were granted an Order of the Honourable Justice Pepall extending the Stay Period by one week to December 11, 2009 to permit the bringing of this motion for an extension of the Stay Period to February 26, 2010, and to file the Stalking Horse Bid and obtain approval for the Bid Process. On the same date Justice Pepall issued an Order requiring one of the Applicants trade debtors to remit payment of a substantial outstanding amount, and denying such debtor's request for equitable set-off.
11. On December 10, 2009, the Applicants sought and were granted an Order of the Honourable Justice Pepall extending the Stay Period to February 26, 2010 and approving a Stalking Horse Bid and Bid Process in respect of the Speciality Paper Business.

GORHAM PAPER MILL INVESTMENT OPPORTUNITY

FraserPapers

Fraser Papers Inc. (the "Company") is selling its paper mill in Gorham, New Hampshire ("Gorham") as part of a court supervised restructuring of the Company. Gorham is a non-integrated paper mill that is focused on the manufacturing and distribution of towel and fine papers with capacity of 135,000 tons per year on three paper machines.

Gorham's production is focused on three major segments: light and medium weight opaque papers, converting papers and away-from-home towel. In recent years, Gorham has generated positive cash flow. Gorham management has identified a number of cost saving opportunities which will lead to improved profitability.

Gorham has also been pursuing a number of strategic initiatives that would enhance profitability, including:

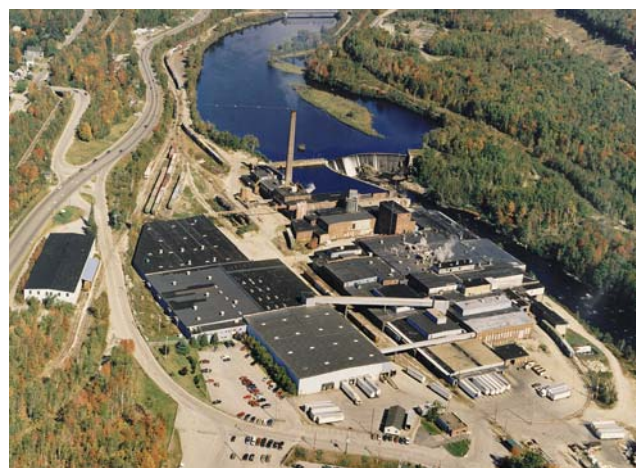
- Eliminating oil consumption of 180,000 bbls per year and reducing energy costs by switching from oil fired boilers to natural gas;
- Installation of a new tissue machine, capable of producing up to 36,000 tons per year.

Gorham is located on 60 acres of land along the Androscoggin River in Gorham, New Hampshire. While the current capacity of the mill is 135,000 tpy, the mill has the infrastructure to support expansion of its tissue business, including a new tissue machine, or the installation of converting equipment. The mill also maintains:

- Road and rail access;
- Water and wastewater treatment facilities;
- Steam and power systems;
- Fiber and chemical handling and delivery systems; and,
- Warehousing.

The State of New Hampshire is very supportive of Gorham and opportunities exist for interested parties to receive government financial support, including tax credits and grants.

Due diligence materials and financial projections for Gorham are currently being prepared and will be available to prospective purchasers who execute a confidentiality agreement.



Gorham, New Hampshire Paper Mill

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, please refer to: www.pwc.com/ca/en/car/fraser-papers

Access to an electronic data room will be made available to interested parties that execute a confidentiality agreement.

Requests for information:

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