

**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 N.H. LLC**

Applicants

**MOTION RECORD OF THE
COMMITTEE OF SALARIED EMPLOYEES AND RETIREES
(Returnable March 30th, 2010)**

DAVIES WARD PHILLIPS & VINEBERG LLP
1 First Canadian Place
Suite 4400
Toronto, ON M5X 1B1

Jay A. Swartz (LSUC #15417L)
Natasha MacParland (LSUC #42383G)

Tel: 416.863.0900
Fax: 416.863.0871

Lawyers for the Committee

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

**ONTARIO
SUPERIOR COURT OF JUSTICE
(Commercial List)**

BETWEEN:

**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 N.H. LLC**

Applicants

NOTICE OF MOTION

The Committee of Salaried Employees and Retirees (the "CSER"), on behalf of the Applicants' unrepresented Canadian and U.S. employees and former employees, including those employees not actively at work, and individuals who are:

- (i) beneficiaries under one of the Applicants' four registered defined benefit pension plans in Canada;
- (ii) beneficiaries under the Applicants' U.S. defined benefit pension plan;
- (iii) beneficiaries under the Applicants' Canadian registered retirement savings plan or registered defined contribution pension plan; and/or
- (iv) beneficiaries under any supplementary retirement plan, deferred compensation plan or health, dental, life and other benefit plan of the Applicants, and including former employees who were members of the New Brunswick Regional Council of Carpenters, Millwrights and Allied Workers, Local 2450, all current employees and former employees who were members of the Office and Professional Employees International Union, and the former employees who were members of the International Brotherhood of Electrical Workers,

but excluding any person who is (a) a director or senior officer of any of the Applicants, or (b) is otherwise represented in this proceeding (all of whom, other than the excluded parties, being collectively referred to herein as the "Represented Parties" and individually, a "Represented Party"), will make a motion to a judge of the Commercial List on March 30, 2010 at 10:00 a.m., or as soon after that time as the motion can be heard, at 330 University Avenue, Toronto, Ontario.

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

THE MOTION IS FOR:

1. An Order that time for service of the notice of motion and the motion record is abridged and service of the notice of motion material and the motion record by the CSER is validated, such that this motion is properly returnable on March 30, 2010.
2. An Order that the guidelines for the Committee (the "Guidelines"), attached as Schedule "1" to draft Order, are hereby approved and authorized and the CSER shall be governed by the Guidelines in addition to the Order of this Court made September 9, 2009.
3. An Order that the NB Salaried Term Sheet as defined in the affidavit of Carl Michael Cyr, sworn March 26, 2010, is hereby approved and the execution of the NB Salaried Term Sheet by the CSER on behalf of the Represented Parties employed or formerly employed by the Applicants in the Provinces of New Brunswick and Ontario ("Term Sheet Represented Parties") be ratified, authorized and approved.

4. An Order that the NB Salaried Term Sheet be legally binding on and effective against the Term Sheet Represented Parties and the CSER be authorized and directed to take such additional steps and execute or direct its Counsel to execute such additional documents as may be necessary or desirable for the completion of the NB Salaried Term Sheet.

5. An Order amending the Order of the Honourable Madam Justice Pepall dated September 17, 2009, as amended by Order dated October 22, 2009 to: (i) inserted the corrected name "New Brunswick Regional Council of Carpenters, Millwrights and Allied Workers, Local 2450" in place of "Local 2450 Construction Maintenance and Allied Workers", which was included in the prior Order in error, and (ii) extend the application of the limitation of liability in paragraph 13 of that Order to further Orders of this Court.

THE GROUNDS OF THE MOTION ARE:

- (a) on June 18, 2009, the Applicants obtained an Initial Order under the CCAA staying all proceedings and claims against it (the "Initial Order");
- (b) the CSER, a volunteer group was created in August 2009 in response to the Initial Order with a mandate to defend and protect the termination entitlements, pensions, retirement payments and other benefits of the Represented Parties,
- (c) pursuant to the Order of this Court made September 17, 2009, as amended on October 22, 2009, (the "CSER Order"), the CSER represents

a broad constituency of Canadian and U.S. salaried workers and retirees who were unrepresented in this Proceeding and Davies Ward Phillips & Vineberg LLP is representative counsel to the Represented Parties;

- (d) the CSER currently has 15 members;
- (e) it is in the best interest of both the CSER and the Represented Parties for the CSER to adopt the Guidelines. While certain voting procedures were established at the time of the CSER's formation, including that the CSER decisions would be determined by majority vote, the importance of the decisions that the CSER has been forced to make over the preceding few weeks has made it clear that more formalized governance structures should be adopted;
- (f) the Superintendent of Pensions for the Province of New Brunswick (the "Superintendent") has requested that the CSER seek Court approval of the agreement concerning the future treatment of the New Brunswick salaried pension plan entered into by the Applicants, the Superintendent and Davies, on behalf of the Term Sheet Represented Parties and a declaration that the NB Salaried Term Sheet is binding on the Term Sheet Represented Parties;
- (g) Rule 10 of the *Rules of Civil Procedure*;
- (h) section 131(1) of the *Courts of Justice Act*;
- (i) section 197(1) of the *Bankruptcy and Insolvency Act*; and

- (j) section 11(1) of the *Companies' Creditors Arrangement Act*.

THE FOLLOWING DOCUMENTARY EVIDENCE will be filed in support of
this motion:

- (a) the Affidavit of Carl Michael Cyr, sworn March 26, 2010; and
(b) such further and other material as counsel may advise and this Honourable Court permit.

Date: March 26, 2010

DAVIES WARD PHILLIPS & VINEBERG LLP
1 First Canadian Place
Suite 4400
Toronto, ON M5X 1B1

Jay A. Swartz (LSUC #15417L)
Natasha J. MacParland (LSUC #42383G)

Tel: 416.863.0900

Fax: 416.863.0871

Lawyers for the Committee

TO: ATTACHED SERVICE 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 N.H. LLC

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

**ONTARIO
SUPERIOR COURT OF JUSTICE
(Commercial List)**

Proceeding commenced at Toronto

NOTICE OF MOTION

Davies Ward Phillips & Vineberg LLP
1 First Canadian Place
Suite 4400
Toronto, ON M5X 1B1

Jay A. Swartz (LSUC #15417L)
Natasha J. MacParland (LSUC #42383G)

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Fax: 416.863.0871

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Applicants

**AFFIDAVIT OF CARL MICHAEL CYR
(sworn March 26, 2010)**

I, Carl Michael Cyr, of the City of Edmundston, in the Province of New Brunswick, MAKE OATH AND SAY:

1. I am a retiree, and former Superintendent Process Control and Engineering, of the Applicants' Edmundston, New Brunswick operations. I swear this Affidavit in support of the motion by the Committee of Salaried Employees and Retirees (the "CSER"), which is seeking an Order, in the form attached to the Motion Record as Exhibit "A", that (i) approves and authorizes the guidelines for the CSER (the "Guidelines"), attached hereto as Exhibit "B", and that the CSER shall be governed by the Guidelines in addition to the Order of this Court made September 17, 2009, (ii) approves the NB Salaried Term Sheet (as defined in paragraph 7 below) and ratifies, authorizes and approves the execution of the NB Salaried Term Sheet by the CSER on behalf of the Represented Parties (as defined in paragraph 2 below) employed or

formerly employed by the Applicants in the Provinces of New Brunswick and Ontario (the "**Term Sheet Represented Parties**"), and (iii) declares that the NB Salaried Term Sheet is legally binding on and effective against the Term Sheet Represented Parties and that the CSER is authorized and directed to take such additional steps and execute such additional documents as may be necessary or desirable for the completion of the NB Salaried Term Sheet.

2. Pursuant to an Order of this Court made September 17, 2009, as amended on October 22, 2009, (the "**CSER Order**"), the CSER represents all the Applicants' unrepresented Canadian and U.S. employees and former employees, including those employees not actively at work, and individuals who are: (i) beneficiaries under one of the Applicants' four registered defined benefit pension plans in Canada; (ii) beneficiaries under the Applicants' U.S. defined benefit pension plan; (iii) beneficiaries under the Applicants' Canadian registered retirement savings plan or registered defined contribution pension plan; and (iv) beneficiaries under any supplementary retirement plan, deferred compensation plan or health, dental, life and other benefit plan of the Applicants, but excluding any director or senior officer of the Applicants and any individual who is otherwise represented in the proceeding (all of whom, other than the excluded parties, being collectively referred to herein as the "**Represented Parties**" and individually, a "**Represented Party**"). The CSER Order is attached as Exhibit "**C**".

3. For greater certainty, the Represented Parties include former employees who were members of the New Brunswick Regional Council of Carpenters, Millwrights and Allied Workers, Local 2450, all current employees and former employees who were members of the Office and Professional Employees International Union, and the former

employees who were members of the International Brotherhood of Electrical Workers are also included in the group represented by Davies Ward Phillips & Vineberg LLP ("Davies").

4. I have personal knowledge of the matters to which I hereinafter depose. Where the source of my information or belief is other than my personal knowledge, I have identified the source and basis for my information and believe it to be true.

5. All references to currency in this Affidavit are to U.S. Dollars unless otherwise noted.

Introduction

6. I believe that it is in the best interest of both the CSER and the Represented Parties for the CSER to adopt the Guidelines. While certain voting procedures were established at the time of the CSER's formation, including that CSER decisions would be determined by majority vote, the importance of the decisions that the CSER has been forced to make over the preceding few weeks has made it clear to me, and to the CSER as a whole, that more formalized governance structures should be adopted. Adopting the Guidelines will facilitate the making of important decisions in the future.

7. In addition, I have been advised that the Superintendent of Pensions for the Province of New Brunswick (the "**Superintendent**") has requested that the CSER seek Court approval of the agreement concerning the future treatment of the New Brunswick salaried pension plan (the "**NB Salaried Term Sheet**") entered into by the

Applicants, the Superintendent and Davies, on behalf of the Term Sheet Represented Parties and a declaration that the NB Salaried Term Sheet is binding on the Term Sheet Represented Parties.

8. Under the NB Salaried Term Sheet, the Term Sheet Represented Parties could potentially receive greater consideration than they would under the asset purchase agreement (the "APA") approved by the Court on December 10, 2009. Pursuant to the APA, Brookfield Asset Management ("BAM") proposes to purchase the Applicants' specialty paper business (the "BAM Transaction") for a purchase price with an aggregate face value of \$185 million. Under the APA, consideration for unsecured creditors was originally to include 49% of the common shares of the new corporation to be created from the Applicants' specialty papers business ("Newco") and a \$42.4 million non-interest bearing promissory note having a ten-year term. Given the proposed sale to Newco and the insolvency of the Applicants, it is possible for the Applicants' pension plans to be subject to an immediate wind-up. Finally, as a condition precedent to the closing of the BAM Transaction, BAM requires that all existing references to the defined benefit pension plans in the collective agreements between the Communications, Energy and Paperworkers Union of Canada (the "CEP") and the Applicants be removed.

9. The NB Salaried Term Sheet provides, among other things, (i) that the New Brunswick salaried pension plan (the "NB Salaried Plan") will receive a promissory note with an eight, rather than ten-year term, which potentially provides greater value to the Term Sheet Represented Parties, (ii) that the NB Salaried Plan will be wound up prior to the closing of the BAM Transaction, but will be administered by an

administrator appointed by the Superintendent for a period of up to eight-years at which time annuities will be purchased, which allows the pension funds to increase in value, and (iii) that the consideration due to the NB Salaried Plan under the APA will be deposited into an outside trust fund for the sole benefit of the NB Salaried Plan. The term sheet potentially provides a benefit to participants in the NB Salaried Plan. The term sheet also extends the benefit of the Final CEP Term Sheet to certain of the Term Sheet Represented Parties. A copy of the signed Term Sheet is attached hereto as Exhibit "D".

10. Set out herein are a brief history and background of the matter to support the relief sought.

Employment Background

11. I began working with Fraser Companies Ltd., a predecessor to Fraser Papers Inc., in 1976 as an electrical engineer. I held a number of positions during my 28 years of employment at Fraser Papers Inc. and its predecessor, including Superintendent Process Control and Capital Projects at the Edmundston division, Computerized Maintenance Management System Coordinator at the Edmundston division, Senior Systems Engineer at the Edmundston division and Plant Electrical Engineer at the Madawaska division. At the time of my retirement, I was Superintendent Process Control and Engineering for Edmundston, a position that I held for two years. I am currently a member of the Edmundston Retirees Association.

The Applicants' Pension and Benefit Plans and the CCAA Proceedings

12. On June 18, 2009, the Applicants sought and obtained an Order (the "Initial Order") pursuant to the *Companies' Creditors Arrangement Act* ("CCAA") staying all proceedings and claims against them (the "CCAA Proceedings"). At this time, employees and retirees of the Applicants learned of the funding deficiencies of the Applicants' pension and benefit plans. I, and the other original representatives on the CSER, became aware of these funding deficiencies through the affidavit of J. Peter Gordon, the Chief Executive Officer and director of Fraser Papers Inc., sworn in support of the Initial Order (the "Gordon Affidavit"), and through letters sent by the Applicants to employees and retirees, which discussed, in vague terms, the pension and benefit plan funding deficiencies. The Gordon Affidavit, without attachments, is attached hereto as Exhibit "E".

13. In the Gordon Affidavit, Mr. Gordon swears, among other things, that the Applicants are insolvent and suffering severe financial difficulties. Specifically, Mr. Gordon states that a significant portion of the Applicants' financial obligations are owed to employees and retirees of the Applicants and that the Applicants are unable to meet, or may be unable to meet, many of these obligations. The following information, outlined in the Gordon Affidavit, catalyzed the original representatives of the CSER to form our committee:

- (a) the Applicants have a substantial deficit in their five pension plans (the "Pension Plans") and three supplemental employee retirement and

supplemental executive retirement plans of approximately \$171.5 million as at December 31, 2008 (see Gordon Affidavit, p. 3, para. 5(e));

- (b) the Applicants anticipate that they will be required to make special payments in respect of unfunded going concern and solvency deficiencies (the "**Pension Deficits**") with respect to the Pension Plans in the amount of \$13.5 million in 2009. This is in addition to \$3.3 million required to be paid in 2009 on account of normal cost contributions to the Pension Plans. The Applicants have stated that they are not able to pay these amounts (see Gordon Affidavit, p. 20, para. 81) and, pursuant to an Order of this Court, has stopped funding these Pension Deficits;
- (c) as at December 31, 2008, the present value of the accrued benefit obligations of the Applicants' post-retirement health care benefits was \$46.8 million. It is unclear whether the Applicants will be able to satisfy its obligations in respect of these benefits (see Gordon Affidavit, p. 21, para. 83); and
- (d) there remains a balance of approximately \$1 million in the Applicants' Health and Welfare Trust, through which active and retired employees of the Applicants receive many of the health and related benefits payable by the Applicants, which amount, in the ordinary course of business of the Applicants, would fund benefits payable for a period of approximately four to five months. The Applicants intend to make no further payments into this trust after the date of filing until such time as the funds are fully

depleted through the payment of benefits to employees. Once these funds are depleted, the Applicants will be obliged to contribute sufficient funds to the trust in order to meet its obligations under its retiree and employee benefit plans as they may exist at that time. It is unclear that the Applicants will be able to satisfy its obligations in respect of the Health and Welfare Trust (see Gordon Affidavit, p. 21-22, paras. 84-85).

14. On June 18, 2009, the Applicants sent letters to three different constituencies of employees and retirees: (i) one letter went to participants in the supplemental employee retirement plan and the supplemental executive retirement plan (the "SERP Letter") attached hereto as **Exhibit "F"**; (ii) a second letter went to all the Applicants retirees (the "Retirees' Letter") attached hereto as **Exhibit "G"**; and (iii) a third letter went to all participants of the Applicants' deferred compensation plan (the "**Deferred Compensation Letter**") attached hereto as **Exhibit "H"**.

15. All three letters state that the Applicants' CCAA filing was necessary as the Applicants were not generating sufficient positive cash flow to fund their operations, including its pension obligations. The Retirees' Letter states that the Applicants continue to make payments of benefits under its retiree benefit program which includes medical, dental and life benefits, but also states that the "payments of these benefits are subject to a cap and may change as the restructuring plans evolve" and that it is in the process of determining what amount of retiree benefits it is capable of continuing to fund. The SERP Letter and Deferred Compensation Letter each state that the Applicants are no longer obligated or able to make payments in respect of any unfunded pensions, including the SERPs and the U.S. Deferred Compensation Plan.

16. The information contained in these letters, like the information provided in the Gordon Affidavit, mobilized the original representatives of the CSER to form the committee.

Formation of the CSER

17. The CSER was formed in early August 2009, as a result of the many e-mails and phone calls that the founding members of the CSER began to receive after the Applicants obtained the Initial Order, and after active and retired employees received the three letters discussed above. Those affected by the pension deficits were, and remain, very concerned about the implications of the Pension Deficits and other unfunded liabilities. It is frightening to many of us that we will, in all likelihood, be losing thirty to forty per cent of our pension benefits.

18. The original representatives of the CSER were Don Corey (HR Manager (Edmundston Operations; Plaster Rock and Juniper)), Paul Gendreau (HR Supervisor (Madawaska)), Francine Clément (HR Manager and Administration (Thurso)), Greg Cyr (HR Manager (Gorham)), Richard Marston (a retiree formerly HR Manager (Madawaska)), Robert Bruce Parkin (a retiree formerly HR Manager (Edmundston)), Robyn Wiley-Hoyt (HR Superintendent (Juniper)), Ken Chappel (a retiree formerly Operations Supervisor (Plaster Rock)), Mark Fitzherbert (HR Safety Superintendent (Plaster Rock)) and Mike Côté (HR Superintendent (Ashland/Masardis)).

19. I joined the CSER as an additional member in mid-September 2009, along with Lorne Fraser (a retiree (Edmundston), member of the Edmundston Retirees Association). Paul Des Rosiers (a retiree formerly VP Forestry and Energy Divisions

(James Maclaren Industries Inc.)), Paul Schriver (a retiree formerly Mill Manager (Atholville Pulp Inc.)), and Claude Lalonde (a retiree formerly Assistant Director of Construction (Thurso)) also joined the CSER at that time. The CSER is now comprised of fifteen members – each of whom volunteers his or her time and effort.

20. The CSER currently includes representatives of the following employee groups: Canadian and U.S. salaried employees and retirees (who were formerly salaried employees) from the Edmundston, Thurso, Plaster Rock, Juniper, Madawaska, Gorham and Ashland/Masardis operations.

21. While the CSER worked diligently to protect the interests of our constituent groups from the outset, I, along with other members of the CSER, believed that it was vital to the CSER to obtain representative counsel, in order to facilitate our interactions with the Applicants, to be properly represented in the CCAA Proceedings, and to file claims with PriceWaterhouseCoopers LLP (the "Monitor"). Without representative counsel, many employees and retirees would have remained unrepresented and uninformed as to the CCAA Proceeding and have had no means to protect their entitlements under the pension and benefit plans. We therefore sought representative counsel to ensure that the employees and retirees were provided with the advice needed to protect their interests and to participate in a meaningful, well informed and productive manner in the CCAA Proceedings.

22. Pursuant to the CSER Order made September 17, 2009, as amended on October 22, 2009, this Court appointed Davies as representative counsel for the CSER, on behalf of the Represented Parties.

23. In the CSER Order, this Court also ordered that the CSER members "shall be at liberty and are authorized at any time to apply to this Honourable Court for advice and directions in the discharge of their powers and duties." The CSER is now applying to this Court for such advice and to obtain an Order to assist in the discharge of its duties.

24. Davies set up a toll-free hotline where the employees and retirees could call and obtain information about the Applicants' recent CCAA Proceedings and other issues of concern. Davies also set up a website link on their firm website to provide detailed information to the employees about the Applicants' CCAA Proceedings along with a link to the Monitor's website. The Davies website for the employees and retirees is www.fpemployees.dwpv.com and the toll-free telephone number is 1-877-782-0299. Attached hereto as **Exhibit "I"** is a printout from the Davies webpage setup for the Represented Parties. Davies has also compiled a list of e-mail addresses, which includes the e-mail addresses of 238 Represented Parties.

CSER Governance Decisions

25. A CSER conference call took place on September 18, 2009, at which, as noted above, three additional members were added to the CSER (Paul Des Rosiers, Paul Schriver and Claude Lalonde).

26. On this conference call, the CSER also discussed certain governance issues. Among other things, the following decisions were made concerning the governance of the CSER:

- (a) if the CSER made a decision on a particular issue, it would be determined by a majority vote; and
- (b) in the event that substantially different views arose that prevented the resolution of an issue through a majority vote, a determination would be made at such time as to how best to address the divergent views.

27. These governance decisions have served the CSER well and have allowed the CSER to function smoothly. However, on reflecting on the complexity of the issues faced by the CSER and the importance of clear voting procedures, the CSER is of the view that more formalized procedures should be adopted.

The Claims Process

28. Throughout the remainder of the months of September and October, Davies drafted and filed proofs of claim with the Monitor with the help of both the members of the CSER and an independent actuary, Aon Consulting. Through the claims process, Davies communicated with both Represented Parties and the Applicants.

29. On Friday November 6, 2009, Davies filed claims for the Thurso and New Brunswick salaried and hourly plans, Canadian and U.S. retiree health and welfare benefits, Canadian and U.S. Supplementary Employee Retirement Plans, and termination, severance and bonus payments with the Monitor. Amended and Restated Severance and Termination Claims were filed with the Monitor on December 23, 2009.

Amended and restated bonus claims were filed with the Monitor on January 29, 2010. Certain of these claims differed from the information in the Gordon Affidavit.

The BAM APA

30. On November 9, 2009, Davies received a Powerpoint presentation concerning the proposed BAM Transaction from the Applicants. On November 10, 2009, a meeting of the CSER was called at which Davies provided the CSER with an overview of the proposed BAM Transaction, including the consideration to be provided to the Applicants' unsecured creditors. No decision was taken as to whether to support the proposed BAM Transaction, since the CSER and Davies required further details concerning the proposed transaction.

31. A CSER meeting was convened on December 9, 2009 to further discuss the proposed APA, which was set out in the motion materials for the approval motion to be heard December 10, 2009.

32. Under the APA, as discussed above, the unsecured creditors, which includes Represented Parties, would receive 49% of the common shares of Newco and a \$42.4 million promissory note with a ten-year term. Under the APA, all unsecured creditors of the Applicant were to receive the same consideration. After we discussed the APA and our potential options, the CSER decided unanimously not to oppose the APA. Unlike the CEP, the CSER's agreement was not required on any issue as a condition precedent under the APA. While the CSER felt that the consideration was too low, the CSER did not feel that it or the Represented Parties were being treated unfairly as compared to any other group of unsecured creditors.

The CEP Term Sheet and the February 24 Motion

33. On February 18, 2010, Davies received a draft term sheet from the Applicants (the "**Draft Term Sheet**"). Davies was advised by the Applicants that it would be required to sign the Draft Term Sheet on behalf of the CSER in order for the Applicants to move forward with the APA.

34. In his affidavit sworn February 20, 2010, in support of the motion dated February 24, 2010 (the "**February 24 Motion**"), J. Peter Gordon stated that if the Applicants did not reach an agreement in principle to satisfy the two remaining conditions precedent under the APA, including the issue of pension liability, on or before February 24, 2010, the Applicants would seek an extension of the stay period and an Order permitting the Applicants to commence an orderly liquidation of the Applicants' property, assets and undertakings under the supervision of the Monitor. I am informed by Davies that in an e-mail dated February 18, 2010, attached hereto as **Exhibit "J"**, the Applicants state that they would require the agreement of the CSER to the Draft Term Sheet in order to move forward with the transactions contemplated by the APA.

35. The Draft Term Sheet proposes the terms of an agreement in principle to be finalized prior to the February 24 Motion to avoid an orderly liquidation of the Applicants. The intention was to set out the future treatment of the New Brunswick pension plans and to remove all references to the existing defined benefit pension plans from the existing collective bargaining agreements between the CEP and the Applicants. While the Draft Term Sheet did provide for delayed wind-up of the New

Brunswick pension plans, it nonetheless provided for equal consideration to all unsecured creditors of the Applicants. It did not favour one group over another.

36. Davies provided some preliminary comments in relation to the Draft Term Sheet and advised the Applicants that the final term sheet would be subject to the review and agreement of the CSER.

37. Numerous discussions among the Applicants, the CEP, the Superintendent, the Minister of Justice and Consumer Affairs for the Province of New Brunswick, the Monitor, and Davies took place including meetings on Monday, February 22 and Tuesday, February 23, 2010. Davies was excluded from most of these negotiations, which took place solely between the CEP and the Applicants. Davies arranged a conference call with the CSER at 4:00 p.m. on February 23, 2010 in order to update the CSER on the negotiations.

