

**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 Tuesday, April 6, 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 AN ORDER:

1. if necessary, abridging the time for, and validating the service of, the Notice of Motion and the materials filed in support of the Motion;
2. amending the style of cause in this proceeding to include the French name of Fraser Papers Inc. and to amend the name of Fraser Timber Limited;

3. extending to and including July 9, 2010, or such later date as this Court may order, the stay of proceedings granted pursuant to the Order of the Honourable Mr. Justice Morawetz dated June 18, 2009, as amended (the “Initial Order”);
4. increasing the amount that the Applicants are authorized to borrow under the Amended DIP Facility (as defined in the Initial Order) from USD\$20,000,000 to USD\$25,000,000;
5. granting final approval of the sale transaction (the “Transaction”) contemplated by an asset purchase agreement between the Applicants, as vendors, and Brookfield Asset Management Inc. (“BAM”) and/or such other Person(s) as it may designate, namely Twin Rivers Paper Company Inc. (the “Canadian Purchaser”) as designated purchaser of the Purchased Assets located in Canada (the “Canadian Purchased Assets”) and Twin Rivers Paper Company LLC (the “U.S. Purchaser”, together with the Canadian Purchaser the “Designated Purchasers”) as designated purchaser of the Purchased Assets located in the United States (the “U.S. Purchased Assets”), made as of December 22, 2009 (the “Purchase Agreement”), and authorize the Applicants to execute and deliver all definitive documentation to permit the closing of the Purchase Agreement in accordance with the draft Order filed at Tab 3 of the Applicants’ Motion Record herein;
6. 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 the Purchase Agreement to be used as a stalking horse bid in a sales process to be undertaken for the Applicants’ specialty papers business;
4. No letters of intent or other offers were received for the purchase of the Applicants’ specialty papers business and the sales process was terminated in accordance with the Sales Process Order;
5. The Applicants have satisfied the conditions under the Purchase Agreement and, subject to obtaining Order from this Honourable Court and the U.S. Court, wish to complete the transaction in accordance with the terms of the Purchase Agreement;
6. Based on the cash flow forecast filed in support of the extension of the Stay Period (as defined in the Initial Order), the Applicants believe that borrowings may be required in excess of the maximum authorized principal amount currently available pursuant to the DIP facilities;
7. The stay of proceedings provided by the Initial Order expires on April 9, 2010;
8. The Applicants are proceeding in good faith and with due diligence;

9. The Monitor supports the relief requested by the Applicants;
10. Section 11(4) of the CCAA;
11. Rules 2.03, 3 and 37 of the *Rules of Civil Procedure*, R.R.O. 1994, Reg. 194, as amended; and
12. 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 March 30, 2010 and all exhibits thereto;
2. the Tenth Report of the Monitor dated on or about March 31, 2010, to be filed; and
3. such further and other materials as counsel may advise and this Honourable Court may permit.

March 30, 2010

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(collectively, the "Applicants")

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

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

Proceedings commenced at Toronto

**NOTICE OF MOTION
(returnable April 6, 2010)**

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Applicants

MOTION RECORD
(Returnable April 6, 2010)

March 30, 2010

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

Applicants

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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
(returnable April 6, 2010)**

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TAB 2

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 March 30, 2010)

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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 March 30, 2010)

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

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

2. All monetary amounts referred to in this Affidavit are in United States (“U.S.”) currency unless otherwise stated. All capitalized terms used herein and not otherwise defined are as defined in the Purchase Agreement (as defined herein).

3. This Affidavit is sworn in support of the relief requested by the Applicants in a Notice of Motion dated March 30, 2010 seeking, among other things, (i) final approval of an Asset Purchase Agreement between the Applicants as vendors and Brookfield Asset Management Inc. (“BAM”) or its designates identified therein as “Newco”, now identified as Twin Rivers Paper Company Inc. (the “Canadian Purchaser”) and Twin Rivers Paper Company LLC (the “U.S. Purchaser” and, collectively with the Canadian Purchaser, the “Purchaser”) dated December 22, 2009 as amended by written agreement dated February 26, 2010 (the “First Amendment”) and by written agreement to be dated as of the Closing of the Transaction (the “Second Amendment”), and such further amendments as may be agreed to between the Applicants as vendors and the Purchaser, all being subject to the Order of this Honourable Court dated February 24, 2010 (collectively, the “Purchase Agreement”) and an Order vesting title to the Purchased Assets in the Purchaser; (ii) approval of certain other documents to be executed and delivered and actions to be taken in connection with a Closing of the Purchase Agreement; (iii) an amendment to the Initial Order to correct the title of proceedings and to increase the principal amount of the Amended DIP Facility and the DIP Lender’s Charge (each as defined therein) from USD\$20 million to USD\$25 million; and (iii) an Order extending the existing stay of proceedings to July 9, 2010, all in accordance with a draft Order attached at Tab 3 of the Applicants’ Motion Record dated March 30, 2010.

4. Part I of this Affidavit provides an update as to the status of the Applicants’ operations and restructuring efforts, including as it relates to the sale of assets not covered by the Purchase Agreement. Part II relates to the Applicants’ request for final approval of the Purchase Agreement and a Vesting Order.

PART I: Update Since last Attendance

5. I have previously sworn affidavits in this proceeding including on June 17, 2009 in support of the Initial Order (the "Initial Affidavit"), on December 3, 2009 in support of a stalking horse sales process (the "December Affidavit") and on February 19, 2010 (the "February Affidavit"). Since the February Affidavit was sworn the Applicants have continued to operate the business in the normal course and pursue a number of initiatives related both to the day-to-day operations and to their efforts to restructure the business.

A. Market and Business Conditions

6. Prices and volumes of paper sold from the Applicants' Madawaska specialty paper mill remained stable through the first three months of 2010. Order backlogs are currently at levels comparable with the end of December, 2009. Throughput at the Edmundston pulp mill has increased significantly from January 2010 to March 2010, and the pulp mill is currently operating at full capacity resulting in lower production costs, on a per unit basis which has helped to off-set the impact of the increase in the Canadian dollar over the same period. The combined operations of Edmundston and Madawaska generated EBITDA of \$3.1 million during the first two calendar months of 2010.

7. There has been an approximate 15% improvement in the lumber price since December 2009 (denominated in U.S. dollars) which has more than off-set the increase in the Canadian dollar over the same period. Of the four lumbermills owned by the Applicants, only two mills (Masardis, Maine and Plaster Rock, New Brunswick) are currently in operation. Taken together, they generated breakeven EBITDA over the first two calendar months of 2010.

8. The completion of the modernization project at the Plaster Rock lumbermill, more fully described in paragraph 18 of my affidavit sworn October 19, 2009 (the "October Affidavit"), has resulted in a demonstrated 15% reduction in conversion costs through the reduction in oil consumption, increased efficiency in the saw line and shorter lumber drying times in the kilns. The period used for comparison was the two month period ended February, 2010 compared with the same period in 2006, the last calendar

year during which Plaster Rock operated at similar rates of production during January and February. The Applicants are confident that the mill will achieve the targeted reduction in conversion of costs of 20% once the start up phase of the project is completed.

9. Sharply rising market pulp prices have impacted the profitability of the Gorham paper mill during the first two months of 2010. The Gorham mill incurred an EBITDA loss during the two month period ended February 2010 of approximately \$0.4 million.

10. The Applicants' hardwood pulp operations located in Thurso, Quebec have remained closed since June, 2009. The full costs of care and maintenance at that location are being reimbursed by the Government of Quebec.

11. As outlined in prior affidavits I have sworn, the Applicants remain confident that the only opportunity to maximize value for their creditors is by establishing a smaller, stand-alone specialty papers business combined with the sale of remaining assets that are non-core to this strategy. Completing a closing of the Purchase Agreement and pursuing the sale of the Thurso, Gorham and Maine lumbermills would achieve this result.

12. As previously stressed in my prior affidavits, time is of the essence. The Applicants have not generated positive cash flow from operations in more than three years. As such, ongoing expenses and continuing restructuring costs are being funded under the debtor in possession facilities ("DIP Facilities") made available pursuant to the Initial Order.

13. Further delays in closing the Purchase Agreement for the specialty papers business will only result in higher costs and delay the benefit of savings that will result from the implementation of the renegotiated labour contract at the Madawaska paper mill; the net benefit from capital projects that are to be funded by \$23 million in grants from the Federal Government's Green Transformation Plan; a reduction in restructuring costs; and a reduction in corporate expenses relating to the Toronto office.

B. DIP Financing

14. Pursuant to the Initial Order, as amended, DIP financing was made available by each of CIT Business Credit Canada Inc. ("CIT") and BAM (pursuant to the Amended DIP Facility), with further advances under an existing facility being made available by Her Majesty the Queen in Right of the Province of New Brunswick as represented by the Minister of Business New Brunswick ("GNB"). Current borrowings under the CIT DIP facility are approximately \$1 million and there is only \$3 million of availability under the CIT DIP facility as the Applicants have only a modest borrowing base to support further draws.

15. As at March 30, 2010, the Applicants have borrowed approximately \$5 million under the Amended DIP Facility. Based on the cash flow forecast prepared by the Applicants for the period of the requested stay extension, which will be annexed to the Monitor's Tenth Report to the Court (the "Cash Flow Forecast"), additional borrowings under the Amended DIP Facility will be required during the period.

16. Borrowings under the Amended DIP Facility are forecast to be \$16.5 million on Closing of the Purchase Agreement. In order to provide the Applicants with sufficient liquidity to implement the steps outlined in this affidavit, a request has been made to BAM to increase available borrowings under the Amended DIP Facility from \$20 million to \$25 million.

17. I am advised by Justin Beber of BAM that, provided the Approval and Vesting Order requested by the Applicants is obtained from the Canadian and U.S. Courts to permit a closing of the transaction contemplated by the Purchase Agreement, BAM is prepared to increase availability under the Amended DIP Facility from \$20 million to \$25 million to permit the Applicants to implement their restructuring.

C. Sales Process for Other Facilities

Thurso Hardwood Pulp Mill

18. As outlined in prior affidavits filed in this proceeding, the Applicants have been engaged in ongoing discussions with the Government of Quebec with respect to identifying an investor who would be prepared to acquire the Applicants' hardwood pulp mill located in Thurso, Quebec. Seven parties signed confidentiality agreements. On March 18, 2010 Fraser Papers Inc. and FPS Canada Inc. executed an Agreement of Purchase and Sale (the "Thurso APA") with Fortress Specialty Cellulose Inc. ("Fortress") for the purchase of the Thurso facility. The material terms of the proposed transaction are described in the summary annexed hereto and marked as Exhibit "A". The Applicants anticipate bringing a motion for Court approval of the Thurso APA on or about April 13, 2010 and we anticipate closing the transaction on or before April 30, 2010.

19. The Applicants have been working with Fortress and the Government of Quebec with respect to the terms and conditions that would need to be satisfied to conclude a sale transaction for the Thurso facility. The Thurso APA contemplates a significant financial contribution by the Government of Quebec and a new collective agreement with the unionized employees at the Thurso mill.

