

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 11th REPORT TO THE COURT
April 9, 2010**

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

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

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

Applicants

**ELEVENTH 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 April 13, 2010 for an Order approving the sale of the pulp mill located in Thurso Quebec (the “**Thurso Mill**”) and vesting title to the purchased assets in Fortress.
2. The purpose of this, the Monitor’s 11th Report is to provide the Court with information pertaining to:
 - a) The sale of the Thurso Mill;
 - b) Updates in respect of the Twin Rivers Transaction; and
 - c) The Monitor’s recommendations in respect of the sale of the Thurso Mill.
3. 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 the Initial

Order, the Monitor's ten prior reports, the affidavit of Glen McMillan sworn April 9, 2010 (the "**April McMillan Affidavit**") and the APA (as defined below).

4. 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.
5. Some of the information referred to in this report consists of forecast 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. Future-oriented financial information referred to in this report was prepared by the Applicants based on Management's estimates and assumptions. Readers are cautioned that, since these projections are based upon assumptions about future events and conditions, the actual results will vary from the projections, even if the assumptions materialize, and the variations could be significant.

A. SALE OF THE THURSO MILL

6. As noted in the Monitor's 10th Report, the Applicants and Fortress Specialty Cellulose Inc. ("**Fortress**") signed the Thurso Mill asset purchase agreement (the "**APA**") on March 18, 2010 to sell substantially all of the assets located at the Thurso Mill (the "**Thurso Sale**").
7. As detailed in the April McMillan Affidavit, the Thurso Sale is the culmination of a marketing process that was commenced by the Applicants in the fall of 2009, but which at that time, failed to find any interested parties. As noted in the Monitor's 8th, 9th and 10th reports, the marketing process continued in January 2010, after Fortress contacted the Monitor in late December 2009 to discuss the possibility of acquiring the Thurso Mill. Ultimately, notwithstanding a marketing process for the Thurso Mill that saw the Applicants and the Monitor contacting 36 other third parties, by the end of January 2010 no other expressions of interest had been received with respect to the Thurso Mill. As a result, the Applicants signed a letter of intent with Fortress on February 1, 2010 that gave Fortress exclusivity through March 31, 2010. During February and March, Fortress

completed its due diligence, and the Applicants and Fortress also negotiated the terms of the APA.

Summary of the APA

8. Set out below is a summary of the principal terms and conditions of the APA, as filed with the April McMillan Affidavit.
9. The specific assets being acquired by Fortress are set out in the APA, and can be generally summarized as all of the operating tangible and intangible assets located at the Thurso Mill (the “**Purchased Assets**”) with certain exceptions. The Purchased Assets include:
 - a) two landfill sites, including one located approximately 35 kilometres away from the Thurso Mill;
 - b) the Hydro Quebec Contract awarded to FPI by Hydro Quebec, as described in the McMillan April Affidavit; and
 - c) approximately Cdn\$9.9 million of credits awarded to FPI, in respect of the federal government’s Pulp and Paper Green Transformation Program.
10. As set out in the APA, Fortress is assuming a limited number of liabilities, which include:
 - a) all liabilities associated with the ownership, use and operation of the Purchased Assets from the date of closing;
 - b) all environmental liabilities associated with the Purchased Assets;
 - c) all obligations under the unionized employees’ renewed collective bargaining agreements arising from the date of closing;
 - d) all obligations and liabilities under the Purchased Contracts (as defined in the APA); and
 - e) all liabilities in respect of certain permitted encumbrances on the Purchased Assets from the date of closing.

11. No other liabilities are being assumed by Fortress, including any liabilities in respect of pre or post filing claims of trade creditors incurred up to the date of closing, any obligations or liabilities in respect of employees or former employees (including all liabilities pursuant to any pension plan or benefit plan) or any amounts owing in respect of secured indebtedness or creditors with lien rights.
12. The Monitor understands that Fortress will extend offers of employment to substantially all of the unionized and non-unionized employees employed at the Thurso Mill when it last operated.
13. In addition to the liabilities being assumed, the cash purchase price being paid by Fortress is Cdn\$3 million (the “**Purchase Price**”), which was arrived at after significant negotiation between Fortress and the Applicants. The Purchase Price is to be paid as follows:
 - a) Cdn\$2,825,000 paid to the Applicants on closing, subject to adjustment as noted below; and
 - b) Cdn\$175,000 to the Monitor, to be held in escrow, pending if Fortress enters into a binding agreement with Hydro Quebec similar to the Hydro Quebec Contract (the “**Hydro Quebec Bid Adjustment Amount**”). If a binding agreement is reached, the Hydro Quebec Bid Adjustment Amount is paid to Fortress; if Fortress does not enter into a binding agreement, the Hydro Quebec Bid Adjustment Amount is paid to the Applicants. The Monitor understands this arrangement is necessary due to pre-filing amounts owing to Hydro Quebec that may be offset against any monies received by Fortress in the event it enters into a binding agreement.
14. Pursuant to the APA, the Purchase Price is subject to adjustment for the following matters, unless the amounts have been paid by the Applicants prior to closing:
 - a) outstanding property taxes to the date of closing in respect of the Thurso Mill, estimated to be Cdn\$1,225,000 as of April 30, 2010;