38. I am informed by Davies that at close to midnight on the evening of Tuesday, February 23, 2010, Davies was presented with an agreement in principle that had been reached between the CEP and the Applicants (the "**Proposed CEP Term Sheet**"). As has previously been brought to this Court's attention, the terms of this agreement in principle created a conflict of interest for Davies by treating the Term Sheet Represented Parties more favourably than all other unsecured creditors, including the Represented Parties whose pensions were not regulated by the laws of New Brunswick. This development was unexpected.

39. The Proposed CEP Term Sheet contained the following provisions:

- (a) the Applicants agreed that Newco would pay an additional \$6.1 million into the New Brunswick hourly pension plan over an eight-year period. The Applicants would deliver an irrevocable direction to Newco to direct that it make a series of fixed payments into the hourly plan between 2011 and 2018. As BAM was unwilling to pay a higher purchase price for the Applicants' assets, this \$6.1 million to be paid by Newco, would be paid at the expense of other unsecured creditors, who will be shareholders and noteholders of Newco;
- (b) instead of receiving their pro rata share of the ten-year promissory note, both the salaried and hourly New Brunswick pension plans would receive a promissory note with an eight-year term. The total value of the promissory note for all other unsecured creditors, including the Quebec and U.S. employees and retirees, would be reduced from a face value of \$42.4 million to \$40 million and would continue to have a ten-year term;
- (c) as part of this agreement, the Superintendent agreed that, while the New Brunswick pension plans would be wound up, the New Brunswick pension plans would continue to be administered by a government appointed administrator for up to eight years. During these eight years, the pension funds would continue to be invested and, therefore, could increase in value. The Superintendent also agreed that the consideration to the unsecured creditors would be deposited into outside trust funds for the sole benefit of the New Brunswick pension plans; and

- (d) the parties agreed to release the directors and officers of the Applicants and BAM.

40. The Proposed CEP Term Sheet created unequal treatment among the Represented Parties in two ways. First, participants in the New Brunswick hourly pension plan will gain significantly at the expense of all other unsecured creditors as a result of the additional \$6.1 million it will receive. Secondly, participants in both New Brunswick pension plans will receive an eight-year promissory note, which has greater value than the ten-year promissory note to be received by all other unsecured creditors.

41. Because participants in the New Brunswick pension plans were to receive greater consideration and benefits under the Proposed CEP Term Sheet than would other employees and retirees outside New Brunswick, a conflict of interest arose within the CSER. The Term Sheet Represented Parties, myself included, stood to gain from the Proposed CEP Term Sheet. Those members and constituents outside of New Brunswick did not.

42. Due to this conflict of interest, Davies was unable to sign the Proposed CEP Term Sheet. In addition, and of equal importance, Davies was specifically instructed by the CSER not to sign the Proposed CEP Term Sheet on behalf of the CSER. Prior to the approval motion, Davies recommended to the CSER that independent counsel be sought to advise on this issue and that Davies would inform the Court of this issue.

43. As Davies was unable to sign the Proposed CEP Term Sheet on behalf of the CSER, Davies was removed as a signatory of the Proposed CEP Term Sheet, and

all references to the NB Salaried Plan were removed. Therefore, the final CEP term sheet (the "Final CEP Term Sheet"), which was approved by this Court on February 24, 2010, and which is substantially the same as the Proposed CEP Term Sheet, does not include and does not benefit the NB Salaried Plan. No agreements or benefits were achieved for either the New Brunswick or non-New Brunswick Represented Parties prior to the February 24 Motion.

Continued Term Sheet Negotiations

44. After the February 24 Motion, Davies committed to continuing its negotiations with the Superintendent to obtain the same treatment for the NB Salaried Plan as was achieved for the New Brunswick hourly plan through the Court approved Final CEP Term Sheet. The Applicants also communicated that they would continue to seek the agreement of the CSER on an agreement in principle with substantially the same terms as the Final CEP Term Sheet. The Applicants still required the agreement of the CSER to such a term sheet in order to move forward with the transactions contemplated by the APA.

45. Davies also committed to finding outside representation for the non-New Brunswick members of the CSER, in order that they be able to receive independent legal advice on whether to sign a proposed term sheet.

46. On February 26, 2010, Kenneth Rosenberg of Paliare Rolland Rosenberg Rothstein LLP was contacted to advise the non-Term Sheet Represented Parties' members of the CSER of their remedies in light of the unequal treatment under the term sheet proposed by the Applicants. I am informed by Davies that a conference call took

place between Mr. Rosenberg and the non-New Brunswick members of the CSER on March 2, 2010. As I am not a member of this group (I am a participant in the NB Salaried Plan), I do not know the nature or results of these discussions between Mr. Rosenberg and the non-New Brunswick members of the CSER. I do know, however, that they have not yet signed any agreement in principle with the Applicants.

47. After the conference call between the non-New Brunswick CSER members and their independent legal counsel, and after further communication between the Term Sheet Represented Parties' members and Davies through e-mails and telephone calls, it became clear that all members of the CSER sought to achieve substantially the same benefits for their respective constituent groups as are provided to the members of the New Brunswick hourly pension plan under the Final CEP Term Sheet, including:

- (a) a delayed winding up the pension plans, to allow the funds to be invested over a period of five to eight years;
- (b) a promissory note with an eight, rather than ten-year term;
- (c) the appointment of a trustee to administer an outside trust that will hold the APA consideration owed to the particular pension plan; and
- (d) additional cash consideration contributed into their plans which was proportional to the \$6.1 million to be contributed by Newco into the NB Hourly Plan.

Recent Meetings and the Final New Brunswick Salaried Term Sheet

48. On Friday, March 12, 2010, Jay Swartz, a partner at Davies, sent to the CSER a draft of the NB Salaried Term Sheet which the CSER was asked to sign with the New Brunswick pension regulators and the Applicants, and which resulted from the negotiations among the Applicants, Davies and the Superintendent. The principal benefits of this term sheet will flow to the NB Salaried Plan, which will have a wind up over an eight-year period allowing for some potential recovery on the value of the assets or improvement in annuity rates. The draft term sheet would also assure that the NB Salaried Plan will have the benefit of an eight-year promissory note. Finally, the draft term sheet provided that the CSER release BAM, its directors and officers and the directors and officers of the Applicants from any liability in connection with the pension plans.

49. The Superintendent imposed a deadline of March 16, 2010 for the signing of the NB Salaried Term Sheet in order to allow passage of the necessary legislation and regulations intended to permit the benefits provided for in the Final CEP Term Sheet and in the NB Salaried Term Sheet. The Applicants insisted that the entire CSER commit to signing the term sheet, and not solely the New Brunswick members of the CSER on behalf of the Term Sheet Represented Parties, the group that benefits most directly from the term sheet. While the non-New Brunswick members would still be required to agree to the releases discussed above, on behalf of their constituents, they would receive no benefit under the NB Salaried Term Sheet.

50. It was under these difficult and time-pressured circumstances that the CSER was required to decide whether to sign the term sheet. While the CSER has made decisions in the past, for example, the decision not to oppose the approval of the APA, the decision as to whether to sign the term sheet was a more challenging and complex decision for the CSER to make because of the term sheet's significant implications on all pension plan beneficiaries and because of its unequal treatment of different members of the Represented Parties. The NB Salaried Term Sheet also implicitly endorsed the revised consideration under the APA which was a term antithetical to position of CSER as a whole.

51. The CSER discussed the merits of the term sheet on a conference call on Friday, March 12, 2010, and continued these discussions on a lengthy conference call on Monday, March 15, 2010. Twelve out of the 15 CSER members were present on the Monday, March 15 conference call. Because the Superintendent required that the CSER sign the term sheet by March 16, 2010 in order for the NB Salaried Plan to benefit from the legislative amendments made pursuant to the Final CEP Term Sheet, the CSER was required to vote on the issue.

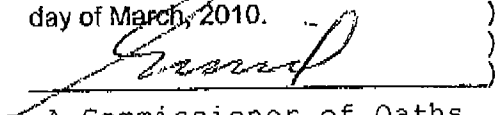
52. At the end of the March 15, 2010 conference call a poll was taken: six members supported signing the term sheet; six did not resulting in a deadlock among the CSER as a whole. However, four of six of the New Brunswick members present supported signing the term sheet, as the Term Sheet Represented Parties receive several benefits from the term sheet which the non-New Brunswick members, and their constituents, do not. Accordingly, the CSER as a whole would not sign the term sheet,

but the term sheet would only be signed on behalf of the Term Sheet Represented Parties.

53. On March 17, 2010, the Applicants, the Superintendent and Davies, on behalf of only Term Sheet Represented Parties, entered into a term sheet concerning the future treatment of the NB Salaried Plan.

54. I make this Affidavit in good faith and in support of this motion, for an order in the form attached to the Motion Record as **Exhibit "A"**, and described above, and for no improper purpose.

SWORN BEFORE ME at
the City of Edmundston, in the
Province of New Brunswick, this 26th
day of March, 2010.



A Commissioner of Oaths
being a Solicitor



CARL MICHAEL CYR

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 N.H. LLC

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

**ONTARIO
SUPERIOR COURT OF JUSTICE
(Commercial List)**

Proceeding commenced at Toronto

AFFIDAVIT OF CARL MICHAEL CYR

Davies Ward Phillips & Vineberg LLP
44th Floor, 1 First Canadian Place
Toronto, ON M5X 1B1

Jay A. Swartz (LSUC #15417L)
Natasha MacParland (LSUC #: 42383G)

Tel: 416.863.0900
Fax: 416.863.0871

Lawyers for the Committee

Council of Carpenters, Millwrights and Allied Workers, Local 2450 ("CMAW"), all current employees and former employees who were members of the Office and Professional Employees International Union, and the former employees who were members of the International Brotherhood of Electrical Workers, but excluding any person who is (a) a director or senior officer of any of the Applicants, or (b) is otherwise represented in this proceeding (all of whom, other than the excluded parties, being collectively referred to herein as the "Represented Parties" and individually, a "Represented Party") was heard this day at 330 University Avenue, Toronto, Ontario.

ON READING the Motion Record of the CSER and on reading the affidavit of Carl Michael Cyr sworn March 26, 2010 and on hearing submissions of counsel for the CSER, counsel for the Applicants and counsel for the Monitor, and **[other parties]**;

1. **THIS COURT ORDERS** that the time and method for service of the Notice of Motion and the Motion Record herein is hereby abridged and validated so that this Motion is properly returnable today and hereby dispensed with further service thereof.
2. **THIS COURT ORDERS** that, pending further Order of this Court, the guidelines for the CSER (the "Guidelines") , attached as Schedule "1" to this Order, are hereby approved and authorized and the CSER shall be governed by the Guidelines, in addition to, the Order of this Honourable Court made September 17, 2009 (the "Appointment Order") as amended by Order of this Court dated October 22, 2009.
3. **THIS COURT ORDERS AND DECLARES** that the Term Sheet as defined in the affidavit of Carl Michael Cyr, sworn March 26, 2010, is hereby approved and the

execution of the Term Sheet by the CSER on behalf of the Represented Parties employed or formerly employed by the Applicants in the Provinces of New Brunswick and Ontario ("Term Sheet Represented Parties") is hereby ratified, authorized and approved.

4. **THIS COURT FURTHER ORDERS** that the Term Sheet is legally binding on and effective against the Term Sheet Represented Parties and the CSER is hereby authorized and directed to take such additional steps and execute or direct its Counsel to execute such additional documents as may be necessary or desirable for the completion of the Term Sheet.

5. **THIS COURT ORDERS** that the Appointment Order is hereby amended, *nunc pro tunc*, to: (i) delete the reference to "Construction Maintenance and Applied Workers Union" in the Preamble thereof, and replace it with "The New Brunswick Regional Council of Carpenters, Millwrights and Allied Workers, Local 2450" and (ii) amend paragraph 13 of the Appointment Order to add the following "or any other Order" after the words "this Order". All other provisions of the Appointment Order shall remain in full force and effect, unamended except as set out herein.

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 N.H. LLC

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

**ONTARIO
SUPERIOR COURT OF JUSTICE
(Commercial List)**

Proceeding commenced at Toronto

ORDER

Davies Ward Phillips & Vineberg LLP
44th Floor, 1 First Canadian Place
Toronto, ON M5X 1B1

Jay A. Swartz (LSUC #15417L)
Natasha MacParland (LSUC #42383G)

Tel: 416.863.0900
Fax: 416.863.0871

Lawyers for the Committee

As of March 30, 2010

Exhibit B

Set
copy

**GUIDELINES FOR THE COMMITTEE
FOR SALARIED EMPLOYEES AND RETIREES ("CSER") OF
FRASER PAPERS INC., FPS CANADA INC., FRASER PAPERS
HOLDINGS INC., FRASER TIMBER LTD., FRASER PAPERS LIMITED
AND FRASER N.H. LLC (the "Applicants")**

1. **MANDATE OF CSER**

The role of CSER shall be as provided in the Order of the Ontario Superior Court of Justice (Commercial List) dated September 17, 2009, as amended by further Order of that Court dated October 22, 2009 and as may be amended by any further Order in that proceeding (collectively, the "Representation Order").

2. **MEMBERS**

The current Members of CSER are listed on Schedule A.

CONSTITUTION OF CSER

3. **ELECTION AND REMOVAL OF MEMBERS**

3.1 **Number of Members**

CSER shall consist of up to 15 Members but no less than 12 Members from time to time.

3.2 **Appointment of Members**

Members shall be appointed by Court order upon the recommendation of CSER.

3.3 **Vacancies**

CSER may appoint a Member to temporarily fill a vacancy which occurs in CSER.

3.4 **Ceasing to be a Member**

A Member will cease to hold office upon:

- (i) delivering a resignation in writing to CSER;
- (ii) being removed from office by court order; or

(iii) his or her death.

3.5 Deemed Resignation

A Member who is an active employee shall submit his or her resignation to CSER (which resignation need not be accepted in order to be valid) if that Member ceases to be employed by the Applicants other than as a result of retirement.

4. CRITERIA FOR MEMBERS

4.1 Qualifications of Members

Every Member shall be an individual who (i) is at least 18 years of age, (ii) has not been determined by a court to be of unsound mind, (iii) is an employee or former employee, (including an employee not actively at work) of the Applicant, and (iv) is a constituent identified in the Representation Order but is not a director or senior officer of any of the Applicants, or otherwise represented in the CCAA proceedings of the Applicants.

4.2 Other Criteria

CSER may establish other criteria for Members as are necessary, reasonable and desirable.

MEETINGS OF CSER

5. MEETINGS OF CSER

5.1 Place of Meetings

Meetings of CSER may be held at any place or by teleconference.

5.2 Calling Meetings

A meeting of Members may be convened by any member or by its counsel at any time.

5.3 Notice

Notice of the time and place for the holding of any such meeting shall be sent to each Member not less than one day (exclusive of the day on which the notice is sent but inclusive of the day for which notice is given) before the date of the meeting; provided that meetings of CSER may be held at any time without formal notice if all the Members are present or if all the absent Members have waived notice.

Notice of the time and place for the holding of any meeting of CSER may be given by phone, delivery, fax, electronic mail or any other electronic means that produces a written copy.

5.4 Waiver of Notice

Notice of a meeting of CSER or any irregularity in a meeting or in the notice thereof may be waived in any manner by any Member and such waiver may be validly given either before or after the meeting to which such waiver relates. Attendance of a Member at a meeting of CSER is a waiver of notice of the meeting.

5.5 Telephone Participation

A Member may participate in a meeting of CSER by means of such telephone, electronic or other communications facilities as permit all persons participating in the meeting to communicate with each other simultaneously and instantaneously, and a Member participating in a meeting by such means shall be deemed to be present at that meeting.

5.6 Quorum

In order to transact business at a meeting of CSER at least nine (9) Members of CSER shall be present. No business shall be transacted by the Members except at a meeting of CSER at which a quorum is present. In the case of business which solely affects a clearly identifiable class of the Represented Parties, the quorum shall be two-thirds of CSER Members who are within the same clearly-identifiable class as those Represented Parties.

5.7 Voting

Questions and resolutions arising at any meeting of CSER shall be decided by a majority of votes. In the case of business which solely affects a clearly-identifiable class of the Represented Parties, questions and resolutions shall be decided by a majority vote of those Members of CSER who are within the same clearly-identifiable class as those Represented Parties.

5.8 Right to Vote

Each Member of CSER shall have the right to vote on all matters that come before CSER. In the case of business which solely affects a clearly-identifiable class of the Represented Parties, only Members of CSER who are within the same clearly-identifiable class as those Represented Parties who are solely affected by the matter shall be entitled to vote.

5.9 Invitees

CSER may invite any person, advisors or consultants or any other person to attend meetings of CSER to assist in the discussion and examination of the matters under consideration by CSER.

5.10 Adjournment

Any meeting of CSER may be adjourned from time to time with the consent of the meeting, to a fixed time and place and no notice of the time and place for the holding of the adjourned meeting need be given to any Member if the time and place of the adjourned meeting

is announced at the original meeting. Any adjourned meeting shall be duly constituted if held in accordance with the terms of the adjournment and a quorum is present thereat. The Members who form the quorum at the adjourned meeting need not be the same Members who formed the quorum at the original meeting. If there is no quorum present at the adjourned meeting, the original meeting shall be deemed to have terminated forthwith after its adjournment.

5.11 Resolutions in Writing

A resolution in writing, signed by all the Members entitled to vote on that resolution at a meeting of CSER, is as valid as if it had been passed at a meeting of CSER.

NOTICES, ETC.

6. NOTICES

6.1 Service

Any notice or other document required to be given, served or sent by CSER to the Represented Parties shall be delivered by emailing it to the Members and by posting it electronically at <http://www.dwpv.com/fraser/index.htm>.

EFFECT

7. EFFECT OF DECISIONS

All decisions and resolutions of CSER are legally binding and effective on the Represented Parties. In the case of decisions and resolutions which solely affect a clearly-identifiable class of the Represented Parties, a decision made by Members who are within the same clearly-identifiable class in accordance with articles 5.6, 5.7 and 5.8 hereof, shall be legally binding and effective on all members of that identifiable class of Represented Parties.

8. EXECUTION OF CONTRACTS

Upon the passing of any resolution in accordance with these guidelines, any member of CSER or any other person designated by CSER is hereby authorized and directed, for and on behalf of CSER, to execute and deliver any agreement, notice or other document substantially on the terms presented to CSER, with such amendments and variations as are necessary or desirable.

Schedule A

Members of the Committee of Salaried Employees and Retirees

No.	Name	Location	Status	Facility
1.	Bruce Parkin	New Brunswick	Retiree	Edmundston
2.	Carl Cyr	New Brunswick	Retiree	Edmundston
3.	Claude Lalonde	Quebec	Retiree	Thurso
4.	Don Corey	New Brunswick	Active	Edmundston
5.	Francine Clément	Quebec	Active	Thurso
6.	Greg Cyr	United States	Active	Gorham
7.	Ken Chappel	New Brunswick	Retiree	Plaster Rock
8.	Lorne Fraser	New Brunswick	Retiree	Edmundston
9.	Mark F. Fitzherbert	New Brunswick	Active	Plaster Rock
10.	Mike Côté	United States	Active	Ashland/Masardis
11.	Paul Des Rosiers	Quebec	Retiree	Masson
12.	Paul H. Gendreau	United States	Active	Madawaska
13.	Paul Schriver	New Brunswick	Retiree	Atholville
14.	Richard Marston	United States	Retiree	Madawaska
15.	Robyn Wiley-Hoyt	New Brunswick	Active	Juniper

Exhibit 1

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2/10

Court File No. CV-09-5241-00CL

ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)

THE HONOURABLE MADAM) THURSDAY THE 17TH DAY OF
JUSTICE PEPALL) SEPTEMBER, 2009



IN THE MATTER OF THE COMPANIES CREDITORS
ARRANGEMENT ACT, R.S.C. 1985, C. C-36. AS AMENDED

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

ORDER

THIS MOTION, made by Donald Corey, Paul Gendreau, Francine Clément, Greg Cyr, Richard Marston, Robert Bruce Parkin, Robyn Wiley-Hoyt, Ken Chappel, Mark Fitzherbert and Mike Côté (collectively, and as such members may be replaced from time to time, the "Representatives"), as the Fraser Papers' Committee of Salaried Employees and Retirees (the "Committee"), on behalf of the Applicants' unrepresented Canadian and U.S. employees and former employees, including those employees not actively at work, and individuals who are: (i) beneficiaries under one of the Applicants' four registered defined benefit pension plans in Canada; (ii) beneficiaries under the Applicants' U.S. defined benefit pension plan; (iii) beneficiaries under the Applicants' Canadian registered retirement savings plan or registered defined contribution pension plan; and/or (iv) beneficiaries under any supplementary retirement plan, deferred compensation plan or health, dental, life and other benefit plan of the

- 2 -

Applicants (collectively, the "Plans"), but excluding any person who is (a) a director or senior officer of any of the Applicants, or (b) is otherwise represented in this proceeding (all of whom, other than the excluded parties, being collectively referred to herein as the "Represented Parties" and individually, a "Represented Party") was heard September 8, 2009 at 330 University Avenue, Toronto, Ontario.

ON READING the Motion Records of the Representatives, the Applicants, the Communications, Energy and Paperworkers' Union of Canada (the "CEP"), the United Steel, Paper and Forestry, Rubber, Manufacturing, Energy, Allied Industrial and Service Workers' International Union (the "USW"), and Nelligan O'Brien Payne LLP and Shibley Righton LLP ("Shibley Nelligan"), and on reading the Monitor's Fourth Report to the Court;

AND ON HEARING submissions of counsel for the Representatives, the Applicants, the Monitor, the CEP, the USW, the Construction Maintenance and Allied Workers Union (the "CMAW") and other parties including CIT Business Credit Canada Inc. ("CIT") and Brookfield Asset Management Inc. ("BAM");

1. **THIS COURT ORDERS** that the Representatives be, and are hereby appointed to represent the Represented Parties in this proceeding and in connection with any concurrent or subsequent proceeding that may be commenced under the *Bankruptcy and Insolvency Act* (Canada) ("BIA") or similar legislation (collectively, the "Proceedings"). For greater certainty, the Representatives shall represent former (retired) members of the CMAW, but shall not represent current or former (retired) members of the USW or the CEP, or current members of the CMAW.

- 3 -

2. **THIS COURT ORDERS** that such Representatives are hereby authorized to determine, file, advance or compromise any and all claims that exist or may arise at law or equity which may be made against the Applicants in the Proceedings in connection with any issue or matter related to any recovery, compromise of rights or entitlements of the Represented Parties under the Plans (collectively, the "Claims").

3. **THIS COURT ORDERS** that, for greater certainty, the Representatives do not represent Represented Parties with respect to the terms of their on-going employment with the Applicants other than in respect of the Plans.

4. **THIS COURT ORDERS** that Davies Ward Phillips & Vineberg LLP ("DWPV") be appointed in these Proceedings as counsel to the Representatives on behalf of the Represented Parties ("Representative Counsel") for all matters relating to the Claims.

5. **THIS COURT ORDERS** that the Applicants be, and they are hereby, authorized and directed to provide to Representative Counsel, as soon as possible after the granting of this Order, without charge, the names, last known addresses, last known phone numbers and email addresses (if any) of all Represented Parties, whom they are appointed to represent pursuant to the terms of this Order.

6. **THIS COURT ORDERS** that, subject to any claims of privilege by the Applicants, the Applicants shall respond to reasonable disclosure requests from Representative Counsel with respect to any Plan for which a Claim is brought on behalf of a Represented Party, without charge and will provide all documents and data that are relevant to the Claims including generally those pertaining to the various relevant Plans, including up-to-date financial information regarding the funding and investments of any of these arrangements and any

- 4 -

associated actuarial valuations and reports. For that purpose the Applicants are hereby authorized to provide information which includes personal information related to individual Represented Parties. For greater certainty, the Applicants are not required to create documents or data in response to such requests by Representative Counsel.

7. **THIS COURT ORDERS** that any Represented Party whose personal information is provided to the Representative Counsel by the Applicants pursuant to this Order is deemed to have consented for the purposes of any applicable privacy legislation to the Applicants providing such information, and to the collection, use and disclosure by the Representative Counsel of such information, provided that such information will be used or disclosed by the Representative Counsel solely for the purpose of representing the Represented Parties' interests in these Proceedings.

8. **THIS COURT ORDERS** that all reasonable legal, actuarial and financial expert and advisory fees and all other incidental fees and disbursements as may have been or shall be incurred by Representative Counsel in carrying out the provisions of this Order shall be paid by the Applicants in accordance with and subject to the terms hereof:

- (a) accounts, including detailed time descriptions for each billing party, shall be delivered by Representative Counsel to the Applicants, the Monitor, CIT and BAM on a bi-weekly basis. Copies of the accounts delivered to the Monitor are to be un-redacted, and those delivered to the Applicants, CIT and BAM may be redacted to preserve any claim of privilege;

- 5 -

- (b) the Applicants, the Monitor, CIT and BAM shall have ten (10) business days to raise any objections to such accounts in writing to the Representative Counsel, failing which the accounts shall be deemed to be accepted as rendered;
- (c) if any objection to the accounts is raised by the Applicants, the Monitor, CIT or BAM in accordance with this paragraph (the "Disputed Accounts"), the Disputed Accounts shall be subject to an assessment by the presiding judge in this proceeding as soon as possible; and
- (d) if the assessment results in the Disputed Accounts being reduced, Representative Counsel shall be entitled to cease any further work on behalf of the Representatives and a motion will be scheduled for authorization to withdraw as counsel of record.