20. Fortress has obtained a term sheet from the Government of Quebec that would form the basis for the financial and other support to be provided by the Government of Quebec in order to conclude the Thurso APA.

21. The Government of Quebec has agreed to continue funding the care and maintenance costs for the Thurso facility until the scheduled closing of the Thurso APA.

Gorham Paper Mill

22. Under the supervision of the Monitor, and as described in the Monitor's Ninth Report to the Court, a sales process has also been undertaken with respect to the Applicants' paper mill located in Gorham, New Hampshire. The Applicants contacted over 60 parties and the 20 parties who signed Confidentiality Agreements were given access to the data room. Attached hereto and marked as Exhibit "B" is a true copy of the Monitor's Ninth Report to the Court outlining the sales process.

23. Letters of Intent have been received from a number of parties and the Applicants, with the assistance of the Monitor, are now working with those parties to complete their due diligence with an objective of receiving binding offers by April 16, 2010.

Maine Lumber Mills

24. The Applicants and the Monitor have been contacted by several parties expressing an interest in the Company's two lumbermills in northern Maine. The Applicants have prepared a data room and marketing material for the sale of these lumbermills and, with input from the Monitor, intend to undertake a sales process to sell these assets in early April, after the Closing of the transaction for the specialty papers business and in conjunction with efforts to conclude the Thurso APA.

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

D. Quebec Pension Plans

26. The Applicants have been in discussions with their stakeholders, who are members of the Quebec Pension Plans, with respect to a potential proposal to the Régie des rentes du Québec, a Pension Supervisory Authority (the "Régie") to address the deficits that exist under the Quebec Hourly Plan and the Quebec Salaried Plan (collectively, the "Quebec Pension Plans"). The Applicants have had discussions with the Régie concerning the Quebec Pension Plans and we understand that the Régie may

be prepared to discuss some basis upon which it would provide support to the Quebec Pension Plans as part of a consensual proposal.

27. The Applicants made a formal request to the Régie on February 23, 2010 based on the pension proposal attached hereto and marked as Exhibit "C" (the "Pension Proposal"). Since that date the Applicants have obtained input from the CEP in respect of the Quebec Hourly Plan and Davies Ward Phillips & Vineberg LLP ("Davies"), the Court-Appointed Representative Counsel on behalf of the Committee representing all Unrepresented Canadian and U.S. employees and former employees of the Applicants (the "Committee") in respect of the Quebec Salaried Plan and the Quebec Hourly Plan.

28. Following a conference call involving counsel for the Applicants, CEP and the Committee on March 17, 2010, the Applicants circulated a revised form of pension proposal (the "Consensus Pension Proposal") to be provided to the Régie as a "consensus" pension proposal on behalf of the Applicants and those representatives of the members of the Quebec Pension Plans. Annexed hereto and marked as Exhibit "D" is a true copy of the Consensus Pension Proposal circulated by the Applicants' counsel on March 19, 2010.

29. On March 19, 2010 the Applicants received additional revisions to the Consensus Pension Proposal (the "Salaried Pension Request") on behalf of the Committee. Annexed hereto and marked as Exhibit "E" is a true copy of the Salaried Pension Request received from a Quebec representative of the Committee.

30. The Salaried Pension Request contains proposed terms, including future cash payments that are proposed to be made by the Applicants, BAM or the Purchaser, that have not been agreed to; are not acceptable to the Applicants, BAM or the Purchaser and therefore cannot form the basis of any "consensus" pension proposal to be submitted to the Régie.

31. In addition to the inclusion of terms on which there is no agreement, the Salaried Pension Request contemplates the Régie providing a guarantee of not less than 80% of the funded status of the Quebec

Pension Plans. The Quebec Salaried Pension Plan was funded at 66% based on the last filed information with the Régie as at June 1, 2009.

32. The benefits being sought in the Salaried Pension Request are in excess of the benefits available to any other beneficiaries of the Applicants' pension plans, including the NB Salaried Plan and the NB Hourly Plan (each as hereafter defined).

33. The Applicants have not discussed the Consensus Pension Proposal with the Régie. As at the date of swearing this affidavit, and as a result of the Salaried Pension Request, there is no "consensus" pension proposal in respect of the two Quebec Pension Plans. The Applicants remain prepared to proceed with a "consensus" pension proposal to the Régie, based on terms that are currently available to the parties.

E. U.S. Pension Plan

34. As outlined in the Initial Affidavit, Fraser Papers Limited sponsors a defined benefit pension plan for salaried and hourly employees in the U.S. (the "U.S. Plan"). There are approximately 700 active employees and 1,600 retirees who are members of the U.S. Plan.

35. The Applicants' counsel has been in contact with the Pension Benefits Guarantee Corporation (the "PBGC") over the past several months with a view to providing the necessary information and documents to support a PBGC-initiated wind-up of the U.S. Plan. The Company has provided the PBGC with all information it has requested to date and counsel for the Company has been engaged in numerous, ongoing discussions with the PBGC with respect to its intentions regarding the U.S. Plan. As outlined in the Initial Affidavit, there exists a significant deficit in the U.S. Plan.

36. As a result of our ongoing discussions and negotiations with PBGC, the Applicants have worked with the PBGC in developing a proposal that will result in the PBGC terminating the U.S. Plan and assuming responsibility for it. The Applicants have prepared a summary of their understanding of the

proposed steps to be taken by the PBGC (the "PBGC Outline"), a copy of which is annexed hereto and marked as Exhibit "F".

37. I am advised by Rachel Arbour of Hicks Morley Hamilton Stewart Storie LLP, our pension and employment counsel in this matter, and do verily believe that on March 26, 2010 she spoke to Eric Field, in-house counsel with PBGC regarding the PBGC Outline referred to above. I am further advised by Ms. Arbour and do verily believe that Mr. Field confirmed the factual accuracy of the contents of the PBGC Outline and has no objection to the Applicants including it in these motion materials.

F. Other Benefit Plans

38. As outlined in the Initial Affidavit, 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.

39. 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 (the "HWT"), 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. The health and benefit plans which are under the HWT are those plans which the Applicants have, in their sole discretion, determined will be under the HWT.

40. As set out in the Initial Affidavit, HWT is a true trust arrangement with four individuals (Jean Paul Fournier, Linda Pellizzari, William Peterson and Carole Savage) currently acting as Trustees. Three of the Trustees are salaried employees of the Applicants represented by Davies. The Applicants have no interest in the monies in the trust unless and until all benefits payable at any time to beneficiaries have been paid in full.

41. The Applicants contribute to the HWT to pay for the monthly payment of benefits provided on both an ASO and insured basis. Health, dental, weekly indemnity and some long term disability benefits are provided on an ASO basis. Life insurance, accidental death and dismemberment coverage and some long-term disability benefits are provided on an insured basis. The Applicants' contributions are remitted by the HWT to pay insurance premiums and or to make direct payment for benefits. This is a flow through arrangement. In 2009, the Applicants contributed approximately CAD\$3.2 million to the HWT to pay insurance premiums and or to make direct payment for these benefits.

42. The HWT contains reserves for the self-insured long-term disability benefits. As at the date of this Affidavit, the HWT contains approximately CAD\$2.6 million to fund these reserves. The Applicants are in the process of obtaining an actuarial valuation to determine the sufficiency of those reserves for the payment of the self-insured long-term disability benefits. The last actuarial valuation of the HWT, from September 1, 2007, determined that there were more than sufficient assets to fund the ASO long term disability benefits and that the excess at that time was in excess of CAD\$1 million.

43. At paragraph 85 of the Initial Affidavit, I indicated that there was a balance of approximately \$1 million in the HWT. This balance was the result of a determination, based on the last actuarial valuation of the HWT, that there was approximately CAD\$3,397,300 in the reserves which exceeded the accumulated benefit obligation to provide the self-insured long term disability benefits by CAD\$1,094,200. These surplus funds were used to provide benefits for April, May and June 2009. In accordance with paragraph 85 of the Initial Affidavit, the Applicants resumed contributions to the HWT to fund these self-insured and insured benefits commencing in July 2009.

G. Representative Counsel

44. On September 17, 2009 Davies was appointed by the Court as Representative Counsel on behalf of the Committee. The Applicants supported the appointment of Davies to represent the Committee on behalf of employees and retirees who were otherwise unrepresented, if it could be done efficiently and cost-effectively for the benefit of all of the Applicants' stakeholders.

45. Since that time the Applicants have worked closely with Davies and have responded promptly to all information requests and have provided voluminous documentation and detailed responses to all issues raised by Davies on behalf of the Committee. The Monitor has been copied on these responses.

46. The Applicants discussed the possibility of a sale transaction for the specialty papers business and the possibility of seeking relief as it relates to the NB Plans with Davies late last Fall, prior to raising it with other stakeholder groups. The Applicants have since invited input and guidance from Davies on all issues affecting the interests of those parties represented by the Committee and have not excluded or marginalized the constituents represented by Davies at any time or in any respect.

47. When Davies requested that a representative of their Committee be invited to attend an information meeting in Fredericton on February 18, 2010 with the CEP and the Superintendent, the Applicants facilitated such attendance. The Applicants understand that Davies has also been in direct communications with the Superintendent regarding the NB Salaried Plan.

48. Over the course of two days from February 22 to February 24, 2010 negotiation sessions regarding the NB Plans were hosted by the Applicants' counsel with the assistance of the Monitor and its counsel. In attendance were representatives of the Superintendent and its actuary from Morneau Sobeco (subsequently appointed as Administrator of the NB Plans), the Monitor and its counsel, numerous representatives of CEP and their counsel, the Applicants and Davies on behalf of the Committee. These negotiations took place after a "Term Sheet for Global Agreement" was circulated by the Applicants' counsel on February 18, 2010 and in advance of a Court hearing scheduled for February 24, 2010. The purpose of the negotiations was to determine whether the framework for a Global Agreement could be achieved that would allow the Applicants to satisfy the conditions under the Purchase Agreement.

49. The negotiations between the parties from February 22 to February 24, 2010 went around the clock and culminated in the parties going directly to Court on February 24, 2010.

50. Late in the evening on February 23, 2010 the Applicants agreed with CEP that they would request that the Purchaser provide additional consideration in the form of Future Cash Payments (as hereafter defined) under the Purchase Agreement which payments would be available only in respect of the NB Hourly Plan. The basis for such request is described in greater detail below, and also resulted in the Applicants and the Purchaser agreeing to a reduction in the principal amount of the Promissory Note (as hereafter defined) from \$42.4 million to \$40 million.

51. I am advised by D.J. Miller of ThorntonGroutFinnigan LLP, and do verily believe that prior to Court on February 24, 2010 Davies arranged a conference call with the Committee and advised counsel for the Applicants and the Monitor that, as a result of the different treatment amongst unsecured creditors, they could not execute the Global Agreement Term Sheet that had been negotiated on behalf of all the constituents they represent. As a result, the Applicants and CEP proceeded with the Global Agreement Term Sheet in respect of the NB Hourly Plan and obtained approval of same from the Court on February 24, 2010.

