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 12th REPORT TO THE COURT
July 3, 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

TWELFTH 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 July 7, 2010 for an Order approving the sale of a paper mill in Gorham, New Hampshire (the "**Gorham Mill**"), granting a Vesting Order in respect of the Gorham Mill assets, approval of the sales process for two lumber mills in Maine (the "**Maine Lumber Mills**"), approving amendments to the Initial Order in respect of the Amended DIP Term Sheet and the DIP Lender, and extending the existing stay of proceedings to October 8, 2010 (all such terms being hereinafter defined).

2. The purpose of this, the Monitor's Twelfth Report (the "**Twelfth Report**"), is to provide the Court with information pertaining to:

   a) The closing of the Specialty Paper Business sale;

   b) The closing of the Thurso Mill sale;

c) The proposed sale of the Gorham Mill;

d) The proposed sales process for the Maine Lumber Mills;

e) The remaining Residual Assets;

f) The status of the Claims Process;

g) An update on the Applicants' proposed plan and timing;

h) The Applicants' actual receipts and disbursements for the thirteen-week period from March 15 to June 13, 2010, including a variance analysis of forecast to actual cash flows for that period;

i) The Applicants' cash flow forecast for the twenty week period from June 14 to October 29, 2010; and

j) The Monitor's Recommendations.

3. A historical overview of the Applicants' proceedings and a summary of the previous Orders granted by this Honourable Court are set out at Appendix "A" hereto.

4. 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 eleven prior reports, the affidavit of Glen McMillan sworn June 30, 2010 (the **"June McMillan Affidavit"**), the SPB APA (as hereinafter defined) and as defined in the Claims Process Order. This report should be read in conjunction with the June McMillan Affidavit, as certain information contained therein has not been reproduced in this report to avoid duplication.

5. 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.

6. Some of the information referred to in this report consists of financial forecasts and projections. An examination or review of the financial forecasts 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. THE CLOSING OF THE SPECIALTY PAPER BUSINESS ("SPB") SALE

Sale of Specialty Paper Business

7. On April 28, 2010, the Applicants closed the sale of the Specialty Paper Business (**"SPB"**) to Twin Rivers Paper Company Inc. (**"Twin Rivers"**), and are expecting to receive gross consideration currently estimated to total $188 million, comprised as follows:

Description of consideration	**Amount $Million**
Cash	35.0
Preferred Shares in Twin Rivers	34.6
Common Shares in Twin Rivers	24.0
Liabilities assumed by FPI	46.7
Promissory Notes from Twin Rivers	40.0
Estimated additional Promissory Notes to be received from Twin Rivers re the Purchase Price Adjustment (as described below)	3.1
Sub-Total	183.4
Assumption of NB Hourly Pension Plan Additional Payments (as described below)	4.6
Total Consideration Expected to be Received	**188.0**

8. Pursuant to the SPB asset purchase agreement ("**SPB APA**"), the Applicants and Twin Rivers had up to 60 days after the closing date of the SPB Transaction to prepare the actual Closing Date Balance Sheet (as defined in the SPB APA). Once the Closing Date Balance Sheet has been accepted by Twin Rivers, the Promissory Note will be adjusted

for any differences between the estimated and actual Closing Date Net Working Capital balances.

9. However, the Monitor understands that due to limited employee resources and necessary changes in its accounting software following the sale of the SPB, the Applicants have been unable to prepare the actual Closing Balance Sheet within the 60 day time period specified in the SPB APA. The Applicants and Twin Rivers have agreed to extend the time period for finalization of the Closing Balance Sheet by another 30 days. The Monitor will review the Closing Date Balance Sheet upon receipt and provide its comments on the actual Closing Date Net Working Capital balance in a future report.

10. The Applicants have advised the Monitor that the current estimated Net Working Capital at the date of closing is $57.1 million. Pursuant to the terms of the SPB APA, if the Closing Date Net Working Capital (as defined in the APA) is greater than $54 million, then the amount of the Promissory Note will be increased by an equivalent amount (the "**Purchase Price Adjustment**"), meaning that the Promissory Note to be received by the Applicants will be $43.1 million, subject to final determination of the actual Closing Date Net Working Capital.

11. The Monitor notes that assumed liabilities on closing, included in the calculation of the Purchase Price Adjustment are currently estimated at $46.7 million, approximately $0.9 million below the $47.6 million maximum in liabilities that the purchaser was obligated to assume under the SPB APA. The Monitor understands that, as a result of payment issuance delays that the Applicants have incurred in the ordinary course of business in the week immediately after month-end closing (due to month end processes with the Applicants' financial accounting systems), the Applicants paid approximately $1.3 million of disbursements on April 27, 2010. These liabilities were paid ahead of normal course payment terms and outside the Applicants' normal cheque issuance period and, had they not been paid by the Applicants, would have been assumed by Twin Rivers on closing..

12. The net impact of the foregoing is to reduce the Applicant's account payable balance and the liabilities assumed by Twin Rivers in the sale of the SPB by approximately $1.3

million which results in an increase in the Twin Rivers eight year Promissory Notes by a corresponding amount. These payments were funded by the DIP Facility. The Monitor understands that a certain amount of these disbursements were necessary to reduce the assumed liabilities on closing to the $47.6 million cap specified in the SPB APA. However, to the extent that the assumed liabilities on closing were below the cap (the "**Assumed Liabilities Cap Excess**"), these pre-paid disbursements were funded by an equivalent increase in the DIP Facility. If upon final determination of the Closing Date Net Working Capital, assumed liabilities are less than $47.6 million, the Applicants should be reimbursed in cash for these disbursements for an amount up to the Assumed Liabilities Cap Excess and there should be a corresponding reduction in the amount of the Promissory Notes issued by Twin Rivers.

13. Pursuant to the SPB APA, BAM was entitled to be reimbursed by the Applicants up to $1.5 million of the expenses incurred by it in respect of the SPB Transaction. The Monitor notes that the Applicants have reimbursed BAM in excess of $1.5 million of such expenses. Management is currently determining the excess and the Monitor understands that BAM has agreed to reimburse such excess amounts.

14. The Monitor filed the Monitor's Certificate with the Court confirming the closing of the SPB transaction on April 29, 2010.

Distribution of the SPB Consideration

15. On closing, the SPB consideration received by the Applicants was distributed as follows:

a) $10 million of the $35 million of cash proceeds received was paid to CIT, in partial satisfaction of the amounts outstanding pursuant to its pre-filing secured debt and DIP Financing;

b) $25 million (representing the balance of the cash proceeds received) was paid to CIBC, in full satisfaction of amounts outstanding pursuant to its pre-filing debt;

c) 3,865,359 Class B Preferred Shares valued at $34,623,753 were issued to GNB in full satisfaction of its pre-filing and post-filing secured debt. The Class B Preferred Shares issued to GNB were priced at CAD$10 per share. The $34,623,753 assigned value of these shares used in the purchase price represents the value of the debt owing to GNB, converted into USD;

d) $30 million of the $40 million Promissory Notes were issued to FPI on closing;

e) The remaining $10 million of the Promissory Notes were issued to the Monitor, in its capacity as escrow agent, representing the holdback amount (the "**Holdback Amount**"). The Holdback Amount is to be held in escrow to satisfy any post-closing rights that Twin Rivers has in relation to the indemnification obligations of the Applicants pursuant to Article 13 of the APA. Pursuant to the APA, the Holdback Amount is to be held until either: (i) Twin Rivers makes a claim against it, or (ii) the earlier of the date that is 12 months after the closing date of the Twin Rivers Transaction or the date on which the Applicants may complete a CCAA plan. The Monitor understands that there are currently no claims by Twin Rivers against the Holdback Amount. On termination of the holdback period, any of the remaining Holdback Amount not payable to Twin Rivers will be released to FPI for allocation to the appropriate legal entities of the Applicants; and

f) 2,401,961 common shares of Twin Rivers Inc., representing 49% of its common equity, were issued to FPI. The Monitor notes that, assuming a notional par value of $10 per share, this represents $24,019,610 which differs from the $25,000,000 specified in Section 3.1 of the APA. In the Monitor's view, this difference is not significant, as the Applicants have still received 49% of the common equity of Twin Rivers and the dollar value ascribed to the shares does not represent the current fair market value of same.

16. The Promissory Note (including any residual Holdback Amount), the Common Shares and any proceeds realized from sale of the Applicants' remaining assets (principally the Thurso Mill, Gorham Mill, the Maine Lumber Mills and the Residual Assets (as defined below) are being held by FPI pending allocation among the Applicants.

17. Readers are referred to section I of this report, where the Monitor provides its comments about key factors impacting the distribution of the SPB consideration to unsecured creditors.