9. **THIS COURT ORDERS** that notice of the granting of this Order be provided to the Represented Parties by advertisement in local newspapers, and posted on the DWPV website and the Monitor's website, in such form and under such terms and conditions to be set by the Applicants, the Monitor and the Representatives.

10. **THIS COURT ORDERS** that the Representatives and Representative Counsel are authorized to take all steps and do all acts necessary or desirable to carry out the terms of this Order, including dealing with any Court, regulatory body and other government ministry, department or agency, and to take all such steps as are necessary or incidental thereto.

11. **THIS COURT ORDERS** that any individual Represented Party who does not wish to be bound by this Order and all other Orders attendant hereto shall, within 30 days of

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receiving notice of this Order, notify the Monitor, the Applicants and DWPV in writing, and, thereafter, neither the Representatives nor the Representative Counsel shall represent that person in these Proceedings.

12. **THIS COURT ORDERS** that the Claims Bar Date is hereby extended from September 30, 2009 at 5:00 p.m. (Eastern Standard Time) to October 23, 2009 at 5:00 p.m. (Eastern Standard Time), or such later date as may be agreed to by the Applicants, the Monitor and Representative Counsel, to enable the Representatives to file Claims on behalf of the Represented Parties. In respect of all Claims for which Representative Counsel has been appointed pursuant to this Order, the date by which the Monitor is to issue any Creditor's Dispute Package and the date by which a Creditor must file a Dispute Notice are each hereby extended by twenty-three (23) calendar days, and the Claims Order of this Honourable Court dated July 15, 2009 is hereby amended accordingly.

13. **THIS COURT ORDERS** that the Representatives and DWPV shall have no liability as a result of their respective appointment or fulfillment of their duties in carrying out the provisions of this Order save and except for any gross negligence or wilful misconduct on their part.

14. **THIS COURT ORDERS** that any member of the Committee may resign from the Committee and that Committee members may appoint any other individual Represented Party to the Committee.

15. **THIS COURT ORDERS** that the Representatives shall be at liberty and are

- 7 -

authorized at any time to apply to this Honourable Court for advice and directions in the discharge or variation of their powers and duties.

A handwritten signature in cursive script, appearing to read "J. Spall", is written over a horizontal line.

ENTERED AT / INSCRIT A TORONTO
ON / BOOK NO:
LE / DANS LE REGISTRE NO.:

OCT 22 2009

PER / PAR: T'

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., FFS CANADA INC., FRASER PAPERS HOLDINGS INC.,
FRASER TIMBER LTD., FRASER PAPERS LIMITED and N.H. LLC

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

**ONTARIO
SUPERIOR COURT OF JUSTICE
(Commercial List)**

Proceeding commenced at Toronto

ORDER

Davies Ward Phillips & Vineberg LLP
44th Floor, 1 First Canadian Place
Toronto, ON M5X 1B1

Matthew P. Gottlieb (LSUC #32268B)
Jay A. Swartz (LSUC #15417L)

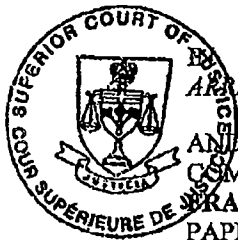
Tel: 416.863.0900
Fax: 416.863.0871

Counsel Representative for the Plan Beneficiaries

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

**ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)**

THE HONOURABLE) **THURSDAY, THE 22nd DAY**
)
JUSTICE PEPALL) **OF OCTOBER, 2009**



BY 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

ORDER

THIS MOTION made by the Applicants for the relief sought in the Notice of Motion herein dated October 19, 2009, was heard this day at 330 University Avenue, in the City of Toronto, Ontario.

ON READING the affidavit of J. Peter Gordon sworn October 19, 2009, the Fifth Report of PricewaterhouseCoopers Inc., in its capacity as court-appointed Monitor, and on hearing the submissions of counsel for the Applicants and any other parties appearing:

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Stay Period

1. **THIS COURT ORDERS** that the Stay Period as described in Order of this Honourable Court dated June 18, 2009, as amended (the "Initial Order") be and is hereby extended to and including December 4, 2009.

Amendments to Claims Order

2. **THIS COURT ORDERS** that the Order of this Honourable Court dated July 15, 2009 (the "Claims Order") be and is hereby amended to provide that the Claims Bar Date as it relates only to any claim filed by or on behalf of an employee or retiree of the Applicants shall be October 30, 2009. The Claims Bar Date shall remain at September 30, 2009 in respect of all other claims against the Applicants or the Directors (as defined in the Claims Order). All capitalized terms referred to in this Order which constitute amendments to the Claims Order shall be as defined in the Claims Order.
3. **THIS COURT ORDERS** that the Claims Order be and is hereby further amended to provide that the date by which:
 - (i) a Notice of Disallowance must be issued by the Monitor for any Restructuring Claim that arose after September 30, 2009 shall be 23 calendar days after the Restructuring Claims Bar Date in each case;
 - (ii) a Dispute Notice must be filed in respect of any Restructuring Claim that arose after September 30, 2009 shall be 23 calendar days after the issuance of the Notice of Disallowance in respect of such Restructuring Claim;

- 3 -

- (iii) a Notice of Disallowance must be issued by the Monitor in respect of any Claim filed by or on behalf of any current or former employees of the Applicants shall be November 22, 2009; and
- (iv) a Dispute Notice must be filed in respect of any Claims filed by or on behalf of any current or former employees of the Applicants shall be December 6, 2009.

Amendment to Davies' Representation Order

4. **THIS COURT ORDERS** that the Order of this Honourable Court dated September 8, 2009 appointing Davies Ward Phillips & Vineberg LLP as representative counsel for all unrepresented current and former employees of the Applicants is hereby amended by deleting the last sentence of paragraph 1 thereof, and replacing it with the following:

"For greater certainty, the Representatives shall represent former (retired) members of the CMAW and the International Brotherhood of Electrical Workers, and current and former members of the Office and Professional Employees International Union, but shall not represent current or former (retired) members of the USW or the CEP, or current members of the CMAW."

ENTERED AT / INSCRIT À TORONTO
ON / BOOK NO:
LE / DANS LE REGISTRE NO.:

OCT 22 2009

PER / PAR: JV

Stephane J. J.

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
(collectively, the "Applicants")

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

**ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)**

Proceedings commenced at Toronto

ORDER

ThorntonGrouxFinnigan LLP
Barristers and Solicitors
Suite 3200, P.O. Box 329
Canadian Pacific Tower
Toronto-Dominion Centre
Toronto, ON M5K 1K7

Robert I. Thornton (LSUC# 24266B 1B)
Michael E. Barrack (LSUC# 21941W)
D.J. Miller (LSUC# 34393P)

Tel: 416-304-1616
Fax: 416-304-1313

Lawyers for the Applicants

Exhibit 10
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But
copy

TERM SHEET FOR GLOBAL AGREEMENT

This agreement is among Fraser Papers Inc. ("FP") and its affiliates under the CCAA proceeding (collectively, the "Applicants"), the Superintendent of Pensions for the Province of New Brunswick (the "Superintendent"), the Minister of Justice and Consumer Affairs for the Province of New Brunswick ("PNB"), and Davies Ward Phillips & Vineberg LLP ("Davies"), court-appointed representative counsel on behalf of the New Brunswick members of the Committee Representing All Unrepresented Canadian and U.S. Employees and Former Employees of the Applicants (the "Committee") as it relates to such employees and former employees in the Provinces of New Brunswick and Ontario.

Each of the undersigned parties agree to the following:

Sale of Specialty Papers Business

1. The specialty papers business of the Applicants will be sold to a new company or companies pursuant to the Asset Purchase Agreement approved by the court on December 10, 2009, as amended (the "APA").
2. Neither Brookfield Asset Management Inc. ("BAM") nor its designee under the APA ("Newco") will have any liability for any obligations or liabilities whatsoever in connection with its registered pension plan in New Brunswick for hourly employees (the "NB Hourly Plan"), the Pension Plan for New Brunswick Salaried Employees of Fraser Papers Inc. (the "NB Salaried Plan") and, collectively with the NB Hourly Plan, the "NB Plans") or for any termination, severance or related amounts which any current or former employee of the Applicants could assert against the Applicants.
3. FP will request that Newco: (i) allow the CEP national union to nominate one of the two independent directors to Newco's board of directors; (ii) allow the other unsecured creditors of FP to nominate the second independent director to Newco's board of directors; and (iii) ensure that the independent directors of Newco are approved by the majority of the three non-independent directors and have the same rights and responsibilities as the three non-independent directors of Newco.

Pension Plan and Claims

4. The parties share the goal of taking steps to minimize the impact of the restructuring of FP on pensioners and current and former employees. For this purpose, the parties agree to the following means of addressing the NB Plans.
5. FP will assign senior management to work diligently with the CBP and Davies to pursue coverage under the Ontario Pension Benefit Guarantee Fund ("PBGF") for salaried and unionized employees and former employees who have earned service in Ontario (the "Ontario

- 2 -

Members"), including of the former Thorold paper mill employees, in order to mitigate the impact of any pension deficiency on those members.

6. FP will make any necessary application under the PBGF to seek such coverage or the Superintendent will request the Administrator to do so.

7. The APA provides that Newco will establish a new defined contribution pension plan ("Newco DC Salaried Plan") for all future service of transferred non-unionized employees, which will contain defined contribution provisions that are substantially similar to the defined contribution provisions that currently exist under Appendix C of the existing NB Salaried Plan. No further credited service will accrue under the NB Salaried Plan following the closing of the APA, and there will no longer be any active members contributing to the NB Salaried Plan.

8. Newco will not have any liability (including any funding or pension benefit payment obligations) in respect of the existing NB Salaried Plan, and all liabilities will remain as unsecured obligations of FP with no recourse to Newco.

9. In accordance with paragraph 10(c), the NB Salaried Plan will receive, directly or indirectly, a *pro rata* share (based on the size of the NB Salaried Plan's claim relative to the aggregate claims of all unsecured creditors of the Applicants) of that portion of the consideration payable by Newco under the APA, which will be available to the Applicants' unsecured creditors in accordance with their respective entitlement, after satisfying any prior claims. The *pro rata* share of the consideration held by the NB Salaried Plan is referred to herein as the "APA Consideration". The promissory notes comprising the APA Consideration for those parties who are parties to this term sheet shall have a term of eight (8) years.

10. All parties request that PNB and the Superintendent implement a structure and framework for addressing the existing deficit and claims under the NB Salaried Plan as follows:

(a) FP and Davies will jointly seek regulatory relief for the NB Salaried Plan by way of a Special Regulation that would:

- (i) exempt the NB Salaried Plan from certain funding obligations otherwise applicable on pension plan wind up under the NB Pension Benefits Act;
- (ii) if necessary, expire on the Final Wind Up Date (defined below), at which time the wind up of the NB Salaried Plan would be completed and a distribution of the available pension assets would occur;
- (iii) provide for a strict *pro rata* distribution of assets subject to each member receiving at least their own contributions with interest;
- (iv) not involve any guarantee or assurance by PNB with respect to the funded status of the NB Salaried Plan;
- (v) confirm that service and age are crystallized at the Original Wind Up Date (defined below) and that earnings are frozen as at November 1, 2009; and

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(vi) confirm that the Outside Trust, in which the NB Salaried Plan holds an interest, is not a pension fund.

(b) the Superintendent will order a wind up of the NB Salaried Plan effective prior to the closing of the APA and in conjunction with the Vesting Order to be obtained in the CCAA proceeding (the "Original Wind Up Date") and the Superintendent will appoint an administrator (the "Administrator") over the NB Salaried Plan prior to the Original Wind Up Date. The Administrator will ensure that, other than with respect to adjustments to pensions, the administration of the NB Salaried Plan is continuous and there is no interruption of benefit payments to plan members. The transfer of the NB Salaried Plan will be in accordance with the New Brunswick Pension Benefits Act. Until an Administrator is appointed for the NB Salaried Plan, FP will retain responsibility for administering the NB Salaried Plan;

(c) the APA Consideration will be deposited into a trust which will be settled by FP for the sole benefit of the NB Salaried Plan and will be separate and distinct from the NB Salaried Plan's pension funds (collectively, the "Outside Trust Fund");

(d) other than ongoing pensions which will continue or commence to be paid to retirees or surviving spouses from the NB Salaried Plan, or death benefits for active members, the purchase of annuities and distribution of pension assets from the NB Salaried Plan will not occur until:

(i) the proceeds from the APA Consideration can be contributed to the NB Salaried Plan or the trustee of the Outside Trust Fund determines and advises the Superintendent that the APA Consideration will be distributed to the NB Salaried Plan in another manner; and

(ii) the Administrator of the NB Salaried Plan makes a decision to purchase annuities and distribute the pension assets;

but in no event will the final wind up of the NB Salaried Plan be later than eight years from the Initial Wind Up Date (the "Final Wind Up Date");

(e) subject to the oversight of the Superintendent, the Administrator will determine the percentage by which pension benefits are to be reduced, having regard to the potential value of the APA Consideration, with the opportunity for further adjustments subject to the financial position of the NB Salaried Plan;

(f) with respect to the Outside Trust Fund, the administration, appointment of trustee(s) and role and responsibilities of the trustees will be determined by the parties, subject to Court approval, and will include:

(i) a provision to ensure that the Committee has exclusive control in relation to the Outside Trust Fund for the NB Salaried Plan;

(ii) the methodology for valuing the APA Consideration held in the Outside Trust Fund on a regular basis;

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- (iii) the timing of redemption of the APA Consideration;
- (iv) voting of shares in Newco;
- (v) obligation to pay proceeds from the realization of the APA Consideration;
- (vi) reporting to retirees and members; and
- (vii) the ability to retain experts and purchase fiduciary liability insurance, the funding for which will be addressed in the definitive documents.

(g) none of the PNB, the Superintendent, the Administrator of the NB Salaried Plan, the Applicants, CEP, BAM, Newco, or any trustees of the Outside Trust Fund will be liable for any decrease in the current value of the NB Salaried Plan assets at any time and for any reason other than fraud or gross negligence, and the beneficiaries of the NB Salaried Plan shall have no claim against any of those parties at any time.

Releases, Further Assurances

11. Each of: (i) the Applicants' directors and officers; and (ii) BAM and its directors and officers shall be released from all claims relating to all facts and circumstances in respect of the Applicants existing as at this date (whether known or unknown) and the completion of the APA. This release shall be conditional upon the closing of the APA transaction in accordance with the terms herein and the APA.
12. PNB, the Superintendent and the Administrator(s) of the NB Salaried Plan shall be released from all claims in respect of the NB Salaried Plan existing as at this date (whether known or unknown) and the implementation of the wind up of the NB Salaried Plan and any actions contemplated by this Term Sheet.
13. The Committee represented by Davies will not take a position adverse to FP or Newco with respect to any action of the pension regulators in Quebec, New Brunswick or Ontario or the Canada Revenue Agency or any other regulator or administrative body that is taken against FP or Newco as a consequence of FP and Newco fulfilling their obligations under this Term Sheet.
14. The Committee represented by Davies confirms, on behalf of those of its constituents who are former hourly employees of the New Brunswick Regional Council of Carpenters, Millwrights & Allied Workers, Local 2450 ("CMAW") and the NB Hourly Plan, the provisions of the Term Sheet annexed as Schedule "A" to the Order issued in this proceeding dated February 24, 2010 (the "Hourly Term Sheet") and agrees that the Hourly Term Sheet applies to its CMAW constituents in New Brunswick.
15. The parties will negotiate a definitive agreement to provide for the establishment of such other trust(s) or arrangements as may be appropriate for purposes of holding and distributing the balance of any consideration that may become payable by Newco under the APA to the Applicants' unsecured creditors.

- 5 -

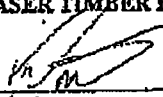
16. The parties will execute a definitive global agreement and ancillary documents for the purpose of giving effect to the terms contained herein and to more fully reflect the agreement in principle embodied in this Term Sheet, but not for the purpose of introducing any other term or substantive matter not otherwise addressed herein.

17. If any dispute arises in connection with the negotiation, execution and delivery of a definitive global agreement that cannot be resolved by the parties with the assistance of the Monitor, the parties agree that such issue can only be determined by motion brought within the CCAA proceeding.

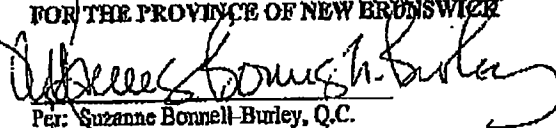
18. This term sheet may be executed in counterparts. Each part, when taken together shall constitute one and the same agreement.

Dated at Toronto this _____ day of March, 2010.

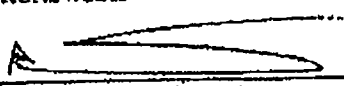
FRASER PAPERS INC., FPS CANADA INC., FRASER PAPERS HOLDINGS INC.,
FRASER TIMBER LIMITED, FRASER PAPERS LIMITED, FRASER N.H. LLC



Per: Jeff Dutton
(I have authority to bind these parties)

THE MINISTER OF JUSTICE AND CONSUMER AFFAIRS
FOR THE PROVINCE OF NEW BRUNSWICK


Per: Suzanne Bonnell-Burley, Q.C.
(I have authority to bind this party)

THE SUPERINTENDENT OF PENSIONS FOR THE PROVINCE OF NEW
BRUNSWICK


Per: Angela Mazerolle Stephens
(I have authority to bind this party)

DAVIES WARD PHILLIPS & VINEBERG LLP, court-appointed representative counsel
on behalf of the New Brunswick members of the COMMITTEE REPRESENTING ALL
UNREPRESENTED CANADIAN AND U.S. EMPLOYEES AND FORMER
EMPLOYEES OF THE APPLICANTS, as it relates to such employees and former

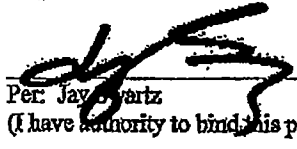
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SWARTZ

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employees in the Provinces of New Brunswick and Ontario



Per: Jay Swartz
(I have authority to bind this party)

Exhibit E⁹
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Court File No.:

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 June 17, 2009)
(CCAA Initial Order)

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 "Fraser Group") 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 verily believe it to be true.

2. All reference to currency in this Affidavit is USD unless otherwise noted.

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I. OVERVIEW - NEED FOR PROTECTION

3. Fraser Papers is a specialty paper company with integrated paper, pulp and lumber operations. The Fraser Group is a consolidated business comprising various facilities in Canada and the United States of America (the "U.S."), operating under a combined cash management and accounting system and senior management decision making, including extensive intercompany transactions such as the sale and use of products and services among various business operations and legal entities. As such, the business is operationally and functionally integrated and not easily divisible based on legal entity or geographic boundaries.

4. The Fraser Group's operations and financial results are influenced by a number of factors, many of which are beyond the Applicants' control. The five most significant factors, in no particular order of importance, are: (i) the cyclical nature of the business; (ii) the competitive environment of the industry; (iii) product demand; (iv) cost control; and (v) foreign currency risk.

5. The Applicants have experienced many of the challenges faced by other companies in the North American forest products industry. The challenges faced by the Applicants include market issues and financial issues, the most pressing of which are as follows:

- (a) negative cash flow from its operations (prior to changes in non-cash working capital) of \$65.4 million and \$55.5 million in 2007 and 2008 respectively, combined with a further shortfall of \$9.7 million in the first quarter of 2009. The Company no longer has the ability to finance cash flow shortfalls of this magnitude;
- (b) the aforementioned cash flow shortfalls are being driven by a sharp deterioration at the Company's pulp operations, continuing losses from its lumber operations and are only partially offset by the turnaround in its specialty papers business;
- (c) under the current collective agreement, aggregate severance payments to unionized employees at the Company's Thurso facility of CDN\$7.8 million are due in two equal payments on November 9 and December 21, 2009, following the mill's temporary

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closure on June 1, 2009. The Applicants have no ability to pay these amounts at this time;

- (d) the Applicants are required to repay or refinance a \$25 million term loan with Canadian Imperial Bank of Commerce ("CIBC") in September 2009 and they have no ability to do so at this time;
- (e) the Applicants have a substantial deficit, as determined in accordance with Generally Accepted Accounting Principles in Canada ("GAAP"), of approximately \$171.5 million at December 31, 2008 in five defined benefit pension plans and three Supplemental Executive Retirement Plans ("SERPs") and are required to make payments of \$3.5 million by September 30, 2009 and an additional \$10.1 million by December 31, 2009. Average annual payments of approximately \$34.7 million per year from 2010 to 2013 are expected to be required to fund the Pension Plans. Unless the Applicants are able to obtain a temporary funding holiday or an alternative funding formula is achieved, the Applicants have no ability to meet these funding obligations; and
- (f) the Applicants owe trade suppliers in excess of \$10 million beyond normal credit terms and owe an additional \$7.7 million in property taxes to six municipalities.

6. The Cash Flow Forecast (as hereafter defined) indicates that, in the absence of any DIP Financing (as hereafter defined), the Applicants will have insufficient cash with which to operate after June 30, 2009. Existing liquidity under the Applicants' revolving working capital facility is not expected to meet the Applicants' operating requirements beyond the next few weeks. The Applicants are insolvent, and their need for protection is immediate and urgent.

II. CORPORATE STRUCTURE OF THE APPLICANTS

A. Fraser Papers Inc. and its U.S. Subsidiaries

7. Fraser Papers was incorporated pursuant to the provisions of the *Canada Business Corporations Act*, and its registered head office is in Toronto, Ontario. On July 1, 2004 Fraser Papers, formerly a wholly-owned subsidiary of Nexfor Inc., became a separate publicly traded company. Its stock is listed on the Toronto Stock Exchange under the symbol "FPS".

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8. As at June 1st, 2009, the issued and outstanding capital of Fraser Papers consisted of 50,166,789 common shares. There are no other classes of shares outstanding at this time. As at December 31, 2008 Brookfield Asset Management Inc. ("Brookfield") owned, directly or indirectly, approximately 70.5% of the outstanding common shares of Fraser Papers.

9. Each of the other Applicants are direct or indirect wholly-owned subsidiaries of Fraser Papers. Annexed hereto and marked as Exhibit "A" is a simplified corporate chart showing the relationship of the Applicants to one another.

10. Fraser Papers owns all of the issued and outstanding shares of FPS Canada Inc. ("FPS Canada") and Fraser Papers Holdings Inc. ("Holdings"). Holdings owns all of the issued and outstanding shares of Fraser Timber Ltd. ("Timber") and Fraser Papers Limited ("Fraser Madawaska"). Fraser Madawaska is the sole member and manager of Fraser N.H. LLC ("Fraser Gorham").

11. FPS Canada acts as agent for Fraser Papers and manages the Company's pulp, paper and lumbermill assets in Canada. These assets owned by Fraser Papers include:

- (a) a sulphite pulp mill, a groundwood pulp mill and a biomass cogeneration power plant (the "CoGen Facility") in Edmundston, New Brunswick;
- (b) a hardwood pulp mill in Thurso, Quebec;
- (c) two lumbermills in Juniper and Plaster Rock, New Brunswick; and
- (d) a corporate office in Toronto, Ontario

12. Holdings is incorporated under the laws of the State of Delaware and holds the Company's investments in Fraser Madawaska and Timber, which are the Fraser Group's operating entities in the State of Maine, in the U.S.

13. Fraser Madawaska:

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- 5 -

- (a) owns and manages the Company's paper operations in Madawaska, Maine;
 - (b) is the sole member of Fraser Gorham, a limited liability corporation incorporated under the laws of Delaware;
 - (c) is the sole member of Katahdin Services Company LLC ("Katahdin Services") which, on behalf of the Fraser Group, manages (but does not fund) the operations of Katahdin Paper Company LLC ("Katahdin Paper") an indirect, wholly owned subsidiary of Brookfield that owns a paper mill in Maine; and
 - (d) owns 10,000 convertible, term, preferred units of Katahdin Paper and also holds an option to purchase all common units of Katahdin Paper.
14. Fraser Gorham owns and operates a paper mill in Gorham, New Hampshire.
15. Timber owns and manages the Company's two lumbermills in Masardis and Ashland, Maine.

B. Management of the Applicants

16. The Board of Directors of Fraser Papers is currently comprised of five directors, including myself. Three of the directors are non-independent, as defined by the *Ontario Securities Act*, National Policy 58-201, given their relationship to the Company or the Company's major shareholder, Brookfield. The other two directors are independent.
17. There are common officers and directors for each of the other Applicants and those persons hold such role by virtue of their position on the senior management team of Fraser Papers.
18. It is expected that all existing management will remain in place during this restructuring and there is no intention to hire a chief restructuring officer or similar officer at this time.