52. In response to an apparent conflict raised within the Committee where certain members from New Brunswick and the U.S. support the transaction and others do not, Davies requested funding in an amount of up to \$10,000 for the purpose of retaining independent counsel to provide advice to the Committee on the issue relating to the conflict. The Applicants and the Monitor authorized this expenditure and Davies retained counsel of its choice, namely Paliare Roland ("Paliare").

53. I understand that Paliare now represents the Quebec Salaried Group (as hereafter defined), who oppose the Applicants' request for approval of the Purchase Agreement.

54. Davies continues to represent all employees and retirees who are represented by the committee. Pursuant to the NB Salaried Term Sheet (as hereafter defined), the members of the Committee representing employees and retirees in Ontario and New Brunswick have confirmed their support and approval of the completion of the Purchase Agreement.

55. The other constituents represented by the Committee and Davies are the U.S. active and retired employees. Based on Schedule A called "Guidelines for the Committee" attached as Schedule 1 to an Order of this Court dated March 30, 2010, the four members of the Committee representing U.S. constituents are Greg Cyr, Mike Cote, Paul Gendreau and Richard Marston. On March 30, 2010 I spoke to each of Paul Gendreau and Richard Marston and they confirmed that they support the Applicants' motions for approval of the Purchase Agreement. I am advised by Glen McMillan, Chief Financial Officer of the Applicants and do verily believe that on March 30, 2010 he spoke to Greg Cyr who also confirmed that he supported approval of the sale transaction. Mr. Cote could not be reached. Accordingly, a majority of the U.S. members of the Committee are in support of approval of the Purchase Agreement.

PART II: Sale of the Applicants' Specialty Papers Business

56. The Purchase Agreement for which court approval is sought pursuant to the Notice of Motion dated March 30, 2010 relates to the specialty papers business only. The rationale for selling the specialty papers business is set out in the December Affidavit and in the Monitor's Sixth Report to the Court, the latter of which is annexed hereto and marked as Exhibit "G."

A. *Update Since December Court Approval of Purchase Agreement*

57. The December Affidavit attached, as Exhibit "A" thereto, the form of asset purchase agreement that the Applicants requested be approved for the purpose of commencing a stalking horse sales process (the "December APA").

58. On December 10, 2009 an Order was issued approving the December APA and the stalking horse bid process to be commenced by the Applicants. Annexed hereto and marked as Exhibit "H" is a true copy of the Order dated December 10, 2009 (the "December Order").

59. On or about December 22, 2009 the Applicants and the Purchaser finalized and executed the Purchase Agreement, a true copy of which (without lengthy or confidential schedules) is annexed hereto and marked as Exhibit "T".

60. The Purchase Agreement executed by the parties on December 22, 2009 did not differ in any material respect from the December APA that had been approved by the Court. Annexed hereto and marked as Exhibit “J” is a blacklined comparison of the December APA approved by the Court as compared to the executed Purchase Agreement. The Schedules to the Purchase Agreement are lengthy. In the interests of efficiency we have not reproduced those lengthy Schedules in these materials. However, we have prepared a summary outlining all substantive amendments to the Schedules since the December APA was filed with the Court (the “Schedule Summary”). Annexed hereto and marked as Exhibit “K” is the Schedule Summary.

61. By Order dated February 24, 2010 (the “February 24 Order”) the Applicants were authorized to execute and deliver such amendments to the Purchase Agreement as set out therein, or any other terms of the Purchase Agreement as may be agreed to by the Applicants, the Purchaser and the Monitor. On February 26, 2010 the parties executed the First Amendment to the Purchase Agreement, a true copy of which is annexed hereto and marked as Exhibit “L”.

62. Since December 22, 2009 the Applicants and the Purchaser have taken steps to settle all Schedules to the Purchase Agreement and satisfy the conditions to closing. As a result of, among other things, the Applicants’ negotiation of the Term Sheets, other amendments to the Purchase Agreement were required to be made, as discussed in detail below. The Applicants and the Purchaser have negotiated the Second Amendment, which has not yet been executed and is subject to certain Schedules to the Purchase Agreement being updated and finalized as at Closing. Annexed hereto and marked as Exhibit “M” is a true copy of the Second Amendment to the Purchase Agreement negotiated by the parties. The Schedules to the Second Amendment that are otherwise attached to this Affidavit as Exhibits are not duplicated at Exhibit “M”.

63. Following execution of the Purchase Agreement, the Applicants engaged in ongoing discussions with their significant stakeholders with a view to satisfying the conditions under the Purchase Agreement. These negotiations led to the execution of a term sheet (the “NB Hourly Term Sheet”) among the

Applicants, the CEP and the Province of New Brunswick (“GNB”) including the Superintendent of Pensions for the Province of New Brunswick (the “Superintendent”) in respect of the Pension Plan for New Brunswick Hourly Paid Employees of Fraser Papers Inc. (the “NB Hourly Plan”). The NB Hourly Term Sheet was approved by Order dated February 24, 2010. A true copy of the February Order to which the NB Hourly Term sheet is annexed as a schedule, is attached hereto and marked as Exhibit “N”.

64. On consent of all parties a further Order was issued by the Court on March 22, 2010 to amend certain aspects of the February Order and the NB Hourly Term Sheet annexed thereto. A true copy of the final NB Hourly Term Sheet is annexed hereto and marked as Exhibit “O”.

65. On March 16, 2010 a further term sheet was executed (the “NB Salaried Term Sheet”) among the Applicants, GNB, the Superintendent and Davies on behalf of those of its constituents who are members of the Pension Plan for Salaried Employees of Fraser Papers Inc. (the “NB Salaried Plan”) or who are otherwise situated in New Brunswick or Ontario. As Davies also represents retirees who were formerly members of the New Brunswick Regional Council of Carpenters Millwrights and Allied Workers, Local 2450 (the “CMAW”) the NB Salaried Term Sheet also incorporated by reference those CMAW retirees who were members of the NB Hourly Plan and are therefore covered by the NB Hourly Term Sheet. Annexed hereto and marked as Exhibit “P” is a true copy of the NB Salaried Term Sheet executed by Davies on March 16, 2010.

66. The NB Hourly Term Sheet and the NB Salaried Term Sheet are collectively referred to in this Affidavit as the “Term Sheets”. The Term Sheets provide for the following:

- (i) a windup of the NB Hourly Plan and the NB Salaried Plan (collectively, the “NB Plans”) and an eight-year extension for the final settlement of windup benefits;
- (ii) confirmation that any liability existing under the NB Plans remains with the Applicants and does not follow the assets of the specialty paper business or flow to the Purchaser;

- (iii) the establishment of new defined contribution pension plans for future service of transferred employees under the Purchase Agreement;
- (iv) a request to the Superintendent and GNB for legislative or regulatory relief to permit the implementation of the pension proposal set out in the Term Sheets;
- (v) a mechanism for the creation of outside trust funds to hold any consideration or proceeds to which each of the NB Plans may be entitled in connection with any distribution under the Claims Process in respect of the Applicants; and
- (vi) the granting of releases in favour of the Applicants' directors and officers, BAM and its directors and officers and various other parties including GNB, the Superintendent and the Administrator appointed by the Superintendent over the NB Plans in respect of the implementation of the terms contained in the Term Sheets.

67. In addition, the NB Hourly Term Sheet provides for:

- (i) amendments to all existing collective agreements and related agreements; and
- (ii) certain Future Cash Payments (as hereafter defined) to be received by the outside trust established in respect of the NB Hourly Plan following a closing of the Purchase Agreement.

68. Based on the above Term Sheets, GNB expedited the introduction and three readings in the legislature of a Bill to amend the New Brunswick *Pension Benefits Act* (the "NB PBA"). The amendment, among other things, deals with the necessary changes to enable a windup of the NB Plans over an eight year period.

69. On March 10, 2010 the Superintendent appointed Morneau Sobeco as the Administrator of each of the NB Plans. This appointment relieved the Applicants of the responsibility of administering and managing the NB Plans.

70. On March 26, 2010, Bill 51, being a Bill to amend the NB PBA, received Royal Assent. The Superintendent is now in a position to issue an Order for windup of the NB Plans in accordance with the Term Sheets described above. Annexed hereto and marked as Exhibit "Q" is a true copy of Bill 51 amending the NB PBA.

B. Overview of Terms of Purchase Agreement

71. The December Affidavit provides, in paragraphs 17 to 54 thereof, a detailed overview of the terms of the December APA that was approved by the Court pursuant to the December Order. Portions of that overview are restated below for ease of reference.

72. The Purchaser under the Purchase Agreement has been incorporated by and capitalized by BAM with \$25 million in cash. Under the terms of the Purchase Agreement, BAM will hold a 51% common equity interest in the Purchaser. BAM's initial equity investment of \$25 million will fund a portion of the Purchase Price and will be used to repay indebtedness of the Applicants owing to Canadian Imperial Bank of Commerce ("CIBC") which has been guaranteed by BAM and for which BAM holds security over all of the Applicants' assets. The other 49% common equity interest will be issued to the Applicants to be held for the benefit of the Applicants' creditors.

73. The Purchased Assets (as defined in the Purchase Agreement) include all property and assets of the Applicants relating to the existing specialty papers business in New Brunswick and Maine, together with an assumption of certain specified liabilities relating to the specialty papers business (the "Assumed Liabilities"). The Purchased Assets include the Madawaska, Maine paper mill and the Edmundston pulp and energy operations, the Juniper lumber mill and the Plaster Rock lumber mill, all of which are located in New Brunswick. In addition, the Purchased Assets include the assets associated with the corporate office located in Portland, Maine.

(i) *Ancillary Agreements*

74. The material Ancillary Agreements to be executed on Closing of the transaction are as follows, copies of which are annexed hereto and marked by the relevant exhibit number:

- (a) Non-Competition Agreement, attached hereto and marked as Exhibit “R”;
- (b) Custom Production Agreement, attached hereto and marked as Exhibit “S”;
- (c) Sales Agency Agreement, attached hereto and marked as Exhibit “T”;
- (d) Transitional Services Agreement (between Fraser Papers Inc. and the Canadian Purchaser), attached hereto and marked as Exhibit “U”;
- (e) Transitional Services Agreement (between Fraser N.H. LLC and the U.S. Purchaser), attached hereto and marked as Exhibit “V”; and
- (f) Transitional Services Agreement (between the U.S. Purchaser and Fraser Timber Limited), attached hereto and marked as Exhibit “W”;

(collectively, the “Ancillary Agreements”).

75. The Applicants have negotiated the Ancillary Agreements for the overall purpose of:

- (a) ensuring that the Applicants and the Purchaser will be able to continue to benefit from the centralized sales, administrative and support services currently provided by Fraser Papers Inc. and Fraser Timber Limited, while the Applicants work to liquidate their remaining assets and the Purchaser works to establish its own, stand-alone administrative and support processes;
- (b) protecting the Purchaser’s intellectual property and Purchased Assets with respect to paper grades currently being manufactured at the Gorham facility, but which were developed and are owned by Fraser Papers Limited; and

- (c) providing the Applicants' Gorham facility with a first opportunity to produce certain grades of paper for the Purchaser on an out-sourced basis.

76. The Applicants have discussed the terms of each of the Ancillary Agreements with the Monitor and believe them to be reasonable and in the best interests of the Applicants' creditors.