Repayment of CIT Pre-filing and DIP Loan

18. To fund the repayment of the certain amounts owing to CIT, on April 28, 2010 the Applicants drew down $11.4 million on the BAM DIP facility and used some of its cash on hand to repay the remaining $7.3 million owing to CIT in respect of its pre-filing secured debt (which totalled $17.3 million) and to fully repay the $6.4 million owing to CIT in respect of the CIT DIP Financing facility.

SPB Outstanding Liens

19. Following the closing of the SPB Transaction three liens totalling $88,663 were not discharged or assumed by Twin Rivers. As detailed in the June McMillan Affidavit, paragraph 22 of the SPB Vesting Order provides that the net proceeds from the sale of the Purchased Assets (subject to certain exclusions) stand in place of the Purchased Assets such that these claims and encumbrances shall attach to the net proceeds with the same priority as they had with respect to the Purchased Assets.

B. THURSO MILL

Sale of the Thurso Mill

20. The sale of the Thurso Mill to Fortress Specialty Cellulose Inc. ("**Fortress**") closed as scheduled on April 30, 2010 for gross cash proceeds of CAD $3 million. The net cash proceeds from the sale were approximately CAD $1.1 million, as a result of the following payments and liability assumptions being made on closing:

a) Outstanding realty taxes in the amount of CAD $1.4 million;

b) Outstanding Forest and Timber Tenure liabilities in the amount of CAD $0.1 million; and

c) Liabilities of CAD $0.3 million assumed by Fortress, representing amounts owing in respect of repairers' liens and the Hydro Quebec Bid Adjustment Amount, as detailed in the Monitor's Eleventh Report.

21. The Monitor notes that Fortress did not assume any of the Thurso Mill's outstanding liabilities, including accrued vacation pay. As a result, outstanding vacation pay was paid to the Thurso hourly employees prior to the closing and to the Thurso salaried employees subsequent to the closing, totalling approximately $0.5 million in the aggregate. The net proceeds from the sale of the Thurso Mill, after deduction of the vacation pay, therefore totals approximately CAD $0.6 million.

22. The net proceeds from the sale were lower than the estimated net proceeds of CAD $0.9 million reported in the Monitor's Eleventh Report, principally due to higher than estimated outstanding property and school taxes at the date of closing

23. As detailed in the June McMillan Affidavit, the Applicants and Fortress are currently disputing whether the $175,000 Hydro Quebec escrow amount (as detailed in the asset purchase agreement for the Thurso Mill), currently being held in escrow by the Monitor, is payable to the Applicants or Fortress. The Applicants and Fortress have been unable to arrive at a settlement in respect of this matter and, accordingly, the Applicants have scheduled a hearing with this Court on August 25, 2010 to resolve this matter.

C. SALE OF THE GORHAM MILL

Offer on the Gorham Mill

24. As set out in the Monitor's Tenth Report, a comprehensive marketing process to sell the Gorham Mill commenced on January 18, 2010, in which 50 potential purchasers were either contacted by the Monitor or the Applicants. This process resulted in the receipt of multiple letters of intent and certain of these interested parties (the "**Interested Parties**") were invited to participate in a second phase of due diligence.

25. The Applicants provided the Interested Parties with a draft asset purchase agreement ("**Gorham Mill APA**") during the week of April 5, 2010, which was subsequently negotiated with each of the Interested Parties.

26. Initially, the Proposed Timeline required the submission of a binding Gorham Mill APA by April 16, 2010; however, a number of the Interested Parties requested an extension and the submission date for the Gorham Mill APA was extended until April 21, 2010.

27. On April 23, 2010 after review of the Gorham Mill APAs by the Applicants and the Monitor, the Interested Parties were contacted and advised of the key issues associated with each of their offers that would need to be resolved in order for the Applicants to execute a Gorham Mill APA. During the week of April 26, 2010, the Interested Parties conducted negotiations with the Applicants and other key stakeholders and completed further due diligence necessary to address any key issues. Each of the Interested Parties then had until May 3, 2010 to respond to the key issues and submit a revised Gorham Mill APA. Upon submission of the revised Gorham Mill APAs, the Applicants continued to negotiate with these parties, until the second week of May, when the Applicants, in conjunction with the Monitor selected one party to work towards finalizing a Gorham Mill APA.

28. The negotiations between the Applicants and the Interested Parties, which were overseen by the Monitor, resulted in a superior offer being received on May 21, 2010 from MB Growth Partners II, LP ("**MB Growth**"), a limited partnership established by MerchantBanc, an investment fund based in Manchester, New Hampshire (the "**MB Offer**").

29. The Applicants, in conjunction with the Monitor, determined the MB Offer to be a superior offer for a number of reasons, including but not limited to:

   a) the MB Offer included the purchase of all of the assets, resulting in higher net proceeds and a simpler realization process;

   b) the MB Offer provides that MB Growth will assume the environmental liabilities of the Gorham Mill post closing;

c) the MB Offer does not require any concessions in the new collective bargaining agreement to be entered into between the purchaser and the union; and,

d) the MB Offer did not require a commitment for the natural gas line project financing, but only a certain comfort level that the financing for the gas line was proceeding to the satisfaction of the purchaser, acting reasonably. However, as detailed below, on June 30, 2010, after the Purchaser was unwilling to waive the condition around the gas line, Fraser Gorham and MB Growth entered into a Second Amendment to the MB Offer whereby the natural gas line project condition was amended to include a specific gas line financing condition.

30. After consultation with the Monitor, the Applicants signed the MB Offer on May 21, 2010.

Summary of the MB Offer

31. Set out below is a summary of the principal terms and conditions of the MB Offer.

32. The specific assets being acquired by MB Growth, as set out in the MB Offer, are substantially all of the tangible and intangible assets of the Gorham Mill (the "**Purchased Assets**"). The Purchased Assets are generally comprised of:

a) the working capital assets including accounts receivable, inventory and prepaid expenses;

b) the fixed assets including the land, buildings and equipment;

c) the contracts, licenses and permits, as assigned, that are used in operating the Gorham Mill; and

d) other sundry assets including insurance rights with respect to Workers' Compensation Claims, the books and records and any intangible property.

33. As set out in the MB Offer, MB Growth is assuming certain liabilities (the "**Assumed Liabilities**") including:

a) all obligations and liabilities relating to the ownership, operation and use of the Purchased Assets from and after the date of closing;

b) all obligations and liabilities under the Purchased Contracts that are required to be paid or assumed by the Purchaser as a condition of obtaining any necessary consents;

c) all environmental liabilities with respect to the Purchased Assets from and after the date of closing;

d) all obligations and liabilities in respect of certain permitted encumbrances subsequent to the date of closing;

e) all liabilities for real estate taxes relating to the Purchased Assets subsequent to the date of closing;

f) the assumption of post filing trade credit at the time of closing that has arisen in the ordinary course of business and meets certain other criteria (the "**Gorham Mill Trade Credit**"); and

g) specified accrued wages, medical benefits, unused vacation time and workers compensation claims (the "**Accrued Expenses**").

34. The Monitor understands that MB Growth will extend offers of employment to substantially all of the unionized and non-unionized employees of the Gorham Mill.

35. The purchase price (the "**Purchase Price**") for the Gorham Mill based on the MB Offer is as follows:

a) a cash amount equal to:

i) $1,250,000; plus

ii) the aggregate book value of the Accounts Receivable, Inventory and Prepaid Expenses as at the time of closing; less

iii) the aggregate value of the Gorham Mill Trade Credit and Accrued Expenses at the time of closing; and

b) the assumption of the Assumed Liabilities.

36. The Applicants have calculated the Purchase Price, but it is not disclosed in this report in order to avoid prejudicing the Applicants in the event this transaction does not close. However, the Applicants expect the Purchase Price to be substantially in excess of $5 million.

37. The cash Purchase Price is to be paid on closing and is subject to certain adjustments, including:

a) the proration of real estate taxes, which the vendor shall pay in full for tax years ending on or before March 31, 2010. For the tax year commencing April 1, 2010, the parties shall calculate a per diem rate based on the prior tax year, and the vendor will be responsible for such taxes incurred for the period from April 1, 2010 until the date of closing;

b) the vendor shall be entitled to an adjustment to the Purchase Price in its favour for emergency capital expenditures made in accordance with the MB Offer; and

c) a mutually agreed upon reserve for unknown workers compensation claims.

38. The Gorham Mill APA requires the Gorham Mill to continue operating in the ordinary course of business until closing. Due to the various issues noted in the June McMillan Affidavit, the net cash flow forecast for the Gorham Mill for the period between July 3 and August 31, the expected closing date of the Gorham Mill sale, is negative $1.7 million even after economic downtime is taken. As a result, the net sale proceeds expected to be received by the Applicants when the Gorham Mill sale closes will be net of operating losses in the period from July 4, 2010 to closing and any liens and other

liabilities with statutory priority not assumed by MB Growth (the "**Gorham Net Sale Proceeds**").