C. Integration of Applicants and Center of Main Interest

19. The Applicants are of the view that the restructuring to be undertaken under the *Companies' Creditors Arrangement Act* (the "CCAA") will require a review of the operations of the Fraser Group as a whole and may involve a restructuring of certain businesses and the sale of the remaining businesses and

16.

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related assets. It is anticipated that this process will require a judicial proceeding and approval in the U.S., in view of the assets and operations located there.

20. The business of the Fraser Group is fully integrated including between the Canadian and the U.S. operations. The four lumbermills supply wood chips and biomass (bark and other wood fibre residuals), byproducts of the lumber manufacturing process, to the sulphite pulp mill in Edmundston, New Brunswick. The hardwood pulp mill in Thurso, Quebec supplies pulp to the Company's two paper mills in Madawaska, Maine and Gorham, New Hampshire. The pulp and energy operations in Edmundston, New Brunswick and the paper mill in Madawaska, Maine (collectively referred to as the "East Papers Operations") are physically connected, with pipelines joining the two plants across the international border between New Brunswick and Maine. Pulp and steam are produced at the Edmundston facilities and delivered by pipeline to the Madawaska paper mill, where specialty papers are manufactured. A diagram outlining the physical location and proximity of each of the Fraser Group's facilities is annexed hereto and marked as Exhibit "B".

21. The Applicants are of the view that the restructuring of the Fraser Group will be administered most efficiently through a single, centralized restructuring process. Such a process would likely minimize the cost of the restructuring, minimize the time necessary to effect the restructuring and thereby maximize the overall value of the assets and operations for all stakeholders.

22. It is contemplated that the CCAA proceeding in Canada will be the primary court supervised process for the restructuring of the Fraser Group. While the restructuring will be undertaken in Canada, the Applicants will seek an Order pursuant to Chapter 15 of the U.S. *Bankruptcy Code* to have this proceeding recognized as a foreign main proceeding in order to facilitate the implementation of matters in the U.S. that have been approved in the CCAA proceeding.

23. The Applicants are of the view that Fraser Papers' centre of main interest ("COMI") is Ontario. Its registered head office is in Toronto and all corporate, management, banking, and strategic functions are undertaken from its head office in Ontario.

24. In support of the Applicants' position that the COMI for the other Applicants is also Ontario:

- (a) all corporate strategic decision-making for the Fraser Group occurs at the Fraser Papers' head office, and the Chief Executive Officer and Chief Financial Officer have their primary business office in Ontario;
- (b) as CEO of Fraser Papers and Chairman of each of the other Applicants I am involved, along with other members of the senior management team, in all material decisions regarding the operations of all Applicants including the terms and conditions for any material contracts and all such decisions are directed from, made in or monitored from our offices in Ontario;
- (c) budgeting for each facility is approved at Fraser Papers' head office in Ontario;
- (d) human resource policy and administration, including certain human resource functions, pension plan administration and certain compensation and benefits functions are performed and located in Ontario;
- (e) all treasury management functions including a centralized cash management system and centralized banking arrangements for the Fraser Group are conducted from Fraser Papers' head office in Toronto;
- (f) financial reporting of the Applicants is done on a consolidated basis and the audited financial statements are prepared in Ontario;
- (g) investor communications functions are undertaken at the head office;
- (h) all corporate minute books for the Applicants are located and maintained in Ontario;

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- (i) each Applicant has a bank account in Ontario with at least a small credit balance;
- (j) with the exception of a term loan made available to Fraser Papers by the Province of New Brunswick (the "N.B. Loan"), all credit facilities of the Applicants are with lenders who manage such facilities in Toronto, Ontario, and all loans are advanced to Fraser Papers as borrower;
- (k) the Board of Directors' meetings are held in Ontario; and
- (l) the location of the Company's major shareholder is in Ontario.

25. As the business operations of the Applicants are functionally integrated, there are a number of suppliers, creditors and other stakeholders of the Fraser Group that are common to several of the Applicants.

26. All credit facilities and loans advanced to the Fraser Group are advanced to Fraser Papers as borrower. However, with the exception of the N.B. Loan, all of the Applicants have directly or indirectly guaranteed those credit facilities.

27. In addition, as described in more detail below, there is a significant degree of integration in the cash management arrangements among the Applicants, with the companies borrowing and advancing funds within the Fraser Group as needed, further demonstrating the integrated operations of the Fraser Group and the necessity for dealing with the restructuring in a procedurally-consolidated manner. As the operations of the Fraser Group are managed centrally at the Fraser Papers level, the Applicants are of the view that Ontario is the most appropriate forum for overseeing the restructuring of the entire Fraser Group.

III. THE APPLICANTS' BUSINESS

28. The specialty papers business of the Applicants comprises two paper mills, one market pulp mill, two internal pulp mills, the CoGen Facility and four lumbermills in New Brunswick, Quebec, Maine and

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New Hampshire. Fraser Papers has been in operation since the late 1800's and employed approximately 2,400 people in the U.S. and Canada as at December 31, 2008.

A. Principal Products

29. The principal products manufactured by the Fraser Group are paper, pulp and lumber.

(a) Paper

30. The Applicants' paper products can be grouped into six categories: specialty packaging, specialty printing, speciality high-bright groundwood, commodity free sheet, commodity groundwood and towel.

31. Specialty packaging papers are made to customer specifications, primarily for flexible packaging required for food products, and require a high degree of technical expertise. Specialty packaging papers are generally sold to manufacturing intermediaries (converters) who will manufacture a value added flexible package or bag through various processes based on end customer specifications. Certain specialty packaging papers require chemical treatment for moisture and grease resistance.

32. Specialty printing papers include a broad array of both coated and uncoated grades and include products that are used in thermal printing applications, label papers and for commercial printing purposes. These grades are characterized by narrow technical specifications and require unique manufacturing capabilities. Specialty printing grades are sold directly to customers or through paper merchants who have a well established distribution network. Thermal based papers are used for point-of-sale receipts, and lottery and gaming tickets. Label papers are used in a variety of packaging applications from bottling and cans and for labelling boxes, containers and luggage. Commercial printing papers are used for manuals, direct mail inserts and brochures. The Company's lightweight opaque papers are used for bibles, financial printing, pharmaceutical inserts and reference applications.

33. Specialty high-bright groundwood papers are used in commercial printing and publishing applications. These products have a blend of both groundwood and chemical pulp fibre that provide

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comparable performance to traditional free sheet applications, but at a lower cost. Specialty high-bright groundwood papers are sold through merchants or directly to printers and publishers.

34. Commodity free sheet papers typically include book papers, off-set papers, tablet and envelope grades. These commodity papers are subject to significant competition from much larger paper producers due to their more generic specifications and lower technical requirements. In addition, prices for these grades tend to be more volatile than for specialty grades. Book papers are used in novels and trade books. Off-set papers, tablet and envelope papers are used in office applications.

35. Commodity groundwood papers are generally used in mass circulation publications such as directories, magazines, catalogues and advertising inserts. Commodity groundwood papers are generally sold through paper merchants and to printers and publishers.

36. Towel is primarily bleached and unbleached paper towel for the "away-from-home" market segment, typically restrooms in restaurants, airports, and other locations accessible by the public. This product is sold to converters through an agent.

(b) Pulp

37. The pulp mills are integrated with other parts of the Fraser Group's operations, as the wood fibre in pulp is a fundamental component in the manufacture of paper. Production of sulphite and groundwood pulp from the Edmundston, New Brunswick facility are used exclusively at the Company's Madawaska, Maine paper mill. The hardwood pulp, called northern bleached hardwood kraft pulp ("NBHK") produced at the Thurso, Quebec pulp mill, in excess of the requirements at the Company's paper mills in Madawaska, Maine and Gorham, New Hampshire is sold to customers in North America, Europe and Middle Eastern countries in Asia either directly or through agents.

38. NBHK pulp produced at Thurso, Quebec that is sold to external customers competes with similar product that is manufactured by suppliers in North America, Scandinavia, South America, Asia and other

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regions. NBHK pulp is a commodity with competition essentially based on price with lesser emphasis on certain technical qualities of the product and service. Market demand is largely a function of global paper production rates in the principal markets of Western Europe, United States and Asia.

(c) *Lumber*

39. The Fraser Group produces softwood dimension lumber used in home building construction, renovation and repair. Lumber is a commodity and competition is based on price. The Applicants compete in a large, fragmented North American market that includes approximately one thousand domestic mills. Historically, demand has been cyclical and has been strongly correlated with new home building activity. Lumber is sold primarily to wholesale distributors, with some sales directly to home builders and lumber yards.

40. Wood chips and biomass are important byproducts of the lumber production process. The softwood chips from the Company's four lumbermills are a significant and secure source of wood fibre for the Edmundston pulp mill. The bark is used as a source of fuel for the CoGen Facility. In 2008, approximately 30% of the softwood chips required by the Edmundston sulphite pulp mill were supplied from the Applicants' four lumbermills, 55% were supplied from independent mills and 15% were produced at the internal chipping facilities at the Edmundston mill, albeit at a significantly higher cost.

41. Whole logs used in the production of groundwood pulp at Edmundston are (i) obtained under long term fibre supply agreements, (ii) harvested from the Applicants' crown licenced lands in New Brunswick and (iii) purchased from private land owners.

42. A chart providing an overview of the wood fibre flow in the production processes of the Fraser Group is annexed hereto and marked as Exhibit "C".

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B. Facilities**(a) Paper Mills****Edmundston and Madawaska (East Papers Operations)**

43. The Applicants' East Papers Operations is its largest paper manufacturing facility. This is an integrated complex that is located on either side of the St. John River, representing the international border between Edmundston, New Brunswick and Madawaska, Maine. The Edmundston facility produces bleached softwood sulphite pulp and groundwood pulp which are delivered via pipeline to the Madawaska paper mill in slurry form. The CoGen Facility at the Edmundston plant produces electrical power that is sold under a long term supply agreement to the New Brunswick Power Corporation ("NB Power") and byproduct steam that is delivered via pipeline to the Madawaska paper mill.

44. The Madawaska paper mill currently has five paper machines in operation with broad capabilities to produce light weight, coated and uncoated specialty papers. Since 2007, three paper machines (out of a total of eight) have been permanently shut down at the Madawaska mill. The Madawaska mill has taken market related downtime in 2009 as a result of weak demand and low prices for its products.

45. In 2009, the Madawaska paper mill has received approximately 75% of its pulp requirement from Edmundston with the remainder purchased from Thurso and third parties.

46. Following the temporary shutdown of the Edmundston and Madawaska operations on June 8, 2009, as described below, most of the East Papers Operations are expected to resume and continue throughout this restructuring, with the exception of the Edmundston sulphite mill where further efforts are required to lower costs, as discussed below. The other operations may be required to operate at reduced capacity or subject to periodic downtime based on market demand for specialty paper.

Gorham

47. The Gorham paper mill currently has two paper machines that produce specialty printing and commodity free sheet papers and a third machine that produces towel products for the "away from home"

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market segment. The Gorham mill currently purchases its hardwood kraft pulp requirements from Thurso and the balance of its pulp requirements from third parties. During 2008, the Company announced the shutdown of two paper machines at the Gorham mill, representing approximately 40% of its manufacturing capacity.

(b) Pulp Mills

Thurso

48. The NBHK mill in Thurso, Quebec produces pulp for sale to the Applicants' two paper mills and on the open market. Approximately 25% of the mill production in 2008 was specialty pulp for use in the manufacture of high quality printing and writing and decorative laminated papers. Approximately 40% of Thurso's pulp production was shipped to either Madawaska or Gorham in 2008; the balance is sold to third parties.

49. Wood is supplied to the Thurso mill in both whole log form and chip form with approximately 60% of requirements from whole logs and 40% from chips. Of the total fibre supply, approximately 35% is provided from timberland under Crown licence, with the remainder purchased from third party lumbermills, in the case of chips, or logs from private wood lots.

50. The Thurso pulp mill was closed indefinitely in early June, 2009, as described below.

(c) Lumbermills

Plaster Rock and Juniper, New Brunswick

51. The Applicants' lumbermills in New Brunswick produce dimension lumber for sale into the northeastern U.S. market and byproduct wood chips and biomass for use at the pulp mill in Edmundston. In 2008, 100% of the chips produced at the New Brunswick lumbermills were sold to the Edmundston pulp mill and represented about 10% of all chips used by the Edmundston pulp mill. Approximately 30%

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of the sawlogs for the two New Brunswick lumbermills was harvested under Crown licence or purchased under long term fibre supply contracts, with the remainder purchased from private land owners.

52. Fraser Papers is completing a capital improvement project at the Plaster Rock lumbermill in order to modernize certain areas of the manufacturing process including the boiler, kiln and saw line. These improvements are expected to reduce costs and increase productive capacity. The budget for this project is CDN\$17.6 million, with funding provided to Fraser Papers through the N.B. Loan. The modernization project is on budget and is scheduled for completion by the end of June, 2009.

53. The lumbermills at Plaster Rock and Juniper are currently closed, due to lack of demand for lumber and low prices. The market factors reflect the depressed conditions in the U.S. housing construction market.

Ashland and Masardis, Maine

54. The lumbermills in Maine also produce dimension lumber for sale into markets in the northeastern U.S. The majority of the byproduct chips and biomass from the mills are sold to the Edmundston pulp mill, representing 20% of all chips consumed by Edmundston, while the remainder is sold to third parties. The mills obtain a portion of their log requirements under long-term fibre supply agreements with the remainder purchased on the open market.

55. The Applicants' lumbermill in Ashland is currently closed, due to the lack of demand and poor prices for lumber. The Masardis mill re-started on May 26, 2009 to process an existing inventory of saw logs, which is expected to take approximately eight weeks, at which time it is expected to be shut down on an indefinite basis. On June 8, 2009 the Company provided employees at the Masardis mill with sixty days' notice that the mill would be closing for market reasons effective August 7 (the sawmill) and August 14 (the planer mill).

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C. Forest Resources and Crown Licences

56. Access to an adequate source of timber is a critical requirement for an integrated lumber, pulp and paper business. Insufficient timber resources result in an inability to obtain a sufficient volume of wood chips to make pulp, thereby requiring a pulp producer to purchase its fibre from a third party.

57. Fraser Papers previously owned timberlands in New Brunswick and Maine that were sold in 2005 and 2006. In May, 2005, Fraser Papers sold its timberland in Maine to the Heartland Forest Group for net cash proceeds of \$78 million. In January 2006 the Company sold its freehold timberlands in New Brunswick to Acadian Timber Income Fund ("Acadian") for total proceeds of \$93.5 million in cash plus 3,613,780 securities that were convertible into units of Acadian, representing approximately 22% of the equity of Acadian on a fully diluted basis. In 2007 the Company sold its remaining interest in Acadian for net proceeds of \$38.4 million. Proceeds from these transactions were used to repay indebtedness and fund operating losses.

58. At the time of the sale of the timberlands, the Company entered into twenty-year fibre supply agreements whereby the right to purchase fibre (in an amount substantially equal to the volume previously obtained from these lands when they were owned) was retained. These fibre supply agreements provide approximately 36% of the round wood fibre used in the Applicants' operations in New Brunswick and Maine.

59. In addition to the fibre supply agreements, the Applicants have licences in New Brunswick on Crown forest lands equivalent in area to approximately 1.3 million acres, subject to certain allowances for annual cutting on these Crown lands. Crown licences held by the Applicants provide approximately 30% of the round wood fibre used in the Applicants' lumbermill operations.

60. When Fraser Papers sold the New Brunswick timberlands it entered into an agreement with Acadian, whereby Acadian provided management services relating to the Crown lands for a fee. This management agreement has a term equal to the term of the Crown licences, including renewal terms.

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61. All forest operators on Crown lands are accountable for their activities on these lands under the Crown licences. The Provincial licences generally include provisions for royalty fees (or stumpage charges), levy fees for reforestation and the development and care of the forests and sub-licencing requirements for certain amounts of the annual allowable cut to third parties. The Provinces have various legislative programs governing utilization of their forest resources which change from time to time, resulting in changes in land tenure and cutting rights. The major tenure agreements with the Provinces are for terms of 20 to 25 years, with provisions for renewal thereafter.

62. The Applicants' access to timber on Crown lands is subject to an allocation received from the provincial government. In New Brunswick, Fraser Papers consumes approximately 28% of the Province's fibre market (sawlogs, pulpwood, chips from sawmills or forest biomass) but receives only 9% of the total Crown wood allocations. The Applicants have been in negotiations with the Province of New Brunswick for an increased allocation of the Province's fibre supply to allow the Applicants to have access to a secure wood fibre supply that can be harvested at economies of scale. On June 5, 2009 the Province agreed to provide the Applicants with an increased fibre allocation, subject to certain terms and conditions as described in further detail below.

D. Energy

63. The Applicants require significant quantities of power to operate the various manufacturing processes at each of the mills. Fraser Papers purchases all of its power for the Canadian mills from the provincial power utilities in Quebec and New Brunswick. With the objective of establishing a competitive advantage in energy costs at the East Papers Operations, Fraser Papers' predecessor Fraser Inc. built a 38 megawatt CoGen Facility on the Edmundston site in 1995 at a cost of approximately CDN \$120 million.

64. The CoGen Facility burns approximately 800,000 tons of biomass annually to produce steam for the East Paper Operations and electricity which is sold to NB Power.

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65. When the CoGen Facility was built, Fraser Papers entered into a thirty-year power purchase agreement with NB Power dated May 16, 1995 (the "CoGen Agreement") whereby Fraser Papers supplies all of the electricity produced at the CoGen Facility to NB Power. The CoGen Agreement was structured such that Fraser Papers receives two monthly payments over the term of the agreement: (i) a fixed capacity payment, and (ii) a variable payment for each unit of electricity produced. Fraser Papers negotiated a higher capacity payment in the early years of the contract, under an amortizing schedule of payments. These higher capacity payments represented, in effect, an advance on future capacity payments and Fraser Papers was required to post a letter of credit with NB Power to secure performance under the long term contract. At this time, the letter of credit is approximately CAD \$23 million and utilizes a significant portion of Fraser Papers' borrowing capacity under its revolving credit facility with CIT. A copy of the CoGen Agreement is annexed hereto and marked as Exhibit "D".

66. Under the CoGen Agreement, the purchase price for the units of electricity generated and sold to NB Power was to increase each year based on changes to the Consumer Price Index ("CPI"). Since 1997, this adjustment has resulted in a 13% increase in the price paid to Fraser Papers for the electricity produced. However, over that same time period the cost of biomass fuel used to generate the electricity has increased by approximately 300%. By 2009, this had reduced the anticipated operating margins of the CoGen Facility by approximately CDN\$15 million per year.

67. The combined effect of the reduced operating margin for power sold under the CoGen Agreement, coupled with the high price paid by the Applicants for power in the Province of New Brunswick (relative to the price paid for power in other Provinces, including Quebec and British Columbia) has resulted in a significant competitive disadvantage for the Applicants. The Applicants' East Papers Operations purchase approximately CDN\$30 million of power for its operations annually from NB Power.

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68. The Applicants have requested amendments to the CoGen Agreement and to date have received relief in one area that will provide the opportunity to reduce costs and improve operating efficiency, as discussed below. In my opinion, more relief is necessary and this has been the subject of ongoing discussions with NB Power.

E. Employees

69. As at December 31, 2008 Fraser Papers employed approximately 2,400 people at its eight manufacturing locations in Canada and the U.S. Approximately 70% of these employees are represented by labour unions. One of the collective agreements has already expired and three other collective agreements are due to expire this year.

70. The Communication, Energy and Paper Workers Union ("CEP") represents approximately 660 bargaining employees at the Edmundston and Thurso mills. The United Steel Workers ("USW") represents employees at Madawaska and Gorham. Approximately 150 lumbermill bargaining employees at Plaster Rock are represented by the New Brunswick Regional Council of Carpenters, Millwrights and Allied Workers ("CMAW").

71. A five year Collective Agreement with the CEP in Edmundston was ratified in May 2005 and expires June 30, 2009. A six year agreement was reached with the USW in 2003 for employees in Madawaska, and expires October 31, 2009.

72. In 2006 a four year agreement covering approximately 300 employees at the Thurso pulp mill was ratified with the CEP and expired April 30, 2009. Discussions to establish a new agreement have started. In a meeting held on May 27, 2009, the employees voted favourably to amend the terms of the severance payments from six weeks after closure to twenty-two weeks, to provide for additional time to find a solution for the situation at the mill.

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73. In 2008 a two year extension was negotiated to the Gorham labour agreement with the USW, which was otherwise set to expire on May 31, 2008. The current Collective Agreement with the USW for the Gorham facility expires May 31, 2010 and provides for a one time profit sharing of 10% of earnings before interest, taxes, and depreciation ("EBITDA") in excess of \$8 million in the twelve months prior to May 31, 2010.

74. The existing four year Collective Agreement with the CMAW at the Plaster Rock lumbermill expired January 31, 2009. A negotiated settlement was reached on a new five year agreement with the bargaining team representing the unionized employees but was rejected in a vote held early in 2009. The Company's offer was subsequently withdrawn and no further negotiations have taken place.

75. The Applicants' lumbermills at Juniper, New Brunswick and Ashland and Masardis, Maine are not subject to any collective agreements.

76. The Applicants have been involved in discussions with each of the unions regarding the terms and concessions required to achieve a successful restructuring of the Applicants' business. To date those discussions have not resulted in any agreements.

F. Pension Plans, Benefits and Funding Issues

77. The Applicants sponsor five defined benefit pension plans in three jurisdictions: two registered in the Province of New Brunswick (the "NB Hourly Plan" and the "NB Salaried Plan"), two registered in the Province of Quebec and one in the U.S. (individually, the "Pension Plan" and collectively, the "Pension Plans"). Fraser Papers Inc. is the plan sponsor and CIBC Mellon is the trustee for each of the four Pension Plans in Canada. Holdings is the plan sponsor and BNY Mellon is the trustee for the Pension Plan in the U.S. The two Pension Plans registered in Quebec are administered by pension committees comprised of representatives from Fraser Papers and representatives from the union or the salaried employees, as the case may be. In total, there are 2,997 retirees and 1,412 active employees who are members of the Pension Plans.

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78. In addition, the Applicants have one non-registered, unfunded SERP in Canada and two unfunded SERPs in the U.S. The obligations under these SERP's are "pay-as-you-go". The Applicants also sponsor a registered defined contribution pension plan in Canada and one in the U.S.

79. Based on information received by the Company from its actuaries for the purpose of preparing the annual audited financial statements, and in accordance with GAAP, the Applicants' accrued pension benefit obligations in its five defined benefit Pension Plans and SERP's exceed the value of the Pension Plan assets by approximately \$171.5 million as at December 31, 2008.

80. In 2008, actuarial valuations as at December 31, 2007 were filed for the two registered Pension Plans in New Brunswick and one registered Pension Plan in the U.S. Actuarial valuations as at December 31, 2008 are required to be filed for the NB Hourly Plan and the one US plan during 2009. Actuarial valuations as at December 31, 2009 are required for the two registered Pension Plans in the Province of Quebec. The NB Salaried Plan requires an actuarial valuation report to be prepared as at December 31, 2010. These actuarial reports set out the annual cash contribution requirements for each of the Pension Plans.

81. Recent changes in global capital markets and borrowing rates has affected the funded status, funding requirements and pension expense associated with the Applicants' Pension Plans. Based on current market conditions, regulatory filing requirements and preliminary estimates in relation to the actuarial valuation reports as at December 31, 2008, the Applicants expect that they will be required to make special payments in respect of unfunded going concern and solvency deficiencies (the "Pension Deficits") with respect to the Pension Plans in the amount of \$13.5 million in 2009. This is in addition to \$3.3 million required to be paid in 2009 on account of normal cost contributions to the Pension Plans. The Applicants have no ability to pay the combined amount at this time.

82. Based on current market conditions, regulatory filing requirements, preliminary estimates in relation to the actuarial valuation reports as at December 31, 2008 and the last filed actuarial valuations,

the Applicants expect that contributions required to be paid to the defined benefit components of the Pension Plans in 2009 will almost double in 2010. The Applicants estimate that they will be required to pay an average of \$34.7 million per year for the years 2010 to 2013 to fund the Pension Deficits and a further \$5.1 million for normal cost contributions (for current service of members) to the Pension Plans in 2010. The Applicants expect that they will be unable to satisfy these combined funding obligations.

83. The Applicants fund post-retirement health care benefits costs on an ASO (administrative services only) and insured basis. As at December 31, 2008, the present value of the accrued benefit obligations of these post-retirement health care benefits was \$46.8 million. In 2008, the Company paid \$3.4 million to provide these post-retirement health care benefits.