(ii) Assignment of Contracts

77. Pursuant to the terms of the Purchase Agreement, the Purchaser has agreed to assume the Applicant's contracts that are connected to the specialty papers business (the "Contracts"). Over the past several weeks the Applicants have reviewed the Contracts to determine those which require the consent of the counterparty to any assignment (the "Required Consents").

78. The Applicants have obtained, or expect to obtain prior to Closing, all of the Required Consents for those Contracts that the Purchaser requires be assigned to it.

(iii) Liens and Related Claims

79. Various claims in the nature of mechanics or warehousemen's liens have been registered on certain of the Applicants' property that is subject to the Purchase Agreement. Certain of these claims form part of the Assumed Liabilities to be assumed by the Canadian Purchaser or the U.S. Purchaser on Closing.

80. A number of these claims relate to the modernization project undertaken at the Plaster Rock lumbermill in New Brunswick, as described in paragraph 18 of the October Affidavit. As part of the modernization project undertaken at the Plaster Rock lumber mill, the Applicants retained the services of KMW Energy Inc. ("KMW") to install a biomass fired energy system, pursuant to an agreement dated September 18, 2008 (the "KMW General Contract").

81. In addition to the KMW General Contract, the Applicants and KMW are also party to a further agreement with RHI Canada Inc. ("RHI") dated August 5, 2009 (the "RHI Agreement"). RHI was retained as a subcontractor by KMW and provided certain materials and services to the Plaster Rock

project. A dispute exists regarding the proper amount due and owing to RHI under the terms of the RHI Agreement resulting in RHI registering a lien against the Plaster Rock facility in the amount of \$740,973.68. I have been advised by Johanne Levesque-Murray, Lumbermill Accountant for the Applicants, that payment in the amount of \$553,937.11 was made to RHI on March 2, 2010.

82. The payment in the amount of \$553,937.11 represents the maximum amount that the Applicants believe could be payable to RHI under the RHI Agreement. RHI asserts that further amounts are owing which will be the subject matter of a subsequent determination.

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

84. I am advised by Johanne Levesque-Murray and do verily believe that all amounts owed to Ocean Steel & Construction Ltd. (“Ocean Steel”) were paid but the proper documents to discharge the lien were not filed with the Registrar of Land Titles for New Brunswick. Attached hereto as Exhibit “X” are the Certificate of Discharge and Affidavit of Corporate Execution of Ocean Steel in support thereof dated July 31, 2009.

85. The Applicants have paid all amounts owing to KMW in connection with the Plaster Rock project. KMW has failed to remit payment to certain of its subcontractors who have subsequently registered liens against the Plaster Rock property. Upon closing of the transaction contemplated by the APA, the liens in favour of (i) CB Energy Recovery/Cleaver Brooks Inc.; (ii) RHI; (iii) 381572 Ontario Limited/TS Manufacturing Company; and (iv) Gagnon Ornamental Works Ltd. are to be vested off title to the Purchased Assets. The lien claims of those parties will be determined and all right, entitlement or

priority that those parties may have otherwise been entitled to assert against the Purchased Assets will continue as against the consideration paid by the Purchaser pursuant to the Purchase Agreement.

86. Fraser Papers continues to work with KMW to address these outstanding liens, however, Fraser Papers reserves all of its rights and remedies as against KMW and others.

C. Consideration Payable under Purchase Agreement

87. The Purchase Agreement provides for a mix of consideration to be received by the Applicants on Closing having an aggregate face value of approximately \$189 million, subject to a purchase price adjustment. The consideration will be directed, in part, to CIT, BAM and GNB, and received, as to the balance, by the Applicants on closing. The consideration includes cash, the Promissory Note, Preferred Shares and Common Shares of the Purchaser and the assumption of certain Assumed Liabilities (all as defined in the Purchase Agreement) as follows:

- (a) \$35 million in cash;
- (b) \$40 million non-interest bearing Promissory Note payable by the Purchaser;
- (c) \$47.6 million of Assumed Liabilities;
- (d) \$35 million in Preferred Shares of the Purchaser;
- (e) 49% of the Common Shares of the Purchaser having an ascribed value of \$25 million;
and
- (f) payments totalling CDN\$6.125 million to be made by the Purchaser over an eight-year period after Closing (the "Future Cash Payments").

88. The existing claims of the Applicants' secured lenders are: CIT (approximately \$55 million), GNB (approximately \$35 million), CIBC as guaranteed by BAM and secured by the Applicants' assets (\$25 million) and BAM's further secured claim for its guarantee of CIT advances (\$25 million of CIT's \$55 million).

(i) *Cash*

89. The cash payable on Closing will be directed by the Applicants to (i) CIBC as to \$25 million to fully discharge obligations guaranteed by BAM and secured by the Applicants' assets and (ii) CIT as to \$10 million pursuant to its existing secured indebtedness.

(ii) *Assumption of Liabilities*

90. Pursuant to the terms of the Purchase Agreement, a portion of the consideration payable to the Applicants is the Purchaser's assumption of certain Assumed Liabilities. Section 3.2(e) of the Purchase Agreement requires the Purchaser to assume a maximum amount of \$47.6 million in Assumed Liabilities of the Applicants, relating to the specialty papers business.

91. The Applicants have been working with the Purchaser to complete a draft itemization of the Assumed Liabilities, which will be updated as at Closing. Assumed Liabilities are comprised of the following types of claims: (i) certain trade payables; (ii) certain accrued goods and services which have not yet become categorized as trade payables; (iii) accrued payroll and benefits; (iv) property taxes (v) asset retirement obligations; and (vi) post-retirement benefits. A copy of the current listing of Assumed Liabilities as at the date of swearing of this affidavit is attached to the Second Amendment to the Asset Purchase Agreement as Schedule 12.

(iii) *Promissory Note, Common Shares and Preferred Shares*

92. Pursuant to the Purchase Agreement the consideration paid by the Purchaser includes the Promissory Note, the Common Shares and the Preferred Shares. The Promissory Note under the original Purchase Agreement was to be in the principal amount of \$42.4 million, subject to a purchase price adjustment based on the net working capital as at Closing. As a result of the additional consideration payable by the Canadian Purchaser in the form of the Future Cash Payments, as described in the NB Hourly Plan Term Sheet, the face amount of the Promissory Note has been reduced by agreement of the Applicants and the Purchaser to the principal amount of \$40 million.

93. Pursuant to the Purchase Agreement, \$10 million of the Promissory Note is to be held back by the Canadian Purchaser (the "Holdback") in respect of indemnifiable losses under Article 13 of the Purchase Agreement. The Holdback will be held until the earlier of (i) twelve months has elapsed following Closing; and (ii) the Applicants obtain approval of a Plan of Arrangement that is acceptable to the Purchaser. The Applicants and the Purchaser have determined that the Holdback should be held in escrow by an escrow agent. The parties have concluded that the Monitor is the most cost-effective third party to act as escrow agent and the Monitor has agreed to act in this capacity. Annexed hereto and marked as Exhibit "Y" is a true copy of the Escrow Agreement pursuant to which the Monitor will act as escrow agent for the Holdback.

94. Pursuant to the Purchase Agreement the Promissory Note was to have a term of ten years, with no scheduled or mandatory repayments of principal until maturity. Pursuant to negotiations between the Applicants and the parties to the Term Sheets, the Applicants requested that the Purchaser reduce the term of the Promissory Note as it may relate to the parties to the Term Sheets, from ten years to eight years. The Purchaser agreed to this amendment requested by the Applicants.

95. In accordance with the Purchase Agreement, the Promissory Note will not contain any restrictive or positive covenants with respect to the Purchaser. Attached hereto and marked as Exhibit "Z" is a true copy of the Promissory Note to be delivered. On Closing, an identical form of Promissory Note in the amount of \$10 million will be executed in respect of the Holdback, such that the aggregate face amount of the Promissory Note delivered by the Purchaser on Closing will be \$40 million.

96. The Purchase Agreement also provides for consideration in the form of a 49% interest in the Common Shares of the Purchaser with a value ascribed by the Applicants at approximately \$25 million as set out in my December Affidavit. Although neither the Purchase Agreement nor the Term Sheets require or contemplate a Unanimous Shareholders Agreement to outline the rights and characteristics of the Common Shares of the Purchaser, the Applicants have negotiated a Unanimous Shareholders Agreement with the Purchaser, with a view to confirming and clarifying these issues for the benefit of all parties.

While this document was circulated in draft form to Davies earlier today in accordance with their request, we anticipate that the parties may have further discussions prior to the hearing of this motion with respect to the terms of same. Attached hereto and marked as Exhibits “AA” and “BB” respectively, are true copies of the Common Share certificate to be issued on Closing, and the Unanimous Shareholders Agreement in respect of the Purchaser which the Applicants have negotiated with the Purchaser.

97. As described in the December Affidavit, GNB has agreed to convert its entire secured loan against the Applicants (approximately \$35 million) into equity of the Purchaser in the form of Preferred Shares. The characteristics of Preferred Shares are as set out in the Class B Preference Share Terms documents annexed hereto and mark as Exhibit “CC”.

98. As noted by the Monitor in its sixth Report to the Court, a key feature of the transaction described in the Purchase Agreement is the ability of the Applicants’ creditors (as their interests may appear) to share in any increase in value of the specialty papers business over time, through the 49% interest in the Common Shares of the Purchaser. In addition, the Promissory Note provides structural priority over both the Preferred Shares being issued to GNB and the Common Shares of the Purchaser being issued to BAM and the Applicants.

(iv) *Future Cash Payments*

99. Any sale of the specialty papers business as a going concern requires a purchaser to assume all collective agreements in respect of each of the facilities. The collective agreements, in effect, “follow the assets”. Accordingly, in order to satisfy the condition under the Purchase Agreement that the Purchaser shall have no liability under any pension plans, no transaction was possible in the absence of an agreement with all unions involved in the specialty papers business.

100. Agreements were negotiated and reached by the Applicants with each of the relevant unions in the U.S., namely the USW and the OPEIU. Attached hereto and marked as Exhibits “DD” and “EE” respectively are copies of the Memoranda of Settlement reached with each of the USW and OPEIU.

101. Since the Applicants understand that PBGC will move to terminate the U.S. Plan shortly after the Closing of the sale transaction, members of the U.S. Plan would be entitled to the insurance protection provided by that government agency.

102. However, no equivalent pension insurance program exists in New Brunswick and, in the absence of an agreement confirming that all liabilities relating to the NB Plans remain with the Applicants, no sale was possible. The existing collective agreements with the CEP and the CMAW incorporate references to the NB Hourly Plan. Accordingly, the collective agreements had to be specifically amended in that regard, in a form acceptable to both the two unions and the Purchaser. The CEP represents the largest group of constituents under the NB Hourly Plan in terms of number of members.

103. It cannot be over-emphasized that, in the absence of a term sheet with CEP that adequately addressed the NB Hourly Pension Plan, no sale of the specialty papers business was possible. In this regard, the CEP held an effective veto to the transaction that could only be resolved by an acceptable amendment to the collective agreement properly ratified by a vote of the unionized employees.