- b) any amounts owing in respect of Forest and Timber Tenure Liabilities owing at the date of closing which, as detailed in the April McMillan Affidavit, is expected to be zero; and
 - c) any amounts owing in respect of civil code liens that remain outstanding at the date of closing, up to a maximum of Cdn\$130,000. The Monitor understands that these are principally repairers liens over equipment being repaired and the amount outstanding at the closing date exceeds Cdn\$130,000, which will be assumed by Fortress.
15. The Monitor also understands that there is vacation pay owing to certain of the Thurso Mill employees, which will be paid post-closing by the Applicants from the Purchase Price.
16. The net cash proceeds available to creditors of the Applicants from the Thurso Sale, after adjustment/payment of the aforementioned amounts, is estimated at approximately Cdn\$0.9 million, assuming the Hydro Quebec Bid Adjustment Amount is not paid to the Applicants (the “**Net Sale Proceeds**”).
17. The Monitor understands that, if Court approval is obtained, the Thurso Sale is expected to close on or about April 30, 2010.

Outstanding Conditions Precedent

18. The APA is subject to a number of conditions precedent, including Fortress raising financing in an aggregate amount of approximately Cdn\$150 million. Based on discussions with Fortress’s legal counsel on April 8, 2010, the Monitor understands that a number of the conditions precedent have already been satisfied and, with respect to the remaining conditions precedent, the Applicants and Fortress are making good progress towards satisfying same and no issues are anticipated in satisfying these by the expected closing date.

Compliance with Section 36 of the CCAA

19. The Applicants commenced the CCAA proceedings on June 18, 2009, three months prior to September 18, 2009, the effective date of the recent changes to the CCAA and, as such, are not subject to the new requirements of the CCAA. However, the Monitor has considered the specified factors set out in Section 36 of the CCAA in any event.

S.36(3)(a) – “whether the process leading to the proposed sale or disposition was reasonable in the circumstances”

20. As detailed in the Monitor’s 8th report, the Monitor considers that the sales process conducted during January 2010, which was overseen by the Monitor, was reasonable and the market was adequately canvassed.

S.36(3)(b) – “whether the monitor approved the process leading to the proposed sale or disposition”

21. As detailed in the Monitor’s 8th Report, the sales process was developed by the Applicants in conjunction with the Monitor and was reasonable in the circumstances and was therefore supported by the Monitor.

S.36(3)(c) - “whether the monitor filed with the court a report stating that in their opinion, the sale or disposition would be more beneficial to the creditors than a sale or disposition under a bankruptcy”

22. The Monitor has prepared a liquidation analysis for the assets located at the Thurso Mill to estimate the range of potential Net Liquidation Proceeds¹ that would be generated from a liquidation of the Thurso Mill assets (i.e. piecemeal sale of the assets to third parties). The Monitor has compared this to the Net Sale Proceeds, as calculated above and, based on these calculations, the Net Sale Proceeds approximate the Net Liquidation Proceeds,

¹ Net Liquidation Proceeds is defined as the range of potential proceeds available to creditors, net of liquidation costs, after a liquidation of the Thurso Mill assets (i.e. where the assets are sold on a piecemeal basis to third parties and removed from the mill site)

before consideration of potential environmental liabilities in a liquidation. The Net Sale Proceeds exceed the Net Liquidation Proceed if these potential environmental liabilities are included in the Net Liquidation Proceeds calculation. There are significant other benefits that are derived from the Thurso Sale (as compared to liquidation) as set out in paragraph 26 below. As a result, the Monitor is of the view that the Thurso Sale is more beneficial to the creditors as a whole than a sale or disposition of same in a liquidation.