Outstanding Conditions Precedent

39. As detailed in the June McMillan Affidavit, there are two significant conditions precedent currently outstanding in respect of the MB Offer, which were both revised in the Second Amendment to the MB Offer and are summarized below.

a) MB Growth has until July 30, 2010 to be satisfied that $4.8 million of funding has been approved or arranged by the Androscoggin Valley Regional Refuse Disposal District for the construction of a natural gas main supplying natural gas, on demand, to the Lands (as defined in the MB Offer). In addition, MB Growth has until July 30, 2010 to be satisfied that all necessary regulatory, and construction approvals are in place regarding the supply of natural gas to the Gorham Mill; and

b) MB Growth has obtained and provided to Fraser Gorham, on or before August 25, 2010, final, definitive documentation of financing sufficient to complete the purchase of the Purchased Assets and to provide adequate working capital for continuing operations of the Gorham Mill after the closing date. The Monitor understands that this time period is required to permit due diligence to be performed by certain of MB Growth's potential co-investors.

40. The Monitor understands that if Court approval is obtained and these conditions precedent are cleared, the sale of the Gorham Mill is expected to close on or about August 31, 2010. However, as these are significant outstanding matters, there can be no assurance that this transaction will close as currently contemplated.

41. The Applicants have advised that the Monitor will be informed as soon as they believe that these two conditions will not be met, in order to determine the best alternative manner of realizing on the Gorham Mill.

Compliance with Section 36 of the CCAA

42. 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 requirement 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 of disposition was reasonable in the circumstances"

43. As detailed in the Monitor's 10th Report, the Monitor considers that the sale process conducted during the period from January to May 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 of disposition"

44. As detailed in the Monitor's 10th Report, the sales process was developed by the Applicants in conjunction with the Monitor, 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*".

45. The Monitor has prepared a liquidation analysis for the assets located at the Gorham Mill to estimate the range of potential net proceeds that would be generated from a liquidation of the Gorham Mill assets (i.e. piecemeal sale of the assets to third parties, the "**Gorham Net Liquidation Proceeds**"). The Monitor has compared this to the Gorham Net Sale Proceeds, as defined above, and based on these calculations, the Gorham Net Sale Proceeds exceed the Gorham Net Liquidation Proceeds. There are other benefits to the sale of the Gorham Mill as set out in paragraph 49 below. As a result, the Monitor is of

the view that the sale of the Gorham Mill is more beneficial to the creditors as a whole than a sale or disposition in a liquidation.

S.36(3)(d) – "the extent to which the creditors were consulted"

46. The Monitor understands that the Applicants' principal secured creditors (namely CIT and BAM) are aware of and have consented to the sale of the Gorham Mill.

47. As detailed later in this Report, the claims of employees and retirees currently represent approximately 87.6% of the total admitted claims of unsecured creditors. The representatives of all of the employees and retirees are aware of the sale of the Gorham Mill and the Monitor has not been advised that any of these employee groups oppose the sale of the Gorham Mill.

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

48. The Monitor understands that the Applicants' principal secured creditors have consented to the sale of the Gorham Mill.

49. In respect of the Applicants' unsecured creditors, as detailed in paragraph 45 above, the Gorham Net Sale Proceeds exceed the Net Liquidation Proceeds that would be obtained in a liquidation of the Gorham Mill assets. There are also additional benefits from the sale of the Gorham Mill that will benefit many stakeholders of the Applicants that would not be realized in a liquidation of the Gorham Mill assets, including:

   a) the vast majority of the current employees at the Gorham Mill will remain employed by MB Growth, which provides an economic benefit to the employees and the communities in which they live;

   b) trade creditors may retain a significant customer for their ongoing goods and services; and

c) other critical public services in the area, such as the hospital and the landfill, that depend on the employee and corporate tax revenue from the Gorham Mill for funding, may be at risk of closure if the Gorham Mill is closed and liquidated.

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

50. Based on the Monitor's calculations, the Gorham Net Sale Proceeds (which are to be received in cash) exceed the Gorham Net Liquidation Proceeds that would be realized in a liquidation of the Gorham Mill assets. As such, the Monitor considers the Gorham Sale consideration as fair and reasonable in the circumstances.

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

51. MB Growth Partners II, LLP is not related to the Applicants and, accordingly, S. 36(4) of the CCAA is not applicable to the Gorham Sale.

D. MAINE LUMBER MILLS SALES PROCESS

52. As set out in the Monitor's Tenth Report, the sales process for the Maine Lumber Mills was expected to commence in April 2010. However, due to severe time pressures on the Applicants' management personnel, the sales process for the Maine Lumber Mills did not commence until June 14, 2010.

53. In this respect, a list of 51 potential purchasers has been compiled by the Applicants and the Monitor and all have been contacted to advise them of the opportunity to purchase the Maine Lumber Mills.

54. Data room materials are currently being prepared by the Applicants and it is expected that all potential purchasers that execute a confidentiality agreement will have access to these materials in the next few weeks.

55. The Applicants, in consultation with the Monitor, expect to receive LOIs from interested parties on or before August 20, 2010 and to enter an APA with a potential purchaser on

or before September 30, 2010. The sale of the Maine Lumber Mills is forecasted to close by mid-November 2010.

E. RESIDUAL ASSETS

56. The Applicants have advised the Monitor that the Applicants' principal other assets to be realized upon are:

a) A $2.4 million receivable related to some equipment that was sold by the Applicants in 2006 to Flambeau River Papers LLC ("**Flambeau**", as detailed in the June McMillan Affidavit). The Applicants are currently in negotiations with Flambeau to finalize an arrangement whereby this receivable would be foregone in return for Flambeau assuming all of the Applicants' obligations and liabilities in respect of two landfills (which the Applicants currently remain liable for, and for which cash secured letters of credit totalling approximately $2.7 million have been issued and which would be released once this arrangement had been finalized);

b) 10,000 redeemable preferred shares in Katahdin Paper Company LLC ("**Katahdin**"), with a book value of $13 million as at December 31, 2009. The Applicants recently created a provision for the entire amount of this investment, as the Monitor understands that Katahdin is incurring losses and facing liquidity issues;

c) A $1.6 million receivable from Katahdin. The SPB provided management services to Katahdin, a 100% owned subsidiary of BAM, for which SPB received a quarterly management fee from Katahdin. The outstanding receivable represents amounts owing for services provided in the period from October 1, 2009 to April 28, 2010. The Monitor understands that Katahdin has confirmed that the outstanding receivable will be paid in full in July and the Applicants have therefore included the receivable in the cash flow forecast for the period June 14 to October 29, 2010.

The Monitor notes that this management contract expired in June 2009, but the parties continued to honour its terms through to December 31, 2009. Shortly before the SPB Transaction closing, the Monitor was advised that this contract had been renegotiated by the Applicants and Katahdin for services to be provided in the period after December 31, 2009. Through December 31, 2009, the fees associated with the management contract were determined based on a percentage of Katahdin's revenue. In 2009, the total fee payable under this contract was $3.9 million. Effective January 1, 2010, the fees associated with the management contract are based on the cost of services provided to Katahdin, plus a profit margin. The annualized fee for 2010 under the management contract is estimated to be $0.9 million. This contract was assumed by Twin Rivers on April 28, 2010.

d) The Applicants have accumulated significant tax losses in the last several years. The Applicants are currently assessing whether these tax losses have any realizable value.

e) A potential rebate under the Pulp and Paper Green Transformation Program ("**PPGTP**"). As reported in the Monitor's Ninth Report, approximately $23 million in PPGTP credits were sold to Twin Rivers on closing of the SPB transaction. The Monitor understands that during the period June 19, 2009 to April 27, 2010, the Applicants incurred approximately CDN $0.4 million in expenses on projects that are eligible for reimbursement under the PPGTP. The Applicants have advised the Monitor that Twin Rivers has filed or is in the process of filing applications for the reimbursement on behalf of the Applicants and will forward to the Applicants any refund it receives in respect of expenses funded by the Applicants.