104. Following extensive negotiations with CEP on behalf of their active and retired members, the Applicants agreed that they would request that the Purchaser under the Purchase Agreement provide additional consideration that the Applicants could direct to the outside trust established for the NB Hourly Plan. This would constitute additional consideration under the Purchase Agreement and would be available for this party only to reflect the fact that the NB Hourly Plan has a greater solvency deficit than the NB Salaried Plan.

105. The NB Hourly Term Sheet specifies such cash payments to be made by the Canadian Purchaser to the Applicants (and irrevocably directed by the Applicants to the outside trust established on behalf of the NB Hourly Plan) over an eight year period after Closing (the "Future Cash Payments"). The Future Cash Payments total approximately \$6.125 million over that period.

106. Unlike the Province of Quebec, which has indicated that it may be prepared to provide a guarantee of some amount or funded status of pension plans under the jurisdiction of the Régie, GNB made it clear that it will not do so. Accordingly, whereas the members of the Quebec Pension Plans may be entitled to some relief offered by the Régie, and whereas the members of the U.S. Plan have the benefit of the PBGC, the retired members of the NB Hourly Plan had no such potential for other protection.

107. The Future Cash Payments will be implemented by the execution of an irrevocable Direction on Closing by the Applicants to the Purchaser, to make the Future Cash Payments directly to the outside trust established for the NB Hourly Plan. The Applicants have included a specific provision in the draft Approval and Vesting Order to be sought on this motion, confirming their authorization to execute the irrevocable Direction to facilitate these payments.

(v) *Purchase Price Adjustment*

108. Section 3.8 of the Purchase Agreement provides for a purchase price adjustment based on the net working capital as at the Closing Date. The purchase price under the Purchase Agreement is based on net working capital as at the Closing Date of \$54 million. To the extent that amount changes, the principal amount of the Promissory Note will be increased or decreased to reflect such adjustment.

109. Based on current estimates as at this time, we believe that any adjustment to the Purchase Price on Closing may be a positive adjustment in favour of the Applicants, resulting in an increase in the principal amount of the Promissory Note.

D. *Support of Secured Lenders*

110. The Applicants' three secured lenders namely, CIT, BAM and GNB support the Applicants' request for final approval of the Purchase Agreement and a Vesting Order. The support of these three lenders is significant. BAM has agreed to play a significant role in sponsoring this restructuring process by making the Amended DIP Financing available to fund the Applicants' restructuring efforts, and by incorporating the Purchaser and acquiring the Purchased Assets. The result of the transaction will be that BAM converts its pre-filing secured claim against the Applicants (approximately \$25 million after

payment of the CIBC debt) into a 51% common equity interest in the Purchaser. CIT has agreed to re-finance the majority of its existing credit facility and discharge its security over the Purchased Assets to allow the transaction to close. GNB has agreed to convert its entire secured claim against the Applicants (approximately \$35 million) into equity of the Purchaser in the form of Preferred Shares.

111. BAM has agreed that it will not require repayment of its loans as DIP Lender from the sale of the Purchased Assets under the Purchase Agreement. Rather, BAM will allow the Purchased Assets under the Purchase Agreement to be transferred to the Purchaser free and clear of its DIP Charge. Following the closing of the Purchase Agreement, BAM's DIP Charge would then only be secured by the remaining unsold assets of the Applicants including Gorham, the Maine lumber mills, Thurso and the proceeds from the closing of the Purchase Agreement.

112. CIT has agreed to refinance a portion of its existing credit facility with the Applicants to allow approximately \$6 million in existing letters of credit to remain outstanding following the closing of the Purchase Agreement. The Purchased Assets under the Purchase Agreement will be transferred to the Purchaser free and clear of CIT's security. The Applicants' obligations under the approximately \$6 million in remaining letters of credit will be secured by CIT's security on the remaining assets.

E. Position of Other Parties

(i) Province of New Brunswick

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

- (a) as lender, by providing approximately \$35 million in secured loans for the completion of the modernization project at the Plaster Rock lumber mill and certain capital projects at the Edmundston pulp and energy operations;
- (b) as regulator of the NB Plans registered in the Province;
- (c) as the grantor of various licences and allocations for the harvesting of timber on Crown land within the Province; and

- (d) through NB Power, a Crown corporation of GNB, as party to the CoGen Agreement (as defined below) and beneficiary under substantial letters of credit posted by Fraser Papers to secure performance under the CoGen Agreement.

114. The Applicants have been in ongoing discussions with GNB throughout this restructuring. The Applicants' proposal for addressing the existing deficits and funding requirements under the NB Plans required an agreement on the part of GNB and an amendment to the existing NB PBA in that Province.

115. GNB has played an integral role in the ongoing discussions and negotiations between the Applicants and representatives for the NB Salaried Plan and the NB Hourly Plan, as any solution to these issues impacts the beneficiaries under the NB Plans. Based on the Term Sheets negotiated by the Applicants in respect of the NB Plans, GNB expedited the introduction and three readings in the legislature of an amendment to the NB PBA. Bill 51 was introduced and received first reading on March 17, 2010, received second reading, review by Committee of the Whole and third reading on March 19, 2010 and received Royal Assent on March 26, 2010.

116. This amendment, among other things, provides for (i) changes to the NB PBA to extend the final settlement of NB Plans benefits for to up to eight years following the wind up of the NB Plans; and (ii) a mechanism to attribute value to any consideration that may be received by the NB Plans upon a distribution by the Applicants to their unsecured creditors (including the NB Plans) for the purposes of calculating the benefits provided to retirees during the extended windup period.

117. As described in prior Affidavits, the Applicants are party to a thirty-year power purchase agreement with NB Power dated May 16, 1995 (the "CoGen Agreement") whereby the Applicants supply all of the electricity produced at the CoGen Facility to NB Power. The CoGen Agreement was structured such that the Applicants receive 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. The Applicants 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 was previously filed as an exhibit to the Initial Affidavit in support of the Initial Order.

118. The Applicants have been in discussions with NB Power and GNB pursuant to which Business New Brunswick has agreed to provide a CDN\$28.6 million guarantee to CIT to cover the issuance of letters of credit to NB Power under the credit facility to be made available by CIT to the Purchaser. A term sheet has been issued by Business New Brunswick to the Purchaser.

119. While this term sheet is still subject to negotiation, it represents a further commitment by GNB to the successful emergence of the specialty papers business from Court protection, and represents a significant step towards re-establishing the business as a viable operation in future.

(ii) *Labour Unions*

120. Approximately 70% of the Applicants' Canadian and U.S. employees are members of a trade union. Those unions that are party to existing collective bargaining agreements with one of the Applicants at this time are as follows:

- (a) Communications, Energy and Paper Workers Union of Canada ("CEP") at Edmundston and Plaster Rock, New Brunswick and Thurso, Quebec;
- (b) Regional Council of New Brunswick Carpenters Mill Rights and Allied Workers, Local 2450 ("CMAW") at Plaster Rock, New Brunswick;
- (c) United Steel, Paper and Forestry, Rubber, Manufacturing, Energy, Allied Industrial and Service Workers International Union ("USW") at Madawaska, Maine and Gorham, New Hampshire;

- (d) Office and Professional Employees International Union (“OPEIU”) at Madawaska, Maine.

121. The Applicants have negotiated an agreement with each union other than the CEP in Thurso, Quebec to provide for an amendment to all existing collective agreements to ensure that any references to the existing defined benefit pension plans to which any of the Applicants are a party, are deleted. The agreements reached with each of the unions confirm that the Purchaser under the Purchase Agreement shall have no liability for any of the pension plans in existence prior to Closing. The CEP local at Thurso is party to the NB Hourly Term Sheet.

(iii) *Unsecured Creditors*

122. I understand that the salaried employees and retirees in Quebec (the “Quebec Salaried Group”) intend to oppose the Applicants request for approval of the Purchase Agreement. To my knowledge, no other group of employees or retirees opposes the Applicants’ request for approval of the Purchase Agreement.

123. The Claims Bar Date (as defined in the Claims Order dated July 15, 2009) in this proceeding has passed. The claims filed on behalf of each of the five defined benefit Pension Plans were filed as “placeholder” claims in that they represented an estimate of the amount of the deficit upon any windup of each plan. A revised Proof of Claim will be filed on behalf of each of the NB Plans by Morneau Sobeco as Administrator. The revised Proof of Claim will be based on the actual deficit existing as at the Original Windup Date (as defined in each of the Term Sheets).

124. The claims process has not been completed and there are many claims that remain subject to review by the Claims Officer following their disallowance or revision by the Monitor and the Applicants, and the appeal by the creditors.

125. Subject to any final determination of these claims, the aggregate of all claims filed by or on behalf of unsecured creditors is in the range of \$350 million to \$500 million. The claims represented by

the Quebec Salaried Group represent approximately 6% to 8% of the total unsecured claims against the Applicants.

126. Unsecured creditors of the Applicants benefit from completion of the sale transaction in many other ways. Not only will certain existing liabilities be assumed by the Purchaser, but such creditors will have the opportunity for an ongoing business relationship with the Purchaser.

127. Municipalities such as the Town of Madawaska and the City of Edmundston, which depend upon the ongoing payment of realty and related taxes to fund essential services within their communities, will have the means by which to continue providing such services on an ongoing basis. Counterparties to contracts will have either agreed to terms upon which their contract will be assigned to and assumed by the Purchaser, but will not be required to consent to such assignment if they choose to make other arrangements.

128. Retirees who are members of the U.S. Plan will benefit by the anticipated termination of the U.S. Plan shortly following the Closing of the Purchase Agreement, and the acceptance of a final confirmed claim on behalf of PBGC representing the actual deficit under the U.S. Plan, which it is my understanding will be filed as an unsecured claim.

F. Impact of Sale of NB Power Not Being Concluded

129. On March 24, 2010 the governments of New Brunswick and Quebec announced that they would not be completing the previously announced transaction involving the sale of the generating assets of New Brunswick Power to Hydro Quebec (the “NB Power Transaction”). This transaction was expected to result in cash operating savings of \$6 million per year from lower electricity prices for the Applicants’ Edmundston pulp mill and two lumbermills in Plaster Rock and Juniper, all of which are to be sold as part of the specialty papers transaction.

130. As a result of this announcement, these savings will not be realized and the Applicants' operations in New Brunswick will continue to be disadvantaged by non-competitive power costs for the foreseeable future. While the loss of the potential cash savings is significant, the closing of the NB Power Transaction was not a condition of the Purchase Agreement. However, uncompetitive power rates will continue to add risk to the Purchaser's specialty papers business and future cash flow generation will be lower by \$6 million per year and will not be available to reinvest in the business, to repay indebtedness, or to mitigate the negative impact of other variables including a higher Canadian dollar exchange rate,

G. Considerations as to Benefits of the Transaction

131. As outlined in prior Affidavits, including the December Affidavit, the Applicants believe that maximizing value for all creditors requires re-establishing a business with a sustainable competitive advantage. Of all the Applicants' existing operations, only the specialty papers business has sufficient attributes and the potential to be restructured as a stand-alone business, without a significant amount of new capital.