84. Many of the health and related benefits payable by the Applicants to active and retired employees in Canada are funded through a Health and Welfare Trust, established by Agreement and Declaration of Trust dated January 1, 1988. A Health and Welfare Trust is a means by which trustees can receive contributions from employers and employees, where applicable, and provide, either through direct payment of benefits or through the payment of insurance premiums, the health and welfare benefits that the employer has agreed to provide.

85. The Health and Welfare Trust is a true trust arrangement with four individuals (Jean Paul Fournier, Linda Pellizzari, William Peterson and Carole Savage) currently acting as Trustees. Fraser Papers has no interest in the monies in the trust unless and until all benefits payable at any time to beneficiaries have been paid in full. At this time there is a balance of approximately \$1 million in the trust, which amount, in the ordinary course of business of the Applicants, would fund benefits payable to active and retired employees for a period of approximately four to five months. In view of the existing balance in the trust, the Applicants intend to make no further payments into this trust after the date of filing until such time as the funds are fully depleted through the payment of benefits to employees. Once these funds are depleted, the company will contribute sufficient funds to the trust in order to meet its

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obligations under its retiree and employee benefit plans as they may exist at that time, subject to the provisions of the Initial Order and the DIP Financing (as hereafter defined).

86. Fraser Madawaska is party to a Deferred Compensation Plan and Deferred Compensation Plan Trust Agreement in the U.S., with Mellon Bank N.A. acting as Trustee. Participation in the program was curtailed some time ago, although two current employees and seven retired employees are Participants (as that term is defined in the agreements). The program was a means of deferring the tax payable on compensation, with Participants receiving payments either as a lump sum or over a number of years following their retirement.

87. Pursuant to the agreements referred to in the immediately preceding paragraph, the Participants have no beneficial interest in the monies in the trust, the Trustee is required to cease making payment of benefits to the Participants if Fraser Madawaska becomes insolvent, and upon the insolvency of Fraser Madawaska any money in the trust must be held by the Trustee for the benefit of Fraser Madawaska's general creditors. The Applicants intend to immediately notify the Trustee of Fraser Madawaska's insolvency and the commencement of this proceeding. There is approximately \$100,000 currently held by the Trustee.

G. Hedging Activities

88. Almost all of the Applicants' sales are denominated in U.S. dollars while a significant portion of the operating costs are incurred in Canadian dollars. Accordingly, financial results for the Applicants are highly sensitive to changes in the exchange rate for Canadian and U.S. dollars.

89. From time to time the Applicants hedge a portion of their net foreign currency-denominated cash flows using foreign exchange forward contracts or other derivatives. The Applicants enter into foreign exchange forward contracts, or other hedging contracts, to fix or "lock-in" the future foreign exchange for a portion of its Canadian dollar denominated costs thus reducing the risk of foreign exchange fluctuations negatively affecting the operations and cash flows of the Company.

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90. The Applicants also hedge the net Canadian dollar denominated monetary liabilities on their balance sheet, as the reporting currency for the Company is in U.S. dollars and the Company has net liabilities on the balance sheet that are denominated in Canadian dollars.

91. Brookfield has provided the Fraser Group with a facility that enables the Applicants to enter into forward foreign exchange contracts as part of the Company's hedging activities, with the maximum "notional" value of derivatives outstanding at any given time being no more than \$350 million. As at May 2, 2009 the Company had \$32.7 million in foreign exchange contracts outstanding as a hedge against certain Canadian dollar-denominated net monetary liabilities. In addition, as at May 2, 2009 the Company notionally had \$160.7 million in net forward foreign exchange contracts outstanding under this facility as a hedge against future net Canadian dollar cash flows.

92. From time to time, the Fraser Group also enters into lumber forward contracts to fix the price for a portion of its future lumber sales. At this time, the Applicants have no outstanding future contracts for lumber.

H. Financing Activities in 2008

93. During 2008, the Applicants required \$73.0 million to fund cash operating losses, meet pension funding obligations and capital expenditures necessary to sustain the business. The Applicants (i) raised CDN\$60 million of equity capital from a rights offering to shareholders that was fully underwritten by Brookfield, (ii) expanded availability under the existing revolving term facility with CIT Business Credit Canada Inc. ("CIT") by \$25 million which was guaranteed by Brookfield, and (iii) secured an additional \$25 million loan under a new one year term facility with CIBC that was also guaranteed by Brookfield.

94. In addition, the Province of New Brunswick agreed to provide a CDN\$40 million six year term loan (previously defined as the N.B. Loan) with proceeds that were restricted to the financing of capital upgrades at the Edmundston pulp mill and the Plaster Rock lumbermill. At June 16, 2009, borrowings under the N.B. Loan were \$25.9 million (or CDN\$29.3 million).

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95. The cash realized from these debt facilities and the rights offering provided the Applicants with immediate liquidity in 2008 but this was not sufficient to avert the financial crisis that the Applicants now face.

I. Key Factors Affecting the Business

96. The Fraser Group's operations and financial results are influenced by a number of factors, many of which are beyond the Applicants' control. The five most significant factors, in no particular order of importance, are: (i) the cyclical nature of the business; (ii) the competitive environment of the industry; (iii) product demand; (iv) cost control; and (v) foreign currency risk.

97. Other risks to the Fraser Group's business include those of general application to all capital intensive manufacturing and distribution businesses in the forest product sector. They include:

- (a) market issues such as the dramatic decline in lumber sales due to a collapse in the U.S. housing industry and a drop in global economic activity, which has reduced demand for market pulp;
- (b) the availability of, and prices for, wood fibre in its various forms including saw logs, pulp logs, softwood chips, and biomass;
- (c) the effect of U.S. pulp industry tax subsidies (often referred to as "black liquor tax credits"), as described below;
- (d) the general decline in demand for paper grades manufactured by the Applicants reflecting the lower economic activity in North America;
- (e) the effect of environmental litigation, regulatory developments and aboriginal land claims on timber supply and operations;
- (f) the effect of environmental and other government regulations on the cost of doing business;
- (g) an increase in the cost of purchased energy including oil and other raw materials, leading to higher manufacturing costs, thereby reducing operating margins;

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- (h) trade restrictions regarding trade in softwood lumber products between the U.S. and Canada;
- (i) operational risks for which adequate insurance may not be available;
- (j) mill shutdowns for unscheduled maintenance or lack of demand;
- (k) labour disruptions;
- (l) insufficient capital to maintain the operating facilities; and
- (m) financial obligations including long term debt, guarantees, indemnities and pension obligations.

98. The manufacture of pulp and paper is a capital intensive business requiring a significant investment in large machinery and equipment. The geographical breakdown of property, plant and equipment at the end of 2008 was 47% in the United States and 53% in Canada. A significant portion of the Applicants' operating costs are incurred in Canadian dollars, while almost all of the Applicants' sales are transacted in U.S. dollars. Therefore, an increase in the Canadian dollar relative to the U.S. dollar increases the Applicants' operating costs relative to sales, which reduces the operating margins and the cash flow available to fund the Applicants' operations. As a result, the significant fluctuations in relative currency values over the past twelve to eighteen months has negatively affected the cost competitiveness of some of the operating facilities, the value of the Applicants' foreign investments and ultimately the financial position of the Fraser Group.

99. In addition, certain U.S. pulp and paper companies are currently benefiting from a significant tax credit available to those who operate kraft pulp mills. The original legislation, entitled the *Safe, Accountable, Flexible, Efficient Transportation Equity Act*, enacted in 2005, was designed to encourage the use of alternative fuels, like ethanol, to reduce the consumption of diesel fuel in highway vehicles. In late 2008 certain U.S. pulp mills identified a loophole in this legislation that would enable them to receive

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a tax credit by adding diesel fuel to "black liquor", which has been burned as a fuel in recovery boilers in pulp mills for many years. Black liquor is a residue byproduct of the traditional kraft pulping process.

100. The Applicants believe that this tax credit has produced the opposite effect to the intended result, as pulp operators have begun to add diesel fuel that was not previously required or used in their pulping process. Industry analysts have estimated that this tax credit is now widespread in the U.S. pulp industry, and is subsidising the oversupply of kraft pulp and the paper manufactured from it during a time when the market is already weak. The Applicants' estimate that the black liquor tax credit is worth between \$150 to \$200 per ton of pulp produced, which translates to a savings of 30 to 40 % of the cost of production. The Applicants are not able to take advantage of the tax credit, which creates a significant competitive disadvantage for the Applicants relative to U.S. pulp producers who can claim the tax credit.

101. The Applicants were able to address the combined negative impact of these factors through the financing activities described above and by reducing working capital levels to cover losses and fund required pension and other obligations. The Fraser Group is now experiencing a severe liquidity crisis and has immediate and pending financial obligations that it is unable to pay.

J. Bank Accounts and Cash Management

102. The Applicants operate a centralized cash management system. Daily financial requirements of the Applicants are funded by a revolving operating facility with CIT that is provided to Fraser Paper as borrower, with an unlimited guarantee from each of the other Applicants.

Funding of Canadian Operations

103. Fraser Papers maintains Canadian dollar and U.S. dollar corporate bank accounts in Toronto to facilitate the funding requirements for the entire Fraser Group. Canadian dollar and U.S. dollar accounts are also maintained by Fraser Papers for each of the Canadian facilities (Edmundston, Thurso, Plaster Rock and Juniper) to fund mill operations and receive tax refunds. The mill accounts are funded from

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Fraser Papers' Canadian dollar or U.S. dollar corporate account, depending on whether the required disbursements from the mill account are denominated in Canadian or U.S. dollars. Fraser Papers has a Canadian lockbox account in Toronto to receive all deposits for Canadian dollar denominated sales made by the Canadian mills. Fraser Papers also maintains a lockbox account in the U.S. to receive deposits for U.S. dollar denominated sales. In addition to these primary cash management accounts, Fraser Papers maintains three accounts which are used as impressed accounts for payroll disbursements to employees and other miscellaneous activity.

104. The primary bank accounts for each mill are swept daily to Fraser Papers' corporate account, which provides the necessary funds for daily disbursements. This activity leads to interdivisional account balances between the various divisions. These balances are not paid but allowed to accumulate, and are then cleared infrequently. These balances eliminate at the legal entity level for divisions within Fraser Papers.

Funding of U.S. Operations

105. Similar banking arrangements exist with respect to the plants owned and operated by the U.S. subsidiaries of Fraser Papers. Holdings maintains a Canadian and U.S. dollar corporate account in the U.S. Separate U.S. dollar bank accounts are maintained for each of the mills in that jurisdiction (Fraser Madawaska, Fraser Gorham, and Timber) to fund disbursements relating to that mill. The Applicants' U.S. operations are funded in part from the receipts generated from daily operations and these receipts are used to fund their disbursements, both to third parties and to Fraser Papers. These cash receipts are deposited to three lockbox accounts that are controlled by Fraser Madaawaska and Timber, to receive deposits for all U.S. sales of the U.S. Applicants. Any shortfall or excess cash in each of the U.S. Applicant's accounts is swept to the Holdings' corporate account. Holdings will generally use any excess funds to repay amounts owing to Fraser Papers. Any shortfall in the Holdings corporate account will be funded by Fraser Papers as described below.

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106. Holdings, Fraser Madawaska and Timber also have bank accounts in Canadian dollars to fund disbursements in this currency. Similar to the U.S. dollar accounts, any shortfall or excess in the Fraser Madawaska or Timber accounts is swept to the Canadian dollar Holdings' account which, in turn, is funded by the U.S. dollar account.

107. Each of Timber, Fraser Madawaska, and Fraser Gorham also have bank accounts in Canada to facilitate any cash flows that may occur directly between Fraser Papers and its indirect, wholly-owned subsidiaries. These accounts are rarely used, as all funding of the U.S. operations occurs through intercompany loans between Fraser Papers and Holdings.

108. Funding between Fraser Papers and Holdings is effected through an inter-company revolving working capital line note agreement dated July 20, 2005 and amended in August, 2007 (the "Intercompany Note Agreement"), a copy of which is attached hereto and marked as Exhibit "E". Holdings owed Fraser Papers approximately \$71.8 million as at May 2, 2009 under the Intercompany Note Agreement.

109. The amount outstanding under the Intercompany Note Agreement decreases as any excess cash in Holdings is paid to Fraser Papers. The amount outstanding under the Intercompany Note Agreement increases if Fraser Papers is required to fund any cash shortfalls in Holdings.

110. Each of the Applicants has their own accounts payable function. Fraser Madawaska performs the accounts payable function for the Madawaska, Maine, Edmundston, New Brunswick and Portland, Maine locations.

111. It is anticipated that the Fraser Group will continue to use the existing cash management system and will continue to maintain the bank accounts and funding arrangements already in place. This approach will minimize any disruption to the business operations of the Fraser Group as it seeks to restructure its affairs. CIT and Brookfield, who have each indicated that they will make DIP Financing

(as hereafter defined) available to the Applicants if the Initial Order is granted, have confirmed that they support the continued operation of the existing cash management system during the CCAA proceedings.

IV. CURRENT STATUS OF THE COMPANY

A. Financial Status

112. Fraser Papers' annual audited financial statements are prepared on a consolidated basis and include each of the other Applicants. The most recent audited statements are for the fiscal year ending December 31, 2008, a copy of which is annexed hereto and marked as Exhibit "F".

113. The Applicants have also prepared consolidating financial statements for the Fraser Group as at May 2, 2009, a copy of which is annexed hereto and marked as Exhibit "G".

114. On a consolidated basis the Fraser Group has experienced negative EBITDA for three consecutive years, including negative EBITDA of \$33.6 million in 2008 and \$41.9 million in 2007. The Fraser Group had negative EBITDA of \$11.8 million in the first quarter of 2009.

a) *Indebtedness to Lenders*

115. Loans have been provided to Fraser Papers by each of CIT, CIBC and the Province of New Brunswick. Brookfield has guaranteed certain of these loans. In addition, Brookfield has provided Fraser Papers with a facility in the notional amount of \$350 million to facilitate the Applicants' foreign currency hedging activities, as discussed above. The amounts owing as at May 2, 2009, the date of the most recent internal financial statements, and the security or guarantees held by each lender are as follows:

<u>Lender</u>	<u>Authorized Principal Amount (Outstanding Amount)</u>	<u>Guarantees or Security Held</u>
CIT	\$115M (\$60M)	Unlimited guarantee from each of the other Applicants; first charge over inventory and accounts receivable of each Applicant. \$25M of the outstanding amount is guaranteed by Brookfield.
CIBC	\$25M (\$25M)	None from the Applicants. \$25M of the amount owing to CIBC is guaranteed by Brookfield
Province of New Brunswick	CDN\$40M (CDN \$29.3M)	First charge over fixed assets in New Brunswick and second charge on inventory and accounts receivable in New Brunswick
Brookfield	\$50M in guarantees above, plus any exposure under hedging facility.	Guarantees and security over all assets granted by each Applicant in favour of Brookfield. Security is subordinate to CIT and Province of New Brunswick.

116. Other than in respect of equipment leases, purchase money security interests or similar arrangements, and specific agreements involving (i) Export Development Corporation for the refund of softwood lumber deposits; and (ii) Royal Bank of Canada in respect of a cash collateral agreement relating to a former employee's pension proceeds, no other parties have a registered security interest against any of the Applicants in Ontario, Quebec or New Brunswick. Summaries of searches conducted under the *Personal Property Security Act* against each of the Applicants in the Provinces of Ontario and New Brunswick and equivalent searches conducted in Quebec are annexed hereto and marked as Exhibit "H".

117. Similarly, other than in respect of equipment leases, purchase money security interests or similar arrangements, no other parties have a registered security interest against any of the Applicants in Delaware, Maine or New Hampshire. Summaries of searches conducted pursuant to the *Uniform Commercial Code* in respect of each of the Applicants in Delaware, Maine and New Hampshire are annexed hereto and marked as Exhibit "I".

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118. The amount outstanding under the revolving facility provided by CIT includes approximately \$40 million in letters of credit issued by CIT at the request of the Applicants. These include LCs totalling approximately \$1.7 million in favour of certain trade suppliers, an LC for approximately CDN\$23 million in favour of NB Power for any potential future liquidated damages under the CoGen Agreement, three LCs totalling approximately \$3.7 million to secure environmental obligations in respect of a U.S. landfill site in the State of Wisconsin that the Fraser Group no longer owns (the "Wisconsin Landfill") and \$14.4 million to secure potential workers' compensation obligations in the U.S.

119. As detailed below, Brookfield is prepared to provide DIP Financing (as later defined) to the Applicants during this restructuring process and CIT has also indicated that it is prepared to continue to extend credit to the Applicants to support the Applicants' efforts to restructure through a CCAA proceeding, in each case in accordance with the form of Initial Order sought by the Applicants.

(b) *Other Liabilities*

120. As at May 2, 2009, the most significant liabilities of the Applicants, other than their indebtedness to the lenders described above, are as follows:

	(\$millions)
Trade Creditors	\$74
Environmental Costs (net present value of projected future landfill expenses)	\$11.2
Other Liabilities	<u>\$0.2</u>
	\$85.4

121. In addition, the net obligations associated with the Applicants' Pension Plans, SERPS, and retiree benefit plans as at December 31, 2008 (as determined in accordance with GAAP) total \$218.3 million.

122. The Applicants are unable to pay these liabilities generally as they become due and they are insolvent. In addition, the above schedule does not include amounts relating to termination or severance obligations payable under any statute, collective agreement or otherwise. As certain mills are currently

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shutdown and may be for an extended period of time, those liabilities may be substantial and the Applicants have no ability to pay such amounts at this time.

123. Certain of the Applicants are also parties to litigation or arbitration that is pending or has been threatened in Canada and the U.S. The Applicants are not able to estimate the likely outcome or quantum of any potential liability at this time, but will review these matters with the Monitor as part of this proceeding.

B. Inter-Company Accounts

124. Due to the manner in which the Fraser Group operates as an integrated business and the existence of a centralized cash management system, there are significant inter-company amounts owing among the various members of the Fraser Group at any given time. The Applicants propose to have the Monitor report on the intercompany amounts as part of this proceeding.

125. The Fraser Group uses intercompany accounts to manage activities between its various locations, and these activities are recorded on a location (rather than a legal entity) basis. For example, the Canadian operations of Fraser Papers consist of five locations (Toronto, Thurso, Edmundston, Plaster Rock and Juniper). General ledgers are maintained for each to record all activity relating to that group. The intercompany activities among the various operations can be broadly grouped as: (i) the purchase of goods (pulp, power, steam, chips and biomass) manufactured by one mill and sold to another; (ii) allocation of services paid by one operation but charged to another; (iii) other miscellaneous activity between locations, and (iv) daily movement of cash between individual mill and corporate bank accounts, as described below.

Purchase of Goods

126. The largest intercompany transactions relate to the sale of pulp manufactured by the Edmundston and Thurso pulp mills to the Applicants' U.S. paper mills in Madawaska and Gorham. In addition, the Edmundston mill sells power and steam to the Madawaska paper mill to support its operational

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requirements. The Madawaska mill is heavily reliant upon the Edmundston mill for its steam, power and certain kinds of pulp, making the Edmundston facility a critical supplier to the Madawaska mill.

127. The Fraser Group's lumbermills in New Brunswick and Maine generate byproduct chips and biomass in the manufacture of dimension lumber. These byproducts are sold to the Edmundston pulp mill as raw materials to support the production of pulp (chips) and power or steam (biomass).

128. Each month the resulting intercompany receivables and payables are transferred from the local mill ledgers to the corporate ledger maintained for the Canadian and U.S. operations (FPS Canada as agent for Fraser Papers in respect of the Canadian operations and Fraser Madawaska for the U.S. operations). For example, on a monthly basis Edmundston's receivable from Madawaska for the sale of pulp, power and steam is transferred to FPS Canada, which maintains the corporate general ledger for the Canadian operations. Similarly, the Madawaska payable to Edmundston is transferred to the corporate Fraser Madawaska general ledger. The resulting balances between the Canadian and U.S. corporate accounts are cleared monthly, as described below.

Allocation of Services

129. There are a number of services or costs that are managed centrally by the Fraser Group's head office, which are then allocated to the individual mills to reflect their appropriate share of benefits received. These items are summarized below and are allocated to the mills by way of intercompany charges on a monthly, quarterly or annual basis:

- (i) Insurance – insurance premiums are centrally negotiated and paid and each operation is allocated their share of various insurance policies based on insured values or sales, depending on the nature of the policy
- (ii) Letter of Credit ("LC") – letter of credit standby fees are paid centrally and allocated to each operation based on the issuance of mill specific LCs
- (iii) Pension and OPEB expenses – are calculated centrally and allocated to each operation based on based on plan members and retirees attributable to each operation

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- (iv) Workers' compensation -- benefits are paid centrally and allocated to the operations based on actual claim payments
- (v) Procurement and research -- the costs associated with centralized functions are allocated to mills based on estimated (procurement) and actual (research) time spent on specific mill needs
- (vi) Hedging gains/losses -- realized gains or losses on hedging programs (foreign exchange and commodity) are received or paid centrally and are allocated to mills based on their actual Canadian dollar denominated cash flows or lumber shipments as the case may be.

130. In addition, there are services managed at the mill level that benefit one or more other locations. These actual costs are charged or allocated to other mills by way of intercompany accounts and can be summarized as follows:

- (i) services provided by Edmundston to Thurso, Plaster Rock and Juniper
 - certain employee benefits (Blue Cross, workers' health and safety)
 - information technology services
 - medical services
- (ii) services provided by Madawaska to Edmundston and Gorham
 - information technology services
 - medical services (Edmundston only)

Miscellaneous Charges

131. There are a number of one-time and recurring charges that are allocated between the various operations to reflect an appropriate allocation of costs. Some of the larger or recurring transactions are as follows:

- (i) Payroll
 - Generally payroll at each location is aligned with staff at that location, but when staff are seconded or transferred to another location, payroll adjustments are corrected by intercompany charges.
 - Edmundston's weekly payroll is funded from the corporate FPS Canada account instead of its local bank account. The cost is allocated to Edmundston through an intercompany charge.
- (ii) Payments

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- A number of significant Canadian suppliers request that payment be made by wire transfer. As wire transfers can only be processed centrally, payments are made from the corporate FPS Canada bank account and charged to the respective mill through an intercompany entry.

(iii) Canadian Sales

- To ease administration, paper sales to Canadian customers are transacted as an initial sale by the U.S. paper mill (Madawaska or Gorham) to the Edmundston mill. The Edmundston mill then sells the paper to the customer, but is charged for the purchase of goods through intercompany accounts.

(iv) Temporary transfers of goods and services

- On occasion a mill may provide additional services such as storage or training, or lend equipment to another location on a one-time or temporary basis. To reflect the use of these goods or services, charges are posted to the intercompany accounts of these mills.

Banking, Clearing and Accounting

132. Local bank accounts for each mill are "zero balanced" daily and cleared to the corporate head office bank accounts. Under this process, daily mill disbursements are funded by the corporate accounts. Canadian bank accounts are cleared to a Fraser Papers' account and U.S. accounts are cleared to a Fraser Holdings account. The offsets to these transfers are intercompany liabilities between the respective entities. These intercompany balances are not cleared regularly and are allowed to accumulate as described below.

133. Cash requirements of the U.S. operations are funded by the Intercompany Note Agreement between Fraser Papers and Fraser Holdings, as described above. As such, if net cash is required by one of the U.S. subsidiaries to pay third party suppliers or pay Canadian purchases from the previous month, it is borrowed by Fraser Holdings from Fraser Papers through the Intercompany Note Agreement. Fraser Papers, as needed, will borrow the necessary funds from its revolving facility with CIT.

134. Monthly mill balances are transferred to the corporate ledgers maintained by FPS Canada (for the Canadian operations) and Fraser Madawaska (for the U.S. operations). Balances due and from operations within each respective country are not paid but allowed to accumulate, subject to infrequent clearing. The

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balances among the Canadian operations are effectively offset, as they are all owned by the same legal entity. As the U.S. operations are owned by separate legal entities, they are not offset but effectively eliminated when consolidated financial reporting is prepared for the Fraser Group.

135. Balances due between Canadian and U.S. operations as a result of the purchases of goods or services are paid in cash monthly in the month following the date of the transaction.

136. Intercompany balances are presented in the Applicants' internal financial reporting as balances due between related parties, which eliminate upon consolidation.

C. Causes of Insolvency

137. The Applicants have not generated positive cashflow from operations for three consecutive years. Negative cash flow from operations (prior to changes in non-cash working capital) equalled \$65.4 million and \$55.5 million in 2007 and 2008 respectively, combined with a further shortfall of \$9.7 million in the first quarter of 2009.

138. During the first quarter of 2009, the Company funded its cash flow shortfall through the reduction in working capital of \$34.2 million, principally through the sale of finished goods inventory. The Company no longer has the ability to finance its cash flow shortfall.