F. STATUS OF THE CLAIMS PROCESS

57. Set out in the table below is a summary of the proofs of claim received as well as the status of the Monitor's review of same, as of the close of business on June 22, 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 June 22, 2010

($000's)	Received	Total Claims Received	Portion of Claim Disallowed	Portion of Claim Allowed (b)(f)		Total Claims Assumed/Discharged due to Sales		Balance of Claim Allowed		Claims Pending - To be Resolved		Dispute Notices Received		
	(#)	($)	($)	(#)	($)	(#)	($)	(#)	($)	(#)	($)	(#)	($)	Notes
Secured														
Lenders	7	76,090	50,000	1	26,090	1	26,090	-	-	-	-	-	-	(a)
Liens / Others	42	7,325	762	14	6,563	11	6,514	3	49	-	-	12	356	
Employee Claims	21	65,041	65,041	-	-	-	-	-	-	-	-	9	136	
Pension Claims	1	3,083	3,083	-	-	-	-	-	-			1	3,083	
Sub - Total	71	151,539	118,886	15	32,653	12	32,604	3	49	-	-	22	3,575	
Unsecured														
Lenders	7	25,251	215	2	25,036	1	25,000	1	36	-	-	-	-	
Trade	955	66,390	32,052	949	34,338	2	2,067	947	32,271	-	-	26	60,918	(b)
Employee Claims	143	396,428	236,007	30	9,684	-	-	30	9,684	4	150,737	49	11,091	
Pension Claims	14	625,228	405,976	5	219,252	-	-	5	219,252	-	-	3	159,490	(c)
Sub - Total	1,119	1,113,297	674,250	986	288,310	3	27,067	983	261,243	4	150,737	78	231,499	
Total	**1,190**	**1,264,836**	**793,136**	**1,001**	**320,963**	**15**	**59,671**	**986**	**261,292**	**4**	**150,737**	**100**	**235,074**	(d) (e) (f) (g)
Claims/Dispute Notices still under Review										**4**	**150,737**	**70**	**204,322**	(b)
D&O Claims	**29**	**792**	**792**	**-**	**-**					**-**	**-**	**16**	**187**	
Late Claims	**68**	**4,376**	**4,110**	**3**	**266**							**19**	**2,031**	(f)

Notes:

(a) Allowed Secured Lender claims exclude the Brookfield Asset Management secured guarantee of $50MM provided to CIT and CIBC. This claim has been discharged as part of the SPB transaction.

(b) The value of Notices of Disputes received relating to the trade creditors is higher than the amounts disallowed as a creditor filed a claim with the amount as "to be advised". Therefore, no claim amount was included in the proof of claim, which was disallowed in full. However, when they filed a Notice of Dispute, they valued their claim at $32MM.

(c) Morneau Sobeco has been appointed as Administrator of the NB pension plans and is expected to file one claim for each plan based on actuarial valuations as at April 28, 2010. As a result, it is expected that FSCO will withdraw its dispute for US$3MM; and Davies and CEP will withdraw their disputes relating to the NB pension plans of US$78.4MM and CDN$14.5MM respectively.

(d) Notices of Revision or Disallowances were issued to a total of approximately 430 creditors, for claims disallowed in full or in part or claims filed against the incorrect entity.

(e) The total allowed claims of 1,001 includes only third party claims. It does not include intercompany claims.

(e) The total allowed claims of 1,001 do not include 13 contingent claims, to be valued if accepted for voting and distribution purposes (being the claims of Brookfield US and Old Republic Insurance). However, 8 contingent/provisional employee claims have been included in this total, valued at $220M (the majority of which are pension claims of $219.2M).

(f) Three late claims were admitted and are included in the total allowed claims.

(g) Only 6 restructuring claims have been admitted to date, relating to employee claims, totaling $248.0MM.

58. The Monitor notes the following in respect of the above claims table and the Applicants' claims process:

a) There have been a number of events which have led to an increase in claims since the Monitor last reported on the claims status in its Tenth Report, including employee terminations at the SPB and the Thurso Mill prior to closing, and repudiation of contracts either not assigned to the purchasers or no longer required by the Applicants. As the Applicants continue to make further restructuring changes and the Gorham Mill and Maine Lumber Mill sales are still to be completed, there may be additional restructuring claims filed by creditors;

b) The NB Hourly and Salary pension plans were ordered to be wound-up by the New Brunswick Superintendent of Pensions (the "**NB Superintendent**") on March 31, 2010 and Morneau Sobeco ("**Morneau**") was appointed Administrator of the above mentioned plans by the NB Superintendent. Following its preliminary review of the pension plans, the Administrator has provided the Monitor with a revised preliminary estimate for the pension deficit in the NB Hourly and Salary pension plans. Morneau has estimated the deficit in the NB Hourly pension plan as $90-100 million and the deficit in the NB Salary pension plan as $25-30 million. As the proofs of claim filed to date in respect of these plans are provisional proofs of claim, when amended proofs of claim are filed, which reflect the finalized valuations, the total claims filed in respect of these plans could increase by between US$14.3 and US$27.6 million. The Administrator does not expect to complete the calculation of the wind-up deficit for these two plans until the fall of 2010;

c) It is possible that amended claims will also be filed by the administrators of the three other defined benefit pension plans, once a final deficit has been calculated;

d) As noted in the June McMillan Affidavit, the New Brunswick pension plans' Administrator has advised the Applicants that it intends to file a deemed trust claim in respect of certain pre-filing contributions that it alleges were not made. The Applicants and the Administrator are currently in discussions to resolve this matter. The Monitor understands the potential amount of this claim could be as high as approximately $5 million. The Claims Table does not reflect this potential claim as a secured claim (although it is included as part of the unsecured claims); and

e) The value of all claims either assumed by the purchasers or paid upon closing of the SPB and Thurso Mill sales have not yet been confirmed and excluded from the table above. The Monitor is working with the Applicants, their counsel and the applicable creditors to identify these claims and have them withdrawn.

59. As noted in the claims table above, there are currently 70 disallowed claims valued at $204.3 million where a Notice of Dispute has been filed by the creditor. As reported in the Monitor's Tenth Report, the Applicants had deferred dealing with the disputed claims until after the closing of the SPB and Thurso Mill sale transactions. The Monitor has been working with creditors, the Applicants and its counsel to resolve the disputed claims. The majority of these disputed claims are currently being addressed and/or are expected to be withdrawn over the next few months, as indicated below:

a) three of the disputed claims valued at $125.5 million relate to duplicate pension claims, which the Monitor expects to be withdrawn when the Administrator files its proof of claim with respect to the revised pension deficit;

b) four of the disputed claims valued at $33.2 million have been forwarded to the Claims Officer for review;

c) one claim totalling $26.7 million is to be resolved by the Court; the Monitor understands that the Applicants' counsel will schedule court proceedings to address this claim;

d) a significant percentage of 58 disputed claims totalling approximately $1.3 million relate to employee bonus claims, severance claims or claims relating to allegations of violation of US employment legislation and appear to be duplicative of the claims filed by representative counsel for certain of the employees and retirees. The Monitor is working with counsel and the employees to have the duplicate claims withdrawn;

e) two claims in the amount of $0.7 million relate to pending litigation. The Applicants are in settlement discussions regarding these claims and these claims are expected to be withdrawn; and

f) the remaining disputed claims valued at approximately $17.0 million consist primarily of employee claims for severance and post-retirement benefits as well as a limited number of smaller claims that are being reviewed by the Monitor.

60. Claims in respect of the Applicants' employees' other post employment benefits ("**OPEBs**") and supplemental employee retirement plans ("**SERPs**") have been filed, totalling $150.7 million in the aggregate. The Applicants are contesting the ability of employees/retirees to file a claim for OPEBs and are also contesting the calculation of the SERP claim. At the request of the Applicants, resolution of these disputed and pending claims was not advanced pending the closing of the SPB Transaction. Now that this transaction has closed, the Monitor and Applicants will be reviewing these claims.

61. To date, creditors have filed 68 late claims valued at $4.4 million. The majority of these late claims (65 claims valued at $4.1 million) have been disallowed. Of the disallowed claims, 19 creditors with claims valued at $2.0 million have filed Notices of Disputes. The majority of the disputes (16 of the 19) were filed by employees and would have been disallowed even if filed within the claims deadline because they were duplicative claims. The remaining three disputed claims are subject to further review by the Monitor and the Applicants.

G. ACTUAL RECEIPTS AND DISBURSEMENTS FOR THE THIRTEEN WEEK PERIOD FROM MARCH 15 TO JUNE 13, 2010

62. As shown in the table below, the Applicants' actual net cash flow for the thirteen week period from March 15 to June 13, 2010 was an outflow of $0.5 million (after receipt of the GNB DIP Financing), $1.8 million better than the forecast.