132. The Applicants believe that the sale of the specialty papers business as a going concern is the most effective and efficient means of maximizing value for the creditors, and the Applicants do not believe that there is any other combination of assets that would create more value for the creditors. In addition, it is not feasible to simply restructure the specialty papers business and retain the other operations of the Applicants, since the other operations would require the investment of further capital that is not available to the Applicants.

133. In paragraph 29 of the Monitor's Sixth Report, the Monitor concluded that a separation of and a sales effort focussed on the specialty papers business was prudent in the circumstances.

134. The Monitor's Eighth Report to the Court dated February 2, 2010 described the extensive sales process in respect of the specialty papers business, undertaken pursuant to the December Order. Notwithstanding these efforts, no other letters of intent or offers to purchase the Applicants' specialty

papers business were received from any interested parties. Attached hereto and marked as Exhibit "FF" is a true copy of the Monitor's Eighth Report to the Court.

135. Marketing the Purchased Assets through a broad sales process as approved pursuant to the December Order and under the supervision of the Monitor, was the best means of determining their fair value. However, as outlined in the December Affidavit, the Applicants also prepared a five year financial model for the specialty papers business to be acquired under the Purchase Agreement. Based on this forecast for the years 2010 to 2014 the Applicants considered two methods for valuing the specialty papers business, namely the Discounted Cash Flow (DCF) Method and the Market Approach.

136. As more fully described in the December Affidavit, using the DCF Method, the enterprise value of the specialty papers business was estimated by the Applicants to be in the range of \$105 to \$140 million. As more fully described in the December Affidavit, using the Market Approach, the enterprise value of the specialty papers business was estimated by the Applicants to be in the range of \$109 to \$121 million.

137. Based on the two methodologies (DCF Method and Market Approach), the Applicants estimate the enterprise value of the specialty papers business to be between \$110 million and \$150 million. A midpoint of \$130 million was calculated using the simple average of the high and low values. Using the midpoint value of \$130 million for the business results in a multiple of 6.7 times pro forma forecast EBITDA of \$19.5 million in 2010.

138. The gross consideration payable under the amended Purchase Agreement is approximately \$189 million consisting of \$35 million in cash, the issuance of a \$40 million Promissory Note, Preferred Shares with an ascribed value of \$35 million, Common Shares representing 49% common equity with an ascribed value of \$25 million, CAD\$6.125 million in Future Cash Payments and the assumption of \$47.6 million in liabilities. Using the ascribed values of the Common Shares and Preferred Shares; book value for the Assumed Liabilities; discounting the future payments from the Promissory Note and Future Cash

Payments at 12%, and assuming the same exchange rate of CAD\$1.11 = USD\$1.00 used in the financial models, the Applicants estimate that the present value of the gross consideration under the Purchase Agreement is approximately \$162 million. This value exceeds the midpoint point value estimate for the business of \$130 million.

139. In addition to the fair value consideration payable under the Purchase Agreement, completion of the sale transaction will provide members of the NB Salaried Plan and the NB Hourly Plan with the opportunity for an eight-year extension for the final settlement of windup benefits under the NB Plans, which was not otherwise possible. The implementation of an extended windup provides an opportunity for the value of the pension plan assets to improve over time and for the NB Plans (and all other creditors) to benefit from any distribution of the consideration payable under the Purchase Agreement or otherwise, to unsecured creditors.

140. As noted in paragraph 39 of the Monitor's Sixth Report, a key transaction feature is the ability of the unsecured creditors to share in any potential increase in value of the specialty papers business through the 49% common equity interest.

141. Further, completion of the Purchase Agreement provides ongoing employment for approximately 1,200 employees in New Brunswick and Maine. Maintaining ongoing operations in Edmundston, Plaster Rock and Madawaska ensures the continued economic benefit to northern New Brunswick and Maine.

H. Terms of Order Requested

142. As outlined in prior affidavits and as set out in more detail above, upon the closing of the transaction pursuant to the Purchase Agreement, the Applicants will focus their efforts on the following:

- (i) concluding the sale of the remaining assets as outlined above,
- (ii) proceeding to obtain a final determination of all Claims filed pursuant to the Claims Process outlined in the Claims Order dated July 15, 2009;

- (iii) preparing a Plan of Arrangement to provide for the distribution of net available proceeds to the unsecured creditors; and,
- (iv) implementing any Plan of Arrangement that may be approved by the Court and their creditors, following which the within proceeding will be terminated.

143. The consideration payable under the Purchase Agreement and the proceeds from the sale of the remaining assets will be subject to satisfying the claims of parties holding secured claims or charges, prior to any such consideration or proceeds being available for distribution to unsecured creditors. Those secured priority claims including the charges pursuant to the Initial Order in favour of BAM as DIP Lender, CIT pursuant to the amount remaining owing under its DIP advances relating to outstanding letters of credit, any claims or potential claims against the directors and officers and any amounts owing at any time in favour of the Applicants' advisors and counsel which are secured by the Administrative Charge (collectively, the "Prior Charges"). So long as there is any potential for a claim to be brought, no consideration payable under the Purchase Agreement and no proceeds from the sale of any residual assets can be distributed to any unsecured creditors. The only means by which there will be certainty that no further claims can or will be brought, that would require the expenditure of fees and any delay in distribution to creditors, is to obtain a full and final release in favour of such parties.

144. In addition to numerous additional references to releases for particular matters or things, each of the NB Hourly Term Sheet (in paragraph 20 thereof) and the NB Salaried Term Sheet (in paragraph 11 thereof) contain releases in favour of the Applicants' directors and officers and BAM and its directors and officers.

145. BAM is allowing a portion of its existing secured claim in the amount of \$25 million over all assets of the Applicants to be replaced with Common Shares in the Canadian Purchaser. As such, BAM will be taking an existing secured claim which has priority in all respects to unsecured creditors, and: (i) converting it to common equity, which by definition is therefore subordinated to the Promissory Note

payable on Closing; and (ii) subordinating it to the Preferred Shares; and (iii) putting it on an equal ranking with the Applicants' creditors' interests in the 49% Common Shares of the Purchaser.

146. As a condition to completing the Transaction under the Purchase Agreement, and thereby providing the accommodations and benefits to the Applicants' other stakeholders described elsewhere in this affidavit, BAM is requiring that it, the Purchaser and related persons receive satisfactory releases of any claim, liability or obligation arising from any event, fact, matter or circumstance in relation to or in connection with the Applicants or their respective businesses and property.

147. If the closing of the Purchase Agreement is approved by this Court, in the Applicants' view it would be unreasonable and inequitable for the Applicants' creditors to both obtain the benefits of the transaction, while at the same time reserving their rights to pursue parties for claims not previously raised or filed as part of the Claims Process.

148. I am advised by John McKenna of PricewaterhouseCoopers Inc., the Monitor, and do verily believe that 26 claims against the Applicants' directors and officers were received by the Monitor in connection with the Claims Process. Each of those proofs of claim were disallowed and, in respect of 16 claims only, a dispute notice was received by the Monitor. Pursuant to the terms of the Claims Order, the 10 claims that were disallowed by the Monitor for which no dispute notice was received, have now been fully and finally dismissed and extinguished.

149. I am further advised by John McKenna and do verily believe that the value of the 16 claims filed against the directors and officers that remain outstanding and have not yet been resolved pursuant to the Claims Process total less than \$200,000 in the aggregate. That represents the universe of claims existing against the Applicants' directors and officers as at the filing date of June 18, 2009.

150. Pursuant to the Initial Order the Court granted a charge in the amount of \$30 million in favour of the Applicants' directors and officers (the "D&O Charge").

151. Since the date of filing, the Applicants' directors have remained in place and have provided invaluable assistance and direction to the Applicants' management in navigating the very difficult issues in this restructuring. The qualifications and experience of Fraser Papers' directors are outlined in the Initial Affidavit. These experienced directors have continued in such capacity in good faith throughout this restructuring. This oversight and direction has provided the Applicants' management with the necessary support to negotiate and conclude significant agreements with its stakeholders including as evidenced by the Term Sheets, the Purchase Agreement, the Agreement of Purchase and Sale in respect of the Thurso facility and negotiations with GNB.

152. The directors and officers have advised me that they would be very concerned if any Order was issued by this Court which had the effect of extinguishing the D&O Charge as it relates to the Purchased Assets, without ensuring that no claims other than those asserted to date in the Claims Process could be brought by any party.

153. The Applicants' directors and officers have relied upon the Endorsement issued by this Court on July 16, 2009 and the Decision of this Court released on June 30, 2009 authorizing the Applicants to not make special payments that would otherwise be required to be made in respect of the Applicants' Pension Plans during the currency of the Stay Period under the CCAA. In reliance upon that decision, which was not appealed by any party, the Applicants' directors and officers have remained throughout this restructuring process.

154. The form of Approval and Vesting Order sought by the Applicants is attached at Tab 3 of the Applicants' Motion Record dated March 30, 2010. The draft Order includes language in the nature of a release in favour of various parties including the Applicants' directors and officers, BAM and its directors and officers, the Purchaser and related persons, GNB in its various capacities including the Superintendent, and the Administrator appointed by the Superintendent over the NB Plans.

155. The restructuring proposed by the Applicants involves a sale of the specialty papers business in advance of a Plan of Arrangement being presented to creditors, as the business simply cannot be maintained for any further period of time while leaving any possibility for recovery for any creditors other than the Applicants' secured creditors.

156. An extensive and fully-marketed sales process conducted under the supervision of the Monitor did not result in any other offers to purchase the specialty papers business.

157. As indicated in prior Affidavits, the Applicants have not generated positive cash flow from operations in more than three years. In short, the Applicants and their stakeholders must do everything possible to address and finalize the universe of claims that currently exists and that could impact any recovery for creditors, finalize and conclude the claims process and a Plan of Arrangement as soon as possible.

158. The Applicants and, by execution of the term sheets, the members of the NB Plans have requested that GNB and the Superintendent take significant steps that are outside of any ordinary course procedures that those parties would normally undertake when dealing with a similar situation. The steps requested by the parties resulted in a legislative amendment being required, which is to be implemented as part of the closing of the transaction. The releases requested in the draft Order sought by the Applicants mirror the language contained in the Term Sheets and in Bill 51 passed by the NB legislature.

I. Request for Amendments to Initial Order, Stay Extension and Cash Flow Forecast

159. The Applicants are requesting an extension of the Stay Period to July 9, 2010. This will provide the Applicants with an opportunity to close the Purchase Agreement, continue the Claims Process, continue with ongoing efforts to sell the residual assets in a cost-effective manner and continue to develop the Applicants' Plan of Arrangement.

160. The Applicants have prepared a cash flow forecast for the period ended July 9, 2010 in support of the requested stay extension, which will be annexed to the Monitor's Tenth Report to the Court. The

forecast indicates that the Applicants will continue to incur negative free cash flow and increased usage of the Amended DIP Facility. These continued negative cash flows stress the urgency with which the Applicants must complete the transactions outlined herein and complete the restructuring.