139. The aforementioned cash flow shortfalls are being driven by a sharp deterioration at the Company's pulp operation at Thurso, Quebec, continuing losses from its lumber operations and are only partially offset by the turnaround in its specialty papers business. In particular:

- (a) a collapse in demand and the market price for hardwood pulp led to EBITDA losses of \$10.7 million in 2008 from a break-even situation in 2007. In the first quarter of 2009, the Company lost a further \$8.7 million in EBITDA at its pulp mill in Thurso, Quebec. On June 1, 2009, the Company indefinitely closed the Thurso pulp mill. The outlook for hardwood pulp remains poor and the situation has been exacerbated by the impact of the black liquor tax credit, referred to above;

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- (b) continuing operating losses in the Company's four lumbermills of \$22.0 million and \$13.2 million in 2007 and 2008 respectively, reflect market conditions for dimension lumber used in housing construction and renovation. In the first quarter of 2009 these lumbermills had a further operating loss of \$4.1 million. As the outlook for the U.S. home building industry remains poor, the Company does not expect an improvement in the demand or price for its lumber. The Company's four lumbermills produced at only 16% of capacity during the first quarter of 2009; and
- (c) improvements in the financial results at the Company's specialty papers business have not been able to offset losses in its pulp or lumber operations. In the first quarter of 2009, the Company reported EBITDA of \$1.7 million from its specialty paper operations, following losses of \$9.7 million and \$19.7 million in 2008 and 2007, respectively. These improvements reflect achievements in product development and sales mix, operating efficiency and productivity, and energy efficiency.

140. Under the current collective agreement, two severance payments of \$3.9 million each to unionized employees at the Thurso pulp mill are due on November 9, 2009 and December 21, 2009 following the mill's closure on June 1, 2009. The Applicants have no ability to pay these amounts at this time.

141. As at June 16, 2009 the Applicants have a total of \$66.7 million of loans outstanding: \$15.8 million drawn and utilized under a revolving working capital facility with CIT (not including \$40.8 million in LC's issued at the request of the Applicants), \$25.9 million borrowed under the N.B. Loan and \$25 million under a term loan with CIBC. The Applicants are required to repay or refinance the \$25 million term loan in September 2009 and they have no ability to do so at this time.

142. As described above, the Applicants' accrued pension benefit obligations in its five Pension Plans and SERP's exceed the value of the Pension Plan assets by approximately \$171.5 million as at December 31, 2008, as determined in accordance with GAAP. The Applicants are required to make payments of \$3.5 million by September 30, 2009 and an additional \$10.1 by December 31, 2009. Average annual payments of approximately \$34.7 million per year for the years 2010 to 2013 are expected to be required

to fund the Pension Plans. The Applicants' efforts to obtain a one-year funding holiday to address the deficit have not been successful. Without a funding holiday or another funding formula, the Applicants have no ability to meet these funding obligations.

143. Collective bargaining agreements at Plaster Rock, New Brunswick and Thurso, Quebec to which Fraser Papers is a party have expired. Similar agreements at Edmundston, New Brunswick and Madawaska, Maine expire on June 30, 2009 and October 31, 2009 respectively, and negotiations concerning Fraser Papers' request for terms and conditions required to achieve a successful restructuring of the Applicants' business have not led to any resolution to date.

144. The Applicants currently owe trade suppliers in excess of \$10 million beyond normal credit terms and owe an additional \$7.7 million in outstanding property taxes to six municipalities.

D. Efforts to Restructure

145. Over the past three years the Applicants have taken steps to address the challenges facing them and the industry generally, by implementing a number of initiatives to grow their specialty papers business, reduce their exposure to hardwood pulp and lumber markets and lower operating costs through reductions in highest cost capacity, process efficiencies, higher productivity and energy conservation, as described in further detail below.

146. In 2006, the Applicants permanently shut their 250,000 ton per year hardwood pulp mill in Berlin, New Hampshire that was integrated with the Gotham paper mill; increased shipments of specialty papers by 9%; and sold timberlands in New Brunswick while retaining a long term supply agreement. Proceeds of the sale of the timberlands were used to reduce debt by \$57 million and fund pension obligations of \$37 million.

147. In 2007, the restructuring initiatives included a major rebuild of the recovery boiler at the Edmundston sulphite mill to expand its productive capacity and lower costs; the closure of the two

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smallest and highest cost paper machines at the Madawaska mill, representing 15% of the manufacturing capacity; the closure of an oil fired boiler and turbine at Edmundston and the closure of one paper machine representing 20% of the capacity at Gorham. In response to a deterioration in the lumber markets, mill operations at the four locations were curtailed by 50% over levels in 2006 once a supply of softwood chips was secured from alternative sources.

148. During 2008 the Applicants grew the value added paper business by increasing shipments of specialty packaging papers by 11% and high-bright groundwood papers by 35%. Higher paper prices were secured and the Fraser Group achieved a 7% increase in the average realized price of its paper products. This generated an additional \$34 million in revenue. In addition, the Applicants' pipeline of new products under development was expanded in 2008 to include approximately 50 new projects at various stages of development from concept to commercial launch. The Applicants estimate that the combined benefit from the product mix improvements added \$13 million to the Fraser Group's bottom line for 2008. In 2008 the Fraser Group also increased productivity and throughput by 6% at the paper mills, and capital projects at the Edmundston pulp mill provided a similar 6% improvement in throughput.

149. Despite these significant initiatives undertaken by the Fraser Group, the Applicants experienced significant uncontrollable cost pressures from fibre, energy and chemical pricing and Canadian/U.S. foreign exchange, which totalled \$52.4 million in 2008 compared to the prior year, and led to negative EBITDA of \$34 million in 2008.

Recent Mill Shutdowns

150. On June 1, 2009 the pulp mill at Thurso, Quebec was indefinitely closed due to the market conditions that have led to unsustainable cash losses. The Thurso facility will remain closed until market conditions improve or a solution can be found to mitigate the cash drain on the Applicants.

151. On June 8, 2009, a complete facility shutdown was undertaken at Edmundston involving the (i) groundwood paper mill; (ii) sulphite pulp mill; and (iii) CoGen Facility. The CoGen Facility and

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groundwood mill are scheduled to undergo annual maintenance. The CoGen Facility restarted operations on June 12, 2009 and the groundwood mill is expected to restart on or about June 18, 2009. The re-start of the sulphite pulp mill is dependent upon whether the Applicants are able to lower operating costs at the sulphite pulp mill, including reaching new terms and conditions under a collective agreement with the unions representing the employees at that mill, as discussed below.

152. At this time the Applicants' paper mills in Madawaska, Maine and Gorham, New Hampshire will continue to operate, although at capacity rates that will be dependent on customer orders and the Applicants' ability to source an adequate fibre supply.

Negotiations with Stakeholders

153. The Applicants have approached the Ministry of Economic Development, Innovation and Export of the Quebec Government with a proposal requesting \$45 million of equity and debt financing for a new subsidiary company that would own and operate the Thurso pulp mill. The financing requested would be sufficient to fund future operating losses, capital expenditure requirements and pension funding obligations and allow the mill to re-start. At the same time, the Applicants have begun negotiations with their unionized employees at Thurso toward a new collective agreement with terms and conditions that would involve wage and benefit concessions necessary to attract the necessary financing. Discussions with the Quebec Government and the unionized employees are continuing.

154. The Applicants have requested the Ministry of Natural Resources in New Brunswick ("MNR") to agree to an additional allocation of Crown fiber in proportion to their size and share in the provincial forest products industry. The Company currently has approximately 400,000 cubic meters of crown sawlogs, pulplogs and chips and has requested additional crown fibre in various forms. The Applicants believe that the right to access crown fibre that allows it to utilize economies of scale is a critical piece to its long term competitive position, and is fair and reasonable in the circumstances. On June 5, 2009, the MNR provided the Applicants with an increase from 9% to approximately 20% of the crown allocation in

the Province. This increase in allocation is conditional upon the Company achieving cost reductions at its operations in New Brunswick.

155. The Applicants have approached NB Power with respect to an amendment to the terms and conditions under the CoGen Agreement that would provide a more appropriate index for changes in the price paid for biomass fuel, a more favourable price for the renewable power produced by the CoGen Facility and a number of other material changes that would either lower the cost of operation of the CoGen Facility or increase the price of electricity sold from it. While no final agreement has been reached, the parties have agreed that the Company can include power produced from an additional, more efficient turbine generator under the CoGen Agreement, providing the opportunity for Fraser Papers to generate electricity more efficiently using less biomass. This change should also reduce the requirement to operate one additional boiler during the winter months in Edmundston.

156. In February 2009, the Applicants received an extension in the amortization schedule of its pension funding obligations in New Brunswick from five years to ten years. This relief was retroactive to 2008 and reduced the pension funding required for 2009 by approximately \$5.0 million.

157. In April, 2009 the Applicants requested a one year pension funding holiday from the pension regulators in New Brunswick and Quebec. These requests were denied. Discussions have continued with the New Brunswick Government on a pension funding solution and the Applicants understand that the New Brunswick Government is studying the situation on a broader level.

V. FILING FOR PROTECTION

A. Overview of Restructuring Plan

158. The Applicants intend to immediately prepare the framework of a restructuring plan that will form the basis of a formal plan to be presented to creditors as soon as possible. Key criteria will be new arrangements for crown allocation of timber in New Brunswick, re-establishing a competitive energy

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position with respect to electricity and steam, and achieving lower operating costs at both Edmundston and Madawaska. In addition, the economic relationship with unionized employees will have to be brought to a level that allows Fraser Papers' products to be produced at a cost that is competitive. It is anticipated that certain operations or mills that are considered non-core to this business may be sold or otherwise discontinued as part of a restructuring of the Fraser Group as a whole.

B. Cash Flows

159. The Applicants' have prepared estimated cash flow forecasts for the period June 18, 2009 to July 17, 2009 on a consolidated basis (the "Cash Flow Forecast"). As described above, the factors influencing the Cash Flow Forecast are both volatile and variable. A copy of the Cash Flow Forecast is attached as Exhibit "J" to this Affidavit.

160. The proposed Monitor in this proceeding, PricewaterhouseCoopers Inc. ("PwC"), has reviewed the Cash Flow Forecast. The Cash Flow Forecast indicates that, in the absence of any DIP Financing, the Applicants will have insufficient cash with which to operate after June 30, 2009. The Applicants' need for protection is immediate and urgent.

161. The Cash Flow Forecast contemplates payment of current pension funding obligations only, as the terms of the DIP Financing prohibit the payment of any special payments including as it relates to the solvency deficit or going-concern deficit.

C. DIP Financing

162. Due to the insolvency of the Applicants, the Fraser Group will require additional funding in order to implement this restructuring. Brookfield and CIT have both agreed to provide debtor in possession financing ("DIP Financing") to the Applicants up to the aggregate amount up to \$46 million, subject to the Applicants obtaining an Initial Order in this proceeding on the terms requested granting Brookfield and CIT a charge over all property, assets and undertaking of the Applicants in priority to all creditors except CIT in respect to its existing security, to secure the DIP Financing. Term sheets describing the

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amount, priority, terms and conditions of the DIP Financing to be provided by Brookfield and CIT are annexed hereto and marked as Exhibits "K" and "L", respectively.

163. I understand that Section 5.7(d) of Multilateral Instrument 61-101 "Protection of Minority Security Holders in Special Transactions" under the *Securities Act* (Ontario) requires that Fraser Papers seek minority approval of its security holders before completing the DIP Financing transaction, by virtue of Brookfield's majority interest in Fraser Papers. I also understand that Multilateral Instrument 61-101 provides an exemption from the minority approval requirement where the transaction is subject to court approval under applicable bankruptcy or insolvency law and the court is advised of the minority approval requirement.

164. The Applicants seek a provision in the Initial Order confirming the disclosure by the Applicants of this requirement and dispensing with the need for compliance.

165. Brookfield provides existing financial support to the Applicants in various forms. In addition to the guarantees it has provided to the Applicants' lenders, as described above, Brookfield and Fraser Papers are party to a paper supply agreement dated January 29, 2009 (the "Paper Supply Agreement") whereby Brookfield purchases paper inventory from Fraser Papers that it then sells to third party customers. A copy of the Paper Supply Agreement is annexed hereto and marked as Exhibit "M".

166. Under the terms of the Paper Supply Agreement, Fraser Papers receives payment for the sale of paper to Brookfield within approximately two business days, whereas Brookfield receives payment from its customers approximately 15 to 60 days thereafter. Fraser Papers acts as collection agent for Brookfield and all receivables relating to Brookfield's sale of paper are collected by Fraser Papers and remitted to Brookfield. The Paper Supply Agreement also includes terms with respect to the payment and reimbursement of freight and warehousing costs as between Brookfield and Fraser Papers.

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167. In view of the availability of DIP Financing to be extended by Brookfield and in accordance with the terms and conditions precedent to such funding, by agreement of the parties Brookfield's obligation to purchase paper inventory from Fraser Papers from and after the date of the Initial Order will terminate, with all other terms and conditions continuing to apply. Fraser Papers will continue to collect on Brookfield's behalf the outstanding receivables in respect of paper sold under the terms of the Paper Supply Agreement (for which Fraser Papers will have already received payment from Brookfield) and will remit the proceeds to Brookfield. Fraser Papers will also continue to make payments for freight and warehousing costs incurred while inventory was being purchased by Brookfield, for which it will be reimbursed by Brookfield. The Initial Order sought by the Applicants includes a provision authorizing these arrangements in accordance with the terms of the DIP Financing and the Paper Supply Agreement.

168. The Monitor will provide oversight and will report to the Court with respect to the Applicants' actual results relative to the estimated Cash Flow Forecast during this proceeding. The Applicants' existing accounting procedures will provide the Monitor with the ability to track the flow of funds among the various Applicants, and the non-priming intercompany charges to be created among the Applicants, as described below, will ensure that no creditor of an Applicant is prejudiced by any inter-company activity during the continuation of this proceeding.

D. Chapter 15 Proceeding in the U.S.

169. As the U.S. subsidiaries are incorporated under the laws of Delaware and Maine, and because the Fraser Group has operations in the U.S., the Applicants will be seeking recognition of these proceedings as the foreign main proceeding by the U.S. Bankruptcy Court. Accordingly, if an initial CCAA order and a stay of proceedings are granted, the Applicants intend to immediately commence auxiliary proceedings under Chapter 15 of the U.S. *Bankruptcy Code* pursuant to which they will seek to have the CCAA proceedings and this Court's order recognized and enforced in the U.S. as a foreign main proceeding. This will include an immediate request for a temporary restraining order granting provisional relief under

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the U.S. *Bankruptcy Code* and preventing any steps from being taken that would impair the Applicants' ability to carry on its business operations in the U.S., pending further order of the Court.

170. The Chapter 15 Petitions to be filed will name Fraser Papers as the Foreign Representative in respect of each Applicant.

E. The Initial Order

171. Fraser Papers' Board of Directors is comprised of five directors, representing a diverse base of business skills and experiences. These directors have considerable knowledge and experience in dealing with the business of the Fraser Group, and have provided direction to management on several key initiatives undertaken over the past several years. The Applicants are of the view that the continued participation of the existing directors and officers will be a key element to a successful restructuring.

172. I am concerned that certain of the directors and officers may receive advice to resign if they are not granted the protection of a Directors' Charge as provided for in the draft Initial Order. I also believe that, given their experience in the affairs of the Applicants, the services of the directors and officers are essential to a successful proceeding and that the Directors' Charge over all the assets of the Applicants should therefore be granted.

173. Management estimates that the priority payables in respect of which the directors have personal liability at any point in time during the CCAA process is approximately \$20 million, taking into account approximately 2,400 employees. This amount does not include any termination or severance payments that may at any time be owing. The Applicants therefore request a Directors' Charge in the amount of \$30 million to secure such obligations. The Applicants have sought guidance from the Monitor in respect of comparable CCAA filings in suggesting this number.

174. The Directors' Charge requested in the Initial Order will be in addition to the existing directors' and officers' insurance policies (collectively, the "D&O Policies"). The primary policy has a limit of \$25

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million and there is an excess policy for \$25 million. In addition, Endorsement 10 of the D&O Policy is a reinstatement endorsement whereby if the \$50 million in coverage is exhausted, the primary insurer will reinstate for an additional \$25 million in coverage.

175. The Applicants also request that the Court grant a charge in favour of the Applicants' counsel and in favour of the Monitor and its counsel, to secure the payment of fees and expenses incurred in connection with this proceeding. The Applicants seek an Administration Charge in the amount of \$750,000, to secure payment of the fees and expenses of the Applicants' counsel, the Monitor and its counsel.

176. As described above, due to the integrated manner in which the Fraser Group operates, on occasion cash is advanced to or charges are incurred by one Applicant on behalf of another Applicant. The Applicants propose to maintain their existing cash management and accounting system during this proceeding under the oversight of the Monitor, which is acceptable to their operating leader CIT. The Applicants also want to ensure that no creditor of any individual Applicant is prejudiced by the inter-company flow of funds or incurring of liabilities from and after the date of filing. It is proposed that to the extent one Applicant advances money to or incurs a cost on behalf of another Applicant, they will obtain a non-priming secured charge from the recipient Applicant for that amount. The intercompany charge will attempt to maintain the relative priority and value of each Applicant's estate and ensure that one Applicant does not fund, at the expense of its stakeholders, the operations of another Applicant. As inter-company amounts are settled on a monthly basis and this proceeding is being commenced mid-month, it is proposed that the inter-company charge sought as part of the Initial Order cover the current month of intercompany transactions.

177. I have reviewed the model form of Initial Order that is used for proceedings before the Commercial Court in Toronto under the CCAA (the "Model Order"). Certain amendments to the model

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form of Initial Order are requested to be made, all of which are necessary to the Applicants' ability to continue business operations in order to effect a successful restructuring.

178. The Applicants currently owe realty tax arrears to various municipalities for the facilities located in those jurisdictions. Some of these facilities (or individual mills located on the facilities) are expected to form part of the restructured business operations of the Applicants upon successful emergence from this proceeding, while other facilities or individual mills may not. In consultation with the Monitor, the Applicants will be reviewing each of the mills and facilities in developing a restructuring plan. In view of their limited cash resources, the Applicants do not believe it is prudent to utilize proceeds of the DIP Financing to pay realty tax arrears on facilities that will not form part of their future operations, or that may be sold or abandoned. The Applicants therefore seek a term in the Initial Order providing discretion as to payment of realty tax arrears on a case by case basis. Current realty taxes on all facilities that are being utilized by the Applicants will continue to be paid from and after the commencement of this proceeding.

179. The Applicants also seek a clarification to the Model Order to confirm that their renewal rights as it relates to certain existing insurance policies are unaffected by the commencement of this proceeding. The Applicants have two insurance policies that are due to expire June 30, 2009 covering: (i) property; and (ii) Canadian fleet insurance on vehicles owned by Fraser Papers. The Applicants have included an amount in the Cash Flow Forecast representing the annual premium payment plus a four percent increase, based on prior years' expenses for insurance. If the Applicants were unable to obtain a renewal of coverage under the property insurance policy from their present insurer on the same or similar terms, it is unlikely that they would be able to secure alternate coverage from a new insurer on terms that would be financially feasible, resulting in a potential shutdown of the facilities.

180. The Applicants provide certain volume rebates to customers that will be important to maintain notwithstanding the commencement of this proceeding. The forest products industry is rapidly

58.

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contracting and is highly competitive. If the Applicants do not have the ability to honour rebates earned by customers seamlessly throughout the period prior to and after the date of filing, those customers may quickly move their business to a competitor who can continue to offer volume-related incentives. The Applicants intend to review all such programs with the Monitor.

181. Due to the nature of the business of the Fraser Group, the Applicants have goods in transit at any point in time. The Applicants have requested a provision in the Initial Order to ensure that there is no disruption to the business relating to non-payment of amounts owing to freight forwarders, customs brokers or similar agents who are critical to the Applicants' operations, whether in respect of the period prior to or after the date an Order is issued. In addition, with the Monitor's consent and subject to the terms of the DIP Financing, the Applicants request that they be permitted to make payments to particular suppliers up to a certain capped amount, if it is determined that such suppliers are critical to the Applicants' ongoing business operations, and the inability to pay such amounts may jeopardize their ability to achieve a successful restructuring.

182. As outlined above, certain LC's are outstanding in connection with a landfill located in the State of Wisconsin. The Wisconsin Landfill was originally owned by a predecessor to Fraser Papers, was subsequently owned by Fraser Madawaska and was then sold to Smart Papers LLC in 2005. Fraser Papers agreed to leave LC's in place totalling approximately \$3.5 million to facilitate the sale of the mill to Smart Papers LLC, to support closure and post-closure care obligations assumed by the purchaser on closing. Smart Papers LLC paid certain costs associated with the Wisconsin Landfill following the closure of the mill, but subsequently filed for protection under Chapter 11 of the U.S. *Bankruptcy Code* in 2007. As part of that proceeding Smart Papers LLC paid a small amount to the Wisconsin Department of Natural Resources ("DNR") and obtained a release from any further liability in connection with the Wisconsin Landfill. Smart Papers ultimately became bankrupt.

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183. Smart Papers LLC sold the paper mill, but not the Wisconsin Landfill, and accordingly the Wisconsin Landfill continues to be owned by a bankrupt entity in respect of which LC's issued at the request of Fraser Papers remain outstanding. In 2007, the DNR advised Fraser Papers that it intended to draw down the LC's, spend as much as was necessary in their view to close and care for the Wisconsin Landfill, and then sue all prior owners including the Company. The Company believed that it could close and care for the Wisconsin Landfill for an amount that was less than the aggregate amount of the outstanding LC's, and persuaded the DNR to allow the Company to proceed in this manner.

184. Since that time, Fraser Papers has completed the closure obligations and has continued to pay post-closure care amounts. It is in the process of applying for the release of a portion of the LC's totalling approximately \$700,000 to \$800,000. The Company believes that it is in the best interests of their stakeholders that it be permitted to complete the necessary post-closure work on the Wisconsin Landfill, to facilitate the return of the outstanding LC's. The Cash Flow Forecast prepared by the Applicants include these payments.

185. An amendment to the Model Order as it relates to payment of pension and benefits is also requested, as outlined above in respect of the Cash Flow Forecast. The requested amendments make it clear through the use of mandatory language that all employees who are continuing to provide a service to the Applicants from and after the date of the Initial Order will continue to receive all health, dental, insurance and related benefits to which they were entitled immediately prior to filing. The Applicants will also continue to pay all current pension funding obligations.

186. The Applicants also request to not make any special payments in respect of their pension obligations (including obligations under its SERP plans) after the date of filing, in particular as it relates to funding the solvency deficit or the going-concern deficit, and they are prohibited from doing so under the terms of the DIP Financing.

60.

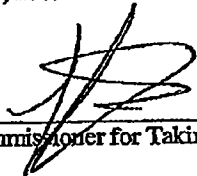
187. As outlined in the draft Initial Order sought by the Applicants, the Applicants seek a provision in the Initial Order providing them with the discretion to pay health, dental, insurance and related benefits on behalf of retirees or any other non-active employees up to a certain amount per month in accordance with the terms of the DIP Financing, without obligating them to do so. It is intended that these payments will continue to be made following the issuance of the Initial Order, with the Applicants having the discretion to stop making such payments at any time thereafter on notice to the affected parties if it is determined that it is not feasible to continue doing so.

F. The Monitor


188. The Applicants propose that PwC be appointed Monitor for this proceeding. PwC is not the auditor for the Applicants. PwC has consented to act as Monitor and its written consent is being filed with this Honourable Court.

189. I swear this affidavit in support of the Applicants' request that an Initial Order be granted under the CCAA in the form annexed to the Notice of Application herein, and for no other or improper purpose.

SWORN before me at the City of Toronto,
in the Province of Ontario, this day of
June, 2009.



Commissioner for Taking Affidavits



J. PETER GORDON

Gloria Kalkounis, a Commissioner, etc.,
City of Toronto, for Thomson Group Financial LLP,
Barristers and Solicitors,
Expires August 27, 2010.

Exhibit F

[Handwritten signature]
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FraserPapers

June 18, 2009

To: All participants of the Fraser Papers Inc. Supplemental Employee Retirement Plan ("SERP") or the Fraser Papers Inc. Supplemental Executive Retirement Plan ("Top Up SERP")

Today Fraser Papers Inc. and its subsidiaries took the difficult decision to file for protection from their creditors both in Canada and in the United States. The filing will provide us with a defined process and the necessary time to restructure and re-establish a sustainable and profitable specialty paper business. I have attached a copy of the press release.

The filing was necessary as we were not generating sufficient positive cash flow from our operations to fund all of our obligations, including a \$25 million term loan and substantial payments owing on account of pension obligations. You should know that this was a very difficult decision for senior management and our Board of Directors, however it is the right and only decision at this time.

The Order obtained today provides a stay of proceedings for an initial period of thirty days, preventing any creditor of the Companies from taking actions against us, and staying our obligations to make payments to creditors. This will provide us with an opportunity to reorganize our business, continue negotiations with our stakeholders and develop and propose a restructuring plan to our creditors. We will seek an extension of the stay period prior to its expiry in thirty days.