Comparison of Adjusted Forecast to Actual Cash Flow For the Period from March 15, 2010 to June 13, 2010			
(US $000)	**Actual**	**Forecast**	**Variance**
			Fav/(Unfav)
Receipts	**80,485**	**83,291**	**(2,806)**
Operating Disbursements:			
Raw Material Costs	43,292	52,745	9,454
Productions Overhead Costs	5,239	5,516	277
Selling, General & Admin Costs	6,092	6,263	171
Employee Costs	14,644	15,102	457
Pre-filing Debt Interest & Other Bank Charges	156	63	(93)
DIP Interest & Fees	727	640	(88)
Capital Expenditures - Plaster Rock	124	-	(124)
Capital Expenditures - Other	272	493	220
Other	5,211	4,744	(467)
Total Operating Disbursements	**75,758**	**85,565**	**9,807**
Net Cash Inflow/(Outflow) - Sub-total	**4,728**	**(2,274)**	**7,001**
GNB DIP Funding re Plaster Rock	136	-	136
Cash Flow After Government of NB Capital Funding	**4,864**	**(2,274)**	**7,137**
East Paper and Plaster Rock not included in forecast	(5,354)	n/a	(5,354)
Net Cash Inflow/(Outflow)	**(490)**	**(2,274)**	**1,783**
Thurso sale - Net Cash Proceeds	623	943	(320)
Specialty Paper Business - Gross Cash Proceeds	35,000	35,000	-
Opening Cash Balance	2,539	2,241	298
CIBC Pre-filing Debt Repayment	(25,000)	(25,000)	-
CIT Pre-filing Debt Repayment	(17,271)	(17,600)	329
CIT DIP Loan Repayment	(6,430)	(3,441)	(2,989)
BAM Funding Received / (Repaid)	11,351	11,531	(180)
Closing Cash Balance	**321**	**1,401**	**(1,079)**
Cummulative DIP Funding Usage (excl. GNB DIP)	**15,850**	**15,744**	**106**

63. The cash flow forecast for the period to June 13, 2010 (presented in the Monitor's Tenth report) assumed the SPB sale would close on April 8, 2010. However, as noted in the Monitor's Eleventh report, the closing of the SPB sale was delayed until the end of April and, accordingly, the cash flow forecast did not include the SPB cash flows for this period. Excluding this amount, the adjusted actual cash flows were $7.1 million better than forecast.

64. Detailed explanations for the $7.1 million adjusted variance are provided in Appendix "B", but, in summary, the principal reasons for the variances are:

a) A $2.8 million shortfall in receipts, as compared to the forecast, primarily due to a lower than forecast sales (resulting in lower collections) at the Gorham Mill and Masardis mill. The shortfall in accounts receivables collections was partially offset by higher than forecasted collections of Other Receivables;

b) A $9.8 million favourable variance in disbursements, primarily due to lower than forecast raw material disbursements at the Gorham Mill (due to lower production levels, an increase in intercompany pulp purchases from SPB and timing differences), the overstatement of Madawaska raw materials purchases in the cash flow forecast, and lower purchases of biomass/wood chips at the Edmundston mill; and

c) The Gorham Mill is not an integrated pulp and paper mill and must therefore buy pulp on the open market. As a result of the recent increase in pulp prices, the Gorham Mill has incurred greater than forecast cash operating losses (due to reduced margins and higher than forecast downtime).

65. As of June 13, 2010, the actual BAM DIP Financing usage was $15.9 million, which is largely as forecast, and the actual CIT DIP Financing usage was $7.9 million (which solely represented outstanding letters of credit). As noted in Section A above, as part of the SPB Transaction, the GNB DIP Financing was converted to preferred shares of Twin Rivers.

66. The net remaining DIP Financing availability as at June 13, 2010, was $9.1 million of availability pursuant to the BAM DIP.

Actual Receipts & Disbursements for the SPB during the period April 10-27, 2010

67. The cash flow forecast for the period to July 9, 2010, filed with the Monitor’s Tenth report, assumed the SPB Transaction would close by April 9, 2010 and, as a result, no transactions were forecast for the SPB for any period after April 9, 2010. The SPB Transaction actually closed on April 28, 2010.

68. As shown in the table above, the SPB incurred a negative cash outflow of $5.4 million for the three week period April 10-27, 2010. However, in respect of this negative cashflow, the Monitor notes the following:

a) it is partially offset by $3.4 million of favourable disbursement variances generated by the SPB that existed as of April 9, 2010 (the last date disbursements were forecast for the SPB) as detailed in Appendix B;

b) it will be partially offset by the reimbursement of the Assumed Liabilities Cap Excess by Twin Rivers, as noted in paragraph 12 above; and

c) disbursements were required to ensure the SPB's Assumed Liabilities did not exceed the $47.6 million SPB Assumed Liabilities cap.

H. APPLICANTS' CASH FLOW FORECAST FOR THE PERIOD FROM JUNE 14 TO OCTOBER 29, 2010

69. The Applicants have requested an extension of the Stay of Proceedings from July 9 to October 29, 2010.

70. In support of this request, the Applicants have prepared a 20 week cash flow forecast (the "**20 Week CFF**") which covers the period from June 14, 2010 (the latest date actual results are available for) to October 29, 2010, which is attached hereto as Appendix "C".

71. The 20 Week CFF assumes that the sale of Gorham Mill is approved by the Court and closes on August 31, 2010. However, the 20 Week CFF does not reflect the expected proceeds from this sale to avoid prejudice to the Applicants, should the sale to MB Growth not close. Net proceeds from the sale of the Gorham Mill are expected to substantially exceed $5 million and will be used to repay the BAM DIP. The 20 Week CFF also assumes that Gorham Mill will incur 11 days of downtime on its paper machines in the period June 14 – July 3 and an additional 14 days in each of July and August due to a reduced order book, high pulp prices and the limited availability of profitable orders.

72. The 20 Week CFF forecasts that the Applicants will incur a net cash outflow from operations of approximately $0.5 million during the Period, comprised of total receipts of approximately $34.1 million and total disbursements of approximately $34.6 million. The net cash outflow will be funded by cash on hand as of June 14, 2010 and intermittent usage of the DIP Financing throughout the 20 week period.

73. The 20 Week CFF includes the following matters:

a) the collection of approximately $2.6 million of sales tax refunds, which were delayed at Edmundston;

b) the collection of the $1.6 million Katahdin management fees for the period October 1, 2009 to April 28, 2010;

c) reduced profitability at both the Gorham Mill and Maine Lumber Mills, resulting from an increase in raw material costs, an expected reduction in lumber prices, a reduction in revenue from the Gorham Mill as a result of significant intermittent downtime, and a reduction in total revenue following the divestiture of SPB business. These negative factors will be offset partially by lower corporate costs (following the sale of the SPB), including reduced levels of restructuring related expenses and lower DIP financing related expenses;

d) the elimination of the CIT DIP Facility, which is used to issue letters of credit, following the closing of the Gorham Mill;

e) the reissuance of letters of credit under the BAM DIP facility once the CIT DIP facility is terminated. The letters of credit are security deposits in respect of the Applicants' workers compensation liabilities in the states of Maine and New Hampshire and security deposits posted in respect of remediation costs for a Landfill site in Wisconsin; and

f) an exchange rate of US$0.95/Cdn$1 during the month of June and an exchange rate of US$0.97/Cdn$1 for the remainder of the cash flow forecast period.

74. In April 2010, this Court approved an increase to the maximum amount available under the BAM DIP Financing agreement from $20 to $25 million. After the closing of the Gorham Mill sale (and the termination of the CIT DIP Financing), the BAM DIP Financing will also be required in order to post all required letters of credit.

75. Based on the foregoing and the $25 million of BAM DIP Financing availability, the 20 Week CFF shows the Applicants have sufficient liquidity to fund the forecast net cash outflow during the period to October 29, 2010.

I. RESIDUAL SECURED DEBT

76. After the sale of the Gorham Mill closes, there will still be a number of secured creditors with amounts outstanding as follows, including:

a) the BAM DIP Financing, with a forecast balance on October 29, 2010 of $16.1 million before application of the proceeds from the sale of the Gorham Mill;

b) outstanding letters of credit under the BAM DIP Financing (currently totalling $7.9 million). The Monitor understands that the actual amount that may be drawn against these letters of credit may not be known for several years due to the long-term liabilities in support of which they have been posted;

c) any amounts owing to other secured creditors (e.g. valid lien claimants) whose liens/security interests were vested off the respective assets sold in the various asset sales (e.g. the SPB Sale) and whose claims attach to the proceeds from such sales; and

d) any amounts owing pursuant to super-priority charges granted by the Initial Order (including the Administration Charge, the Directors Charge and the Intercompany Charge).

77. Based on the foregoing, the amount of the final obligations owing to these secured creditors cannot currently be determined with precision. As noted in prior Monitor's reports, these secured creditors will have priority to all proceeds received from the sale of the Applicants' assets.

78. It is also not yet determinable what the net cash proceeds will be from the sale of the Residual Assets (principally the Maine Lumber Mills and the Other Residual Assets, as detailed in Sections D and E of this report, respectively), or the quantum of the Gorham

Net Proceeds (as this is partially dependent on the actual working capital balances at the date of closing).

79. As a result of the foregoing matters, it is not yet determinable the quantum of consideration that will be available for distribution to the unsecured creditors.

80. Once the realization process has been completed, the Monitor understands that any residual cash, combined with the Promissory Note and Common Equity as may be available to the unsecured creditors will be distributed to same. However, the Monitor understands that a wide distribution of the Promissory Note and Common Equity results in Twin Rivers being deemed to be a public company, resulting in it incurring significant additional financial reporting and regulatory costs. Therefore, it was a condition of the SPB Transaction that the SPB consideration be distributed in such a manner so that Twin Rivers is not deemed to be a public company.