161. The Applicants are requesting certain amendment to the Initial Order to ensure that the Approval and Vesting Order reflects the proper names of all Applicants. The proper name of the Company includes its French registered name and is Fraser Papers Inc./Papiers Fraser Inc. The printout obtained from the Industry Canada website in this regard is attached hereto and marked as Exhibit “GG”. The proper name of Fraser Timber Ltd. is actually Fraser Timber Limited. The printout obtained from the Maine Department of the Secretary of State website in this regard is attached hereto and marked as Exhibit “HH”.

J. Next Steps

162. Since a significant portion of the Purchased Assets under the Purchase Agreement are located in the U.S., the Applicants will be seeking an Order from the U.S. Bankruptcy Court for the District of Delaware (the “U.S. Court”) having carriage of the Chapter 15 proceeding in that jurisdiction. The Order requested by the Applicants from the U.S. Court will provide recognition of any Order that may be issued by the Ontario Court approving the Purchase Agreement and approve the sale of such of the Purchased Assets as are located in the U.S.

163. The transaction described in the Purchase Agreement is scheduled to close on April 8, 2010 provided the requested Orders are obtained from the Canadian Court and the U.S. Court.

164. Upon closing of the Purchase Agreement the Applicants will focus on concluding sale transactions for the other facilities and residual assets, with a view to completing the Claims Process, realizing upon all residual assets and developing a Plan of Arrangement for consideration by their creditors.

165. I swear this Affidavit in support of the relief requested in the Applicants' Notice of Motion dated March 30, 2010, and for no other or improper purpose.

SWORN before me in the City of Toronto,
in the Province of Ontario, this 30th day of
March, 2010.



Commissioner for Taking Affidavits

D.J. Miller



J. PETER GORDON

EXHIBIT “A”

**SALE OF THURSO TO FORTRESS PAPER
SUMMARY OF KEY TERMS**

(All Amounts in CDN\$, except where noted)

- Vendor:** Fraser Papers Inc.
- Purchaser:** Fortress Specialty Cellulose Inc.
- Purchased Assets:** All assets necessary to the operation of the pulp mill in Thurso, Québec including:
- lands, including the landfill and the bark dump on the Lievre River;
 - machinery and equipment at the pulp mill;
 - all rights and benefits under the certain contracts to be assumed including the Hydro Québec tender;
 - all licences and permits, relating to the purchased assets;
 - all CAAFs;
 - all finished goods and raw materials inventories; and
 - the Black Liquor Credits attributable to the Thurso mill.
- Assumed Liabilities:** All environmental liabilities with respect to the Purchased Assets.
- All obligations and liabilities under all assumed contracts, including the treatment of municipal waste for the town of Thurso.
- Excluded Liabilities:** Excluded Liabilities include:
- all trade payables relating to the business;
 - all intercompany indebtedness;
 - all indebtedness owed to lenders at the time of closing;
 - any amounts payable to employees (including, salaries, holiday pay and statutory remittances); and
 - any other obligations and liabilities in respect of or related to applicable employment legislation (including all liabilities for collective dismissal notices, notices or indemnity in lieu of notice and severance).
- Purchase Price:** \$3 million
- Outstanding Conditions:** Purchaser shall enter into amended collective agreements with the unions on or before April 14, 2010.
- Purchaser shall complete definitive documentation regarding financing on or before the Closing Date.
- Scheduled Closing Date:** April 30, 2010

EXHIBIT “B”

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

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

**MONITOR'S NINTH REPORT TO THE COURT
February 22, 2010**

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 PLAN OF COMPROMISE OR ARRANGEMENT WITH
RESPECT TO FRASER PAPERS INC., FPS CANADA INC., FRASER PAPER HOLDINGS
INC., FRASER TIMBER LTD., FRASER PAPERS LIMITED, FRASER N.H. LLC

Applicants

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

INTRODUCTION

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

3. The purpose of this, the Monitor's ninth report (the "**Ninth Report**"), is to provide the Court with information pertaining to:
 - a) The current status of the Applicants' operations;
 - b) Update on the proposed SPB Transaction;
 - c) The potential liquidation of the Applicants' assets;
 - d) The status of the Claims Process;
 - e) An update on the Residual Assets; and
 - f) The Monitor's analysis and recommendations.
4. A historical overview of the Applicants' proceedings and a summary of the previous Orders granted by this Honourable Court is set out at Appendix "A" hereto.
5. Unless otherwise stated, all monetary amounts contained herein are expressed in U.S. Dollars. Capitalized terms used herein not otherwise defined are as defined in Appendix "A" hereto, the Initial Order, the Monitor's eight prior reports, the affidavits of J. Peter Gordon sworn February 20, 2010 (the "**February Gordon Affidavit**"), and December 3, 2009 (the "**December Gordon Affidavit**"), and as defined in the Claims Process Order.
6. The Monitor has based this report, in part, on information it has obtained from the Applicants but has not audited, reviewed, or otherwise attempted to verify the accuracy or completeness of such information and, accordingly, the Monitor expresses no opinion or other form of assurance in respect of such information contained in this Report.
7. Some of the information referred to in this report consists of forecasts and projections. An examination or review of the financial forecast and projections, as outlined in the Canadian Institute of Chartered Accountants Handbook, has not been performed. Readers are cautioned that, since these forecasts and projections are based upon assumptions about future events and conditions, the actual results will vary from the

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

A. THE CURRENT STATUS OF THE APPLICANTS' OPERATIONS

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

B. UPDATE ON THE PROPOSED SPECIALITY PAPER BUSINESS TRANSACTION

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

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

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

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

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

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

Status of the Newco Transaction Conditions Precedent

22. The Monitor notes that Article 10 of the Stalking Horse Bid lists a significant number of conditions precedent (the “**Conditions Precedent**”) which are required to be satisfied before the Stalking Horse Bid can close.

23. As noted in the December Gordon Affidavit, there were three major Conditions Precedent that were required to be satisfied and the status of those Conditions Precedent are as follows:
 - a) Obtaining new collective bargaining agreements (“**CBAs**”) with the two US unions in respect of the unionized employees in Madawaska on such terms as may be acceptable to Newco. After extensive negotiation during January and early February, the Monitor understands that on February 15, 2010, the USW (the largest of the two US unions) accepted the required revisions to the CBA. The Monitor understands that members of the OPEIU, the other US union at Madawaska, are to vote on the required modifications to their CBA on February 24, 2010 and the Applicants are optimistic that a favourable outcome will be achieved. As such, the Monitor considers it likely that this Condition Precedent will be satisfied;

 - b) Newco being satisfied, in its sole and absolute discretion, that it will have no liability or obligations whatsoever for any of the Applicants’ existing pension plans. The Applicants and the CEP have met on several occasions to discuss revisions to the affected Canadian CBAs and potential solutions to ameliorate the pension plan deficits, including most recently two lengthy meetings chaired by the Monitor on February 12 and February 18, 2010, but to date this matter has not been resolved and, as a result, as of the date of this Report, this Condition Precedent remains unsatisfied. The Monitor notes further meetings between the Applicants and the CEP are scheduled commencing on February 22, 2010 in Toronto to continue the discussions. As detailed in the February Gordon Affidavit, no meetings have yet been held between the Applicants and the

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

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

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

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

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

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

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

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

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

Extension of the APA Termination Date

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

C. THE POTENTIAL LIQUIDATION OF THE APPLICANTS’ ASSETS

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

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

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

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

D. STATUS OF THE CLAIMS PROCESS

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

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

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

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

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

E. UPDATE ON THE RESIDUAL ASSETS

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

Thurso Mill

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

seek to have the definitive agreement and the transaction pursuant thereto approved and the Monitor will provide a further report to this Honourable Court at that time.

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

Gorham Mill

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

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

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

Maine Lumber Mills

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

F. MONITOR'S ANALYSIS AND RECOMMENDATIONS

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

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Dated at Toronto, this 22nd day of February, 2010.

PricewaterhouseCoopers Inc.
in its capacity as Monitor of
Fraser Papers Inc. et al

A handwritten signature in black ink that reads "John McKenna". The signature is written in a cursive, slightly slanted style.

John McKenna
Senior Vice President

APPENDIX A

FRASER PAPERS INC. ET AL.

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

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

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

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

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

GORHAM PAPER MILL INVESTMENT OPPORTUNITY**FraserPapers**

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

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

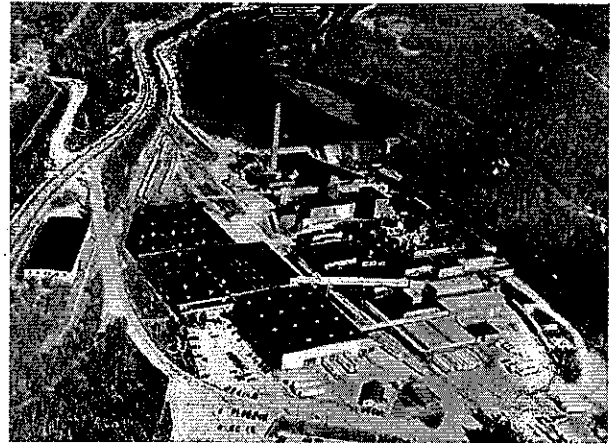
Gorham has also been pursuing a number of strategic initiatives that would enhance profitability, including:

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

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

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

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



Gorham, New Hampshire Paper Mill

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

SALE PROCESS OVERVIEW

On June 18, 2009, the Company and all its subsidiaries filed for protection from its creditors under the Companies' Creditors Arrangement Act ("CCAA"). PricewaterhouseCoopers Inc. has been appointed as monitor ("the Monitor") pursuant to the CCAA proceedings. For further information regarding the CCAA restructuring, please refer to: www.pwc.com/ca/en/car/fraser-papers

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

Requests for information:

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EXHIBIT “C”

FRASER PAPERS INC. PROPOSAL FOR EXISTING PENSION PLANS IN QUEBEC

Objectives:

- (1) Mitigate negative effect (pension payment reductions) on the existing pensioners;
and
- (2) Facilitate improved potential future recovery of pension plan assets.

Current Status of Pension Plans (the "Plans")

- The Régime de retraite des syndiqués de Papiers Fraser inc., Pâtes Thurso (the "Quebec Hourly Plan") is a defined benefit pension plan. There is an agreement with the union that upon resumption of operations at Thurso, the plan will be amended so that future service accrues on a defined contribution basis.
- Since April 1, 2008, the Régime de retraite des salariés de Papiers Fraser inc., Pâtes Thurso (the "Québec Salaried Plan") has provided for benefit accrual on a defined contribution basis only.
- Substantially all employees are on lay off. As such, there is very little service accruing under the Plans.
- Current pensioners are receiving 100% of their pension each month.
- The Régie des rentes du Québec (the "Régie") has ordered that commuted value withdrawals from the Plans should be limited based on the funded level of those plans.
- The Plans are significantly under funded. If the Plans were subject to an immediate wind-up, there would be insufficient assets in the plan to pay out all the accrued benefits owing to pensioners and active employees.

Proposed Treatment of Pension Plans

- Fraser Papers will declare a wind-up of the Plans.
- The Régie will agree that the Plans have satisfied the obligation of Section 230.0.0.1 of the *Supplemental Pension Plans Act* (the "Act") and members and beneficiaries of the Plans will be permitted to transfer their assets out of the Plans to a vehicle which will be administered by the Régie in accordance with §4.0.1 of the Act.