As a member of the SERP or Top Up SERP you should be aware that the Company is no longer obligated or able to make payments in respect of any unfunded unregistered pension plans, including the SERP and Top Up SERP. As such, the Company will cease paying benefits to all participants currently in receipt of benefits under these plans effective immediately.

We are committed to ensure that you are kept up to date throughout the process. Please check our website at www.fraserpapers.com for updates. In addition, if you have any questions or concerns, please call 877-374-3834 (toll-free in Canada and the U.S.) or by email at restructuring@toronto.fraserpapers.com.

Restructurings of this kind are never easy. There is no doubt that we will need cooperation from all stakeholders for the restructuring process to be successful. At this time we would ask for your patience as we focus on the task at hand, which is to create a sustainable, profitable business going forward.

Sincerely,

[Handwritten signature]

Peter Gordon
Chief Executive Officer

Fraser Papers Inc. Tel 416-359-8605
Suite 200, Brookfield Place Fax 416-358-8605
181 Bay Street www.fraserpapers.com
Toronto, Ontario M5J 1Y3
CANADA

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FraserPapers

June 18, 2009

To: All Retirees of Fraser Papers Inc., FPS Canada Inc., Fraser Papers Holdings Inc., Fraser Timber Limited, Fraser Papers Limited and Fraser N.H. LLC (collectively, the "Companies")

Today Fraser Papers Inc. and its subsidiaries listed above took the difficult decision to file for protection from their creditors both in Canada and in the United States. The filing will provide us with a defined process and the necessary time to restructure and re-establish a sustainable and profitable specialty paper business. I have attached a copy of the press release.

The filing was necessary as we were not generating sufficient positive cash flow from our operations to fund all of our obligations, including a \$25 million term loan and substantial payments owing on account of pension obligations. You should know that this was a very difficult decision for senior management and our Board of Directors, however it is the right and only decision at this time.

The Order obtained today provides a stay of proceedings for an initial period of thirty days, preventing any creditor of the Companies from taking actions against us, and staying our obligations to make payments to creditors. This will provide us with an opportunity to reorganize our business, continue negotiations with our stakeholders and develop and propose a restructuring plan to our creditors. We will seek an extension of the stay period prior to its expiry in thirty days.

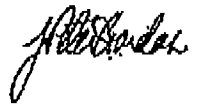
The Order permits the Companies to continue to make payments to retirees for health, dental and similar benefits including life insurance. However, you should be aware that payments of these benefits are subject to a cap and may change as the restructuring plans evolve. We are in the process of determining what amount of retiree benefits we are capable of continuing to fund. We will provide you notice should our decision to pay these benefits change in the future.

If you are a retired participant of a registered pension plan sponsored by Fraser Papers, you will continue to receive your pension benefits from the funds of the pension plan. However, you should be aware that this is subject to change as solvency deficits may prevent the plan from being able to meet all obligations in the future.

We are committed to ensure that you are kept up to date throughout the process. Please check our website at www.fraserpapers.com for updates. In addition, if you have any questions or concerns, please call 577-374-3434 (toll-free in Canada and the U.S.) or by email at restructuring@toronto.fraserpapers.com.

Restructurings of this kind are never easy. There is no doubt that we will need cooperation from all stakeholders for the restructuring process to be successful. At this time we would ask for your patience as we focus on the task at hand, which is to create a sustainable, profitable business going forward.

Sincerely,



Peter Gordon
Chief Executive Officer

Fraser Papers Inc. Tel 416-358-8025
Suite 200, Brookfield Place Fax 416-358-8026
181 Bay Street www.fraserpapers.com
Toronto, Ontario M5J 2T8
CANADA

Exhibit "H"
 Set
 copy

FraserPapers

June 18, 2009

To: All participants of the Fraser Papers Deferred Compensation Plan

Today Fraser Papers Inc. and its subsidiaries took the difficult decision to file for protection from their creditors both in Canada and in the United States. The filing will provide us with a defined process and the necessary time to restructure and re-establish a sustainable and profitable specialty paper business. I have attached a copy of the press release.

The filing was necessary as we were not generating sufficient positive cash flow from our operations to fund all of our obligations, including a \$25 million term loan and substantial payments owing on account of pension obligations. You should know that this was a very difficult decision for senior management and our Board of Directors, however it is the right and only decision at this time.

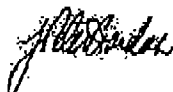
The Order obtained today provides a stay of proceedings for an initial period of thirty days, preventing any creditor of the Companies from taking actions against us, and staying our obligations to make payments to creditors. This will provide us with an opportunity to reorganize our business, continue negotiations with our stakeholders and develop and propose a restructuring plan to our creditors. We will seek an extension of the stay period prior to its expiry in thirty days.

As a member of the Deferred Compensation Plan, you should be aware that the Company is no longer obligated or able to make payments in respect of any unfunded unregistered pension plans, including the Deferred Compensation Plan. As such, the Company will cease paying benefits to all participants currently in receipt of benefits under this plan effective immediately.

We are committed to ensure that you are kept up to date throughout the process. Please check our website at www.fraserpapers.com for updates. In addition, if you have any questions or concerns, please call 877-374-3534 (toll-free in Canada and the U.S.) or by email at restructuring@toronto.fraserpapers.com.

Restructurings of this kind are never easy. There is no doubt that we will need cooperation from all stakeholders for the restructuring process to be successful. At this time we would ask for your patience as we focus on the task at hand, which is to create a sustainable, profitable business going forward.

Sincerely,



Peter Gordon
 Chief Executive Officer

Fraser Papers Inc. Tel 416-359-8805
 Suite 200, Brockfield Place Fax 416-359-8808
 181 Bay Street www.fraserpapers.com
 Toronto, Ontario M5J 2T3
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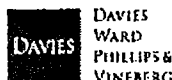
Fraser Papers

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• en français

Important Developments

- March 19, 2010 [Fortress Paper Announces an Acquisition to Enter the Specialty Cellulose and Bio-Energy Sectors](#)
- March 17, 2010 On March 17, 2010, Fraser Papers, the Superintendent of Pensions for the Province of New Brunswick and Davies, on behalf of only the New Brunswick members of the CSER, entered into an agreement concerning the future treatment of the New Brunswick salaried pension plan. The agreement provides, among other things, that the New Brunswick salaried pension plan will receive a promissory note with an eight, rather than ten, year term, that the pension plan will continue to be administered by a government appointed administrator for a period of up to eight years, and that the consideration due to the New Brunswick salaried pension plan under the APA will be deposited into an outside trust fund for the sole benefit of the pension plan. Finally, the agreement provides that BAM and its directors and officers and the directors and officers of Fraser Papers shall be released from any liability in respect of Fraser Papers, – conditional upon the closing of the APA transaction. The executed agreement can be found in the "Documents" section of this website.
- February 24, 2010 On February 24, 2010, the Ontario Superior Court of Justice (Commercial Court) issued an order extending the CCAA stay to April 8, 2010. The Court also approved an agreement in principle among Fraser Papers, the CEP, and the Superintendent of Pensions for the Province of New Brunswick to enter into an agreement to satisfy the condition precedent under the APA that all references to defined benefit pension plans be removed from the collective agreements between the CEP and Fraser Papers. The APA must still receive the final approval of the Court prior to any closing of the sale transaction under the APA.
- December 10, 2009 On December 10, 2009 the Ontario Superior Court of Justice (Commercial Court) issued an order extending the CCAA stay to February 26, 2010 to allow for the execution of an Asset Purchase Agreement ("APA"). The Ontario Superior Court of Justice issued an order authorizing the Company to execute an APA with Brookfield Asset Management Inc. ("BAM") for the sale of the Company's specialty papers business to a newly incorporated subsidiary of BAM ("Newco"). Under the APA, unsecured creditors will receive 49% of the common shares of Newco (which have an ascribed value of \$25 million) and a \$42.4 million non-interest bearing promissory note of Newco with a 10-year maturity. The sale of these assets will occur through a stalking horse bid process, pursuant to which other bids for Fraser Papers' assets may be submitted. The final transaction will require further court approval.
- December 2, 2009 On December 2, 2009 the Ontario Superior Court of Justice (Commercial Court) issued an order extending the CCAA stay to December 11, 2009.
- October 22, 2009 On October 22, 2009 the Ontario Superior Court of Justice (Commercial Court) issued an order extending the CCAA stay to December 4, 2009 and extending the claims bar date to October 30, 2009.
- September 18, 2009 The CSER approved the addition of two new members by a majority vote. The CSER welcomes Paul Des Rosiers and Paul Schriver, both former employees of Fraser Papers.
- September 17, 2009 On September 17, 2009 the Ontario Superior Court of Justice (Commercial Court) granted a representation order appointing Davies as representative counsel for all non-unionized employees, former employees (except former members of the USW and the CEP) and beneficiaries.



Papiers Fraser

Résumé

Lettre d'Option de Retrait

Documents

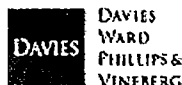
Faits nouveaux importants

Personnes-ressources

• English

Faits nouveaux importants

Le 19 mars 2010	<u>Fortress Paper Announces an Acquisition to Enter the Specialty Cellulose and Bio-Energy Sectors</u>
Le 17 mars 2010	Le 17 mars 2010, Papiers Fraser, le surintendant des pensions de la province du Nouveau-Brunswick et Davies, pour le compte des membres du CESR du Nouveau-Brunswick uniquement, ont conclu une convention relative au traitement futur du régime de retraite des salariés du Nouveau-Brunswick. La convention prévoit, entre autres, qu'un billet ayant une durée de huit ans, plutôt que dix, sera émis au régime de retraite des salariés du Nouveau-Brunswick, que le régime de retraite continuera d'être administré par un administrateur désigné par le gouvernement pour une période d'au plus huit ans et que la contrepartie due au régime de retraite des salariés du Nouveau-Brunswick aux termes de la convention d'achat d'actifs sera déposée dans un fonds en fidéicommis externe au seul bénéfice du régime de retraite. Enfin, la convention prévoit que BAM et ses administrateurs et dirigeants, ainsi que les administrateurs et dirigeants de Papiers Fraser, seront dégagés de toute responsabilité à l'égard de Papiers Fraser – sous réserve de la clôture de l'opération prévue dans la convention d'achat d'actifs. Il est possible de consulter une copie de la convention signée dans la section « Document » du présent site Web.
Le 24 février 2010	Le 24 février 2010, la Cour supérieure de justice de l'Ontario (rôle commercial) a émis une ordonnance prolongeant la suspension des procédures aux termes de la LACC jusqu'au 9 avril 2010. La Cour a aussi approuvé une entente de principe aux termes de laquelle Papiers Fraser, le SCEP et le surintendant des pensions de la province du Nouveau-Brunswick conviennent de conclure une convention visant à remplir une condition préalable de la convention d'achat d'actifs selon laquelle toutes les mentions des régimes de retraite à prestations déterminées doivent être supprimées des conventions collectives liant le SCEP et Papiers Fraser. La clôture de la vente prévue dans la convention d'achat d'actifs demeure assujettie à l'approbation définitive de la convention d'achat d'actifs par la Cour.
Le 10 décembre 2009	Le 10 décembre 2009, la Cour supérieure de justice de l'Ontario (rôle commercial) a émis une ordonnance prolongeant la suspension des procédures aux termes de la LACC jusqu'au 26 février 2010 afin de permettre la conclusion d'une convention d'achat d'actifs. La Cour supérieure de justice de l'Ontario a émis une ordonnance autorisant la société à conclure une convention d'achat d'actifs avec Brookfield Asset Management Inc. (« BAM ») en vue de la vente de son entreprise de papiers de spécialité à une filiale nouvellement constituée de BAM (la « Nouvelle société »). Aux termes de la convention d'achat d'actifs, les créanciers non garantis recevront 49 % des actions ordinaires de la Nouvelle société (auxquelles a été attribuée une valeur de 25 millions de dollars) et un billet de la Nouvelle société au montant de 42,4 millions de dollars ne portant pas intérêt et ayant une durée jusqu'à l'échéance de 10 ans. La vente de ces actifs se fera aux termes d'un processus d'appel d'offres dans le cadre duquel un soumissionnaire choisi par la société parmi les soumissionnaires intéressés sera d'abord invité à présenter la première offre à l'égard des actifs puis d'autres offres visant les actifs de Papiers Fraser pourront être soumises. L'opération finale devra toutefois être approuvée par la Cour.
Le 2 décembre 2009	Le 2 décembre 2009, la Cour supérieure de justice de l'Ontario (rôle commercial) a émis une ordonnance prolongeant la suspension des procédures aux termes de la LACC jusqu'au 11 décembre 2009.
Le 22 octobre 2009	Le 22 octobre 2009, la Cour supérieure de justice de l'Ontario (rôle commercial) a émis une ordonnance prolongeant la suspension des procédures aux termes de la LACC jusqu'au 4 décembre 2009 et reportant au 30 octobre 2009 la date limite de dépôt des réclamations.
Le 18 septembre 2009	Le CESR a approuvé à la majorité l'ajout de deux nouveaux membres. Il souhaite la bienvenue à MM. Paul Des Rosiers et Paul Schriver, tous deux d'anciens employés de Papiers Fraser.
Le 17 septembre 2009	Le 17 septembre 2009, la Cour supérieure de justice de l'Ontario (Rôle commercial) a rendu une ordonnance de représentation nommant Davies à titre de conseillers juridiques de tous les employés non syndiqués, anciens employés (à l'exception des anciens membres du Syndicat des Métallos et du SCEP) et bénéficiaires.



Fraser Papers

Summary

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Summary

updated as of March 9, 2010

Overview

On June 18, 2009, Fraser Papers Inc. (the "Company"), together with its subsidiaries, initiated a court-supervised restructuring under the *Companies' Creditors Arrangement Act* (Canada) (the "CCAA") in the Ontario Court of Justice. Fraser Papers also filed for protection pursuant to Chapter 15 of the U.S. Bankruptcy Code in the U.S. Bankruptcy Court for the District of Delaware.

The Committee

The lawyers from Davies Ward Phillips & Vineberg LLP ("Davies") have been retained by the Fraser Papers' Committee for Salaried Employees and Retirees (the "CSER"), which currently includes representatives from the following groups: the employees and former employees from the Edmundston, Thurso, Plaster Rock and Juniper, Madawaska and Gorham operations. The current members of the CSER are:

- Don Corey (Human Resources Manager – Edmundston);
- Paul Gendreau (Human Resources Supervisor – Madawaska);
- Francine Clément (Human Resources and Administration Manager – Thurso);
- Greg Cyr (Human Resources Manager – Gorham);
- Robyn Wiley-Hoyt (Human Resources Superintendent – Juniper);
- Mark Fitzherbert (Human Resources Safety Superintendent – Plaster Rock);
- Mike Côté (Human Resources Superintendent – Ashland and Masardis);
- Richard Marston (Former Human Resources Manager – Madawaska);
- Bruce Parkin (Former Human Resources Manager – Edmundston);
- Ken Chappel (Former Operations Supervisor – Plaster Rock);
- Lorne Fraser (Retiree, Edmundston);
- Carl Cyr (Former Superintendent, Engineering and Process Control – Edmundston);
- Paul Des Rosiers (Former Vice President, Forestry and Energy Divisions – Masson, QC);
- Paul Schriver (Former Mill Manager – Atholville, NB); and
- Claude Lalonde (Retiree, Thurso).

The CSER and the groups they represent have retained Davies for legal advice and representation in relation to both the CCAA and U.S. bankruptcy proceedings.

Who Davies represents

On September 17, 2009 the Ontario Superior Court of Justice (Commercial List) (the "Court") granted a representation order appointing Davies as representative counsel for:

- all non-unionized employees;
- all former employees, except former employees who were members of the United Steel, Paper and Forestry, Rubber, Manufacturing, Energy, Allied Industrial and Service Workers International Union (USW) and the Communications, Energy and Paperworkers Union of Canada (CEP); and
- all current and former members of the Office and Professional Employees International Union (OPEIU); and
- all beneficiaries of the employee benefit plans.

On October 22, 2009 the Court amended this representation order and appointed Davies as representative counsel for all current and former members of the Office and Professional Employees International Union (OPEIU) as well.

Any employee, former employee or beneficiary who does not wish to be represented by Davies is free to opt-out by signing and e-mailing, faxing or mailing the opt-out letter to:

CSER
c/o Davies Ward Phillips & Vineberg
44th Floor
1 First Canadian Place
Toronto ON M5X 1B1
Canada

Fax: 416.863.0871
E-mail: FPemployees@dwpv.com

Please [click here](#) for a PDF version of the opt-out letter.

The Claims Process

The following claims were submitted to the monitor on November 6, 2009.

Supplemental Employee Retirement Plans (SERPs)

In a letter from the Company to SERP recipients dated June 18, 2009, the Company stated that it would no longer make payments in respect of SERPs. The Company distributed a second letter dated September 1, 2009 regarding the Company's valuation of SERP claims. The CSER and Davies worked with the Company to determine the appropriate amount for SERP claims. The CSER and Davies have employed an independent actuary to review the methodology used by the Company in arriving at these SERP amounts. Davies handled the filing of SERP claims on a collective basis and for the entire claimant group.

Because Davies handled the filing of SERP claims, individuals who filed their own SERP claims have received Notices of Disallowance for their claims. If you have any questions regarding your Notice of Disallowance or the quantum of the claim filed on your behalf, please contact us.

We are still waiting to hear back from the monitor as to whether the claims will be allowed.

Defined Benefit Pension Plans

The CSER and Davies also worked with the Company and relevant pension regulators to determine the appropriate amount for claims relating to the defined benefit pension plans. Davies employed an independent actuary to assist in calculations relating to the defined benefit pension plans. Davies handled the filing of defined benefit pension claims on a collective basis and for the entire claimant group. Group claims were submitted for both the hourly and salaried plans for New Brunswick and Quebec.

The monitor has disallowed the group claims submitted by Davies for the Defined Benefit Pension Plans for employees and retirees who are or were unionized. These claims were disallowed on the basis that other groups, such as the Communications, Energy and Paperworkers Union of Canada, have submitted duplicate claims. On December 23, 2009, Davies submitted dispute notices to the monitor to object to the disallowances.

The monitor has revised the group claims submitted by Davies for the Defined Benefit Pension Plans for employees and retirees who are or were non-union employees and retirees. These revised claims were accepted by the monitor on a contingent basis.

Deferred Compensation Plan

In a letter from the Company to Deferred Compensation Plan recipients dated June 18, 2009, the Company stated that it would no longer make payments in respect of this plan. The Company has provided Davies with the account balances. Davies understands that affected participants have individually filed their claims in relation to the Deferred Compensation Plan. Anyone requiring further assistance with this matter should contact Davies directly.

Health and Welfare Trusts

The Company distributed letters stating that the Health and Welfare Trusts are no longer funded and their anticipated termination dates. The CSER and Davies worked with the Company to determine the appropriate amount for claims relating to the retiree Health and Welfare Trusts. Davies employed an independent actuary to assist in calculations relating to the retiree Health and Welfare claims as well. Davies handled the filing of retiree Health and Welfare claims on a collective basis and for the entire claimant group.

Bonuses, Termination and Severance Pay

The CSER and Davies have worked and continue to work with the Company in order to generate a list of affected individuals and to determine the appropriate amounts for claims or contingent claims relating to their termination and severance pay. The CSER and Davies

will continue to notify their representative groups of any new developments in this area.

On December 23, 2009, Davies submitted claims to the monitor for termination and severance pay, based on the lists of affected individuals provided by the Company. Affected individuals who received Notices of Disallowance for their termination and severance claims before this date do not need to submit dispute notices, as Davies has filed new claims. Subsequently, Davies also filed a group bonus claim for the Thurso employees.

Affected individuals were personally responsible for filing any claims and dispute notices relating to bonuses and vacation pay. Those submitting such claims should provide the monitor with any evidence that bonuses were paid in previous years, as well as evidence that the financial targets for the relevant period were met.

The monitor has disallowed the group claims for bonus payments submitted by Davies. On February 17, 2010, Davies submitted dispute notices to the monitor to object to the disallowance.

Contact Information

Davies is in the process of compiling a list of e-mail addresses of members of the groups it is representing. This will allow Davies to communicate with these members and keep them informed on an ongoing basis. Please send your e-mail address to FPemployees@dwpv.com. If you do not have an e-mail address of your own, you may provide the e-mail address of a family member or friend with whom you communicate on a regular basis. Davies will continue to communicate with members who do not provide an e-mail address by regular mail, as appropriate.

Davies will continue to update this website with new information as it becomes available.

If any employee, former employee or beneficiary has any questions, an e-mail should be sent to FPemployees@dwpv.com or a member of the Davies' team can be contacted at 1.877.782.0299 (toll free).

Individuals seeking information regarding the value of the claims that Davies has submitted on their behalves should contact Davies by email at FPemployees@dwpv.com or by calling our toll free hotline at 1.877.782.0299.

For information about the CCAA proceedings, the claims process, the status of the Fraser Papers restructuring and to access court documents and the Monitor's reports, please visit the Monitor's website at www.pwc.com/car-fraserpapers.



Papiers Fraser

Résumé

Lettre d'Option de Retrait

Documents

Faits nouveaux importants

Personnes-ressources

- English

Résumé

mis à jour en date du 9 mars 2010

Survol

Le 18 juin 2009, Papiers Fraser Inc. (la « société ») et ses filiales ont entrepris une restructuration sous surveillance judiciaire aux termes de la Loi sur les arrangements avec les créanciers des compagnies (Canada) (la « LACC ») à la Cour de justice de l'Ontario. La société s'est également placée sous la protection de la partie 15 du code des États-Unis intitulé Bankruptcy Code à la U.S. Bankruptcy Court pour le district du Delaware.

Comité

Le comité des employés salariés et retraités de Papiers Fraser (le « CESR ») a retenu les services des avocats de Davies Ward Phillips & Vineberg S.E.N.C.R.L., s.r.l. (« Davies »). À l'heure actuelle, le CESR est formé de représentants des groupes suivants : les employés actuels et anciens des installations d'Edmundston, de Thurso, de Plaster Rock, de Juniper, de Madawaska et de Gorham. Les membres actuels du CESR sont les suivants :

- Don Corey (directeur des ressources humaines – Edmundston);
- Paul Gendreau (superviseur des ressources humaines – Madawaska);
- Francine Clément (directrice des ressources humaines et directrice administrative – Thurso);
- Greg Cyr (directeur des ressources humaines – Gorham);
- Robyn Wiley-Hoyt (surintendante des ressources humaines – Juniper);
- Mark Fitzherbert (surintendant de la sécurité des ressources humaines – Plaster Rock);
- Mike Côté (surintendant des ressources humaines – Ashland et Masardis);
- Richard Marston (ancien directeur des ressources humaines – Madawaska);
- Bruce Parkin (ancien directeur des ressources humaines – Edmundston);
- Ken Chappel (ancien superviseur de l'exploitation – Plaster Rock);
- Lorne Fraser (retraité, Edmundston);
- Carl Cyr (ancien surintendant, contrôle de l'ingénierie et des procédés – Edmundston);
- Paul Des Rosiers (ancien vice président, divisions Foresterie et Énergie – Masson, Québec);
- Paul Schriver (ancien directeur d'usine – Atholville, Nouveau-Brunswick); et
- Claude Lalonde (retraité, Thurso).

Le CESR et les groupes qu'il représente ont retenu les services de Davies à titre de conseillers et représentants juridiques autant dans le cadre des procédures intentées aux termes de la LACC que de celles intentées aux termes du Bankruptcy Code des États Unis.

Personnes représentées par Davies

Le 17 septembre 2009, la Cour supérieure de justice (Rôle commercial) de l'Ontario a rendu une ordonnance de représentation nommant Davies à titre de conseillers juridiques des personnes suivantes :

- tous les employés non syndiqués;
- tous les anciens employés, à l'exception des anciens employés qui étaient membres du Syndicat des Métallos et du Syndicat canadien des communications, de l'énergie et du papier (SCEP);
- tous les bénéficiaires des régimes d'avantages sociaux.

Les employés, anciens employés ou bénéficiaires qui ne souhaitent pas être représentés par Davies pourront se retirer du groupe susmentionné en signant la lettre d'option de retrait et en la faisant parvenir par courriel, par télécopieur ou par la poste aux coordonnées suivantes :

CESR
a/s de Davies Ward Phillips & Vineberg
44th Floor
1 First Canadian Place
Toronto (Ontario)
Canada M5X 1B1

Télécopieur : 416-863-0871
Courriel : FPemployees@dwpv.com

Pour obtenir la version PDF de la lettre d'option de retrait, veuillez cliquer ici.

Marche à suivre pour le dépôt des réclamations

Les réclamations suivantes ont été soumises au contrôleur le 6 novembre 2009.