81. As a result, unsecured creditors will not be receiving their *pro-rata* share of the Promissory Note and Common Equity on an individual basis. Rather, they will receive an interest in each of the following trusts, depending on the nature of their claims:

a) a newly created outside trust to solely hold the consideration distributed in respect of claims by the NB hourly pension plan;

b) a newly created second outside trust to hold the consideration distributed in respect of claims by the NB salaried pension plan; and

c) one or more other vehicles, the forms of which have still to be determined, to hold the consideration distributed in respect of all other unsecured creditor claims.

J. MISCELLANEOUS

82. On February 25, 2010, the Applicants received notice from the Montreal Maine & Atlantic Railway, Inc. ("**MMA**"), that it was no longer economical to operate and maintain the railroad in Northern Maine and MMA might abandon the railroad. MMA is the primary transportation provider for the Masardis mill. The Applicants actively lobbied the government to prevent the loss of the railroad services. The Monitor

understands that in Referendum Elections held on June 8, 2010, the residents of Maine approved among other things the issuance of a monetary bond to finance the purchase and upgrading of the section of railroad that MMA was considering abandoning.

83. As a result of the repayment of the outstanding CIT loan balances (as detailed above), the Court approved certain amendments to the Amended CIT DIP Term Sheet and CIT DIP charge on April 28, 2010. These amendments included the following:

a) the CIT Term Sheet and DIP Term Sheet were amended to reduce the CIT DIP facility to a principal amount of USD$8,000,000, which is in respect of the remaining Letters of Credit (which have an aggregate face amount of $7.9 million); and

b) the CIT DIP Charge in the CIT Term Sheet and DIP Term Sheet was reduced to a maximum amount of USD$8,000,000 plus such interest and fees and expenses as payable to CIT pursuant to the terms of the CIT Credit Agreement and the other loan documents.

84. The Monitor has been advised that BAM sold the DIP Financing facility to its affiliate BAM US. In addition, a loan agreement for the BAM US DIP Financing has now been drafted.

85. As a result of these changes, BAM US is now the sole DIP lender with respect to future cash funding requirements.

K. CCAA PLAN AND TIMING

86. The Monitor understands that the Applicants intend to develop and file a plan of arrangement and compromise under the CCAA (the "**CCAA Plan**") to deal with their remaining assets and to make creditor distributions.

87. The Monitor is continuing to work with the Applicants and their stakeholders in developing a framework for a CCAA Plan and exploring restructuring alternatives. In the event that a CCAA Plan is not possible, the realization of the Applicants' remaining

assets and creditor distributions may be made by Court order or through another form of insolvency proceeding.

L. MONITOR'S RECOMMENDATIONS

88. The Monitor is of the view that the Applicants are acting in good faith to maximize value for all stakeholders in the circumstances.

89. The Monitor has participated in the negotiations of the APA with respect to the Gorham Sale, which represent the culmination of lengthy and complex efforts. There are no other alternatives being advanced at this time. As noted above, the Gorham Sale provides value and benefits for the Applicants' unsecured creditors that appear to exceed their likely realizations in a liquidation. As such, and assuming the Gorham Sale closes with the terms and conditions as they currently exist, the Monitor recommends that the Gorham Sale APA be approved.

90. The Monitor also recommends that the sales process to be used in respect of the Maine Lumber Mills, as described above, be approved.

91. Based on the foregoing, and in view of the Applicants' forecast liquidity, the Monitor recommends the Court extend the Stay to October 29, 2010.

92. 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 or the various affidavits filed by management of the Applicants, since the commencement of the Stay.

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

Dated at Toronto, Ontario this 3rd day of July, 2010.

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

John McKenna

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 employees and retirees. 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 retirees 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 of Proceedings to February 26, 2010. The Court also issued an Order i) authorizing the Applicants to enter into and execute an asset purchase agreement (the "Sale Agreement") with Brookfield Asset Management Inc. for the sale of the Specialty Paper Business; and ii) approving the Bid Terms and authorizing and directing the Applicants and the Monitor to implement the Bid Terms, to effect the process for soliciting any other offers for the sale of the Specialty Papers Business.

12. As of January 26, 2010 (which was the extended deadline for third parties to submit letters of intent with respect to the purchase of Fraser Papers specialty papers business), no third party letters of intent had been received. As a result and in accordance with the Bid Process approved by the Court on December 10, 2009, Fraser Papers terminated the Bid Process. Fraser Papers began working to clear the conditions precedent in respect of the offer submitted by Brookfield Asset Management Inc. ("**BAM**") with a view to closing the transaction as quickly as possible.

13. On February 24, 2010, the Applicants sought and were granted an Order of the Honourable Justice Pepall extending the Stay of Proceedings to April 9, 2010. The Court also issued an Order approving (i) the Global Agreement Term Sheet (an agreement in principle to satisfy the main conditions precedent of the APA) entered into by the Applicants, Communications, Energy and Paperworkers Union of Canada and The Province of New Brunswick, and (ii) an amendment of the APA to extend the termination date to March 31, 2010.

14. On March 22, 2010, the Applicants sought and were granted an Order of the Honourable Justice Pepall amending the Court Order dated February 24, 2010 and the Term Sheet for Global Agreement that was annexed as Schedule A to the Court Order dated February 24, 2010.On March 30, 2010, the Committee of Salaried Employees and Retirees ("**CSER**") on behalf of the Applicants' unrepresented Canadian and U.S. employees and former employees sought and were granted an Order of the Honourable Justice Pepall approving the guidelines for the CSER and authorizing that CSER be governed by the guidelines in addition to the Order of the Honourable Justice Pepall made on September 16, 2009 and amended by Order of the Court on October 22, 2009; approving and ratifying a Term Sheet executed by the CSER; declaring that the Term Sheet is legally binding on an effective against the Term Sheet Represented Parties; and authorizing and directing the CSER to take such additional steps and execute and direct its Counsel to execute such additional documents as necessary or desirable for the completion of the Term Sheet.

15. On April 6, 2010, the Court issued an Order approving the sale of the Specialty Paper Business and vesting the assets in the purchaser, Twin Rivers Paper Company Inc.. The Court also issued an Order extending the Stay of Proceedings to July 9, 2010, increasing the authorized DIP financing amount and amending the Initial Order. Copies of the issued Orders may be found in the Canadian Court Orders section of this website.

16. On April 7, 2010, the United States Bankruptcy Court for the District of Delaware approved the recognition of the Canadian Court Order and the sale of the U.S. assets.

17. On April 13, 2010, the Court issued an Order approving the sale of the Thurso Mill and vesting the assets in the purchaser, Fortress Specialty Cellulose Inc.

18. On April 28, 2010, the Court issued an Order amending the CIT Term Sheet and CIT DIP Charge.

Appendix B

Variances between Cash Flow Forecast and Actual Cash Flows

For the Period March 15 to June 13 2010

A comparison of the forecast cash flow (as presented in the Monitor's Tenth

Report) to the actual receipts and disbursements for the period from March 15 to June 13, 2010 (the **"Period"**) is shown below:

Comparison of Combined Forecast to Actual Cash Flow For the Period from March 15, 2010 to June 13, 2010			
(US $000)	**Actual**	**Forecast**	**Variance**
			Fav/(Unfav)
Total Receipts	**105,473**	**83,291**	**22,182**
Operating Disbursements:			
Raw Material Costs	60,629	52,745	(7,883)
Productions Overhead Costs	7,263	5,516	(1,748)
Selling, General & Admin Costs	9,362	6,263	(3,099)
Employee Costs	22,098	15,102	(6,996)
Pre-filing Debt Interest & Other Bank Charges	156	63	(93)
DIP Interest & Fees	727	640	(88)
Capital Expenditures - Plaster Rock	136	-	(136)
Capital Expenditures - Other	518	493	(25)
Other	5,211	4,744	(467)
Total Operating Disbursements	**106,099**	**85,565**	**(20,534)**
Net Cash Inflow/(Outflow)	**(626)**	**(2,274)**	**1,647**
GNB DIP Funding re Plaster Rock	136	-	136
Cash Flow After Government of NB Capital Funding	**(490)**	**(2,274)**	**1,783**
Thurso sale - Net Cash Proceeds	623	943	(320)
Specialty Paper Business - Gross Cash Proceeds	35,000	35,000	-
Opening Cash Balance	2,539	2,241	298
CIBC Pre-filing Debt Repayment	(25,000)	(25,000)	-
CIT Pre-filing Debt Repayment	(17,271)	(17,600)	329
CIT DIP Loan Repayment	(6,430)	(3,441)	(2,989)
BAM Funding Received / (Repaid)	11,351	11,531	(180)
Closing Cash Balance	**321**	**1,401**	**(1,079)**
Cummulative DIP Funding Usage (excl. GNB DIP)	**15,850**	**15,744**	**106**

The cash flow forecast for the period to June 13, 2010 (presented in the Monitor's 10th report) assumed the SPB sale would close on April 8, 2010. However, as detailed in the Monitor's 11th report, the closing of the SPB sale was delayed until April 28, 2010 and, accordingly, the cash flow forecast did not include the SPB cashflows for this three week period. In the Adjusted Combined Forecast to Actual Cash Flow table shown below, the receipts and disbursements for the SPB cash flow during the period April 9 -27 are summarized in a single line item to enable the reader to compare the actual cash flow to the forecast cash flow for the period.