- In respect of those members and beneficiaries who elect to transfer their assets to the Régie:
 - The Régie will purchase an annuity for the assets under its administration no later than 5 years after the Régie assumes their administration;
 - The annuity purchased will be equal or greater than the amount the pensioner would have been entitled to at the time of the wind up.
 - In the interim, the Régie will invest the assets of the plan and seek to maximize the value of those assets.
 - The Régie will maintain a claim against the assets of Fraser Paper Inc. in the CCAA in proportion to the underfunded amount of the Plans in relations to the assets which were transferred to the Régie.
 - The claim by the Régie against Fraser Papers will be dealt with when a Plan of Arrangement and Compromise is determined under the CCAA proceedings (the “Plan”). The claim would be satisfied by the pro-rata distribution of such cash and non-cash assets as are distributed to unsecured creditors under the Plan.
 - In respect of those members and beneficiaries who do not elect to transfer their assets to the Régie, they will be provided the transfer options available on pension plan termination in accordance with the Act, including the option to receive an immediate or deferred annuity and/or the option to transfer the commuted value of their pension to another locked-in vehicle, subject to reductions reflecting the underfunded status of the pension plan on termination.
 - Any deficiency in the annuity purchase or commuted value withdrawal of members will remain an unsecured obligation of Fraser Papers.

The claim by the members and beneficiaries against Fraser Papers will be dealt with when a Plan of Arrangement and Compromise is determined under the CCAA proceedings (the “Plan”). The claim would be satisfied by the pro-rata distribution of such cash and non-cash assets as are distributed to unsecured creditors under the Plan, which may include shares and notes received by Fraser Papers as the proceeds of sale to Newco.

EXHIBIT “D”

CONSENSUS PROPOSAL FOR EXISTING FRASER PAPERS INC. PENSION PLANS IN QUEBEC

Objectives:

- (1) Mitigate negative effect (pension payment reductions) on the existing pensioners; and
- (2) Facilitate improved potential future recovery of pension plan assets.

Current Status of Pension Plans

- The Régime de retraite des syndiqués de Papiers Fraser inc., Pâtes Thurso (the "Quebec Hourly Plan") is a defined benefit pension plan. There is an agreement with the union that upon resumption of operations at Thurso, the plan will be amended so that future service accrues on a defined contribution basis only.
- Since April 1, 2008, the Régime de retraite des salariés de Papiers Fraser inc., Pâtes Thurso (the "Québec Salaried Plan") has provided for benefit accrual on a defined contribution basis only. The Québec Salaried Plan and Québec Hourly Plan are together referred to as the "Pension Plans".
- Substantially all employees are on lay off. As such, there is very little service accruing under the Pension Plans.
- Current pensioners are receiving 100% of their pension each month.
- The Régie des rentes du Québec (the "Régie") has ordered that commuted value withdrawals from the Pension Plans should be limited based on the funded level of those plans.
- The Pension Plans are significantly under-funded. If the Pension Plans were subject to an immediate wind-up, there would be insufficient assets in the plan to pay out all the accrued benefits owing to pensioners and active employees.

Proposed Treatment of Pension Plans

- Fraser Papers will declare a wind-up of the Pension Plans.
- The Régie will agree that the Pension Plans have satisfied the obligation of Section 230.0.0.1 of the *Supplemental Pension Plans Act* (the "Act") and all members and beneficiaries of the Pension Plans will be permitted to transfer their assets out of the Pension Plans to a vehicle that will be administered by the Régie in accordance with §4.0.1 of the Act.

- In respect of those members and beneficiaries who elect to transfer their assets to the Régie:
 - The Régie will make additional contributions to members and beneficiaries' accounts such that members and beneficiaries will receive benefits based upon an 80% solvency funding ratio.
 - The Régie will purchase an annuity for the assets under its administration no later than 10 years after the Régie assumes their administration;
 - The annuity purchased will be based upon an 80% solvency funding ratio. The solvency funding ratio shall be increased if the APA Consideration (as defined below) allows for greater payments.
 - In the interim, the Régie will invest the assets of the Pension Plans and seek to maximize the value of those assets. The APA Consideration (as defined below) will be taken into account by the Régie when determining the level of benefits to be provided to members and beneficiaries prior to the annuity purchase.
 - The Régie as administrator of the Pension Plans will have a claim against the assets of Fraser Paper Inc. in the CCAA claims process. The Régie will file a new (or amended) unsecured claim in the CCAA proceeding for each of the Pension Plans in an amount equal to the solvency deficit as at the date of the wind-up of each Pension Plan. The claim filed by the Régie for each Pension Plan shall be entitled, on a *pro rata* basis with all other unsecured creditors of Fraser Papers after satisfaction of all prior claims, to share in any distribution that is made at any time to Fraser Papers' unsecured creditors.
 - The claim by the Régie against Fraser Papers in respect of each Pension Plan will be the only claim filed relating to each Pension Plan. The Régie shall administer the claim on behalf of all beneficiaries of each Pension Plan.

In respect of those members and beneficiaries who do not elect to transfer their assets to the Régie, they will be provided the transfer options available on pension plan termination in accordance with the Act, including the option to receive an immediate or deferred annuity and/or the option to transfer the commuted value of their pension to another locked-in vehicle, subject to reductions reflecting the underfunded status of the relevant Pension Plan on termination.

EXHIBIT “E”

**CONSENSUS PROPOSAL FOR EXISTING
FRASER PAPERS INC. PENSION PLANS
IN QUEBEC**

Objectives:

- (1) Mitigate negative effect (pension payment reductions) on the existing pensioners; and
- (2) Facilitate improved potential future recovery of pension plan assets.

Current Status of Pension Plans

- The Régime de retraite des syndiqués de Papiers Fraser inc., Pâtes Thurso (the "Quebec Hourly Plan") is a defined benefit pension plan. There is an agreement with the union that upon resumption of operations at Thurso, the plan will be amended so that future service accrues on a defined contribution basis only.
- Since April 1, 2008, the Régime de retraite des salariés de Papiers Fraser inc., Pâtes Thurso (the "Quebec Salaried Plan") has provided for benefit accrual on a defined contribution basis only. The Québec Salaried Plan and Québec Hourly Plan are together referred to as the "Pension Plans".
- Substantially all employees are on lay off. As such, there is very little service accruing under the Pension Plans.
- Current pensioners are receiving 100% of their pension each month with the exception of those entitled to a SERP.
- The Régie des rentes du Québec (the "Régie") has ordered that commuted value withdrawals from the Pension Plans should be limited based on the funded level of those plans.
- The Pension Plans are significantly under-funded. If the Pension Plans were subject to an immediate wind-up, there would be insufficient assets in the plan to pay out all the accrued benefits owing to pensioners and active employees.

Proposed Treatment of Pension Plans

- Fraser Papers will declare a wind-up of the Pension Plans. NOTE: Assuming FP does not declare bankruptcy, what is FP's funding responsibilities when terminating an unfunded Pension Plan- in Quebec?
- The Régie will agree that the Pension Plans have satisfied the obligation of Section 230.0.0.1 of the *Supplemental Pension Plans Act* (the "Act") and all members and beneficiaries of the Pension Plans will be permitted to transfer their assets out of the

Pension Plans to a vehicle that will be administered by the Régie in accordance with §4.0.1 of the Act.

- In respect of those members and beneficiaries who elect to transfer their assets to the Régie:
 - The Régie and FP/BAM will make additional contributions to members and beneficiaries' accounts such that members and beneficiaries will receive benefits based upon an 80% solvency funding ratio.
 - The Régie will purchase an annuity for the assets under its administration no later than 10 years after the Régie assumes their administration;
 - The annuity purchased will be based upon an 80% solvency funding ratio. The solvency funding ratio shall be increased if the APA Consideration (as defined below) allows for greater payments. The APA consideration to include:
 - a) Prorated amount of the 40M\$, and an 8 year note.
 - b) Prorated amount of the 49% shares of Newco
 - c) Prorated equivalent of the 6.1M\$ cash influx provided to NB unionized members.
 - In the interim, the Régie will invest the assets of the Pension Plans and seek to maximize the value of those assets. The APA Consideration (as defined below) will be taken into account by the Régie when determining the level of benefits to be provided to members and beneficiaries prior to the annuity purchase.
 - The Régie as administrator of the Pension Plans will have a claim against the assets of Fraser Paper Inc. in the CCAA claims process. The Régie will file a new (or amended) unsecured claim in the CCAA proceeding for each of the Pension Plans in an amount equal to the solvency deficit as at the date of the wind-up of each Pension Plan. The claim filed by the Régie for each Pension Plan shall be entitled, on a *pro rata* basis with all other unsecured creditors of Fraser Papers after satisfaction of all prior claims, to share in any distribution that is made at any time to Fraser Papers' unsecured creditors.
 - The claim by the Régie against Fraser Papers in respect of each Pension Plan will be the only claim filed relating to each Pension Plan. The Régie shall administer the claim on behalf of all beneficiaries of each Pension Plan.

In respect of those members and beneficiaries who do not elect to transfer their assets to the Régie, they will be provided the transfer options available on pension plan termination in accordance with the Act, including the option to receive an immediate or deferred annuity and/or the option to transfer the commuted value of their pension to another locked-in vehicle, subject to reductions reflecting the underfunded status of the relevant Pension Plan on termination, including the modified APA consideration indicated above.

EXHIBIT “F”

Pension Plan for Eligible Employees of Fraser Papers Limited

Status of PBGC Assumption

The Company has been in contact with the Pension Benefits Guarantee Corporation (the "PBGC") over the past several months with a view to providing the necessary information and documentation to support a PBGC-initiated wind-up of the Pension Plan for Eligible Employees of Fraser Papers Limited (the "US DB Plan"). The Company has provided the PBGC with all information it has requested to date and counsel for the Company and PBGC have discussed the mechanics, timeline and steps to be undertaken as part of a PBGC-initiated termination process where PBGC assumes the US DB Plan as trustee.

The procedure would involve the Company executing an Agreement for Appointment of Trustee and Termination of Plan in favour of PBGC upon the closing of a sale transaction on April 8, 2010. The PBGC would terminate the US DB Plan and administer pension benefits in accordance with the PBGC's limits.

Based on various discussions between counsel for the Company and PBGC, the Company understands that:

- the PBGC Officials will, after the closing of the sale transaction, complete the internal approval process for the PBGC termination. PBGC officials have advised that it is their intention to recommend the termination of the US DB Plan and that the internal review process required will be completed shortly after April 8, 2010;
- by waiting until after the closure of the specialty papers transaction, the PBGC will be able to proceed directly to a Notice of Termination, if their recommendations are accepted. The PBGC officials with whom the Company has spoken have advised that this permits the PBGC to proceed more quickly than if they were required to separately proceed with a Notice of Determination;
- the PBGC Officials do not anticipate any control group factors that would prevent the termination, based on their review of all financial and other information provided by the Company to date;
- the PBGC Officials have all necessary information to appear before the working group; and
- the claim filed by PBGC in the CCAA will be on an unsecured basis only.