Régimes de retraite complémentaires à l'intention des employés (les « RRC »)

Dans une lettre datée du 18 juin 2009 qu'elle a fait parvenir aux bénéficiaires des RRC, la société a indiqué qu'elle n'effectuerait plus aucun versement à l'égard de ces régimes. La société a distribué une deuxième lettre le 1er septembre 2009 au sujet de la valeur qu'elle attribuait aux réclamations liées aux RRC. Le CESR et Davies ont travaillé avec la société afin d'établir le montant approprié des réclamations liées à ces régimes. Le CESR et Davies ont retenu les services d'un actuaire indépendant qui avait comme tâche d'examiner la méthode dont s'est servie la société pour arriver à ces montants. Davies s'est chargé de déposer les réclamations liées aux RRC collectivement au nom de l'ensemble du groupe de demandeurs.

Comme Davies s'est chargé de déposer les réclamations liées aux RRC, les personnes qui avaient personnellement déposé des réclamations liées aux RRC ont reçu un avis de rejet à l'égard de celles-ci. N'hésitez pas à communiquer avec nous si vous avez des questions au sujet de votre avis de rejet ou du montant de la réclamation déposée en votre nom.

Nous attendons toujours des nouvelles du contrôleur afin de savoir si les réclamations seront acceptées.

Régimes de retraite à prestations déterminées

Le CESR et Davies ont aussi travaillé avec la société et les organismes de réglementation des régimes de retraite compétents afin d'établir le montant approprié des réclamations liées aux régimes de retraite à prestations déterminées. Davies a retenu les services d'un actuaire indépendant afin d'obtenir de l'aide pour le calcul de ces réclamations. Davies s'est chargé de déposer les réclamations liées aux régimes de retraite à prestations déterminées collectivement au nom de l'ensemble du groupe de demandeurs. Les réclamations collectives ont été soumises tant pour les régimes applicables aux employés rémunérés selon un taux horaire que pour les régimes applicables aux salariés au Nouveau-Brunswick et au Québec.

Le contrôleur a rejeté les réclamations collectives soumises par Davies à l'égard des régimes de retraite à prestations déterminées pour le compte des employés actuels et des retraités qui sont ou qui étaient syndiqués au motif que d'autres groupes, tels que le Syndicat canadien des communications, de l'énergie et du papier, avaient déjà soumis des réclamations semblables. Le 23 décembre 2009, Davies a remis au contrôleur des avis de contestation afin de s'opposer à ce rejet.

Le contrôleur a reçu les réclamations collectives soumises par Davies à l'égard des régimes de retraite à prestations déterminées pour le compte des employés actuels et des retraités qui ne sont pas ou qui n'étaient pas syndiqués. Le contrôleur a accepté sous condition ces réclamations révisées.

Régime de rémunération différée

Dans une lettre datée du 18 juin 2009 qu'elle a fait parvenir aux bénéficiaires du régime de rémunération différée, la société a indiqué qu'elle n'effectuerait plus aucun versement à l'égard de ce régime. La société a fourni à Davies le solde des différents comptes. Davies croit comprendre que les participants touchés ont personnellement déposé leurs réclamations liées au régime de rémunération différée. Pour toute demande d'aide supplémentaire à cet égard, veuillez communiquer avec Davies directement.

Fiducies de santé et de bien être

La société a distribué des lettres indiquant que les fiducies de santé et de bien être ne sont plus financées et indiquant leurs dates de dissolution prévues. Le CESR et Davies ont travaillé avec la société afin d'établir le montant approprié des réclamations des retraités

liées aux fiducies de santé et de bien être. Davies a également retenu les services d'un actuaire indépendant afin d'obtenir de l'aide pour les calculs relatifs à ces réclamations des retraités. Davies s'est chargé de déposer les réclamations des retraités liées aux fiducies de santé et de bien être collectivement au nom de l'ensemble du groupe de demandeurs.

Primes et indemnités de cessation d'emploi ou de départ

Le CESR et Davies ont travaillé et continuent de travailler avec la société afin de dresser la liste des personnes touchées et d'établir le montant approprié des réclamations ou des réclamations éventuelles liées à leur indemnité de cessation d'emploi ou de départ. Le CESR et Davies continueront d'informer les groupes qu'ils représentent de tout fait nouveau à cet égard.

Le 23 décembre 2009, Davies a soumis au contrôleur des réclamations liées aux indemnités de cessation d'emploi ou de départ, établies en fonction des listes des personnes touchées qui lui ont été fournies par la société. Les personnes touchées qui ont reçu des avis de rejet relativement à leurs réclamations liées aux indemnités de cessation d'emploi ou de départ avant cette date n'ont pas besoin de soumettre d'avis de contestation étant donné que Davies a déposé de nouvelles réclamations. Par la suite, Davies a aussi déposé une réclamation collective relative aux primes pour le compte des employés de Thurso.

Les personnes touchées avaient la responsabilité de déposer elles mêmes leurs réclamations ou avis de contestation à l'égard des primes et des paies de vacances. Ces personnes doivent fournir au contrôleur la preuve que des primes ont été versées dans les années précédentes et que les objectifs financiers relatifs aux périodes pertinentes ont été atteints.

Le contrôleur a rejeté les réclamations collectives relatives aux primes qui avaient été soumises par Davies. Le 17 février 2010, Davies a remis des avis de contestation au contrôleur afin de s'opposer à ce rejet.

Coordonnées

Davies est présentement en train de dresser la liste des adresses de courriel des membres des groupes qu'il représente. Cela lui permettra de communiquer avec ces membres et de les tenir constamment informés. Veuillez faire parvenir votre adresse de courriel à FPemployees@dwpv.com. Si vous n'avez pas d'adresse de courriel, vous pouvez donner celle d'un membre de votre famille ou d'un ami avec lequel vous communiquez régulièrement. S'il y a lieu, Davies continuera de communiquer par la poste avec les membres qui n'auront pas fourni d'adresse de courriel.

Davies tiendra son site Web à jour et y affichera tout nouveau renseignement.

Les employés, les anciens employés et les bénéficiaires peuvent adresser leurs questions par courriel à FPemployees@dwpv.com ou à un membre de l'équipe de Davies, au 1-877-782-0299 (sans frais).

Les personnes qui souhaitent obtenir de l'information au sujet de la valeur des réclamations que Davies a présentées en leur nom doivent communiquer avec Davies par courriel au FPemployees@dwpv.com ou par téléphone, en composant le numéro sans frais : 1-877-782-0299.

Pour obtenir de plus amples renseignements au sujet des procédures intentées en vertu de la LACC, y compris pour obtenir les documents de la cour, veuillez consulter le site Web du contrôleur, au www.pwc.com/ca/fr/car/fraser-papers/index.html.

Robert J. Miller
DJ
set
2/18

Lattimore, Patricia

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From: D. J. Miller [DJMiller@tgf.ca]
Sent: February 18, 2010 3:56 PM
To: Swartz, Jay; vandenHoven, Netasha
Cc: Robert Thornton
Subject: Fraser Papers Inc.
Attachments: Notice of Motion re stay.DOC; Draft Term Sheet - Feb-17-10.DOC
Jay and Natasha:

As discussed with Natasha, attached please find the draft Notice of Motion that we intend to serve tomorrow afternoon.

Also attached is a draft Term Sheet for the Global Agreement, which outlines the terms of an agreement in principle to be reached by Wednesday to avoid an orderly liquidation.

Once you've had a chance to review the attached, please feel free to call to discuss.

D.J.

D.J. Miller
ThorntonGroutFinnigan LLP
Telephone: 416-304-0559
Facsimile: 416-304-1313
Suite 3200 Canadian Pacific Tower
100 Wellington Street West
Toronto, Ontario M5K 1K7

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25/03/2010

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

**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 (the "APA") between the Applicants and Brookfield Asset Management Inc. or its designate ("BAM") at the time this motion is returnable, the Applicants will either seek an Order:
 - (i) authorizing and directing the Applicants to conclude all definitive documentation to permit a closing of the APA with a further attendance before this Honourable Court within thirty (30) days to obtain: (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, if agreements in principle are not reached to satisfy the main conditions precedent under the APA by February 24, 2010:
 - (ii) authorizing the Applicants to commence an orderly liquidation of their assets by the Applicants' existing management under the supervision of the Monitor;
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. The Termination Date under the APA is February 26, 2010;
6. Due to the precarious nature of the Applicants' financial position, the only options available to the Applicants are to: (i) quickly satisfy the 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;

7. The Applicants previously identified three main conditions precedent to a closing of the APA, only one of which (a new collective agreement at Madawaska) has been satisfied as at February 19, 2010;
8. Notwithstanding extensive efforts to satisfy the other conditions precedent under the APA (exclusion of purchaser's liability under the pension plans and a release of the existing letters of credit relating to the CoGen Facility), they remain unresolved to date;
9. The Applicants have not generated positive cash flow from operations in more than three years and are continuing to require significant funding to finance the ongoing operations and pay substantial restructuring costs;
10. If the remaining two main conditions precedent are not resolved by February 24, 2010, the Applicants believe that an Order permitting an orderly liquidation is the only alternative available;
11. The stay of proceedings provided by the Initial Order expires on February 26, 2010;
12. If the Applicants have reached an agreement in principle to address the two main outstanding conditions precedent under the APA on or before February 24, 2010, the Applicants will seek an extension of the stay period to allow the parties to conclude definitive documentation to permit a closing of the APA and the Applicants will seek a further attendance before this Honourable Court within thirty (30) days to obtain: (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.

13. If the Applicants have not reached an agreement in principle with the parties required to satisfy the two main conditions precedent under the APA on or before February 24, 2010 the Applicants will seek an extension of the stay period to [April 9, 2010] and an Order permitting the Applicants to commence an orderly liquidation of the Applicants' property, assets and undertaking under the supervision of the Monitor;
14. The Applicants are proceeding in good faith and with due diligence;
15. The Applicants' DIP lenders and the Monitor support: (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 the agreements in principle to satisfy such conditions are not reached by February 24, 2010;
16. The Monitor is prepared to oversee the orderly liquidation of the Applicants;
17. Section 11(4) of the CCAA;
18. Rules 2.03, 3 and 37 of the *Rules of Civil Procedure*, R.R.O. 1994, Reg. 194, as amended; and
19. 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 sworn February 9, 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, previously filed and to be relied upon on this motion;
4. the 9th Report of the Monitor, to be filed separately; and
5. such further and other materials as counsel may advise and this Honourable Court may permit.

February ►, 2010

ThorntonGroutFinnigan LLP
Barristers and Solicitors
Canadian Pacific Tower
100 Wellington Street West
Suite 3200, P.O. Box 329
Toronto, ON M5K 1K7

Michael E. Barrack (LSUC# 21941W)
Robert I. Thornton (LSUC# 24266B 1B)
D.J. Miller (LSUC# 34393P)
Tel: 416-304-1616
Fax: 416-304-1313

Lawyers for the Applicants

TO: THIS HONOURABLE COURT
AND TO: THE ATTACHED SERVICE 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
(collectively, the "Applicants")

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

**ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)**

Proceedings commenced at Toronto

NOTICE OF MOTION

ThorntonGroutFinnigan LLP
Barristers and Solicitors
Suite 3200, P.O. Box 329
Canadian Pacific Tower
Toronto-Dominion Centre
Toronto, ON M5K 1K7

Michael E. Barrack (LSUC# 21941W)
Robert I. Thornton (LSUC# 24266B 1B)
D.J. Miller (LSUC #34393P)

Tel: 416-304-1616
Fax: 416-304-1313

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Lawyers for the Applicants.

TERM SHEET FOR GLOBAL AGREEMENT

Each of the undersigned parties agree to the following:

Sale of Specialty Papers Business

1. The specialty papers business of Fraser Papers Inc. ("FP") and its affiliates under the CCAA proceeding (collectively, the "Applicants") will be sold to a new company ("Newco") pursuant to the Asset Purchase Agreement ("APA") approved by the court on December 10, 2009.
2. Neither Brookfield Asset Management Inc. ("BAM") nor its designate under the APA will have any liability for any obligations or liabilities whatsoever in connection with the two registered pension plans in New Brunswick (the "NB Plans"), the two registered pension plans in Quebec (collectively with the NB Plans, the "Pension Plans") or for any termination, severance or related amounts which any current or former employee of the Applicants could assert against the Applicants.

Collective Agreements and Related Agreements

3. All existing collective agreements will be amended through a signed Memorandum of Settlement with each union local to delete all references to the existing defined benefit Pension Plans.
4. The collective agreements between CEP and FP will be amended to reflect that FP agrees to discuss with CEP the possibility of replacing the defined contribution pension plan under the existing collective agreements in New Brunswick (the "DC Plan"), with a fixed contribution pension plan for future years of service. If FP and CEP reach such agreement, FP's obligation or liability in respect of such plan shall not exceed the contribution set out in the collective agreement for the DC Plan, and FP shall have no obligation in respect of any unfunded liability or deficit of any kind.
5. CEP and FP agree that bargaining unit members in New Brunswick who are in receipt of LTD benefits at the date of the sale to Newco will remain the responsibility of FP and their LTD benefits will be provided on the basis set out in the applicable collective agreement without considering the amendments to the LTD provision of the collective agreement that are part of the collective agreement amendments referred to above.
6. All locals will arrange for a ratification vote and provide a recommendation to unionized employees by no later than March 5, 2010. The national office of the CEP will endorse the recommendation of the locals to support ratification of the new collective agreements in accordance with this term sheet.

Pension Plans and Claims

7. FP will work diligently with the CEP to pursue coverage under the Ontario Pension Benefit Guarantee Fund ("PBGF") for salaried and unionized employees who have earned service in Ontario, including of the former Thorold paper mill employees, in order to mitigate the impact of any pension deficiency on those members.
8. FP will make any necessary application under the PBGF to seek such coverage.
9. FP will work diligently with the CEP to request the Province of Quebec to provide eligible members of the Quebec pension plans with the same pension treatment contemplated by Bill 1 in Quebec.
10. Newco will establish a new defined contribution pension plan ("Newco DC Plan") for all future service of transferred employees, which will contain the same defined contribution formula that currently exists under Appendix A of the existing Pension Plan for New Brunswick hourly employees (the "NB Hourly Plan"). No further credited service will accrue under the NB Hourly Plan following the closing of the APA, and there will no longer be any active members contributing to the NB Hourly Plan.
11. Newco will not have any liability (including any funding or pension benefit payment obligations) in respect of the existing Pension Plans, and all liabilities will remain as unsecured obligations of FP with no recourse to Newco.
12. The beneficiaries under the NB Plans will receive a *pro rata* share of the consideration payable by Newco to the Applicants' unsecured creditors under the APA (49% equity in Newco and promissory notes) (collectively, the "APA Consideration"), based on the size of their claim relative to the aggregate claims of all unsecured creditors of the Applicants.
13. All parties request that the Superintendent of Pensions for New Brunswick (the "Superintendent") implement a structure and framework for addressing the existing deficit and claims under the NB Plans as follows:
 - (a) The parties will seek regulatory relief for the NB Plans by way of a Special Regulation that would:
 - (i) exempt the NB Plans from certain funding obligations otherwise applicable on pension plan wind up under the NB Pension Benefits Act;
 - (ii) expire on the Final Wind Up Date (defined below), at which time the wind up of the NB Plans would be completed and annuities purchased with the available assets; and
 - (iii) not involve any guarantee or assurance by the Province with respect to the funded status of the NB Plans during the term of the Special Regulation;

(b) the Superintendent will order a wind up of the NB Plans effective immediately prior to the closing of the APA and in conjunction with the Vesting Order to be obtained in the CCAA proceeding (the "Original Wind Up Date");

(c) the APA Consideration will be deposited into a trust fund which is separate and distinct from the NB Plans' pension funds (the "Outside Trust Fund");

(d) other than ongoing pension benefits which will continue to be paid to retirees from the NB Plans, the purchase of annuities and distribution of pension assets from the NB Plans will not occur until:

(i) the APA Consideration can be contributed to the Pension Plans or the trustee(s) of the Outside Trust Fund determine and advise the Superintendent that the APA Consideration will be distributed to the beneficiaries in another manner; and

(ii) the trustee(s) of the Outside Trust Fund make a decision to purchase annuities and distribute the pension assets;

but in no event will the final wind up of the NB Plans be later than December 31, 2020 (the "Final Wind Up Date");

(e) the Superintendent will determine the percentage by which existing pension benefits are to be reduced, with the opportunity for reinstatement upon an improvement in the funded position of the NB Plans;

(f) the administration, appointment of trustee(s) and role and responsibilities of the trustees will be determined by the parties, subject to Court approval, and will include:

(i) the methodology for valuing the APA Consideration held in the Outside Trust Fund on a regular basis;

(ii) the timing of redemption of the APA Consideration;

(iii) voting of shares in Newco;

(iv) obligation to pay proceeds from the realization of the APA Consideration;

(v) the allocation of proceeds of the APA Consideration as between the two NB Plans;

(vi) reporting to unions, retirees and members;

(g) none of the Province of NB, the Superintendent, BAM, Newco or any trustees of the Outside Trust Fund will be liable for any decrease in the current value of the NB Plan assets at any time, and the beneficiaries of the NB Plans shall have no claim against any of those parties at any time.

Other Proceedings, Releases, Further Assurances

14. The labour board and grievance proceedings commenced by the CEP in Ontario, New Brunswick and Quebec as described in the tolling agreement dated January 8, 2010 will be withdrawn and terminated. No similar proceedings will be brought at any time relating in any way to the Applicants, the Pension Plans or any facts existing as at this date (whether known or unknown), and the withdrawal of the existing proceedings will operate as a complete bar to any further applications or proceedings.

15. CEP agrees that no arbitrator or any other decision maker or regulatory body will have jurisdiction to entertain any grievance or application or proceeding filed by the CEP, the pensioners or the employees against Newco or any affiliate of Newco with respect to the NB Hourly Plan.

16. Each of: (i) the Applicants' directors and officers; and (ii) BAM and its directors and officers shall be released from all claims relating to all facts and circumstances in respect of the Applicants existing as at this date (whether known or unknown) and the completion of the APA.

17. The Province and the Superintendent shall be released from all claims in respect of the NB Plans existing as at this date (whether known or unknown) and the implementation of the wind up of the NB Plans and any actions contemplated by this Term Sheet.

18. The CEP will not take a position adverse to FP or Newco with respect to any action of the pension regulators in Quebec, New Brunswick or Ontario or the Canada Revenue Agency or any other regulator or administrative body that is taken against FP or Newco as a consequence of FP and Newco fulfilling their obligations under this Term Sheet.

19. The parties will execute definitive agreements and further documents to give effect to the above terms and to more fully reflect the agreement in principle embodied in this Term Sheet.

Dated at _____ this _____ day of February, 2010.

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

Per:
(I have authority to bind these parties)

BROOKFIELD ASSET MANAGEMENT INC.

Per:
(I have authority to bind this party)

THE PROVINCE OF NEW BRUNSWICK, as represented by the [Attorney-General?]

Per:
(I have authority to bind this party)

THE SUPERINTENDENT OF PENSIONS FOR THE PROVINCE OF NEW BRUNSWICK

Per:
(I have authority to bind this party)

COMMUNICATIONS, ENERGY AND PAPERWORKERS UNION OF CANADA

Per:
(I have authority to bind this party)

**COMMUNICATIONS, ENERGY AND PAPERWORKERS UNION OF CANADA,
LOCAL 29 (Cleaning Staff)**

Per:
(I have authority to bind this party)

**COMMUNICATIONS, ENERGY AND PAPERWORKERS UNION OF CANADA,
LOCAL 29 (Office Workers)**

Per:
(I have authority to bind this party)

**COMMUNICATIONS, ENERGY AND PAPERWORKERS UNION OF CANADA,
LOCAL 6N**

Per:
(I have authority to bind this party)

**COMMUNICATIONS, ENERGY AND PAPERWORKERS UNION OF CANADA,
LOCAL 4N**

Per:
(I have authority to bind this party)

**COMMUNICATIONS, ENERGY AND PAPERWORKERS UNION OF CANADA,
LOCAL 114 (Plaster Rock)**

Per:
(I have authority to bind this party)

**LE SYNDICATE CANADIEN DES COMMUNICATIONS, DE L'ENERGIE ET DU
PAPIER, SECTION LOCAL 894 (Thurso)**

Per:
(I have authority to bind this party)

**COMMITTEE REPRESENTING ALL UNREPRESENTED CANADIAN AND U.S.
EMPLOYEES AND FORMER EMPLOYEES OF THE APPLICANTS, by their court-**

appointed representative counsel DAVIES WARD PHILLIPS & VINEBERG LLP

Per:

(I have authority to bind this party)

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

**ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)**

THE HONOURABLE MADAM)	TUESDAY THE 30TH DAY OF
)	
JUSTICE PEPALL)	MARCH, 2010

**IN THE MATTER OF THE COMPANIES' CREDITORS
ARRANGEMENT ACT, R.S.C. 1985, C. C-36. AS
AMENDED**

**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

ORDER

THIS MOTION, made by the Committee of Salaried Employees and Retirees (the "CSER"), on behalf of the Applicants' unrepresented Canadian and U.S. employees and former employees, including those employees not actively at work, and individuals who are: (i) beneficiaries under one of the Applicants' four registered defined benefit pension plans in Canada; (ii) beneficiaries under the Applicants' U.S. defined benefit pension plan; (iii) beneficiaries under the Applicants' Canadian registered retirement savings plan or registered defined contribution pension plan; and/or (iv) beneficiaries under any supplementary retirement plan, deferred compensation plan or health, dental, life and other benefit plan of the Applicants (collectively, the "Plans"), and including former employees who were members of the New Brunswick Regional

Council of Carpenters, Millwrights and Allied Workers, Local 2450 ("CMAW"), all current employees and former employees who were members of the Office and Professional Employees International Union, and the former employees who were members of the International Brotherhood of Electrical Workers, but excluding any person who is (a) a director or senior officer of any of the Applicants, or (b) is otherwise represented in this proceeding (all of whom, other than the excluded parties, being collectively referred to herein as the "Represented Parties" and individually, a "Represented Party") was heard this day at 330 University Avenue, Toronto, Ontario.

ON READING the Motion Record of the CSER and on reading the affidavit of Carl Michael Cyr sworn March 26, 2010 and on hearing submissions of counsel for the CSER, counsel for the Applicants and counsel for the Monitor, and **[other parties]**;

1. **THIS COURT ORDERS** that the time and method for service of the Notice of Motion and the Motion Record herein is hereby abridged and validated so that this Motion is properly returnable today and hereby dispensed with further service thereof.

2. **THIS COURT ORDERS** that, pending further Order of this Court, the guidelines for the CSER (the "Guidelines") , attached as Schedule "1" to this Order, are hereby approved and authorized and the CSER shall be governed by the Guidelines, in addition to, the Order of this Honourable Court made September 17, 2009 (the "Appointment Order") as amended by Order of this Court dated October 22, 2009.

3. **THIS COURT ORDERS AND DECLARES** that the Term Sheet as defined in the affidavit of Carl Michael Cyr, sworn March 26, 2010, is hereby approved and the

execution of the Term Sheet by the CSER on behalf of the Represented Parties employed or formerly employed by the Applicants in the Provinces of New Brunswick and Ontario ("Term Sheet Represented Parties") is hereby ratified, authorized and approved.

4. **THIS COURT FURTHER ORDERS** that the Term Sheet is legally binding on and effective against the Term Sheet Represented Parties and the CSER is hereby authorized and directed to take such additional steps and execute or direct its Counsel to execute such additional documents as may be necessary or desirable for the completion of the Term Sheet.

5. **THIS COURT ORDERS** that the Appointment Order is hereby amended, *nunc pro tunc*, to: (i) delete the reference to "Construction Maintenance and Applied Workers Union" in the Preamble thereof, and replace it with "The New Brunswick Regional Council of Carpenters, Millwrights and Allied Workers, Local 2450" and (ii) amend paragraph 13 of the Appointment Order to add the following "or any other Order" after the words "this Order". All other provisions of the Appointment Order shall remain in full force and effect, unamended except as set out herein.

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 N.H. LLC

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

**ONTARIO
SUPERIOR COURT OF JUSTICE
(Commercial List)**

Proceeding commenced at Toronto

ORDER

Davies Ward Phillips & Vineberg LLP
44th Floor, 1 First Canadian Place
Toronto, ON M5X 1B1

Jay A. Swartz (LSUC #15417L)
Natasha MacParland (LSUC #42383G)

Tel: 416.863.0900
Fax: 416.863.0871

Lawyers for the Committee

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 N.H. LLC

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

**ONTARIO
SUPERIOR COURT OF JUSTICE
(Commercial List)**

Proceeding commenced at Toronto

**MOTION RECORD OF THE COMMITTEE OF
SALARIED EMPLOYEES AND RETIREES
(Returnable March 30th, 2010)**

Davies Ward Phillips & Vineberg LLP
1 First Canadian Place
Suite 4400
Toronto, ON M5X 1B1

Jay A. Swartz (LSUC #15417L)
Natasha MacParland (LSUC #42383G)

Tel: 416.863.0900
Fax: 416.863.0871

Lawyers for the Committee