S.36(3)(d) – *“the extent to which the creditors were consulted”*

23. The Monitor understands that the Applicants’ principal secured creditors (namely CIT, GNB and BAM) are aware of and have consented to the Thurso Sale.
24. As detailed in the Monitor’s 10th Report, the claims of employees and retirees currently represent approximately 87% of the total admitted claims of unsecured creditors. The representatives of all of the employees and retirees are aware of the Thurso Sale and the Monitor understands that none of these parties oppose this transaction.

S.36(3)(e) – *“the effects of the proposed sale or disposition on the creditors and other interested parties”*

25. The Monitor understands that the Applicants’ secured creditors have consented to the Thurso Sale.
26. In respect of the Applicants’ unsecured creditors, as detailed in paragraph 22 above, the Net Sale Proceeds approximate or exceed the Net Liquidation Proceeds that would be obtained in a liquidation of the Thurso Mill assets. There are also many additional benefits from the Thurso Sale that will benefit many stakeholders of the Applicants that would not be realized in a liquidation of the Thurso Mill assets (the “**Additional Sale Benefits**”), including:
 - a) the sale may preserve many jobs in the economically depressed region;
 - b) trade creditors may retain a significant customer for their ongoing goods and services;

- c) Fortress and the Quebec government propose to invest approximately Cdn\$150 million in the mill, which may benefit the region and the creditors;
- d) the sale provides for the ongoing management by Fortress of the environmental liabilities associated with the mill site and the landfill sites; and
- e) the sale will permit the mill's water treatment plant to continue to treat the wastewater from the town of Thurso on a cost effective basis.

S.36(3)(f) – *“whether the consideration to be received for the assets is reasonable and fair, taking into account their market value”*

- 27. Based on the Monitor's calculations, the Net Sale Proceeds approximate to or exceed the Net Liquidation Proceeds that would be realized in a liquidation of the Thurso Mill assets. As such, and given that there was very little interest expressed in acquiring the Thurso Mill, the Monitor considers that the Thurso Sale consideration is fair and reasonable in the circumstances.

S.36(4) – *additional considerations if the sale is made to a related party*

- 28. Fortress is not related to the Applicants and, accordingly, S.36(4) of the CCAA is not applicable to the Thurso Sale.

B. DELAY IN CLOSING OF THE TWIN RIVERS TRANSACTION

- 29. The Twin Rivers Transaction (as defined in the Monitor's 10th Report) was approved by this Court on April 6, 2010 and the U.S. Court on April 7, 2010. On April 7, 2010, the Applicants advised the Monitor that the expected closing date for the sale of the Twin Rivers Transaction (as defined in the Monitor's 10th Report) had been extended from April 8, 2010 to the end of April 2010, due in part to the additional time that will be required to finalize the outstanding documentation and receive the necessary consents/assignments from numerous third parties.
- 30. The cash flow forecast filed with the Monitor's 10th Report covered the period from March 15 to July 9, 2010 and contemplated the closing of the Twin Rivers Transaction on

April 8, 2010 (the “**17 Week CFF**”). As the closing of the Twin Rivers Transaction has been extended until the end of April and the SPB represents the largest part of the Applicants operations, the receipts and disbursements in the 17 Week CFF will be greater than forecast for this period. However, the Applicants have advised the Monitor that the net cash flows for the SPB during this three week period are expected to be at break even levels and, as a result, there should be no significant change in the net funding requirement shown in the 17 Week CFF. As such, the Applicants are not preparing an updated cash flow forecast. The Monitor will report to the Court if there is a material negative deviation from the Applicants’ position as outlined in this paragraph.

C. MONITOR’S RECOMMENDATIONS

31. The Monitor is of the view that the Applicants have acted in good faith to find a buyer for the Thurso Mill and complete the sale of same as a going concern.
32. While the Net Sale Proceeds are not significant, they approximate to or exceed the Net Liquidation Proceeds that would likely be received in a liquidation of the Thurso Mill assets. As noted earlier in this report, there are also significant additional benefits derived from the Thurso Sale that benefit numerous stakeholders of the Applicants.
33. As such, the Monitor recommends that the APA be approved.

The Monitor respectfully submits to the Court this, its 11th Report.

Dated at Toronto, Ontario this 9th day of April, 2010.

PricewaterhouseCoopers Inc.

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

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

John McKenna
Senior Vice President