Comparison of Adjusted Forecast to Actual Cash Flow For the Period from March 15, 2010 to June 13, 2010			
(US $000)	**Actual**	**Forecast**	**Variance**
			Fav/(Unfav)
Receipts	**80,485**	**83,291**	**(2,806)**
Operating Disbursements:			
Raw Material Costs	43,292	52,745	9,454
Productions Overhead Costs	5,239	5,516	277
Selling, General & Admin Costs	6,092	6,263	171
Employee Costs	14,644	15,102	457
Pre-filing Debt Interest & Other Bank Charges	156	63	(93)
DIP Interest & Fees	727	640	(88)
Capital Expenditures - Plaster Rock	124	-	(124)
Capital Expenditures - Other	272	493	220
Other	5,211	4,744	(467)
Total Operating Disbursements	**75,758**	**85,565**	**9,807**
Net Cash Inflow/(Outflow) - Sub-total	**4,728**	**(2,274)**	**7,001**
GNB DIP Funding re Plaster Rock	136	-	136
Cash Flow After Government of NB Capital Funding	**4,864**	**(2,274)**	**7,137**
East Paper and Plaster Rock not included in forecast	(5,354)	n/a	(5,354)
Net Cash Inflow/(Outflow)	**(490)**	**(2,274)**	**1,783**
Thurso sale - Net Cash Proceeds	623	943	(320)
Specialty Paper Business - Gross Cash Proceeds	35,000	35,000	-
Opening Cash Balance	2,539	2,241	298
CIBC Pre-filing Debt Repayment	(25,000)	(25,000)	-
CIT Pre-filing Debt Repayment	(17,271)	(17,600)	329
CIT DIP Loan Repayment	(6,430)	(3,441)	(2,989)
BAM Funding Received / (Repaid)	11,351	11,531	(180)
Closing Cash Balance	**321**	**1,401**	**(1,079)**
Cummulative DIP Funding Usage (excl. GNB DIP)	**15,850**	**15,744**	**106**

Set out below are explanations for the significant forecast to actual variances shown in the adjusted forecast table above:

RECEIPTS

A \$2.8 million unfavourable variance with respect to cash receipts principally due to the following:

i. An unfavourable variance of approximately \$3.0 million in the collection of trade accounts receivable as a result of:

   a. paper receipts were approximately \$2.0 million lower than forecast due to lower sales at Gorham (\$1.6 million) and marginally lower receipts of at Madawaska (\$0.4 million). The Gorham mill's actual sales for the reporting period were \$4.0 million or 15.1% below forecasted sales of \$26.5 million. Each of the mill's paper machines was idled for an average of 34 days or 37.7% during the cash flow period, which was

15 days or 18.1% more than forecast. Downtime was necessitated by the fact that high pulp prices made it difficult for the mill to compete with its larger, integrated competitors; and

b. lumber receipts were approximately $1.0. million lower than forecast, mainly due to a log shortage at the Masardis mill and weaker than expected market demand.

ii. A favourable variance of approximately $0.2 million in the collection of other accounts receivable due to:

a. The receipt of approximately $0.7 million in GST at the Thurso mill, which was not included in the cash flow forecast, offset by GST receipts at Plaster Rock being $0.1 million less than forecast;

b. The receipt of approximately $0.4 million less than forecasted from the Government of Quebec to reimburse operating costs at Thurso during the week following the sale. The reimbursement included in the forecast was an estimate of expenses through the date of the Thurso sale. Thurso was reimbursed its actual operating expenses, which were less than the forecast. Management has attributed this discrepancy to an overestimation of costs in the forecast. The Thurso forecast included the Mill's carrying costs during winter months which included heating (oil and biomass) costs.

DISBURSEMENTS

Raw Material Costs

A net favourable variance of approximately $9.5 million in Raw Material Costs as a result of:

i. A favourable permanent variance of approximately $7.0 million at the Gorham Mill due to:

   a. lower production levels at Gorham. As reported above, the Gorham Mill took unplanned machine downtime during the forecast period to reduce losses, due to higher pulp prices and uneconomic orders, resulting in a $5.1 million reduction in raw material costs;

   b. lower purchases of pulp on the open market. Prior to April 28, 2010, the Gorham Mill purchased a larger volume of lower priced pulp from the Madawaska (Fraser Papers Limited) as opposed to third party suppliers. The purchases from Madawaska were recorded as intercompany transactions, hence there were no cash disbursement from Gorham. This resulted in a $0.6 million decrease in raw material disbursements during the forecast period;

   c. Lower prices for hardwood pulp as compared to forecast, resulting in a favourable variance of $0.2 million;

   d. Lower production cost due to a different grade mix, as a result of the non-compete agreement with Twin Rivers that contributed to a favourable variance of $0.3 million; Twin Rivers has a non-compete agreement with Fraser Paper which impacted the type of grades that Gorham could produce. The products that Gorham can produce have a lower cost, which as a result had a favourable variance with respect to forecast; and

e. Approximately $0.8 million due to timing differences.

ii. A $3.4 million favourable variance at East Papers due to

a. A $2.0 million overstatement of raw material costs in the forecast;

b. A favourable temporary variance of approximately $0.5 million relating to lower than forecasted biomass deliveries to Edmundston; and

c. A $0.9 million favourable temporary variance related to the timing of purchases and payments.

iii. A $0.4 million unfavourable variance at Plaster Rock due to build up of log inventory; and

iv. A $0.4 million unfavourable variance at the Maine Lumber Mills mainly due to higher rebounding wood deliveries to rebuild log inventory after unfavourable logging weather in early March which halted logging.

Productions Overhead Costs

Production overhead costs were approximately $0.3 million lower than forecast due to:

i. A $0.3 million favourable variance at Plaster Rock, as less maintenance than forecast was required on the new equipment recently purchased and installed at the Plaster Rock mill. The cash flow forecast was based on historical maintenance costs, which did not incorporate the cost savings associated with the new equipment;

ii. A $0.3 million favourable variance at the Thurso mill due to an overestimation of costs in the forecast. Thurso's forecast included the Mill's carrying costs during winter months which included heating (oil) costs; and

iii. These favourable variances were offset by unfavourably temporary variances at Gorham ($0.2 million) and East Papers ($0.1 million) due to the timing of purchases and payments.

Selling, General & Administration ("SG&A") Costs

SG&A costs were approximately $0.2 million lower than projected mainly due to

a) Lower sales at Gorham and FTL resulting in lower than forecast freight costs of approximately $0.3 million; and

b) Favourable variance of $0.1 million in East Papers as a result of lower cash discounts paid and quality claims rebates against paper product; and

c) These favourable variances were offset by higher than forecast freight costs at Plaster Rock of approximately $0.2 million due to an increase in rail costs and higher trucking costs.

Employee Costs

Employee Costs were approximately $0.5 million lower than expected, primarily due to the machine downtime at the Gorham Mill.

Pre-filing Debt Interest & Other Bank Charges

Pre-filing Debt Interest & Other Bank Charges were approximately $0.1 million higher than forecast, mainly due to lower interest estimations in the forecast.

DIP Interest and Fees

DIP Interest and Fees were approximately $0.1 higher than forecast largely because the $80K funding fee incurred to set up the CIT DIP Letter of Credit facility was not included in the cash flow forecast. DIP interest expense for the period was on plan. .

Capital Expenditures – Plaster Rock

Capital Expenditures for Plaster Rock were approximately $0.1 million higher than forecast, as the cash flow forecast did not include $0.1 million of capital expenditures related to the modernization project because Plaster Rock had not received, prior to the filing of the cash flow forecast, confirmation from GNB that these projects would be funded. The Applicants received $0.1 million from GNB during the cash flow period to fund these expenditures..

Capital Expenditures – Other

Capital Expenditures – Other were $0.2 million lower than forecast due to cash conservation measures.

Other

Other disbursements were $0.5 million higher than the forecast, largely due to an unfavourable variance in restructuring professional fees (principally legal fees were higher than forecast, as the legal fees of various court approved counsel were not included in the forecast).

SPB Net Cash flow

SPB reported a negative cash outflow of $5.4 million for the three week period April 9-27, 2010. As the SPB Transaction was forecasted to close on April 8, 2010, SPB's operating activity for the period April 9-27, 2010 was not included in the cash flow forecast for this period. See paragraph 67 in the Monitor's 12th report for additional comments in this respect.

