

RE: FRASER PAPERS INC. ET AL

**ENDORSEMENT OF MADAM JUSTICE PEPALL
DATED FEBRUARY 24, 2010**

The Applicants seek an extension of the stay of proceedings up to April 9, 2010 and an amendment to the Asset Purchase Agreement (“APA”) between the Applicants and Brookfield and ancillary relief and approval of global agreement term sheet.

On December 10, 2009 I approved a sales process for the Applicants’ specialty papers business and an offer to purchase from BAM was to serve as a stalking horse bid. No letters of intent or other offers were received and therefore the Applicants have been working on satisfying the three main conditions under the APA to sell the specialty papers business as a going concern.

The first condition was to negotiate new collective bargaining agreements at the Madawaska paper mill. On February 15, 2010 a new three year collective agreement was ratified with respect to the USW unionized employees. A vote to ratify new terms of a collective agreement with OPEIU is scheduled for today.

The second condition related to obtaining amendment to the NB Power contract to provide for a first charge security – the CoGen facility or other security to replace existing LCs. Subject to cabinet approval, there is an agreement in principle with business NB to address the situation.

The third condition was to obtain amendments to the collective agreements related to the purchased assets to delete reference to existing defined benefit Pension Plans and obtaining agreement of the unions that the purchaser would have no obligations with respect to the pension plans and to obtain agreement to cease any remaining defined benefit pension accruals.

The Applicants have spent considerable time and effort on this last condition and have agreed to the provisions of a global agreement term sheet with the CEP, the Superintendent of Pensions for the Province of NB and the Province of NB. There are some outstanding signatures to this term sheet but I am advised that this is a logistical issue.

The term sheet is an agreement in principle only. That said, the proposed parties thereto should be commended for having reached a consensus on very difficult issues in unfortunate circumstances. The APA does remain subject to final approval of the Court and a motion for that purpose will be brought prior to any closing of the sale transaction under the APA.

No one opposed the Order requested although both BAM and CIT indicated that they had just received the term sheet. In addition, Mr. Swartz for the committee representing unrepresented employees and former employees advised that his committee is not a signatory to the term sheet, Davies having identified a conflict concern. In that regard, Davies, the Applicants and the Monitor will each work towards a reasonable approach to that perceived problem. Mr. Golick for the Town of Madawaska and the Water District of Madawaska noted for the Court that his clients are secured creditors and is hopeful that no motion is necessary in that regard.

Under all of the circumstances, I am of the view that the term sheet should be approved as an agreement in principle among the Applicants, NB and the CEP. I am also of the view that the stay of proceedings should be extended as requested. The Applicants have made some considerable progress and are acting in good faith and with due diligence.

They should be provided with the opportunity to pursue the APA transaction.