

**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

NOTICE OF MOTION

The Applicants will make a motion before a Judge of the Ontario Superior Court of Justice (Commercial List) on Wednesday, February 24, 2010 at 10:00 o'clock in the morning or as soon thereafter as this motion can be heard at 330 University Avenue, in the City of Toronto, Ontario.

PROPOSED METHOD OF HEARING: The motion is to be heard orally.

THE MOTION IS FOR:

1. if necessary, an Order abridging the time for, and validating the service of, the Notice of Motion and the materials filed in support of the Motion;

2. an Order extending to and including April 9, 2010, or such later date as this Court may order, the stay of proceedings granted under the Order of the Honourable Mr. Justice Morawetz dated June 18, 2009, as amended (the “Initial Order”);
3. subject to the outcome of the Applicants’ ongoing efforts to satisfy the conditions precedent under an Asset Purchase Agreement dated as of December 22, 2009, as amended from time to time (the “APA”) between the Applicants and Brookfield Asset Management Inc. or its designate(s) (“BAM”) by the time this motion is returnable, the Applicants will seek an Order either:
 - (i) authorizing and directing the Applicants to: (a) execute and deliver such amendments to the APA as may be necessary or desirable to reflect, among other things, the extension of the Termination Date (as such term is defined in the APA); (b) execute and deliver all definitive documentation to permit the closing of the APA transaction; and (c) re-attend before this Honourable Court within thirty (30) days to obtain final approval of the APA, a Vesting Order and related relief to permit the closing of the APA transaction on terms satisfactory to the parties;

or, if agreements in principle are not reached to satisfy the main conditions precedent under the APA by the time this motion is returnable:

- (ii) authorizing the Applicants to commence an orderly liquidation of their assets by the Applicants’ existing management under the supervision of the Monitor, and authorizing and directing the Applicants to make any and all payments to BAM required to be made under the APA resulting from the termination thereof;

4. an Order providing such further and other relief as may be required in order to give effect to the relief sought.

THE GROUNDS FOR THE MOTION ARE:

1. On June 18, 2009, the Applicants filed for and obtained protection from their creditors under the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36 as amended (the "CCAA"), and PricewaterhouseCoopers Inc. was appointed as monitor (the "Monitor") of the Applicants pursuant to the Initial Order;
2. The Applicants sought and obtained recognition of these proceedings as foreign main proceedings pursuant to Chapter 15 of the *U.S. Bankruptcy Code* in the United States Bankruptcy Court for the District of Delaware;
3. On December 10, 2009, an Order was issued by this Honourable Court (the "Sales Process Order") approving a sales process for the Applicants' specialty papers business and an offer to purchase submitted by BAM, to be used as a stalking horse bid in connection with that sales process;
4. No letters of intent or other offers were received for the purchase of the Applicants' specialty papers business and the sales process has now been terminated in accordance with the Sales Process Order;
5. Due to the precarious nature of the Applicants' financial position, the only options available to the Applicants are to: (i) quickly satisfy the outstanding main conditions

under the APA to permit a sale of the specialty papers business as a going concern within the next month; or (ii) commence an orderly liquidation of the Applicants' assets;

6. The Applicants previously identified three main conditions precedent to the closing of the APA transaction, only one of which (new collective agreements at Madawaska) has been substantially satisfied as at February 19, 2010;
7. Notwithstanding extensive efforts to satisfy the other main conditions precedent under the APA [arrangements satisfactory to the purchaser with the New Brunswick Power Company, and to ensure that the purchaser has no liability under the Pension Plans (as such term is defined in the APA)], those conditions remain unresolved to date;
8. The Applicants have not generated positive cash flow from operations in more than three years and continue to require significant funding to finance the ongoing operations and pay substantial restructuring costs;
9. If the remaining two main conditions precedent under the APA are not satisfied through agreements in principle by the time this motion is returnable, the Applicants believe that an Order permitting an orderly liquidation is the only alternative available;
10. The Termination Date under the APA (as such term is defined in the APA) is February 26, 2010;
11. The stay of proceedings provided by the Initial Order expires on February 26, 2010;
12. The Applicants are proceeding in good faith and with due diligence;

13. The Monitor supports: (i) the Applicants' continuing efforts to satisfy the conditions precedent under the APA, and (ii) the alternative relief sought by the Applicants for an orderly liquidation if agreements in principle to satisfy the main outstanding conditions are not reached by the time this motion is returnable;
14. If an Order is made authorizing the Applicants to commence an orderly liquidation, the Applicants' DIP lenders reserve all of their rights arising from such an Order being granted by this Honourable Court;
15. The Monitor is prepared to oversee the orderly liquidation of the Applicants;
16. Section 11(4) of the CCAA;
17. Rules 2.03, 3 and 37 of the *Rules of Civil Procedure*, R.R.O. 1994, Reg. 194, as amended; and
18. such further and other grounds as counsel may advise and this Honourable Court may permit.

THE FOLLOWING DOCUMENTARY EVIDENCE will be used at the hearing of this Motion:

1. the Affidavit of J. Peter Gordon to be sworn on or about February 20, 2010 and all exhibits thereto;
2. the Affidavit of J. Peter Gordon sworn December 3, 2009, previously filed and to be relied upon on this motion;

3. the 8th Report of the Monitor dated February 2, 2010, previously filed and to be relied upon on this motion;
4. the 9th Report of the Monitor to be dated on or about February 22, 2010, to be filed separately; and
5. such further and other materials as counsel may advise and this Honourable Court may permit.

February 19, 2010

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TO: THIS HONOURABLE COURT
AND TO: THE ATTACHED SERVICE LIST

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(collectively, the "Applicants")

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

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Proceedings commenced at Toronto

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