Proceeds from Sale of Thurso Mill

The proceeds from the sale of the Thurso Mill were $0.3 million lower than forecast due to higher than anticipated outstanding property taxes and accrued interest.

Cash Proceeds from the Sale of SPB

Forecasted cash proceeds from the sale of the SPB were $35 million, as forecast.

CIT Pre-filing DIP Repayment

The repayment of the CIT Pre-filing DIP was approximately $0.3 million lower than forecast due to an overstatement of the estimated outstanding loan balance in the cash flow forecast.

Miscellaneous

Since the filing date, the Applicants have made disbursements in connection with pre-filing liabilities totalling $3.2 million.

Appendix C

20-week Cash Flow Forecast

For the Period June 14 to October 29, 2010

Fraser Paper Inc et al.
Combined 20 Week Cash Flow Forecast
USD (in 000's)

Week #	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	Total	
Week Beginning	14-Jun	21-Jun	28-Jun	5-Jul	12-Jul	19-Jul	26-Jul	2-Aug	9-Aug	16-Aug	23-Aug	30-Aug	6-Sep	13-Sep	20-Sep	27-Sep	4-Oct	11-Oct	18-Oct	25-Oct	20 Weeks	Note 1
Receipts																						
Collection of Trade Accounts Receivable	2,559	2,559	1,556	1,556	1,927	1,722	2,057	2,004	1,992	2,010	1,722	812	812	791	791	791	791	791	791	835	28,869	Note 2
Collection of Other Accounts Receivable	2,375	689	-	-	-	1,560	56	-	-	-	-	82	-	-	-	412	-	-	-	19	5,194	Note 3
Total Receipts	4,934	3,248	1,556	1,556	1,927	3,282	2,113	2,004	1,992	2,010	1,722	894	812	791	791	1,203	791	791	791	854	34,063	
Disbursements:																						
Raw Material Costs	959	1,143	1,201	1,410	1,402	1,496	1,496	1,536	1,536	1,536	1,236	439	439	439	439	439	439	439	439	439	18,899	Note 4
Production Overhead Costs	138	278	148	148	152	292	152	166	166	306	201	55	57	57	197	57	57	58	198	58	2,942	Note 5
Selling, General & Admin Costs	111	111	136	111	124	135	242	135	123	132	132	87	87	84	84	84	84	84	84	375	2,549	Note 6
Employee Costs	471	280	380	329	513	305	1,253	354	398	354	389	182	183	182	183	182	183	182	183	161	6,647	Note 7
DIP Interest & Fees	16	17	27	18	15	15	25	16	16	16	17	24	7	7	7	17	7	7	7	17	299	Note 8
Capital Expenditures - Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	Note 9
Other	955	475	(0)	179	162	194	39	10	-	162	194	39	10	162	194	39	10	162	194	39	3,217	Note 10
Total Disbursements	2,650	2,304	1,892	2,196	2,369	2,438	3,208	2,218	2,239	2,507	2,170	827	782	930	1,103	817	779	932	1,105	1,088	34,553	
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
Net Cash Inflow/(Outflow)	**2,284**	**943**	**(336)**	**(640)**	**(442)**	**844**	**(1,095)**	**(214)**	**(248)**	**(497)**	**(448)**	**68**	**30**	**(139)**	**(312)**	**386**	**12**	**(141)**	**(313)**	**(234)**	**(490)**	
Opening Cash Balance	**321**	**106**	**48**	**48**	**48**	**48**	**48**	**48**	**48**	**48**	**48**	**48**	**48**	**48**	**48**	**48**	**48**	**48**	**48**	**48**	**321**	
DIP Funding / (Repayments)	(2,500)	(1,001)	336	640	442	(844)	1,095	214	248	497	448	(68)	(30)	139	312	(386)	(12)	141	313	234	217	Note 11
Closing Cash Balance	**106**	**48**	**48**	**48**	**48**	**48**	**48**	**48**	**48**	**48**	**48**	**48**	**48**	**48**	**48**	**48**	**48**	**48**	**48**	**48**	**48**	
Cummulative DIP Funding Usage	13,350	12,350	12,686	13,326	13,768	12,923	14,018	14,232	14,479	14,976	15,424	15,357	15,326	15,466	15,778	15,392	15,379	15,520	15,833	16,067	16,067	

This cash flow forecast must be read in conjunction with the Notes and Assumptions attached hereto and the 12th Report of the Monitor dated July 3, 2010

This cash flow forecast excludes the net proceeds from the Gorham Mill sale, which are forecast to be received in the week commencing August 30, 2010

Fraser Papers Inc. et al.
Combined 20 Week Cash Flow Forecast
Notes and Assumptions

1 Operational status – The 20 week cash flow forecast ("CFF') is premised on the assumption that sale of the Gorham Mill will close on August 31, 2010, the Masardis lumber mill will continue to operate throughout the cash flow period, while the Ashland mill will remain closed. The Masardis lumber mill will operate at 50% capacity for a one-week period June 28-July 2, 2010 due to a limited log supply following the seasonal spring halt in logging and a weak lumber market. Masardis will continue to operate its drying kiln and planing mills; and conduct sales activities during the saw mill slowdown. The Gorham Mill will continue to operate on an intermittent basis through to the week commencing August 31, 2010, following which the mill is forecasted to be sold. Due to a reduced order book, high pulp prices and the limited availability of positive contribution margin orders, Gorham has forecasted per machine downtime of approximately 11 days in June and 14 days in each of July and August. The net proceeds from the sale of the Gorham Mill are not shown in the CFF, but are expected to substantially exceed $5 million and will be used to repay the BAM DIP.

2 Collection of Third Party Trade Accounts Receivables consists of cash receipts from the Gorham paper mill and the Masardis lumber mill, based on management's updated revenue forecasts. The cash receipts also include the collection of a pre-filing receivable from Lauzon (Thurso) Ressources Forestiers Inc., which was the subject of successful litigation commenced by the Applicants. The timing of cash receipts is based upon historical and seasonal collection patterns.

3 Collection of Other Accounts Receivable is comprised of the collection of management fees payable by Katahdin Paper Company LLC, monthly GST and HST refunds, and proceeds from the cessation of a life insurance fund that the Applicants self-funded.

4 Raw Material Costs represent materials required for production, primarily fiber, chemicals costs and logs. The raw material disbursements are based on historical costs, analyst and economic forecasts and expected required purchases throughout the 20 week period, and arrangements that have been negotiated with suppliers. The CFF assumes a slight increase in pulp prices in June and a decrease in pulp prices beginning in July and continuing throughout the balance of the forecast. The CFF also assumes an 8% increase in the input prices for logs as compared to the previous forecast. While Management expects the recent decline in lumber prices to flow through to log prices, they have conservatively assumed higher log input prices for the forecast period. Working capital levels are expected to decrease after August 31, 2010 due to the sale of the Gorham mill.

5 Production Overhead Costs primarily represent supplies and consumables, repairs and maintenance, and property taxes. These costs are based on forecast production levels, historical costs and expected costs based on the forecast operations of each of the mills and arrangements that have been negotiated with suppliers.

6 Selling, General and Admin costs primarily represent shipping and freight, general and admin fees and insurance payments. Costs are based on historical expenses, adjusted for known changes in these disbursement levels, the amount of credit being provided by suppliers and arrangements that have been negotiated with these suppliers. SGA costs also includes fees payable under the Transitional Service Agreements following the sale of the SPB.

7 Employee Costs represent salaries, wages, vacation pay, pension contributions and other post-employment benefits. Hourly payroll, salary costs and benefits are based on the forecast headcount at each mill. The pension contributions in the CFF are payments to the Applicants' new defined contribution pension plans. Other post-employment benefits include approximately CAD $980K to prepay premiums for life insurance coverage for certain salaried retirees and certain former salaried retirees of the Thurso facility.

8 DIP Interest and Fees are based on the DIP Loan Financing Agreements of BAM and CIT and include interest and fees relating to outstanding letters of credit.

9 Capital Expenditures Other represents forecast maintenance capex. There is no capex forecast for the Ashland, Mansards or Gorham mills during the forecast period.

10 Other expenses primarily represent the professional fees in respect of the CCAA Proceedings including the Applicants' US and Canadian legal counsel, the Monitor and its legal counsel and Davies (representative counsel for employees and former employees not otherwise represented). Expenses related to the sales process have been included, based on estimates of amounts expected to be incurred during the period.

11 DIP Funding represents advances received by the Applicants pursuant to the DIP Loan Financing Agreements with BAM.

12 The Consolidated 20 Week Cash Flow is denominated in USD. A US$/C$ exchange rate of $0.95 has been assumed for the month of June 2010 and a US$/C$ exchange rate of $0.97 has been assumed throughout the remainder of the 20 Week Cash Flow Forecast.